

# LARGE FILING SEPERATOR SHEET

CASE NUMBER: 97-697-EL-AIS

FILE DATE: 08/04/1997

SECTION: part 4 of 4

NUMBER OF PAGES: 227.

DESCRIPTION OF DOCUMENT:

Supplement to the Amended Application

maintained at The Depository Trust Company ("DTC"). The Bonds will be delivered in New York, New York in registered form as a single, manuscript bond, will be registered in the name of Cede & Co., as nominee of DTC, under DTC's book-entry system, and will be made available to you for inspection upon delivery in New York, New York at the offices of DTC, or at such other place as may be agreed upon by the Issuer, the Company and you. At the same date and time at which payment for and delivery of the Bonds is made, the Company will pay to the Senior Manager, on behalf of the Underwriters, an underwriting commission of \$\_\_\_\_\_ in consideration of the underwriting of the Bonds by the Underwriters, by wire transfer of immediately available funds, unless otherwise agreed by the Company and the Senior Manager.

#### IV.

The Issuer represents and warrants to you that:

(a) The information relating to the Issuer in the Preliminary Official Statement under the caption "THE AUTHORITIES -- The Air Authority" is, and under said caption in the Official Statement, as it may be amended or supplemented as of the Closing Date, is and will be, true and correct in all material respects, and does not, and as it may be amended or supplemented as of the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact relating to the Issuer necessary to be stated therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. However, the Issuer has not confirmed, and assumes no responsibility for, the accuracy or completeness of any of the information in the Preliminary Official Statement or the Official Statement other than the information relating to it under the captions "THE AUTHORITIES -- The Air Authority" and "SPECIAL LEGAL INVESTMENT CONSIDERATIONS".

(b) The Issuer is a body politic and corporate, organized and existing under the laws of the State, including Chapter 3706, Ohio Revised Code, as amended (the "Act").

(c) The Issuer has full legal right, power and authority (i) to adopt the Resolution, (ii) to enter into this Bond Purchase Agreement, the Loan Agreement and the Indenture and to sign and accept the Letter of Representation dated the date hereof and delivered to the Issuer and the Underwriters by the Company (the "Letter of Representation"), (iii) to issue, sell, execute and deliver the Bonds to the Underwriters as provided herein and (iv) to carry out and consummate all other transactions contemplated by each of the aforesaid documents. The Issuer has complied with all applicable provisions of law, including, without limitation, all provisions of the Constitution of the State and the Act, in all matters relating to such transactions.

(d) The Issuer has duly authorized (i) the execution and delivery of, and the due performance of its obligations under, this Bond Purchase Agreement, the Bonds, the Loan Agreement and the Indenture and the signing and acceptance of the Letter of Representation, (ii) the Official Statement, the execution thereof by the Issuer and the use and distribution by the Underwriters of the Official Statement and (iii) the taking of any and all such action as may be

required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by such documents. The Issuer has duly approved the use and distribution by you of the Preliminary Official Statement.

(e) The Resolution has been duly adopted by the Issuer and is in full force and effect. This Bond Purchase Agreement has been duly executed and delivered by the Issuer and, assuming due acceptance thereof by the Underwriters, constitutes a legal, valid and binding obligation of the Issuer. The Loan Agreement and the Indenture, when duly executed and delivered by the Issuer and the other parties thereto, will constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their terms, except as the same may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles.

(f) When delivered to and paid for by the Underwriters on the Closing Date in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed, issued and delivered and, when duly authenticated by the Trustee or the authenticating agent as provided in the Indenture, will constitute legal, valid and binding special obligations of the State, issued by the Issuer in conformity with the Act, payable in accordance with their terms, and entitled to the benefit and security of the Indenture, including revenues derived from the First Mortgage Bonds, but they will not constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof, and the holders or owners thereof will have no right to have taxes levied by the General Assembly of the State or the taxing authority of any political subdivision of the State for the payment of the principal thereof or premium, if any, or interest thereon.

(g) The adoption of the Resolution, the execution and delivery of this Bond Purchase Agreement, the Bonds, the Loan Agreement and the Indenture, the signing and acceptance of the Letter of Representation and compliance with the provisions of the Resolution and of each of such instruments will not conflict with or constitute a breach of, or default under, any indenture, commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order or decree to which the Issuer (or any of its officers or directors, in their respective capacities as such) is subject or under any provision of the Constitution of the State or any law of the State relating to the Issuer.

(h) Except as set forth in Appendix E hereto, to the best of its knowledge, the Issuer has not been in default within at least the last ten years in the payment of the principal of or premium, if any, or interest on or otherwise been in default with respect to, any bonds, notes or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium, if any, or interest, and no proceedings have been taken by the Issuer under Chapter IX of the Federal Bankruptcy Act, under Chapter 9 of Title 11 of the United States Code or under any other similar law or statute of the United States of America or the State.

(i) There is no action, suit, proceeding, inquiry or investigation at law or in equity,

or before or by any court, public board or body, in which the Issuer has been served or of which it has otherwise received official notice or which, to the best knowledge of the Issuer, is threatened against the Issuer (nor to the best knowledge of the Issuer is there any basis therefor) (i) which in any way questions the validity of the Act or the powers of the Issuer in connection with the issuance and sale of the Bonds, (ii) wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions contemplated by this Bond Purchase Agreement or the transactions contemplated by the Official Statement, (iii) which in any way could adversely affect the validity or enforceability of the Bonds, the Resolution, the Loan Agreement, the Indenture or this Bond Purchase Agreement (or of any other instruments required or contemplated for use in consummating the transactions contemplated thereby or hereby) or (iv) challenging the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

(j) The Issuer has taken all proceedings and obtained all approvals (other than any approvals that may be required under the Blue Sky laws of any jurisdiction) required by the Act in connection with the issuance and sale of the Bonds and the execution and delivery by the Issuer of, or the performance by the Issuer of its obligations under, this Bond Purchase Agreement, the Resolution, the Bonds, the Indenture and the Loan Agreement.

(k) Any certificate signed by any official of the Issuer and delivered to the Underwriters shall be deemed a representation and warranty by the Issuer to you as to the truth of the statements therein contained.

It is understood that the representations, warranties and covenants of the Issuer contained in this Article IV and elsewhere in this Bond Purchase Agreement shall not create any general obligation or liability of the Issuer, and that any obligation or liability of the Issuer hereunder or under the Loan Agreement or the Indenture is payable solely out of the revenues and other income pledged therefor and that no member, officer or employee of the Issuer shall be personally liable for any such obligation or liability. It is further understood and agreed that the Issuer makes no representations or warranties, except as set forth in paragraph (a) above, as to the Preliminary Official Statement and the Official Statement or as to (i) the financial condition, results of operation, business or prospects of the Company, (ii) any statements (financial or otherwise), representations, documents or certifications provided or to be provided by the Company in connection with the offer or sale of the Bonds, or (iii) the correctness, completeness or accuracy of such statements, representations, documents or certifications.



## V.

The several obligations of the Underwriters hereunder with respect to the Bonds shall be subject to (i) the compliance with and the performance by the Issuer of the obligations and agreements to be complied with and performed by it hereunder and under the Resolution, the Loan Agreement and the Indenture on or prior to the Closing Date; (ii) the compliance with and the performance by the Company of the obligations and agreements to be complied with and performed by it on or prior to the Closing Date under the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement; (iii) the truth, accuracy and completeness as of the date hereof of the representations and warranties of the Issuer contained herein and in the Loan Agreement and of the representations and warranties of the Company contained in the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement, respectively, and (iv) the truth, accuracy and completeness of such representations and warranties of the Issuer and the Company on the Closing Date as if made on and as of the Closing Date (provided that, unless otherwise specified by such representations and warranties, references in such representations and warranties to the Official Statement shall be deemed to refer to the Official Statement as amended and supplemented to the Closing Date).

The obligations of the Issuer to issue and sell, and the several obligations hereunder to purchase, the Bonds are subject to the following further conditions:

(a) On or prior to the Closing Date, you shall have received, in addition to executed, conformed or specimen copies of the Indenture, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds and the Continuing Disclosure Agreement:

(i) Opinions dated the Closing Date of (A) Forbes, Fields & Associates, Counsel for the Issuer, in the form attached hereto as Appendix A; (B) Squire, Sanders & Dempsey L.L.P., Bond Counsel, in substantially the forms attached as (I) Appendix B to the Official Statement and (II) Appendix B hereto; (C) counsel to the Company, in substantially the form attached hereto as Appendix C; and (D) Calfee, Halter & Griswold LLP, counsel to the Underwriters, in substantially the form attached hereto as Appendix D; in each case with such changes as you and your counsel shall approve.

(ii) A certificate, dated the Closing Date, signed by the Executive Director of the Issuer or other appropriate official satisfactory to you, to the effect that (A) each of the representations and warranties of the Issuer set forth in Article IV hereof and in the Loan Agreement are true, accurate and complete on the Closing Date as if made on and as of the Closing Date and (B) each of the agreements of the Issuer to be complied with and each of the obligations of the Issuer to be performed hereunder, and under the Resolution, the Loan Agreement and the Indenture on or prior to the Closing Date has been complied with and performed.

(iii) A certificate of the Company, dated the Closing Date, and signed by an authorized officer of the Company, to the effect that (A) each of the representations and warranties of the Company contained in the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement is true, accurate and complete on the Closing Date as if made on and as of the Closing Date, (B) each of the agreements of the Company to be complied with and each of the obligations to be performed by the Company under the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement on or prior to the Closing Date have been complied with and performed and (C) as of the Closing Date, there has been no material adverse change in the financial condition, results of operation, business or prospects of the Company from that set forth in or contemplated by the Official Statement, as it exists on the date hereof.

(iv) A certificate, dated the Closing Date in form and substance satisfactory to you, signed by the Executive Director of the Issuer or other appropriate official satisfactory to you stating the Issuer's reasonable expectations on such date as to future events and the facts, estimates and circumstances (including the respective covenants of the Issuer and the Company contained in the Indenture and the Loan Agreement) on which such expectations are based, which shall be sufficient to establish that it is not expected that the proceeds of the sale of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations promulgated thereunder. Such certificate shall also state that such officer is charged, either alone or with others, with the responsibility for issuing the Bonds and that, to the best of the knowledge and belief of such officer, the expectations set forth in such certificate are reasonable.

(v) A certificate of the Company, dated the Closing Date, in form and substance satisfactory to you, signed by an authorized officer of the Company stating the Company's reasonable expectations on such date as to the future events and the facts, estimates and circumstances (including the respective covenants of the Issuer and the Company on which such expectations are based), which shall be sufficient to establish that it is not expected that the proceeds of the sale of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations prescribed thereunder. Such certificate shall also state that, to the best of the knowledge and belief of such officer, the expectations set forth in such certificate are reasonable.

(vi) Certificates in form and substance satisfactory to Squire, Sanders & Dempsey L.L.P., Bond Counsel, of an officer of the Company describing the project facilities referred to in the Loan Agreement and the proposed expenditure of the proceeds to be received from the sale of the Bonds.

(vii) Evidence, reasonably satisfactory to you, to the effect that Moody's Investors Service shall have given the Bonds a rating of "[ ]" and Standard & Poor's Rating Group, a division of McGraw-Hill, shall have given the Bonds a rating of "[ ]".

(viii) Such additional certificates (including appropriate no litigation certificates, certified copies of resolutions adopted by the Issuer, and orders of The Public Utilities Commission of Ohio), instruments or other documents as you may reasonably request to evidence: (i) the authority of the Trustee to act under the Indenture and the Continuing Disclosure Agreement and as to the due authentication and delivery of the Bonds; (ii) the authority of the Escrow Trustee to act under the Escrow Agreement; (iii) the authority of the First Mortgage Trustee to act under the First Mortgage and as to the due authentication and delivery of the First Mortgage Bonds; (iv) the truth, accuracy and completeness, as of the Closing Date, of the representations and warranties of the Issuer and the Company contained herein and in the Letter of Representation, the Indenture, the Loan Agreement, the Escrow Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), and the Continuing Disclosure Agreement and (v) the due performance and satisfaction by the Issuer, the Company, the Trustee and the First Mortgage Trustee at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by each of them in connection with this Bond Purchase Agreement, the Letter of Representation, the Loan Agreement, the Escrow Agreement, the Resolution, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Indenture and the Continuing Disclosure Agreement.

(ix) A letter dated the Closing Date, in form and substance reasonably satisfactory to you, from Arthur Andersen LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "agree-upon procedures letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference in the Official Statement.

(x) A verification report dated the Closing Date, in form and substance reasonably satisfactory to you, from an independent public accounting firm of national reputation certifying that the securities and moneys, if any, held by the Escrow Trustee under the Escrow Agreement are sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and any premium and interest on the 1987 Bonds to the date of their redemption as set forth in the notice of redemption or in the document irrevocably providing, to the satisfaction of the Trustee, for the giving of that notice, as described in the next succeeding paragraph.

(xi) A notice of redemption of the 1987 B Bonds on a date that is not more than ninety (90) days after the Closing Date or such other written document irrevocably providing, to the satisfaction of the Trustee, for the giving of that notice.

(xii) Such additional certificates, opinions and other documents as you may reasonably request to evidence the validity of, authorization for, performance of or compliance with the provisions of this Bond Purchase Agreement and the transactions and agreements contemplated hereby and by the Official Statement, all such certificates, opinions and other documents to be satisfactory in substance to you and to your counsel.

(b) Between the date hereof and the Closing Date, legislation shall not have been enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or introduced in either House of Congress by any committee of such House, nor a decision rendered by a federal court or the Tax Court of the United States, nor an order, ruling, regulation or official statement made by the United States Treasury Department or the Internal Revenue Service, with the purpose or effect of imposing federal income taxation upon the revenues from, or other income of the character derived by the Issuer under, the Loan Agreement and the First Mortgage Bonds or upon the interest to be paid on the Bonds.

(c) Between the date hereof and the Closing Date, no legislation shall have been enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or introduced in either House of Congress by any committee of such House, and no decision, order or decree of a court of competent jurisdiction, and no order, ruling, regulation or official statement of or on behalf of the Securities and Exchange Commission or the Municipal Securities Rulemaking Board, shall have been rendered or made, with the purpose or effect that the issuance, offering or sale of the Bonds, as contemplated hereby or by the Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act or the Trust Indenture Act of 1939, as amended, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement.

(d) Between the date hereof and the Closing Date, no legislation, ordinance, rule or regulation shall have been enacted or favorably reported for passage by any governmental body, department or agency of the State, nor shall any decision have been rendered by any court of competent jurisdiction in the State, which would adversely affect the excludability from gross income for purposes of federal income taxation of interest on the Bonds, or the exemption of the Bonds from personal income taxes in Ohio, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

(e) Between the date hereof and the Closing Date, no calamity, crisis or outbreak or escalation of hostilities, the effect of which on the financial markets of the United States is to materially impair the marketability or materially lower the market price of the Bonds, shall have occurred.

(f) The marketability of the Bonds shall not have been materially impaired and the market price of the Bonds shall not have been materially lowered by reason of the imposition between the date hereof and the Closing Date by the New York Stock Exchange, or any governmental authority, as to the Bonds or similar obligations, of any material restrictions not in force at the date hereof, or the material increase of those in force at the date hereof, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters.

(g) As of the Closing Date, no event shall have occurred which could reasonably be expected to result in, and there shall not have been, any material adverse change in the financial condition, results of operations, business or prospects of the Company from that set forth in or contemplated by the Official Statement as it exists on the date hereof, which, in the reasonable judgment of the Senior Manager, will materially impair the marketability or materially lower the market price of the Bonds.

(h) As of the Closing Date, no material litigation or proceeding to which the Company is a party shall have been adversely decided in respect of the Company's interests which, in the reasonable judgment of the Senior Manager, will materially impair the marketability or materially lower the market price of the Bonds.

(i) The Issuer shall have cooperated with the Trustee in the filing of financing statements under the Uniform Commercial Code of the State in such manner and in such places as may be required in order to establish, protect or preserve the interest of the Trustee in the rights assigned to it under the Indenture, and evidence of such filings shall have been furnished to you.

(j) All matters relating to this Bond Purchase Agreement, the Official Statement, the Bonds and the sale thereof, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Resolution, the Indenture, the Continuing Disclosure Agreement and the Letter of Representation between the Company and DTC and all matters contemplated hereby and thereby shall be satisfactory to and approved by you and your counsel. All matters relating to the Letter of Representation dated the date hereof and previously delivered to the Issuer and to you shall be satisfactory to and approved by the Issuer and you.

(k) The Trustee shall have received duly executed and authenticated First Mortgage Bonds satisfactory in form and substance to you and your counsel.

(l) The Company shall not have failed to provide to the Underwriters, within the time set forth in Article II hereof, copies of the final Official Statement in such quantities as the Underwriters may reasonably request.

(m) Between the date hereof and the Closing Date there shall not have occurred any downgrading nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's debt securities by any "nationally recognized statistical

rating organization", as such term is defined for purposes of Rule 436(8)(2) under the Securities Act.

## VI.

The Issuer covenants as follows:

(a) To furnish or cause to be furnished to you (i) on or prior to the Closing Date, a specimen of the form of the Bonds and (ii) on or prior to the Closing Date, a certified copy of the Resolution and executed or conformed copies of the Loan Agreement and the Indenture (which documents shall be in the form previously delivered to you, subject to such amendments, supplements, modifications, or changes as you shall approve).

(b) Before amending or supplementing the Official Statement (other than an amendment by way of a filing by the Company under the Exchange Act), to furnish you and the Company a copy of each such proposed amendment or supplement. No amendment or supplement to the Official Statement will be made to which you or the Company shall reasonably object in writing or which will contain material information substantially different from that contained in the Official Statement on the date it was issued which is unsatisfactory to you or the Company.

(c) To cooperate with you in endeavoring to qualify the Bonds for offer and sale under the state securities or Blue Sky laws of such jurisdictions as you may reasonably request and in determining their eligibility for investment under the laws of such jurisdictions as you may reasonably request; provided that the foregoing shall not require the Issuer to execute a general consent to service of process or to qualify as a foreign corporation in connection with such qualification in any foreign jurisdiction.

(d) Not to take any action which will prevent the application of the proceeds from the sale of the Bonds, as provided in, and subject to all of the terms and provisions of, the Indenture, the Resolution and the Loan Agreement.

(e) Not to take or omit to take any action which will adversely affect (i) the excludability from gross income for purposes of federal income taxation of interest on the Bonds or (ii) the exemption of the Bonds from personal income taxes in Ohio, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

(f) To notify you if, prior to the delivery of and payment for the Bonds on the Closing Date, any event occurs which is known to the Issuer and which makes any statement concerning the Issuer under the captions "THE AUTHORITIES" -- The Air Authority" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS" in the Official Statement untrue in any material respect or which requires the making of any amendments or supplements to or modifications of the Official Statement in order to make any statement concerning the Issuer under the captions "The AUTHORITIES -- The Air Authority" or SPECIAL LEGAL

INVESTMENT CONSIDERATIONS" not misleading in any material respect.

(g) To cooperate with the Trustee to promptly file, register and record, or refile, reregister and rerecord, at the expense of the Company, the Loan Agreement, the Indenture and the related financing statements, at such times and in such places as may be required by law, in order to maintain, protect or preserve the interest of the Trustee in the rights assigned to it under the Indenture.

(h) To perform and observe all of the obligations and agreements made or undertaken by the Issuer in this Bond Purchase Agreement.

The agreements contained in this Article VI and the representations and warranties of the Issuer set forth in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling an Underwriter and (ii) acceptance of and payment for the Bonds.

## VII.

If any Underwriter (but not all) shall fail or refuse to purchase its Original Participation and arrangements satisfactory to the non-defaulting Underwriters, the Company and the Issuer for the purchase of such Bonds are not made within 72 hours after such default, this Bond Purchase Agreement will terminate without liability on the part of any non-defaulting Underwriters or of the Issuer. In any such case which does not result in a termination of this Bond Purchase Agreement, either you or the Issuer, with the approval of the Company, shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Official Statement or in any other documents or arrangements may be effected. Any action taken under this Article VII shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Bond Purchase Agreement.

## VIII.

All expenses incident to the performance of the obligations of the Issuer hereunder (including the reasonable fees and disbursements of Bond Counsel, counsel to the Issuer and counsel to the Underwriters) are to be paid by the Company as provided in the Letter of Representation. Provided you have not defaulted in your obligations hereunder, you shall have no obligation to pay any such expense. The Issuer shall not be responsible for your costs and expenses, including the fees and expenses of your counsel and any advertising expenses incurred in connection with any offering of the Bonds.

This Bond Purchase Agreement is made solely for the benefit of you, persons controlling you, the Company and its directors and officers, and the Issuer, its officers and members, and

- 14 -



**SCHEDULE I**

**\$62,560,000**

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

**STATE OF OHIO**

**\_\_% COLLATERALIZED POLLUTION CONTROL REVENUE REFUNDING BONDS,  
SERIES 1997-B**

**(THE CLEVELAND ELECTRIC ILLUMINATING COMPANY PROJECT)**

**The captioned Bonds will be issued upon the following terms:**

**Maturity Date: July 1, 2020**

**Interest Rate: \_\_%**

**Optional Redemption Schedule:**

<b><u>Redemption Period</u></b> <b><u>(dated inclusive)</u></b>	<b><u>Redemption Prices</u></b>
July 1, 2007 through June 30, 2008	102%
July 1, 2008 through June 30, 2009	101
July 1, 2009 and thereafter	100

**Interest Payment Dates: January 1 and July 1, commencing January 1, 1998**

## SCHEDULE II

<u>Name</u>	<u>Original Participation-- Principal Amount</u>
Morgan Stanley & Co. Incorporated.....	\$ __,000
First Chicago Capital Markets, Inc.....	\$ __,000
Citicorp Securities, Inc. ....	\$ __,000
Total .....	<u>\$62,560,000</u>

Appendix A to the Bond  
Purchase Agreement

Proposed Form of Opinion of Counsel for the Issuer

August \_\_, 1997

Ohio Air Quality Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as hereinafter  
described

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

We are counsel to the Ohio Air Quality Development Authority (the "Authority"). This opinion is being rendered pursuant to Section V(a)(i)(A) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") between the Authority and Morgan Stanley & Co. Incorporated, Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (the "Underwriters"), relating to the issuance and sale by the Authority of \$62,560,000 State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project) (the "Bonds"), such Bonds to be issued under and pursuant to a Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., Cleveland, Ohio, as trustee (the "Trustee"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company"), pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Authority and the Company, to assist in refunding the outstanding principal amount of \$62,560,000 of the Authority's State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series B (The Cleveland Electric Illuminating Company Project),

dated October 15, 1987 (the "Project Bonds"), as more particularly described in the Indenture. The proceeds of the Project Bonds were loaned to the Company to assist in the financing of its portion of the cost of the acquisition, construction and installation of certain air quality facilities in connection with the Perry Nuclear Power Plant Unit 1 in Lake County, Ohio. Terms defined in the Bond Purchase Agreement, and not otherwise defined herein, are used in this opinion with the meanings assigned to them in the Bond Purchase Agreement. We are of the opinion that:

1. The Authority is a validly existing body politic and corporate under the laws of the State of Ohio. Pursuant to the Act, the Authority is authorized and empowered to adopt the Resolution (hereinafter defined), to make the loan pursuant to the Loan Agreement, to issue the Bonds for the purpose of obtaining funds to make the loan, and to secure the Bonds in the manner contemplated by the Indenture.

2. Resolution No. 97-\_\_ (the "Resolution") is a valid resolution of the Authority and has been duly adopted by the Authority and is in full force and effect on the date hereof and has not been modified, amended or revoked. All legal action required to be taken by the Authority (a) to authorize the use and distribution of the Preliminary Official Statement and the Official Statement and (b) in connection with the issuance, execution and delivery of the Bonds, and the execution, delivery and due performance of the Indenture, the Loan Agreement, the Bond Purchase Agreement and the Official Statement and the acceptance of the Letter of Representation have been taken, and none of the proceedings held or actions taken by the Authority with respect to any of the foregoing has been repealed, rescinded or revoked.

3. The Loan Agreement, the Bond Purchase Agreement, the Indenture, the Bonds and the Official Statement have been duly authorized, executed and delivered by the Authority and the Letter of Representation has been duly accepted by the Authority; the Bonds and, assuming due execution and delivery by the other parties thereto, the Loan Agreement, the Bond Purchase Agreement, and the Indenture constitute valid, legal and binding obligations of the Authority enforceable in accordance with their terms, except to the extent that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity and may be subject to limitations upon the right to obtain judicial orders requiring specific performance. The Bonds are entitled to the benefits of the Indenture.

4. The members and officers of the Authority named in the Authority's General Certificate delivered concurrently herewith have been duly appointed as such members and have been elected to such offices as have been indicated, and are qualified to serve as such members and officers.

5. No approval, permit, consent, authorization or order of any court or any Ohio governmental or public agency, authority or person not already obtained (other than the approvals that may be required under the Blue Sky laws of any jurisdiction) is required of the Authority in connection with the issuance, execution and delivery of the Bonds, authorization of

the use and distribution of the Preliminary Official Statement and the Official Statement, or the execution and delivery by the Authority of the Bond Purchase Agreement, the Indenture and the Loan Agreement, the acceptance of the Letter of Representation or the adoption of the Resolution.

No facts have come to our attention that would lead us to believe that the information with respect to the Authority set forth in the Official Statement under the caption "THE AUTHORITIES", on its date or the date hereof, contained or contains any untrue statement of material fact or omitted or omits to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. We are not called upon to and do not express belief or opinion as to any portion of the Official Statement (including the documents incorporated therein by reference) other than that portion under the caption "THE AUTHORITIES".

We know of no litigation or administrative action or proceeding, pending or threatened, which challenges the validity of, or seeks to restrain or enjoin the issuance, execution or delivery of the Bonds or the execution and delivery of the Indenture, the Loan Agreement or the Bond Purchase Agreement or the performance of the Authority's obligations thereunder, or the Authority's acceptance of the Letter of Representation, or contesting or questioning the adoption of the Resolution or the proceedings and authority under which the Bonds have been issued, executed and delivered, or under which the Indenture, the Loan Agreement and the Bond Purchase Agreement have been executed and delivered or under which the Letter of Representation has been accepted, or under which the use and distribution of the Preliminary Official Statement and the Official Statement have been authorized or the validity of the Bonds, the Indenture, the Loan Agreement, the Bond Purchase Agreement or the Authority's acceptance of the Letter of Representation or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

The issuance, execution and delivery of the Bonds, the execution and delivery of the Indenture, the Loan Agreement and the Bond Purchase Agreement and the acceptance of the Letter of Representation do not conflict with, violate or result in a breach of, or constitute a default under, any agreement or other instrument to which the Authority is a party or by which the Authority or any of its properties are bound or any Ohio constitutional or statutory provision, order, rule, regulation, decree or resolution to which the Authority or any of its property is subject.

Respectfully submitted,

[to be signed "Forbes, Fields & Associates"]

Appendix B to the Bond  
Purchase Agreement

Proposed Form of Supplemental Opinion of Bond Counsel

August \_\_, 1997

To: Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as  
hereinafter described

Ohio Air Quality Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

This opinion is being rendered pursuant to the Bond Purchase Agreement, dated July \_\_, 1997 (the "Bond Purchase Agreement"), between the Underwriters named therein and the Ohio Air Quality Development Authority (the "Authority") relating to the issuance and sale of \$62,560,000 aggregate principal amount of State of Ohio, \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project) (the "Bonds"). All capitalized terms used as defined terms in this opinion and not otherwise defined herein shall have the same meanings assigned to them as in the Bond Purchase Agreement.

We have acted as Bond Counsel in connection with the issuance of the Bonds and in that capacity have examined the transcript of proceedings (the "Transcript") relating to the issuance of the Bonds by the Authority.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The statements pertaining to the Bonds under the captions "THE AUTHORITIES" and "TAX EXEMPTION" fairly and accurately present the information purported to be shown and the statements under the captions "THE BONDS" (except for the information and statements

under "THE BONDS - Book Entry System" to the extent such information and statements do not purport to summarize the provisions of the Indenture or to the extent they purport to describe the organization and operations of The Depository Trust Company ("DTC"), the relation and arrangements among DTC, DTC participants, indirect participants or beneficial owners with respect to the book entry system including, but not limited to, the recordation of book entry interests, payments or credits of payments, transmittal of notices and other communications, or DTC's call procedures), "THE LOAN AGREEMENTS" and "THE INDENTURES", insofar as they describe the Bonds, the Loan Agreement and the Indenture, fairly and accurately summarize the material provisions of those documents.

2. Neither the Bonds nor any securities evidenced thereby which are separate from the obligations of the State of Ohio or the Authority are required to be registered under the Securities Act of 1933, as amended, and the Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended. The Bonds are negotiable instruments, subject to the provisions in the Indenture for registration.

3. There are no stamp, documentary or similar transfer taxes within the State of Ohio which would be applicable to the original issuance or subsequent transfers of the Bonds, and the revenues derived or income of the character to be derived by the Authority under the Loan Agreement are exempt in the hands of the Authority from federal income taxation and from taxation in or by the State of Ohio. No legislation, ordinance, rule or regulation has been enacted or favorably reported for passage by any governmental body, department or agency of the State of Ohio, nor has any decision been rendered by any court of competent jurisdiction in the State of Ohio which would adversely affect the exemptions or exclusions from taxation referred to in this paragraph or in the third paragraph of our approving opinion, of even date herewith, given with respect to the Bonds.

4. All conditions required pursuant to the Indenture precedent to the delivery of the Bonds have been fulfilled. All instruments furnished to the Trustee in connection with the order of the Authority to authenticate and deliver the Bonds conform to the requirements of the Indenture, and such instruments constitute sufficient authority under the Indenture for the Trustee to authenticate and deliver the Bonds as directed in such order.

5. The facts, estimates and circumstances as set forth in the certifications in the Transcript given pursuant to Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder are sufficient to satisfy the criteria which are necessary under Section 148 and those regulations to support the conclusion that the Bonds are not "arbitrage bonds" as defined in Section 148 and those regulations. No matters have come to our attention which make unreasonable or incorrect the representations made in such certifications.

This opinion is supplemental to our approving opinion of even date herewith with respect to the Bonds, and, to the same extent indicated therein in giving this supplemental opinion, we have also relied upon certifications and representations of fact contained in the Transcript and the opinion of even date herewith of counsel for the Company contained in the Transcript.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey L.L.P."]



Appendix C to the Bond  
Purchase Agreement

Proposed Form of Opinion of Company Counsel

August \_\_, 1997

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as  
hereinafter described

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

This opinion is being rendered to you pursuant to Section V(a)(i)(C) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") between Morgan Stanley & Co. Incorporated, Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (together, the "Underwriters") and the Ohio Air Quality Development Authority (the "Authority"), relating to the issuance and sale by the Authority of \$62,560,000 aggregate principal amount of its \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project) (the "Bonds") which are being issued under the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., Cleveland, Ohio, as trustee (the "Trustee"); and with reference to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Authority and The Cleveland Electric Illuminating Company (the "Company") and to the delivery to the Trustee of the \$62,560,000 aggregate principal amount of First Mortgage Bonds \_\_% Series due 2027 (the "First Mortgage Bonds") of the Company issued under the Mortgage and Deed of Trust dated April 1, 1947 from the Company to The Chase National Bank of the City of New York, predecessor to The Chase Manhattan Bank (National Association), as trustee, as supplemented and modified in certain respects by indentures supplemental thereto, including the Seventy-Fifth Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage Indenture"; said Indenture of Mortgage and Deed of Trust as so supplemented and modified herein called the

**"First Mortgage").**

I am counsel for the Company and attorneys acting under my supervision have examined the transcript of proceedings relating to the issuance of the Bonds by the Authority and such other records of the Company, documents and certifications as I deem necessary to express the opinion hereinafter set forth.

Attorneys acting under my supervision have also examined originals or copies, certified or otherwise identified to their satisfaction, of such other documents, corporate records and other instruments and have made such investigation of fact and law as they have deemed necessary or advisable for purposes of this Opinion. Terms used herein and not otherwise defined are used as defined in the Bond Purchase Agreement.

Based upon the foregoing and such legal considerations as I deem relevant, I am of the opinion that:

1. The Company is a public utility and corporation duly organized and validly existing under the laws of the State of Ohio, with full corporate power to conduct the business now being conducted by it and to execute and deliver the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation and to carry out and perform its obligations under the Loan Agreement, the Escrow Agreement, the First Mortgage, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation;

2. The Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the First Mortgage, the Continuing Disclosure Agreement and the Letter of Representation have been duly authorized, executed and delivered by the Company and, as to the First Mortgage Bonds, assuming they have been duly authenticated by the First Mortgage Trustee, constitute legal, valid and binding obligations of the Company enforceable in accordance with their respective terms, except to the extent that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally or the enforcement of the security provided by the First Mortgage, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity and may be subject to limitations upon the right to obtain judicial orders requiring specific performance;

3. The execution and delivery of the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation, and the performance by the Company of its obligations thereunder and under the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), do not constitute a default under, or conflict with or violate any of the provisions of, the Company's Amended Articles of Incorporation or Regulations, any law, rule, regulation, judgment, order or decree to which the Company is subject or, to my knowledge, any

agreement, indenture, mortgage, lease, note or other obligation or instrument to which the Company is a party or by which it is bound;

4. All consents or approvals of The Public Utilities Commission of Ohio and of any other federal or state regulatory agency required in connection with the Company's execution and delivery of, and the performance of its obligations under, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation have been obtained;

5. Except as disclosed in the Official Statement, as it may be amended or supplemented to the date hereof, I know of no actions, suits, proceedings, inquiries or investigations at law or in equity before or by any judicial or administrative court or agency, pending or threatened against the Company, and to my knowledge, there is not any reasonable basis for any such action, suit, proceeding, inquiry or investigation, wherein the decision, ruling or finding would materially or adversely affect the validity or enforceability of the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Continuing Disclosure Agreement or the Letter of Representation;

6. The Company has good title to substantially all the properties referred to or described in the Official Statement and in the granting clauses of the First Mortgage as being subject to the lien thereof and now owned by it which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage, subject only to the conditions and exceptions set forth in the Official Statement under the subheadings "Security" and "Title to Property" under the heading "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE", none of which materially impairs the use of the property affected thereby in the operation of the business of the Company;

7. The First Mortgage and all financing statements related thereto have been duly filed and recorded in all places where such filing or recording is necessary for the perfection or preservation of the lien of the First Mortgage, and the First Mortgage constitutes a valid and direct first lien upon all of the property referred to in paragraph 6 above, subject only to the conditions and exceptions referred to therein and, under current law, all property acquired by the Company hereafter, other than property excepted from the lien of the First Mortgage, will become subject to the lien thereof upon acquisition;

8. The First Mortgage Bonds have been duly authorized, executed, authenticated, issued and delivered and are valid and legally binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits and security of the First Mortgage, equally and ratably with all other bonds outstanding under the First Mortgage except as the enforceability thereof may be subject to the limitations set forth in paragraph 2 above;

9. The Company has statutory authority, franchises and consents free from burdensome restrictions and adequate for the conduct of the business in which it is engaged;

10. The Bonds, and the offer and sale thereof as contemplated by the Official Statement, and the First Mortgage Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Indenture and the First Mortgage are exempt from qualification under the Trust Indenture Act of 1939, as amended. In rendering this opinion, I have assumed that, except as described in the Official Statement, there are no agreements with purchasers of the Bonds concerning payments due on or with respect to the Bonds;

11. The statements as to matters of law and legal conclusions referred to or incorporated by reference in Appendix A to the Official Statement accurately and fairly summarize, as of the respective dates thereof, the material aspects of the legal matters discussed therein;

12. Each document incorporated by reference in the Official Statement as originally filed pursuant to the Securities Exchange Act of 1934 (except for the operating statistics, financial statements and other financial data therein, as to which I do not express an opinion) complied as to form when so filed in all material respects with the requirements of said Act and the applicable rules and regulations thereunder;

[13. The Company is a "subsidiary" of Centerior Energy Corporation, a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Centerior Energy Corporation is exempt from regulation under such Act pursuant to Section 3(a)(1) thereof and the rules and regulations thereunder promulgated by the Securities and Exchange Commission and, therefore, the Company is also exempt from such regulation;] and

14. Assuming that the Trustee holds the First Mortgage Bonds as provided in the Indenture, the Indenture creates a valid and perfected first priority security interest in the First Mortgage Bonds.

I believe that the statements in the Official Statement relating to the Company, the Project, the Bonds, the Loan Agreement, the Indenture, the First Mortgage and the First Mortgage Bonds contained under the captions "INTRODUCTORY STATEMENT", "THE PROJECT", "USE OF PROCEEDS", "THE BONDS", "THE LOAN AGREEMENT", "THE INDENTURE" and "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE" and in Appendix A to the Official Statement (except for the financial statements, operating statistics and other financial data included in such Appendix, as to which I express no opinion) did not, at the time the distribution of the Official Statement was authorized on July \_\_, 1997, and, as it may have been amended, supplemented or modified do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

This Opinion is expressed as of the date hereof. No Opinion is expressed as to the effect of any changes or events which may occur hereafter. I neither accept nor recognize any duty or responsibility to inform you of any subsequent change or event.

In rendering the foregoing Opinion, I have assumed, but not independently verified, that the signatures (other than on behalf of the Company) on all documents examined by attorneys acting under my supervision are genuine. I have also assumed the due execution and delivery, pursuant to due authorization, of the documents and instruments referred to herein by the other parties thereto. I have relied, as to all questions of fact material to this Opinion, upon certificates of public officials and officers of the Company.

I am qualified to practice law in the State of Ohio and do not purport to be an expert on any laws other than the laws of the State of Ohio and the Federal laws of the United States. If an operative document to which reference is made hereunder is governed by the laws of another jurisdiction, this Opinion is applicable only to the extent that the application of the relevant laws of such jurisdiction is identical to that of the State of Ohio or the Federal laws of the United States.

In expressing the opinion stated in Item 10 above, I am relying upon the opinion of Squire, Sanders & Dempsey L.L.P., which you have received today, to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended.

Respectfully submitted,

361/11177ABC.82E

Appendix D to the Bond  
Purchase Agreement

Proposed Form of Opinion of Counsel for the Underwriters

August \_\_, 1997

To: Morgan Stanley & Co., Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as  
hereinafter described

This opinion is rendered pursuant to Section V(a)(i)(D) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") between you and the Ohio Air Quality Development Authority (the "Issuer") relating to your purchase from the Issuer of \$62,560,000 aggregate principal amount of its \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"), and as counsel to you solely for your use in connection with the issuance and sale of the Bonds to you by the Issuer. Capitalized terms used in this opinion as defined terms which are not defined herein are used as defined in the Bond Purchase Agreement.

We have examined (a) copies or executed counterparts of the Indenture, the Loan Agreement, the Letter of Representation and the Bond Purchase Agreement, (b) the Official Statement dated July \_\_, 1997 (the "Official Statement"), relating to the Bonds, (c) the Securities Act of 1933, as amended (the "1933 Act"), the Trust Indenture Act of 1939, as amended (the "1939 Act"), and the rules, regulations and interpretive advice issued by the Securities and Exchange Commission (the "Commission") thereunder, (d) Rule 15c2-12 promulgated by the Commission under the Securities Exchange Act of 1934, and interpretive advice issued by the Commission thereunder, including without limitation, the letter, dated June 23, 1995, from Robert L.D. Colby, Deputy Director, Division of Market Regulation, to the National Association of Bond Lawyers (the "Rule"), and (e) executed opinions, addressed to you and dated the date hereof, of Bond Counsel, Counsel for the Issuer and Company Counsel, relating to the issuance of the Bonds and required to be delivered pursuant to the Bond Purchase Agreement (the "Closing Opinions"). We also have examined originals or copies, certified or otherwise identified to our satisfaction, of such other documents, resolutions, instruments, records, certificates and opinions, have reviewed such laws and information and have made such investigations as we have considered necessary or appropriate for the purpose of rendering this opinion, including without limitation (i) the certificate of the Company, dated the date hereof, required to be delivered pursuant to Section V(a)(ii) of the Bond Purchase Agreement and (ii) the "agreed-upon procedures letter" of even date herewith, delivered to you by Arthur Andersen LLP

pursuant to Section V(a)(ix) of the Bond Purchase Agreement.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date of this opinion:

1. It is not necessary in connection with the offering and sale of the Bonds to the public in the manner contemplated by the Bond Purchase Agreement to register the Bonds under the 1933 Act or to qualify the Indenture under the 1939 Act.

2. Assuming the validity, binding effect and enforceability thereof against the parties thereto, the Continuing Disclosure Agreement constitutes the undertaking required by Section (b)(5)(i) of the Rule.

3. The Closing Opinions are substantially in the form required by the Bond Purchase Agreement.

In accordance with our understanding with you, we have rendered legal advice and assistance to you in the course of your investigations pertaining to, and your participation in the preparation of, the Official Statement. That assistance involved, among other things, inquiries concerning various legal and related matters, our review of certain corporate documents, and our participation in discussions with your representatives, representatives of the Company and representatives of Arthur Andersen LLP, independent public accountants with respect to the Company, Bond Counsel, and Counsel for the Issuer concerning the contents of the Official Statement and related matters.

While we are not passing upon, and do not assume responsibility for, the accuracy, completeness or fairness of the contents of the Official Statement, on the basis of the information which was developed in the course of our performance of the services referred to above and, without having undertaken to verify independently that accuracy, completeness or fairness, nothing has come to our attention which leads us to believe that the Official Statement, as of its date or as of this date, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements made in the Official Statement, in the light of the circumstances under which they were made, not misleading. Reference in this paragraph to the Official Statement does not include (a) the financial statements of the Company included or incorporated by reference in Appendix A to the Official Statement or (b) any other financial, technical or statistical data included or incorporated by reference in the Official Statement or any Appendix thereto, as to all of which we express no opinion or belief.

The opinions expressed in this letter are limited to the laws of the State of Ohio and the federal laws of the United States of America.

This letter is furnished to you as representative of the Underwriters and is solely for the benefit of the Underwriters. As such, it may not be relied upon by or disseminated to any other person without the prior written consent of the undersigned, except that it may be reproduced for inclusion in a transcript of proceedings compiled with respect to the Bonds.

Respectfully submitted,

[to be signed "Calfec, Halter & Griswold LLP"]



**APPENDIX E**

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
DEFAULTED BOND ISSUES  
SINCE DECEMBER 31, 1975**

**[NONE]**

**H:\RINK\CEI97REF\11177AKA.82E**

# **EXHIBIT 7**

**PROPOSED FORMS OF BOND PURCHASE AGREEMENTS,  
BOND PLACEMENT AGREEMENT AND LETTERS OF REPRESENTATION**

DRAFT OF 6/20/97

---

\$54,600,000

OHIO WATER DEVELOPMENT AUTHORITY

State of Ohio

Collateralized Pollution Control Revenue Refunding Bonds

Series 1997-A

(The Cleveland Electric Illuminating Company Project)

BOND PURCHASE AGREEMENT

July \_\_, 1997

---

July \_\_, 1997

TO: MORGAN STANLEY & CO. INCORPORATED  
New York, New York, as the Senior Manager  
of the Bonds hereinafter described and  
Representative of the Underwriters named herein

The Ohio Water Development Authority (the "Issuer") proposes to issue its Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997, in the aggregate principal amount of \$54,600,000 (the "Bonds"), on behalf of the State of Ohio (the "State"). The Bonds will mature, bear interest at the rate per annum and be subject to optional redemption as set forth on Schedule I attached hereto, and otherwise will be subject to the terms and provisions of the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Issuer and Mellon Bank, F.S.B., Pittsburgh, PA., as trustee (the "Trustee"), and the resolution adopted by the Issuer on June 26, 1997 (the "Resolution"). The Issuer will lend the proceeds of the Bonds to The Cleveland Electric Illuminating Company (the "Company") pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Issuer and the Company. The proceeds of the Bonds will be deposited with \_\_\_\_\_, as escrow trustee (the "Escrow Trustee") under the Escrow Agreement, dated as of July 1, 1997 (the "Escrow Agreement"), between the Company and the Escrow Trustee, and applied to pay a portion of the costs of refunding the Issuer's outstanding \$54,600,000 aggregate principal amount of State of Ohio 9.75% Collateralized Pollution Control Revenue Bonds, 1987 Series A-1 and A-2 (The Cleveland Electric Illuminating Company Project), dated as of \_\_\_\_\_, 1987 (the "1987 Bonds"), which were issued to assist in financing the Company's portion of the cost of the acquisition, construction and installation of certain waste water facilities and solid waste facilities in connection with the Perry Nuclear Power Plant Unit 1 in Lake County, Ohio (the "Project"), as described in the Loan Agreement and the Preliminary Official Statement, described below, concerning the Bonds. Concurrently with the issuance and delivery by the Issuer of the Bonds, the Company will execute and deliver the Company's First Mortgage Bonds, \_\_\_\_% Series due 2025-\_\_ (the "First Mortgage Bonds"), issued pursuant to a Seventy-\_\_\_\_ Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage Indenture"), to the Mortgage and Deed of Trust dated July 1, 1940 (said Mortgage and Deed of Trust as supplemented and modified in certain respects by indentures supplemental thereto, including the Supplemental Mortgage Indenture, being herein called the "First Mortgage"), from the Company to Guaranty Trust Company of New York, as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee (the "First Mortgage Trustee"), with principal amount, interest rate, maturity date and redemption provisions corresponding to the principal amount, interest rate, maturity date and redemption provisions of the Bonds, to evidence and secure collaterally the Company's obligations as provided in the Loan Agreement.

# I.

Subject to the conditions hereinafter stated, and upon the basis of the representations, warranties and covenants contained herein and contained in the Letter of Representation dated the date hereof and delivered to the Issuer and the Underwriters by the Company (the "Letter of Representation"), the Issuer hereby agrees to sell to Morgan Stanley & Co. Incorporated (the "Senior Manager" and "Representative" of the Underwriters named herein), Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (together with the Senior Manager, the "Underwriters"), and the Underwriters hereby agree to purchase from the Issuer, severally and not jointly, their respective original participations in the Bonds (the "Original Participations", and individually an "Original Participation"), as set forth on Schedule II attached hereto, all (and not less than all) of the Bonds at a purchase price of \$54,600,000 (representing the principal amount of the Bonds), plus accrued interest from July 1, 1997 to the Closing Date (hereinafter defined). It is intended that the interest on the Bonds will be excluded from gross income for federal income tax purposes and will not be treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of the alternative minimum tax imposed on individuals and corporations, and that you may offer the Bonds to the public without registration under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended.

## II.

The Official Statement, to be dated on or about the date hereof, including the Appendices thereto and the documents incorporated therein by reference, together with any amendments or supplements (as defined below), relating to the offering of the Bonds is hereinafter called the "Official Statement". The Issuer hereby confirms its authorization or ratification of the use by the Underwriters (together with all members of any selling group which may be formed in connection with the offering and sale of the Bonds, and all dealers to whom any of the Bonds may be sold or by any member of any selling group) of the Preliminary Official Statement dated July \_\_, 1997, including the Appendices thereto and the documents incorporated therein by reference and all amendments or supplements thereto through the date hereof (the "Preliminary Official Statement"). The Issuer further authorizes the use and distribution of the Official Statement, substantially in the form of the Preliminary Official Statement, and including any amendments or supplements thereto, in connection with the offering and sale of the Bonds. The Issuer hereby confirms, based upon advice from the Company, that the Preliminary Official Statement was "deemed final" (except for permitted omissions) as of its date by the Issuer for purposes of Rule 15c2-12(b)(1) promulgated by the Securities and Exchange Commission (the "SEC"). The Issuer agrees to cause the Company to provide to the Underwriters, in such quantities as may be reasonably requested, the final Official Statement within seven business days of the date hereof (or within such shorter period as the Issuer, the Company and the Senior Manager may agree), but in no event later than the Closing Date. The terms "amendments" and "supplements" as used herein include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement until the date which is 25 days after the "end of the underwriting period" (as defined for purposes of SEC Rule 15c2-12(b)(4)), pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents. The Issuer hereby authorizes the use and distribution by the Underwriters, in connection with the offering and sale of the Bonds, of the Indenture, the Loan Agreement, the Supplemental Mortgage Indenture and this Bond Purchase Agreement upon the request of any person purchasing Bonds.

If, during such period (not to exceed 25 days after the "end of the underwriting period", as defined for purposes of SEC Rule 15c2-12(b)(4)) as in the judgment of the Senior Manager, delivery of the Official Statement as it may be amended or supplemented is necessary or desirable in connection with sales of the Bonds by the Underwriters or any dealer or as otherwise may be required by applicable law or regulation, any event shall occur as a result of which, in the judgment of the Senior Manager, it is necessary to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser or "potential customer" (as defined for purposes of SEC Rule 15c2-12(b)(4)), not misleading, the Issuer, at the expense of the Company, will forthwith prepare and furnish, or cooperate in the preparation and furnishing, to the Underwriters and to any dealers to whom the Underwriters may have sold Bonds, either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended or supplemented will not, in the light of the circumstances when the Official Statement

as so amended or supplemented is delivered to a purchaser or "potential customer", be misleading.

If, during such period referred to in the preceding paragraph, any event relating to the Issuer shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein with respect to the Issuer, in the light of the circumstances at the time, not misleading, the Issuer shall immediately notify the Underwriters and the Company thereof. No consent or approval by the Issuer shall be required in connection with any amendment or supplement to the Official Statement which relates exclusively to the Company.

The Issuer has not participated in the preparation of the Official Statement and makes no representations with respect thereto except as expressly set forth in Article IV(a) hereof.

### III.

The consummation of the transaction described herein shall occur at the offices of Squire, Sanders & Dempsey L.L.P., 4900 Society Center, 127 Public Square, Cleveland, Ohio 44114 at 10:00 a.m., Eastern Time on August \_\_, 1997, or at such other place and such other time on the same or such other date as shall be designated by you and approved by the Company and the Issuer (the "Closing Date"). Unless otherwise agreed by the Company and you, payment of the purchase price of the Bonds shall be made by wire transfer of immediately available funds into an account of the Issuer held by the Trustee upon the crediting of Bonds in the aggregate principal amount of \$54,600,000 to your account maintained at The Depository Trust Company ("DTC"). The Bonds will be delivered in New York, New York in registered form as a single, manuscript bond, will be registered in the name of Cede & Co., as nominee of DTC, under DTC's book-entry system, and will be made available to you for inspection upon delivery in New York, New York at the offices of DTC, or at such other place as may be agreed upon by the Issuer, the Company and you. At the same date and time at which payment for and delivery of the Bonds is made, the Company will pay to the Senior Manager, on behalf of the Underwriters, an underwriting commission of \$\_\_\_\_, in consideration of the underwriting of the Bonds by the Underwriters, by wire transfer of immediately available funds, unless otherwise agreed by the Company and the Senior Manager.

### IV.

The Issuer represents and warrants to you that:

- (a) The information relating to the Issuer in the Preliminary Official Statement under the caption "The Authorities -- The Water Authority" is, and under said caption in

the Official Statement, as it may be amended or supplemented as of the Closing Date, is and will be, true and correct in all material respects, and does not and, as it may be amended or supplemented as of the Closing Date, will not, contain any untrue statement of a material fact or omit to state a material fact relating to the Issuer necessary to be stated therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. However, the Issuer has not confirmed, and assumes no responsibility for, the accuracy or completeness of any of the information in the Preliminary Official Statement or the Official Statement other than the information relating to it under the captions "The Authorities – The Water Authority" and "Special Legal Investment Considerations".

(b) The Issuer is a body politic and corporate, organized and existing under the laws of the State, including Chapters 6121 and 6123, Ohio Revised Code, as amended (the "Act").

(c) The Issuer has full legal right, power and authority (i) to adopt the Resolution, (ii) to enter into this Bond Purchase Agreement, the Loan Agreement and the Indenture and to sign and accept the Letter of Representation, (iii) to issue, sell, execute and deliver the Bonds to the Underwriters as provided herein and (iv) to carry out and consummate all other transactions contemplated by each of the aforesaid documents. The Issuer has complied with all applicable provisions of law, including, without limitation, all provisions of the Constitution of the State and the Act, in all matters relating to such transactions.

(d) The Issuer has duly authorized (i) the execution and delivery of, and the due performance of its obligations under this Bond Purchase Agreement, the Bonds, the Loan Agreement and the Indenture and the signing and acceptance of the Letter of Representation, (ii) the Official Statement, the execution thereof by the Issuer and the use and distribution by the Underwriters of the Official Statement and (iii) the taking of any and all such action as may be required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by such documents. The Issuer has duly approved the use and distribution by you of the Preliminary Official Statement.

(e) The Resolution has been duly adopted by the Issuer and is in full force and effect. This Bond Purchase Agreement has been duly executed and delivered by the Issuer and, assuming due acceptance thereof by the Underwriters, constitutes a legal, valid and binding obligation of the Issuer. The Loan Agreement and the Indenture, when duly executed and delivered by the Issuer and the other parties thereto, will constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their terms, except as the same may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles.

(f) When delivered to and paid for by the Underwriters on the Closing Date in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have



been duly authorized, executed, issued and delivered and, when duly authenticated by the Trustee or the authenticating agent as provided in the Indenture, will constitute legal, valid and binding special obligations of the State, issued by the Issuer in conformity with the Act, payable in accordance with their terms, and entitled to the benefit and security of the Indenture, including revenues derived from the First Mortgage Bonds, but they will not constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof, and the holders or owners thereof will have no right to have taxes levied by the General Assembly of the State or the taxing authority of any political subdivision of the State for the payment of the principal thereof or premium, if any, or interest thereon.

(g) The adoption of the Resolution, the execution and delivery of this Bond Purchase Agreement, the Bonds, the Loan Agreement and the Indenture, the signing and acceptance of the Letter of Representation and compliance with the provisions of the Resolution and of each of such instruments will not conflict with or constitute a breach of, or default under, any indenture, commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order or decree to which the Issuer (or any of its officers or directors, in their respective capacities as such) is subject or under any provision of the Constitution of the State or any law of the State relating to the Issuer.

(h) Except as set forth in Appendix E hereto, to the best of its knowledge, the Issuer has not been in default within at least the last ten years in the payment of the principal of or premium, if any, or interest on or otherwise been in default with respect to, any bonds, notes or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium, if any, or interest, and no proceedings have been taken by the Issuer under Chapter IX of the Federal Bankruptcy Act, under Chapter 9 of Title 11 of the United States Code or under any other similar law or statute of the United States of America or the State.

(i) There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before or by any court, public board or body, in which the Issuer has been served or of which it has otherwise received official notice or which, to the best knowledge of the Issuer, is threatened against the Issuer (nor to the best knowledge of the Issuer is there any basis therefor) (i) which in any way questions the validity of the Act or the powers of the Issuer in connection with the issuance and sale of the Bonds, (ii) wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions contemplated by this Bond Purchase Agreement or the transactions contemplated by the Official Statement, (iii) which in any way could adversely affect the validity or enforceability of the Bonds, the Resolution, the Loan Agreement, the Indenture or this Bond Purchase Agreement (or of any other instruments required or contemplated for use in consummating the transactions contemplated thereby or hereby) or (iv) challenging the exclusion of the interest on the Bonds from gross income for federal income tax purposes:

(j) The Issuer has taken all proceedings and obtained all approvals (other than any approvals that may be required under the Blue Sky laws of any jurisdiction) required by the Act in connection with the issuance and sale of the Bonds and the execution and delivery by the Issuer of, or the performance by the Issuer of its obligations under, this Bond Purchase Agreement, the Resolution, the Bonds, the Indenture and the Loan Agreement.

(k) Any certificate signed by any official of the Issuer and delivered to the Underwriters shall be deemed a representation and warranty by the Issuer to you as to the truth of the statements therein contained.

It is understood that the representations, warranties and covenants of the Issuer contained in this Article IV and elsewhere in this Bond Purchase Agreement shall not create any general obligation or liability of the Issuer, and that any obligation or liability of the Issuer hereunder or under the Loan Agreement or the Indenture is payable solely out of the revenues and other income pledged therefor and that no member, officer or employee of the Issuer shall be personally liable for any such obligation or liability. It is further understood and agreed that the Issuer makes no representations or warranties, except as set forth in paragraph (a) above, as to the Preliminary Official Statement and the Official Statement or as to (i) the financial condition, results of operation, business or prospects of the Company, (ii) any statements (financial or otherwise), representations, documents or certifications provided or to be provided by the Company in connection with the offer or sale of the Bonds, or (iii) the correctness, completeness or accuracy of such statements, representations, documents or certifications.

V.

The several obligations of the Underwriters hereunder with respect to the Bonds shall be subject to (i) the compliance with and the performance by the Issuer of the obligations and agreements to be complied with and performed by it hereunder and under the Resolution, the Loan Agreement and the Indenture on or prior to the Closing Date; (ii) the compliance with and the performance by the Company of the obligations and agreements to be complied with and performed by it on or prior to the Closing Date under the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement; (iii) the truth, accuracy and completeness as of the date hereof of the representations and warranties of the Issuer contained herein and in the Loan Agreement and of the representations and warranties of the Company contained, respectively, in the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the First Mortgage Bonds and the Continuing Disclosure Agreement; (iv) the truth, accuracy and completeness of such representations and warranties of the Issuer and the Company on the Closing Date as if made on and as of the Closing Date (provided that, unless otherwise specified by such representations and warranties, references in such representations and warranties to the Official Statement shall be deemed to refer to the Official Statement as amended and supplemented to the Closing Date); and (v) the delivery to the Underwriters on the date hereof of a letter, in form and substance reasonably satisfactory to you, from Arthur Andersen LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "agreed-upon procedures letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference in the Preliminary Official Statement.

The obligations of the Issuer to issue and sell, and the several obligations hereunder of the Underwriters to purchase, the Bonds are subject to the following further conditions:

(a) On or prior to the Closing Date, you shall have received, in addition to executed, conformed or specimen copies of the Indenture, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds and the Continuing Disclosure Agreement:

(i) Opinions dated the Closing Date of (A) Baker, Baker & Sweterlitsch, Columbus, Ohio, as General Counsel for the Issuer [and Forbes, Forbes & Associates, as Special Counsel for the Issuer], in the form[s] attached hereto, [respectively,] as Appendices A-1 [and A-2]; (B) Squire, Sanders & Dempsey L.L.P., Bond Counsel, in substantially the forms attached as (I) Appendix B to the Official Statement and (II) Appendix B hereto; (C) counsel to the Company, in substantially the form attached hereto as Appendix C; and (D) Calfee, Halter & Griswold LLP, counsel to the Underwriters, in substantially the form attached hereto as Appendix D; in each case with such changes as you

and your counsel shall approve.

(ii) A certificate, dated the Closing Date, signed by the Executive Director of the Issuer or other appropriate official satisfactory to you, to the effect that (A) each of the representations and warranties of the Issuer set forth in Article IV hereof and in the Loan Agreement is true, accurate and complete on the Closing Date as if made on and as of the Closing Date and (B) each of the agreements of the Issuer to be complied with and each of the obligations of the Issuer to be performed hereunder, and under the Resolution, the Loan Agreement and the Indenture on or prior to the Closing Date has been complied with and performed.

(iii) A certificate of the Company, dated the Closing Date, and signed by an authorized officer of the Company, to the effect that (A) each of the representations and warranties of the Company contained in the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement is true, accurate and complete on the Closing Date as if made on and as of the Closing Date, (B) each of the agreements of the Company to be complied with and each of the obligations to be performed by the Company under the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement on or prior to the Closing Date has been complied with and performed and (C) as of the Closing Date, there has been no material adverse change in the financial condition, results of operation, business or prospects of the Company from that set forth in or contemplated by the Official Statement, as it exists on the date hereof.

(iv) A certificate, dated the Closing Date in form and substance satisfactory to you, signed by the Executive Director of the Issuer or other appropriate official satisfactory to you stating the Issuer's reasonable expectations on such date as to future events and the facts, estimates and circumstances (including the respective covenants of the Issuer and the Company contained in the Indenture and the Loan Agreement) on which such expectations are based, which shall be sufficient to establish that it is not expected that the proceeds of the sale of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations promulgated thereunder. Such certificate shall also state that such officer is charged, either alone or with others, with the responsibility for issuing the Bonds and that, to the best of the knowledge and belief of such officer, the expectations set forth in such certificate are reasonable.

(v) A certificate of the Company, dated the Closing Date, in form and substance satisfactory to you, signed by an authorized officer of the Company

stating the Company's reasonable expectations on such date as to the future events and the facts, estimates and circumstances (including the respective covenants of the Issuer and the Company on which such expectations are based), which shall be sufficient to establish that it is not expected that the proceeds of the sale of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations prescribed thereunder. Such certificate shall also state that, to the best of the knowledge and belief of such officer, the expectations set forth in such certificate are reasonable.

(vi) Certificates in form and substance satisfactory to Squire, Sanders & Dempsey L.L.P., Bond Counsel, of an officer of the Company describing the project facilities referred to in the Loan Agreement and the proposed use of the proceeds to be received from the sale of the Bonds to refund the 1987 Bonds.

(vii) Evidence, reasonably satisfactory to you, to the effect that Moody's Investors Service shall have given the Bonds a rating of "\_\_\_" and Standard & Poor's Rating Group shall have given the Bonds a rating of "\_\_\_".

(viii) Such additional certificates (including appropriate no litigation certificates, certified copies of resolutions adopted by the Issuer, and orders of The Public Utilities Commission of Ohio), instruments or other documents as you may reasonably request to evidence: (i) the authority of the Trustee to act under the Indenture and the Continuing Disclosure Agreement and as to the due authentication and delivery of the Bonds; (ii) the authority of the Escrow Trustee to act under the Escrow Agreement; (iii) the authority of the First Mortgage Trustee to act under the First Mortgage and as to the due authentication and delivery of the First Mortgage Bonds; (iv) the truth, accuracy and completeness, as of the Closing Date, of the representations and warranties of the Issuer and the Company contained herein and in the Letter of Representation, the Indenture, the Loan Agreement, the Escrow Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), and the Continuing Disclosure Agreement and (v) the due performance and satisfaction by the Issuer, the Company, the Trustee, the Escrow Trustee and the First Mortgage Trustee at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by each of them in connection with this Bond Purchase Agreement, the Letter of Representation, the Loan Agreement, the Resolution, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Escrow Agreement, the Indenture and the Continuing Disclosure Agreement.

(ix) A letter dated the Closing Date, in form and substance reasonably satisfactory to you, from Arthur Andersen LLP, independent public accountants, containing statements and information of the type ordinarily included in

accountants' "agreed-upon procedures letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference in the Official Statement.

(x) A verification report dated the Closing Date, in form and substance reasonably satisfactory to you, from an independent public accounting firm of national reputation certifying that the securities and moneys, if any, held by the Escrow Trustee under the Escrow Agreement are sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and any premium and interest on the 1987 Bonds to the date of their redemption as set forth in the notice of redemption or in the document irrevocably providing, to the satisfaction of the Trustee, for the giving of that notice, as described in the next succeeding paragraph.

(xi) A notice of redemption of the 1987 Bonds on a date that is not more than ninety (90) days after the Closing Date or such other written document irrevocably providing, to the satisfaction of the Trustee, for the giving of that notice.

(xii) Such additional certificates, opinions and other documents as you may reasonably request to evidence the validity of, authorization for, performance of or compliance with the provisions of this Bond Purchase Agreement and the transactions and agreements contemplated hereby and by the Official Statement, all such certificates, opinions and other documents to be satisfactory in substance to you and to your counsel.

(b) Between the date hereof and the Closing Date, legislation shall not have been enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or introduced in either House of Congress by any committee of such House, nor a decision rendered by a federal court or the Tax Court of the United States, nor an order, ruling, regulation or official statement made by the United States Treasury Department or the Internal Revenue Service, with the purpose or effect of imposing federal income taxation upon the revenues from, or other income of the character derived by the Issuer under, the Loan Agreement and the First Mortgage Bonds or upon the interest to be paid on the Bonds.

(c) Between the date hereof and the Closing Date, no legislation shall have been enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or introduced in either House of Congress by any committee of such House, and no decision, order or decree of a court of competent jurisdiction, and no order, ruling, regulation or official statement of or on behalf of the SEC or the Municipal Securities Rulemaking Board, shall have been rendered or made, with the purpose or effect that the issuance, offering or sale of the Bonds, as contemplated

hereby or by the Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act or the Trust Indenture Act of 1939, as amended, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement.

(d) Between the date hereof and the Closing Date, no legislation, ordinance, rule or regulation shall have been enacted or favorably reported for passage by any governmental body, department or agency of the State, nor shall any decision have been rendered by any court of competent jurisdiction in the State, which would adversely affect the excludability from gross income for purposes of federal income taxation of interest on the Bonds, or the exemption of the Bonds from personal income taxes in Ohio, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

(e) Between the date hereof and the Closing Date, no calamity, crisis or outbreak or escalation of hostilities, the effect of which on the financial markets of the United States is to materially impair the marketability or materially lower the market price of the Bonds, shall have occurred.

(f) The marketability of the Bonds shall not have been materially impaired and the market price of the Bonds shall not have been materially lowered by reason of the imposition between the date hereof and the Closing Date by the New York Stock Exchange, or any governmental authority, as to the Bonds or similar obligations, of any material restrictions not in force at the date hereof, or the material increase of those in force at the date hereof, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters.

(g) As of the Closing Date, no event shall have occurred which could reasonably be expected to result in, and there shall not have been, any material adverse change in the financial condition, results of operations, business or prospects of the Company from that set forth in or contemplated by the Official Statement as it exists on the date hereof, which, in the reasonable judgment of the Senior Manager, will materially impair the marketability or materially lower the market price of the Bonds.

(h) As of the Closing Date, no material litigation or proceeding to which the Company is a party shall have been adversely decided in respect of the Company's interests which, in the reasonable judgment of the Senior Manager, will materially impair the marketability or materially lower the market price of the Bonds.

(i) The Issuer shall have cooperated with the Trustee in the filing of financing statements under the Uniform Commercial Code of the State in such manner and in such places as may be required in order to establish, protect or preserve the interest of the Trustee in the rights assigned to it under the Indenture, and evidence of such filings shall

have been furnished to you.

(j) All matters relating to this Bond Purchase Agreement, the Official Statement, the Bonds and the sale thereof, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Resolution, the Indenture, the Continuing Disclosure Agreement and the Letter of Representations between the Company and DTC and all matters contemplated hereby and thereby shall be satisfactory to and approved by you and your counsel. All matters relating to the Letter of Representation shall be satisfactory to and approved by the Issuer and you.

(k) The Trustee shall have received duly executed and authenticated First Mortgage Bonds satisfactory in form and substance to you and your counsel.

(l) The Company shall not have failed to provide to the Underwriters, within the time set forth in Article II hereof, copies of the final Official Statement in such quantities as the Underwriters may reasonably request.

(m) Between the date hereof and the Closing Date there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's debt securities by any "nationally recognized statistical rating organization", as such term is defined for purposes of Rule 436(g)(2) under the Securities Act.

## VI.

The Issuer covenants as follows:

(a) To furnish or cause to be furnished to you (i) on or prior to the Closing Date, a specimen of the form of the Bonds and (ii) on or prior to the Closing Date, a certified copy of the Resolution and executed or conformed copies of the Loan Agreement and the Indenture (which documents shall be in the form previously delivered to you, subject to such amendments, supplements, modifications, or changes as you shall approve).

(b) Before amending or supplementing the Official Statement (other than an amendment by way of a filing by the Company under the Exchange Act), to furnish you and the Company a copy of each such proposed amendment or supplement. No amendment or supplement to the Official Statement will be made to which you or the Company shall reasonably object in writing or which will contain material information substantially different from that contained in the Official Statement on the date it was issued which is unsatisfactory to you or the Company.



(c) To cooperate with you in endeavoring to qualify the Bonds for offer and sale under the state securities or Blue Sky laws of such jurisdictions as you may reasonably request and in determining their eligibility for investment under the laws of such jurisdictions as you may reasonably request; provided that the foregoing shall not require the Issuer to execute a general consent to service of process or to qualify as a foreign corporation in connection with such qualification in any foreign jurisdiction.

(d) Not to take any action which will prevent the application of the proceeds from the sale of the Bonds, as provided in, and subject to all of the terms and provisions of, the Indenture, the Resolution and the Loan Agreement.

(e) Not to take or omit to take any action which will adversely affect (i) the excludability from gross income for purposes of federal income taxation of interest on the Bonds or (ii) the exemption of the Bonds from personal income taxes in Ohio, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

(f) To notify you if, prior to the delivery of and payment for the Bonds on the Closing Date, any event occurs which is known to the Issuer and which makes any statement concerning the Issuer under the captions "The Authorities -- The Water Authority" or "Special Legal Investment Considerations" in the Official Statement untrue in any material respect or which requires the making of any amendments or supplements to or modifications of the Official Statement in order to make any statement concerning the Issuer under the captions "The Authorities -- The Water Authority" or "Special Legal Investment Considerations" not misleading in any material respect.

(g) To cooperate with the Trustee to promptly file, register and record, or refile, reregister and rerecord, at the expense of the Company, the Loan Agreement, the Indenture and the related financing statements, at such times and in such places as may be required by law, in order to maintain, protect or preserve the interest of the Trustee in the rights assigned to it under the Indenture.

(h) To perform and observe all of the obligations and agreements made or undertaken by the Issuer in this Bond Purchase Agreement.

The agreements contained in this Article VI and the representations and warranties of the Issuer set forth in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling an Underwriter and (ii) acceptance of and payment for the Bonds.

## **VII.**

If any Underwriter (but not all) shall fail or refuse to purchase its Original Participation and arrangements satisfactory to the non-defaulting Underwriters, the Company and the Issuer for the purchase of such Bonds are not made within 72 hours after such default, this Bond Purchase Agreement will terminate without liability on the part of any non-defaulting Underwriter or of the Issuer. In any such case which does not result in a termination of this Bond Purchase Agreement, either you or the Issuer, with the approval of the Company, shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Official Statement or in any other documents or arrangements may be effected. Any action taken under this Article VII shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Bond Purchase Agreement.

## **VIII.**

All expenses incident to the performance of the obligations of the Issuer hereunder (including the reasonable fees and disbursements of Bond Counsel, counsel to the Issuer and counsel to the Underwriters) are to be paid by the Company as provided in the Letter of Representation. Provided you have not defaulted in your obligations hereunder, you shall have no obligation to pay any such expense. The Issuer shall not be responsible for your costs and expenses, including any advertising expenses incurred in connection with any offering of the Bonds.

This Bond Purchase Agreement is made solely for the benefit of you, persons controlling you, the Company and its directors and officers, and the Issuer, its officers and members, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Bond Purchase Agreement. The terms "successors" and "assigns" shall not include any purchaser of Bonds from or through you merely because of such purchase.

This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the State.

This Bond Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

If the foregoing is in accordance with your understanding of the agreement between you and the Issuer, kindly sign and return to the Issuer the enclosed copy hereof, whereupon it will constitute a binding agreement between the Issuer and you in accordance with its terms.

Very truly yours,

OHIO WATER DEVELOPMENT  
AUTHORITY

By: \_\_\_\_\_  
Secretary/Treasurer

Accepted and confirmed as of  
the date first above written.

MORGAN, STANLEY & CO. INCORPORATED, on  
behalf of itself and the other Underwriters  
of the Bonds described herein

By: \_\_\_\_\_  
Title:

196/11177ACA.82E

**SCHEDULE I**

**\$54,600,000**

**OHIO WATER DEVELOPMENT AUTHORITY**

**STATE OF OHIO**

**\_\_% COLLATERALIZED POLLUTION CONTROL REVENUE REFUNDING BONDS,**

**SERIES 1997-A**

**(THE CLEVELAND ELECTRIC ILLUMINATING COMPANY PROJECT)**

The captioned Bonds will be issued upon the following terms:

Maturity Date: July 1, 2020

Interest Rate: \_\_%

Optional Redemption Schedule:

<u>Redemption Period</u> <u>(dated inclusive)</u>	<u>Redemption Prices</u>
July 1, 2007 through June 30, 2008	102%
July 1, 2008 through June 30, 2009	101
July 1, 2009 and thereafter	100

Interest Payment Dates: January 1 and July 1, commencing  
January 1, 1998

## SCHEDULE II

<u>Name</u>	<u>Original Participation--</u> <u>Principal Amount</u>
Morgan Stanley & Co. Incorporated.....	\$ __, __, 000
First Chicago Capital Markets, Inc.....	\$ __, __, 000
Citicorp Securities, Inc. ....	\$ __, __, 000
Total .....	\$ <u>    </u> , <u>    </u> , 000

Appendix A-1 to the Bond  
Purchase Agreement

Proposed Form of Opinion of General Counsel for the Issuer

August \_\_, 1997

Ohio Water Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds described  
herein

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

I am counsel to the Ohio Water Development Authority (the "Authority"). This opinion is being rendered pursuant to Section V(a)(i)(A) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") among the Authority and Morgan Stanley & Co. Incorporated, on behalf of itself and Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (collectively, the "Underwriters"), relating to the issuance and sale by the Authority of \$54,600,000 State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds"), such Bonds to be issued under and pursuant to a Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., Pittsburgh, PA., as trustee (the "Trustee"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company"), pursuant to the Loan Agreement, dated as of July 1,

1997 (the "Loan Agreement"), between the Authority and the Company, to assist in refunding the outstanding aggregate principal amount of \$54,600,000 of the Authority's State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series A-1 and A-2 (The Cleveland Electric Illuminating Company Project), dated \_\_\_\_\_, 1987 (the "Project Bonds"), as more particularly described in the Indenture. The proceeds of the Project Bonds were loaned to the Company to assist in the financing of its portion of the cost of the acquisition, construction and installation of certain waste water facilities and solid waste facilities in connection with the Perry Nuclear Power Plant Unit 1 in Lake County, Ohio. Terms defined in the Bond Purchase Agreement, and not otherwise defined herein, are used in this opinion with the meanings assigned to them in the Bond Purchase Agreement.

I have examined (i) the resolutions of the Authority authorizing the issuance of the Bonds and the execution and delivery of the Indenture, the Loan Agreement and the Bond Purchase Agreement (collectively, the "Bond Resolution"); (ii) executed counterparts of the Indenture, the Loan Agreement and the Bond Purchase Agreement (collectively, the "Authority Documents"); and (iii) the Letter of Representation.

Based on the foregoing, and upon an examination of such other documents and instruments and an investigation of such other matters of law as I have deemed necessary to enable me to render this opinion, I am of the opinion that, under existing law:

1. The Authority is a body politic and corporate duly organized and validly existing under the laws of the State of Ohio. Pursuant to the Constitution and laws of the State, including Section 13 of Article VIII of the Ohio Constitution and Chapter 6121 and 6123, Ohio Revised Code, the Authority is authorized and empowered (a) to issue the Bonds for the purpose of making a loan to the Company to assist the Company in refunding the 1987 Bonds, (b) to adopt the Bond Resolution and (c) to enter into the Authority Documents.

2. The Bond Resolution has been duly adopted by the Authority and is in full force and effect in the form adopted.

3. The Authority has duly authorized, executed and delivered the Bonds and the Authority Documents and has duly accepted the Letter of Representation.

4. The Authority has duly authorized the use and distribution of the Preliminary Official Statement and the execution, use and distribution of the Official Statement.

5. The members of the Authority named in the Authority's General Certificate delivered concurrently herewith have been duly appointed as such members, have been elected to such offices as have been indicated, and are qualified to serve as such members and officers, and Steven J. Grossman has been duly appointed as Executive Director of the Authority.

6. I know of no litigation or administrative action or proceeding, pending or threatened, which seeks to restrain or enjoin the issuance, execution or delivery of the Bonds or the execution and delivery of the Authority Documents or the performance of the Authority's obligations thereunder, or the Authority's acceptance of the Letter of Representation, or contesting or questioning the proceedings and authority under which the Bonds have been issued, executed and delivered, or under which the Authority Documents have been executed and delivered or under which the Letter of Representation has been accepted, or under which the use and distribution of the Preliminary Official Statement and the Official Statement have been authorized or the validity of the Bonds, the Authority Documents or the Authority's acceptance of the Letter of Representation or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

7. All legal action required to be taken by the Authority (a) to authorize the use and distribution of the Preliminary Official Statement and the execution, use and distribution of the Official Statement, (b) in connection with the adoption of the Bond Resolution and (c) in connection with the issuance, execution and delivery of the Bonds, and the execution and delivery of the Authority Documents and the acceptance of the Letter of Representation has been taken, and none of the proceedings held or actions taken by the Authority with respect to any of the foregoing has been repealed, rescinded or revoked.

8. The issuance, execution and delivery of the Bonds, the execution and delivery of the Authority Documents and the acceptance of the Letter of Representation do not conflict with, violate or result in a breach of, or constitute a default under, any agreement or other instrument to which the Authority is a party or by which the Authority or any of its properties are bound or any constitutional or statutory provisions, order, rule, regulation, decree or resolution to which the Authority or any of its property is subject.

9. No approval, permit, consent, authorization or order of any court or any governmental or public agency, authority or person not already obtained (other than the approvals that may be required under the Blue Sky laws of any jurisdiction) is required of the Authority in connection with the issuance, execution and delivery of the Bonds, authorization of the use and distribution of the Preliminary Official Statement and the execution, use and distribution of the Official Statement, or the execution and delivery by the Authority of the Authority Documents, the acceptance of the Letter of Representation, or the adoption of the Bond Resolution.

No facts have come to my attention that would lead me to believe that the information with respect to the Authority set forth in the Official Statement under the caption "THE AUTHORITY" on its date or the date hereof, contains any untrue statement of material fact or omits to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. I have not been called upon and do not express any belief or opinion as to any portion of the Official Statement (including the Appendices and the documents incorporated therein by reference) other than that



portion under the caption "THE AUTHORITY".

I know of no litigation or administrative action or proceeding, pending or threatened, which challenges the validity of, or seeks to restrain or enjoin the issuance, execution or delivery of the Bonds or the execution and delivery of the Authority Documents or the performance of the Authority's obligations thereunder, or the Authority's acceptance of the Letter of Representation, or contesting or questioning the adoption of the Resolution or the proceedings and authority under which the Bonds have been issued, executed and delivered, or under which the Authority Documents have been executed and delivered or under which the Letter of Representation has been accepted, or under which the use and distribution of the Preliminary Official Statement and the execution, use and distribution of the Official Statement have been authorized or the validity of the Authority Documents, the Authority's acceptance of the Letter of Representation or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

The issuance, execution and delivery of the Bonds, the execution and delivery of the Authority Documents and the acceptance of the Letter of Representation do not conflict with, violate or result in a breach of, or constitute a default under, any agreement or other instrument to which the Authority is a party or by which the Authority or any of its properties are bound or any Ohio constitutional or statutory provision, order, rule, regulation, decree or resolution to which the Authority or any of its property is subject.

Respectfully submitted,

[to be signed Baker, Baker & Sweterlitsch]

Appendix A-2 to the Bond  
Purchase Agreement

Proposed Form of Opinion of Special Counsel for the Issuer

August \_\_, 1997

Ohio Water Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds described  
herein

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

As Special Counsel to the Ohio Water Development Authority (the "Authority"), we have examined the transcript of proceedings (the "Transcript") relating to the issuance by the State of Ohio, acting by and through the Authority, of \$54,600,000 State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company") to assist in refunding the outstanding aggregate principal amount of \$54,600,000 of the Authority's State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series A-1 and A-2 (The Cleveland Electric Illuminating Company Project) dated \_\_, 1987. The documents in the Transcript examined include an executed counterpart of the Loan Agreement between the Authority and the Company, dated as of July 1, 1997 (the "Loan Agreement"), the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., as trustee (the "Trustee"), and the Bond Purchase Agreement (the "Bond Purchase Agreement") dated July \_\_, 1997, among the Authority and

Morgan Stanley & Co. Incorporated, on behalf of itself and Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (collectively, the "Underwriters"). We have also examined a true copy of the lowest numbered Bond.

Based on this examination, we are of the opinion that, under the law existing on the date of this opinion and subject to the qualifications hereinafter set forth:

1. The Bond Purchase Agreement, the Loan Agreement, the Indenture, and the Bonds are legal, valid, binding and enforceable in accordance with their respective terms.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium on the Bonds (collectively, "debt service") are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement which have been assigned to the Trustee by the Indenture. The Bonds and the payment of debt service do not constitute a debt, or a pledge of the faith and credit, of the Authority, the State of Ohio or any political subdivision thereof, and the holders of the Bonds have no right to have taxes levied by the General Assembly of the State of Ohio or the taxing authority of any political subdivision thereof for the payment of debt service.

The opinions set forth herein are qualified in their entirety as follows: (i) the terms and provisions of any instrument or agreement are subject to the application of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and, in addition, are subject generally to the application of equitable principles; (ii) the remedy of specific performance is generally discretionary with the court and may not be available with respect to the enforcement of the terms and provisions of any instrument or agreement; (iii) judicial decisions indicate that the public policy may make unenforceable provisions in agreements respecting payment by a debtor of the costs of enforcement, including, without limitation, attorneys' fees; and (iv) certain of the notice, waiver and remedial provisions contained in the instruments and agreements referred to in this opinion may be unenforceable in whole or in part; it is our opinion, however, that the inclusion of any such provisions does not affect the overall validity thereof and will not materially interfere with the practical realization of the benefits of any mortgages, liens or security interests provided for therein.

In rendering this opinion, we have relied upon certifications and representations of fact contained in the Transcript, which we have not independently verified.

Respectfully submitted,

[to be signed "Forbes, Forbes  
& Associates"]

196/11177ACA.82E

Appendix B to the Bond  
Purchase Agreement

Proposed Form of Supplemental Opinion of Bond Counsel

August \_\_, 1997

To: Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds described  
herein

Ohio Water Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

This opinion is being rendered pursuant to the Bond Purchase Agreement, dated July \_\_, 1997 (the "Bond Purchase Agreement"), among the Underwriters named therein and the Ohio Water Development Authority (the "Authority") relating to the issuance and sale of \$54,600,000 aggregate principal amount of State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds"). All capitalized terms used in this opinion and not otherwise defined herein shall have the same meanings assigned to them as in the Bond Purchase Agreement.

We have acted as Bond Counsel in connection with the issuance of the Bonds and in that capacity have examined the transcript of proceedings (the "Transcript") relating to the issuance of the Bonds by the Authority.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The statements pertaining to the Bonds under the captions "The Authorities" and "Tax Exemption" fairly and accurately present the information purported to be shown and the statements under the captions "The Bonds" (except for the information and

statements relating to The Depository Trust Company and the book-entry system under "The Bonds - Book Entry System"), "The Loan Agreements" and "The Indenture", insofar as they describe the Bonds, the Loan Agreement and the Indenture, fairly and accurately summarize the material provisions of those documents.

2. Neither the Bonds nor any securities evidenced thereby which are separate from the obligations of the State of Ohio or the Authority are required to be registered under the Securities Act of 1933, as amended, and the Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended. The Bonds are negotiable instruments, subject to the provisions in the Indenture for registration.

3. There are no stamp, documentary or similar transfer taxes within the State of Ohio which would be applicable to the original issuance or subsequent transfers of the Bonds, and the revenues derived or income of the character to be derived by the Authority under the Loan Agreement are exempt in the hands of the Authority from federal income taxation and from taxation in or by the State of Ohio. No legislation, ordinance, rule or regulation has been enacted or favorably reported for passage by any governmental body, department or agency of the State of Ohio, nor has any decision been rendered by any court of competent jurisdiction in the State of Ohio which would adversely affect the exemptions or exclusions from taxation referred to in this paragraph or in the third paragraph of our approving opinion, of even date herewith, given with respect to the Bonds.

4. All conditions required pursuant to the Indenture precedent to the delivery of the Bonds have been fulfilled. All instruments furnished to the Trustee in connection with the order of the Authority to authenticate and deliver the Bonds conform to the requirements of the Indenture, and such instruments constitute sufficient authority under the Indenture for the Trustee to authenticate and deliver the Bonds as directed in such order.

5. The facts, estimates and circumstances as set forth in the certifications in the Transcript given pursuant to Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder are sufficient to satisfy the criteria which are necessary under Section 148 and those regulations to support the conclusion that the Bonds are not "arbitrage bonds" as defined in Section 148 and those regulations. No matters have come to our attention which make unreasonable or incorrect the representations made in such certifications.

This opinion is supplemental to our approving opinion of even date herewith with respect to the Bonds, and, to the same extent indicated therein in giving this supplemental opinion, we have also relied upon certifications and representations of fact contained in the Transcript and the opinion of even date herewith of counsel for the Company contained in the Transcript.

Respectfully submitted,

[to be signed "Squire, Sanders &  
Dempsey L.L.P."]

196/11177ACA.82E

Appendix C to the Bond  
Purchase Agreement

Proposed Form of Opinion of Company Counsel

August \_\_, 1997

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds described  
herein

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

This opinion is being rendered to you pursuant to Section V(a)(i)(C) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") among Morgan Stanley & Co. Incorporated, on behalf of itself and Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (together, the "Underwriters") and the Ohio Water Development Authority (the "Authority"), relating to the issuance and sale by the Authority of \$54,600,000 aggregate principal amount of its \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds") which are being issued under the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., as trustee (the "Trustee"); and with reference to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Authority and The Cleveland Electric Illuminating Company (the "Company") and to the delivery to the Trustee of the \$54,600,000 aggregate principal amount of First Mortgage Bonds \_\_% Series due 2020-A (the "First Mortgage Bonds") of the Company issued under the Mortgage and Deed of Trust dated July 1, 1940 from the Company to Guaranty Trust Company of New York as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee, as supplemented and modified in certain respects by indentures supplemental thereto, including the Seventy-\_\_\_\_ Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage



Indenture"; said Indenture of Mortgage and Deed of Trust as so supplemented and modified herein called the "First Mortgage").

I am counsel for the Company and attorneys acting under my supervision have examined the transcript of proceedings relating to the issuance of the Bonds by the Authority and such other records of the Company, documents and certifications as I deem necessary to express the opinion hereinafter set forth.

Attorneys acting under my supervision have also examined originals or copies, certified or otherwise identified to their satisfaction, of such other documents, corporate records and other instruments and have made such investigation of fact and law as they have deemed necessary or advisable for purposes of this Opinion. Terms used herein and not otherwise defined are used as defined in the Bond Purchase Agreement.

Based upon the foregoing and such legal considerations as I deem relevant, I am of the opinion that:

1. The Company is a public utility and corporation duly organized and validly existing under the laws of the State of Ohio, with full corporate power to conduct the business now being conducted by it and to execute and deliver the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation and to carry out and perform its obligations under the Loan Agreement, the Escrow Agreement, the First Mortgage, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation;

2. The Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the First Mortgage, the Continuing Disclosure Agreement and the Letter of Representation have been duly authorized, executed and delivered by the Company and, as to the First Mortgage Bonds, assuming they have been duly authenticated by the First Mortgage Trustee, constitute legal, valid and binding obligations of the Company enforceable in accordance with their respective terms, except to the extent that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally or the enforcement of the security provided by the First Mortgage, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity and may be subject to limitations upon the right to obtain judicial orders requiring specific performance;

3. The execution and delivery of the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation, and the performance by the Company of its obligations thereunder and under the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), do not constitute a default under, or conflict with or violate any of the

provisions of, the Company's Amended Articles of Incorporation or Regulations, any law, rule, regulation, judgment, order or decree to which the Company is subject or, to my knowledge, any agreement, indenture, mortgage, lease, note or other obligation or instrument to which the Company is a party or by which it is bound;

4. All consents or approvals of The Public Utilities Commission of Ohio and of any other federal or state regulatory agency required in connection with the Company's execution and delivery of, and the performance of its obligations under, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation have been obtained;

5. Except as disclosed in the Official Statement, as it may be amended or supplemented to the date hereof, I know of no actions, suits, proceedings, inquiries or investigations at law or in equity before or by any judicial or administrative court or agency, pending or threatened against the Company, and to my knowledge, there is not any reasonable basis for any such action, suit, proceeding, inquiry or investigation, wherein the decision, ruling or finding would materially or adversely affect the validity or enforceability of the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Continuing Disclosure Agreement or the Letter of Representation;

6. The Company has good title to substantially all the properties referred to or described in the Official Statement and in the granting clauses of the First Mortgage as being subject to the lien thereof and now owned by it which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage, subject only to the conditions and exceptions set forth in the Official Statement under the subheadings "Security" and "Title to Property" under the heading "1997 First Mortgage Bonds and First Mortgage", none of which materially impairs the use of the property affected thereby in the operation of the business of the Company;

7. The First Mortgage and all financing statements related thereto have been duly filed and recorded in all places where such filing or recording is necessary for the perfection or preservation of the lien of the First Mortgage, and the First Mortgage constitutes a valid and direct first lien upon all of the property referred to in paragraph 6 above, subject only to the conditions and exceptions referred to therein and, under current law, all property acquired by the Company hereafter, other than property excepted from the lien of the First Mortgage, will become subject to the lien thereof upon acquisition;

8. The First Mortgage Bonds have been duly authorized, executed, authenticated, issued and delivered and are valid and legally binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits and security of the First Mortgage, equally and ratably with all other bonds outstanding under the First Mortgage except as the enforceability thereof may be subject to the limitations set forth in paragraph 2 above;

9. The Company has statutory authority, franchises and consents free from burdensome restrictions and adequate for the conduct of the business in which it is engaged;

10. The Bonds, and the offer and sale thereof as contemplated by the Official Statement, and the First Mortgage Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Indenture and the Supplemental Mortgage Indenture are exempt from qualification under the Trust Indenture Act of 1939, as amended. In rendering this opinion, I have assumed that, except as described in the Official Statement, there are no agreements with purchasers of the Bonds concerning payments due on or with respect to the Bonds;

11. The statements as to matters of law and legal conclusions referred to or incorporated by reference in Appendix A to the Official Statement accurately and fairly summarize, as of the respective dates thereof, the material aspects of the legal matters discussed therein;

12. Each document incorporated by reference in the Official Statement as originally filed pursuant to the Securities Exchange Act of 1934 (except for the operating statistics, financial statements and other financial data therein, as to which I do not express an opinion) complied as to form when so filed in all material respects with the requirements of said Act and the applicable rules and regulations thereunder;

13. The Company is a "subsidiary" of Centerior Energy Corporation, a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Centerior Energy Corporation is exempt from regulation under such Act pursuant to Section 3(a)(1) thereof and the rules and regulations thereunder promulgated by the Securities and Exchange Commission and, therefore, the Company is also exempt from such regulation; and

14. Assuming that the Trustee holds the First Mortgage Bonds as provided in the Indenture, the Indenture creates a valid and perfected first priority security interest in the First Mortgage Bonds.

I believe that the statements in the Official Statement relating to the Company, the Project, the Bonds, the Loan Agreement, the Indenture, the First Mortgage and the First Mortgage Bonds contained under the captions "Introductory Statement", "The Projects", "Use of Proceeds", "The Bonds", "The Loan Agreements", "The Indentures" and "1997 First Mortgage Bonds and First Mortgage" and in Appendix A to the Official Statement (except for the financial statements, operating statistics and other financial data included in such Appendix, as to which I express no opinion) did not, at the time the distribution of the Official Statement was authorized on June 26, 1997, and, as it may have been amended, supplemented or modified, do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to

make the statements therein, in light of the circumstances under which they were made, not misleading.

This Opinion is expressed as of the date hereof. No Opinion is expressed as to the effect of any changes or events which may occur hereafter. I neither accept nor recognize any duty or responsibility to inform you of any subsequent change or event.

In rendering the foregoing Opinion, I have assumed, but not independently verified, that the signatures (other than on behalf of the Company) on all documents examined by attorneys acting under my supervision are genuine. I have also assumed the due execution and delivery, pursuant to due authorization, of the documents and instruments referred to herein by the other parties thereto. I have relied, as to all questions of fact material to this Opinion, upon certificates of public officials and officers of the Company.

I am qualified to practice law in the State of Ohio and do not purport to be an expert on any laws other than the laws of the State of Ohio and the Federal laws of the United States. If an operative document to which reference is made hereunder is governed by the laws of another jurisdiction, this Opinion is applicable only to the extent that the application of the relevant laws of such jurisdiction is identical to that of the State of Ohio or the Federal laws of the United States.

Also in rendering this Opinion, I have relied upon the opinion of [McNees, Wallace & Nurick, Harrisburg, Pennsylvania, and Whitmire, Verlihay & Douglass, Beaver Falls, Pennsylvania,] with respect to certain matters of Pennsylvania law.

In expressing the opinion stated in Item 10 above, I am relying upon the opinion of Squire, Sanders & Dempsey L.L.P., which you have received today, to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended.

Respectfully submitted,

Appendix D to the Bond  
Purchase Agreement

Proposed Form of Opinion of Counsel for the Underwriters

August \_\_, 1997

To: Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds described  
herein

This opinion is rendered pursuant to Section V(a)(i)(D) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") among you and the Ohio Water Development Authority (the "Issuer") relating to your purchase from the Issuer of \$54,600,000 aggregate principal amount of its \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"), and as counsel to you solely for your use in connection with the issuance and sale of the Bonds to you by the Issuer. Terms defined in the Bond Purchase Agreement which are not defined in this opinion are used as defined in the Bond Purchase Agreement.

We have examined (a) copies or executed counterparts of the Indenture, the Loan Agreement, the Letter of Representation and the Bond Purchase Agreement, (b) the Official Statement dated July \_\_, 1997 (the "Official Statement"), relating to the Bonds, (c) the Securities Act of 1933, as amended (the "1933 Act"), the Trust Indenture Act of 1939, as amended (the "1939 Act"), and the rules, regulations and interpretive advice issued by the Securities and Exchange Commission (the "Commission") thereunder, (d) Rule 15c2-12 promulgated by the Commission under the Securities Exchange Act of 1934, and interpretive advice issued by the Commission thereunder, including without limitation, the letter, dated June 23, 1995, from Robert L.D. Colby, Deputy Director, Division of Market Regulation, to the National Association of Bond Lawyers (the "Rule"), and (e) executed opinions, addressed to you and dated the date hereof, of Bond Counsel, General Counsel for the Issuer, Special Counsel for the Issuer and Company Counsel, relating to the issuance of the Bonds and required to be delivered pursuant to the Bond Purchase Agreement (the "Closing Opinions"). We also have examined originals or copies, certified or otherwise identified to our satisfaction, of such other documents, resolutions, instruments, records, certificates and opinions, have reviewed such laws and information and

have made such investigations as we have considered necessary or appropriate for the purpose of rendering this opinion, including without limitation (i) the certificate of the Company, dated the date hereof, required to be delivered pursuant to Section V(a)(ii) of the Bond Purchase Agreement and (ii) the "agreed-upon procedures letter" of even date herewith, delivered to you by Arthur Andersen LLP pursuant to Section V(a)(ix) of the Bond Purchase Agreement.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date of this opinion:

1. It is not necessary in connection with the offering and sale of the Bonds to the public in the manner contemplated by the Bond Purchase Agreement to register the Bonds under the 1933 Act or to qualify the Indenture under the 1939 Act.

2. Assuming the validity, binding effect and enforceability thereof against the parties thereto, the Continuing Disclosure Agreement constitutes the undertaking required by Section (b)(5)(i) of the Rule.

3. The Closing Opinions are substantially in the form required by the Bond Purchase Agreement.

In accordance with our understanding with you, we have rendered legal advice and assistance to you in the course of your investigations pertaining to, and your participation in the preparation of, the Official Statement. That assistance involved, among other things, inquiries concerning various legal and related matters, our review of certain corporate documents, and our participation in discussions with your representatives, representatives of the Company and representatives of Arthur Andersen LLP, independent public accountants with respect to the Company, Bond Counsel, Special Counsel for the Issuer, and General Counsel for the Issuer concerning the contents of the Official Statement and related matters.

While we are not passing upon, and do not assume responsibility for, the accuracy, completeness or fairness of the contents of the Official Statement, on the basis of the information which was developed in the course of our performance of the services referred to above and without having undertaken to verify independently that accuracy, completeness or fairness, nothing has come to our attention which leads us to believe that the Official Statement, as of its date or as of this date, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements made in the Official Statement, in the light of the circumstances under which they were made, not misleading. Reference in this paragraph to the Official Statement does not include (a) the financial statements of the Company included or incorporated by reference in Appendix A to the Official Statement or (b) any other financial, technical or statistical data included or incorporated by reference in the Official Statement or any Appendix thereto, as to all of which we express no opinion or belief.

The opinions expressed in this letter are limited to the laws of the State of Ohio

and the federal laws of the United States of America.

This letter is furnished to you as representative of the Underwriters and is solely for the benefit of the Underwriters. As such, it may not be relied upon by or disseminated to any other person without the prior written consent of the undersigned, except that it may be reproduced for inclusion in a transcript of proceedings compiled with respect to the Bonds.

Respectfully submitted,

[to be signed Calfee, Halter & Griswold LLP]

196/11177ACA.82E

## **APPENDIX E**

### **OHIO WATER DEVELOPMENT AUTHORITY DEFAULTED BOND ISSUES**

**NONE.**

**196/11177ACA.82E**



DRAFT OF 7/2/97

\$15,900,000

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

State of Ohio

Collateralized Pollution Control Revenue Refunding Bonds,

Series 1997-A

(The Cleveland Electric Illuminating Company Project)

BOND PURCHASE AGREEMENT

July \_\_, 1997

---

July \_\_, 1997

TO: MORGAN STANLEY & CO. INCORPORATED  
New York, New York, as Senior Manager  
and representative of the Underwriters  
named herein

The Ohio Air Quality Development Authority (the "Issuer") proposes to issue its Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997, in the aggregate principal amount of \$15,900,000 (the "Bonds"), on behalf of the State of Ohio (the "State"). The Bonds will mature, bear interest at the rate per annum and be subject to optional redemption as set forth on Schedule I attached hereto, and otherwise will be subject to the terms and provisions of the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Issuer and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as trustee (the "Trustee"), and the resolution adopted by the Issuer on July \_\_, 1997 (the "Resolution"). The Issuer will lend the proceeds of the Bonds to The Cleveland Electric Illuminating Company (the "Company") pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Issuer and the Company. The proceeds of the Bonds will be deposited with Mellon Bank, F.S.B., as escrow trustee (the "Escrow Trustee") under the Escrow Agreement, dated as of July 1, 1997 (the "Escrow Agreement"), between the Company and the Escrow Trustee, and will be applied to pay a portion of the costs of refunding the Issuer's outstanding \$15,900,000 State of Ohio 7.70% Collateralized Pollution Control Revenue Bonds, 1987 Series B (The Cleveland Electric Illuminating Company Project), dated as of \_\_\_\_\_ 1, 1987 (the "1987 Bonds"), which were issued to assist in financing its portion of the cost of the acquisition, construction and installation of certain air quality facilities in connection with the Perry Nuclear Power Plant Unit 1 in Lake County, Ohio (the "Project"), as described in the Loan Agreement and the Preliminary Official Statement, described below, concerning the Bonds. Concurrently with the issuance and delivery by the Issuer of the Bonds, the Company will execute and deliver the Company's First Mortgage Bonds, \_\_% Series due 2020 (the "First Mortgage Bonds"), issued pursuant to a Seventy-\_\_\_\_\_ Supplemental Indenture dated July 1, 1997 (the "Supplemental Mortgage Indenture") to the Mortgage and Deed of Trust dated July 1, 1940 (said Mortgage and Deed of Trust as supplemented and modified in certain respects by indentures supplemental thereto, including the Supplemental Mortgage Indenture, being herein called the "First Mortgage"), from the Company to Guaranty Trust Company of New York (now The Chase Manhattan Bank (National Association)), as trustee (the "First Mortgage Trustee"), with principal amount, interest rate, maturity date and redemption provisions corresponding to the principal amount, interest rate, maturity date and redemption provisions of the Bonds, to evidence and secure collaterally the Company's obligations as provided in the Loan Agreement.

## I.

Subject to the conditions hereinafter stated, and upon the basis of the representations, warranties and covenants contained herein and contained in the Letter of Representation referred to below, the Issuer hereby agrees to sell to Morgan Stanley & Co. Incorporated (the "Senior Manager" and "Representative" of the Underwriters named herein), Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (together with the Senior Manager, the "Underwriters"), and the Underwriters hereby agree to purchase from the Issuer, severally and not jointly, their respective original participations in the Bonds (the "Original Participations", and individually an "Original Participation"), as set forth on Schedule II attached hereto, all (and not less than all) of the Bonds at a purchase price of \$ \_\_, \_\_, \_\_, plus accrued interest from July 1, 1997 to the Closing Date (hereinafter defined). It is intended that the interest on the Bonds will be excluded from gross income for federal income tax purposes, and will be an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of the alternative minimum tax imposed on individuals and corporations, and that you may offer the Bonds to the public without registration under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended.

## II.

The Official Statement, to be dated on or about the date hereof, including the Appendices thereto and the documents incorporated therein by reference, together with any amendments or supplements (as defined below), relating to the offering of the Bonds is hereinafter called the "Official Statement". The Issuer hereby confirms its authorization or ratification of the use by the Underwriters (together with all members of any selling group which may be formed in connection with the offering and sale of the Bonds, and all dealers to whom any of the Bonds may be sold or by any member of any selling group) of the Preliminary Official Statement dated July \_\_, 1997, including the Appendices thereto and the documents incorporated therein by reference and all amendments or supplements thereto through the date hereof (the "Preliminary Official Statement"). The Issuer further authorizes the use and distribution of the Official Statement, substantially in the form of the Preliminary Official Statement, and including any amendments or supplements thereto, in connection with the offering and sale of the Bonds. The Issuer hereby confirms, based upon advice from the Company, that the Preliminary Official Statement was "deemed final" (except for permitted omissions) as of its date by the Issuer for purposes of Rule 15c2-12(b)(1) promulgated by the Securities and Exchange Commission (the "SEC"). The Issuer agrees to cause the Company to provide to the Underwriters, in such quantities as may be reasonably requested, the final Official Statement within seven business days of the date hereof (or within such shorter period as the Issuer, the Company and the Senior Manager may agree), but in no event later than the Closing Date. The terms "amendments" and "supplements" as used herein include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement until the date which is 25 days after the "end of the underwriting period" (as defined for purposes of SEC Rule 15c2-12(b)(4)), pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the

"Exchange Act"), which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents. The Issuer hereby authorizes the use and distribution by the Underwriters, in connection with the offering and sale of the Bonds, of the Indenture, the Loan Agreement, the Supplemental Mortgage Indenture and this Bond Purchase Agreement upon the request of any person purchasing Bonds.

If, during such period (not to exceed 25 days after the "end of the underwriting period", as defined for purposes of SEC Rule 15c2-12(b)(4)) as in the judgment of the Senior Manager, delivery of the Official Statement as it may be amended or supplemented is necessary or desirable in connection with sales of the Bonds by the Underwriters or any dealer or as otherwise may be required by applicable law or regulation, any event shall occur as a result of which, in the judgment of the Senior Manager, it is necessary to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser or "potential customer" (as defined for purposes of SEC Rule 15c2-12(b)(4)), not misleading, the Issuer, at the expense of the Company, will forthwith prepare and furnish, or cooperate in the preparation and furnishing, to the Underwriters and to any dealers to whom the Underwriters may have sold Bonds, either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended or supplemented will not, in the light of the circumstances when the Official Statement as so amended or supplemented is delivered to a purchaser or "potential customer", be misleading.

If, during such period referred to in the preceding paragraph, any event relating to the Issuer shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein with respect to the Issuer, in the light of the circumstances at the time, not misleading, the Issuer shall immediately notify the Underwriters and the Company thereof. No consent or approval by the Issuer shall be required in connection with any amendment or supplement to the Official Statement which relates exclusively to the Company.

The Issuer has not participated in the preparation of the Official Statement and makes no representations with respect thereto except as expressly set forth in Article IV(a) hereof.

### III.

The consummation of the transaction described herein shall occur at the offices of Squire, Sanders & Dempsey L.L.P., 4900 Society Center, 127 Public Square, Cleveland, Ohio 44114 at 10:00 a.m., Eastern Daylight Time on July \_\_, 1997, or at such other place and such other time on the same or such other date as shall be designated by you and approved by the Company and the Issuer (the "Closing Date"). Unless otherwise agreed by the Company and you, payment of the purchase price of the Bonds shall be made by wire transfer of immediately available official check in New York Clearinghouse funds into an account of the Issuer held by the Trustee, upon the crediting of Bonds in the aggregate principal amount of \$15,900,000 to your account

maintained at The Depository Trust Company ("DTC"). The Bonds will be delivered in New York, New York in registered form as a single, manuscript bond, will be registered in the name of Cede & Co., as nominee of DTC, under DTC's book-entry system, and will be made available to you for inspection upon delivery in New York, New York at the offices of DTC, or at such other place as may be agreed upon by the Issuer, the Company and you. At the same date and time at which payment for and delivery of the Bonds is made, the Company will pay to the Senior Manager, on behalf of the Underwriters, an underwriting commission of \$\_\_\_\_\_ in consideration of the underwriting of the Bonds by the Underwriters, by wire transfer of immediately available funds, unless otherwise agreed by the Company and the Senior Manager.

#### IV.

The Issuer represents and warrants to you that:

(a) The information relating to the Issuer in the Preliminary Official Statement under the caption "THE AUTHORITIES -- The Air Authority" is, and under said caption in the Official Statement, as it may be amended or supplemented as of the Closing Date, is and will be, true and correct in all material respects, and does not, and as it may be amended or supplemented as of the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact relating to the Issuer necessary to be stated therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. However, the Issuer has not confirmed, and assumes no responsibility for, the accuracy or completeness of any of the information in the Preliminary Official Statement or the Official Statement other than the information relating to it under the captions "THE AUTHORITIES -- The Air Authority" and "SPECIAL LEGAL INVESTMENT CONSIDERATIONS".

(b) The Issuer is a body politic and corporate, organized and existing under the laws of the State, including Chapter 3706, Ohio Revised Code, as amended (the "Act").

(c) The Issuer has full legal right, power and authority (i) to adopt the Resolution, (ii) to enter into this Bond Purchase Agreement, the Loan Agreement and the Indenture and to sign and accept the Letter of Representation dated the date hereof and delivered to the Issuer and the Underwriters by the Company (the "Letter of Representation"), (iii) to issue, sell, execute and deliver the Bonds to the Underwriters as provided herein and (iv) to carry out and consummate all other transactions contemplated by each of the aforesaid documents. The Issuer has complied with all applicable provisions of law, including, without limitation, all provisions of the Constitution of the State and the Act, in all matters relating to such transactions.

(d) The Issuer has duly authorized (i) the execution and delivery of, and the due performance of its obligations under, this Bond Purchase Agreement, the Bonds, the Loan Agreement and the Indenture and the signing and acceptance of the Letter of Representation, (ii) the Official Statement, the execution thereof by the Issuer and the use and distribution by the Underwriters of the Official Statement and (iii) the taking of any and all such action as may be

required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by such documents. The Issuer has duly approved the use and distribution by you of the Preliminary Official Statement.

(e) The Resolution has been duly adopted by the Issuer and is in full force and effect. This Bond Purchase Agreement has been duly executed and delivered by the Issuer and, assuming due acceptance thereof by the Underwriters, constitutes a legal, valid and binding obligation of the Issuer. The Loan Agreement and the Indenture, when duly executed and delivered by the Issuer and the other parties thereto, will constitute legal, valid and binding obligations of the Issuer, enforceable in accordance with their terms, except as the same may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles.

(f) When delivered to and paid for by the Underwriters on the Closing Date in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed, issued and delivered and, when duly authenticated by the Trustee or the authenticating agent as provided in the Indenture, will constitute legal, valid and binding special obligations of the State, issued by the Issuer in conformity with the Act, payable in accordance with their terms, and entitled to the benefit and security of the Indenture, including revenues derived from the First Mortgage Bonds, but they will not constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof, and the holders or owners thereof will have no right to have taxes levied by the General Assembly of the State or the taxing authority of any political subdivision of the State for the payment of the principal thereof or premium, if any, or interest thereon.

(g) The adoption of the Resolution, the execution and delivery of this Bond Purchase Agreement, the Bonds, the Loan Agreement and the Indenture, the signing and acceptance of the Letter of Representation and compliance with the provisions of the Resolution and of each of such instruments will not conflict with or constitute a breach of, or default under, any indenture, commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order or decree to which the Issuer (or any of its officers or directors, in their respective capacities as such) is subject or under any provision of the Constitution of the State or any law of the State relating to the Issuer.

(h) Except as set forth in Appendix E hereto, to the best of its knowledge, the Issuer *has not been in default within at least the last ten years in the payment of the principal of or premium, if any, or interest on or otherwise been in default with respect to, any bonds, notes or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium, if any, or interest, and no proceedings have been taken by the Issuer under Chapter IX of the Federal Bankruptcy Act, under Chapter 9 of Title 11 of the United States Code or under any other similar law or statute of the United States of America or the State.*

(i) There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before or by any court, public board or body, in which the Issuer has been served or of which

it has otherwise received official notice or which, to the best knowledge of the Issuer, is threatened against the Issuer (nor to the best knowledge of the Issuer is there any basis therefor) (i) which in any way questions the validity of the Act or the powers of the Issuer in connection with the issuance and sale of the Bonds, (ii) wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions contemplated by this Bond Purchase Agreement or the transactions contemplated by the Official Statement, (iii) which in any way could adversely affect the validity or enforceability of the Bonds, the Resolution, the Loan Agreement, the Indenture or this Bond Purchase Agreement (or of any other instruments required or contemplated for use in consummating the transactions contemplated thereby or hereby) or (iv) challenging the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

(j) The Issuer has taken all proceedings and obtained all approvals (other than any approvals that may be required under the Blue Sky laws of any jurisdiction) required by the Act in connection with the issuance and sale of the Bonds and the execution and delivery by the Issuer of, or the performance by the Issuer of its obligations under, this Bond Purchase Agreement, the Resolution, the Bonds, the Indenture and the Loan Agreement.

(k) Any certificate signed by any official of the Issuer and delivered to the Underwriters shall be deemed a representation and warranty by the Issuer to you as to the truth of the statements therein contained.

It is understood that the representations, warranties and covenants of the Issuer contained in this Article IV and elsewhere in this Bond Purchase Agreement shall not create any general obligation or liability of the Issuer, and that any obligation or liability of the Issuer hereunder or under the Loan Agreement or the Indenture is payable solely out of the revenues and other income pledged therefor and that no member, officer or employee of the Issuer shall be personally liable for any such obligation or liability. It is further understood and agreed that the Issuer makes no representations or warranties, except as set forth in paragraph (a) above, as to the Preliminary Official Statement and the Official Statement or as to (i) the financial condition, results of operation, business or prospects of the Company, (ii) any statements (financial or otherwise), representations, documents or certifications provided or to be provided by the Company in connection with the offer or sale of the Bonds, or (iii) the correctness, completeness or accuracy of such statements, representations, documents or certifications.

V.

The several obligations of the Underwriters hereunder with respect to the Bonds shall be subject to (i) the compliance with and the performance by the Issuer of the obligations and agreements to be complied with and performed by it hereunder and under the Resolution, the Loan Agreement and the Indenture on or prior to the Closing Date; (ii) the compliance with and the performance by the Company of the obligations and agreements to be complied with and performed by it on or prior to the Closing Date under the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement; (iii) the truth, accuracy and completeness as of the date hereof of the representations and warranties of the Issuer contained herein and in the Loan Agreement and of the representations and warranties of the Company contained in the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement, respectively, and (iv) the truth, accuracy and completeness of such representations and warranties of the Issuer and the Company on the Closing Date as if made on and as of the Closing Date (provided that, unless otherwise specified by such representations and warranties, references in such representations and warranties to the Official Statement shall be deemed to refer to the Official Statement as amended and supplemented to the Closing Date).

The obligations of the Issuer to issue and sell, and the several obligations hereunder to purchase, the Bonds are subject to the following further conditions:

(a) On or prior to the Closing Date, you shall have received, in addition to executed, conformed or specimen copies of the Indenture, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds and the Continuing Disclosure Agreement:

(i) Opinions dated the Closing Date of (A) Forbes, Fields & Associates, Counsel for the Issuer, in the form attached hereto as Appendix A; (B) Squire, Sanders & Dempsey L.L.P., Bond Counsel, in substantially the forms attached as (I) Appendix C to the Official Statement and (II) Appendix B hereto; (C) counsel to the Company, in substantially the form attached hereto as Appendix C; and (D) Calfee, Halter & Griswold LLP, counsel to the Underwriters, in substantially the form attached hereto as Appendix D; in each case with such changes as you and your counsel shall approve.

(ii) A certificate, dated the Closing Date, signed by the Executive Director of the Issuer or other appropriate official satisfactory to you, to the effect that (A) each of the representations and warranties of the Issuer set forth in Article IV hereof and in the Loan Agreement are true, accurate and complete on the Closing Date as if made on and as of the Closing Date and (B) each of the agreements of the Issuer to be complied with and each of the obligations of the Issuer to be performed hereunder, and under the Resolution, the Loan Agreement and the Indenture on or prior to the Closing Date has been complied with and performed.



(iii) A certificate of the Company, dated the Closing Date, and signed by an authorized officer of the Company, to the effect that (A) each of the representations and warranties of the Company contained in the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement is true, accurate and complete on the Closing Date as if made on and as of the Closing Date, (B) each of the agreements of the Company to be complied with and each of the obligations to be performed by the Company under the Letter of Representation, the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement on or prior to the Closing Date have been complied with and performed and (C) as of the Closing Date, there has been no material adverse change in the financial condition, results of operation, business or prospects of the Company from that set forth in or contemplated by the Official Statement, as it exists on the date hereof.

(iv) A certificate, dated the Closing Date in form and substance satisfactory to you, signed by the Executive Director of the Issuer or other appropriate official satisfactory to you stating the Issuer's reasonable expectations on such date as to future events and the facts, estimates and circumstances (including the respective covenants of the Issuer and the Company contained in the Indenture and the Loan Agreement) on which such expectations are based, which shall be sufficient to establish that it is not expected that the proceeds of the sale of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations promulgated thereunder. Such certificate shall also state that such officer is charged, either alone or with others, with the responsibility for issuing the Bonds and that, to the best of the knowledge and belief of such officer, the expectations set forth in such certificate are reasonable.

(v) A certificate of the Company, dated the Closing Date, in form and substance satisfactory to you, signed by an authorized officer of the Company stating the Company's reasonable expectations on such date as to the future events and the facts, estimates and circumstances (including the respective covenants of the Issuer and the Company on which such expectations are based), which shall be sufficient to establish that it is not expected that the proceeds of the sale of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations prescribed thereunder. Such certificate shall also state that, to the best of the knowledge and belief of such officer, the expectations set forth in such certificate are reasonable.

(vi) Certificates in form and substance satisfactory to Squire, Sanders & Dempsey L.L.P., Bond Counsel, of an officer of the Company describing the project facilities referred to in the Loan Agreement and the proposed expenditure of the proceeds to be received from the sale of the Bonds.

(vii) Evidence, reasonably satisfactory to you, to the effect that Moody's Investors Service shall have given the Bonds a rating of "[ ]" and Standard & Poor's Rating Group, a division of McGraw-Hill, shall have given the Bonds a rating of "[ ]".

(viii) Such additional certificates (including appropriate no litigation certificates, certified copies of resolutions adopted by the Issuer, and orders of The Public Utilities Commission of Ohio), instruments or other documents as you may reasonably request to evidence: (i) the authority of the Trustee to act under the Indenture and the Continuing Disclosure Agreement and as to the due authentication and delivery of the Bonds; (ii) the authority of the Escrow Trustee to act under the Escrow Agreement; (iii) the authority of the First Mortgage Trustee to act under the First Mortgage and as to the due authentication and delivery of the First Mortgage Bonds; (iv) the truth, accuracy and completeness, as of the Closing Date, of the representations and warranties of the Issuer and the Company contained herein and in the Letter of Representation, the Indenture, the Loan Agreement, the Escrow Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), and the Continuing Disclosure Agreement and (v) the due performance and satisfaction by the Issuer, the Company, the Trustee and the First Mortgage Trustee at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by each of them in connection with this Bond Purchase Agreement, the Letter of Representation, the Loan Agreement, the Escrow Agreement, the Resolution, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Indenture and the Continuing Disclosure Agreement.

(ix) A letter dated the Closing Date, in form and substance reasonably satisfactory to you, from Arthur Andersen LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "agree-upon procedures letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference in the Official Statement.

(x) A verification report dated the Closing Date, in form and substance reasonably satisfactory to you, from an independent public accounting firm of national reputation certifying that the securities and moneys, if any, held by the Escrow Trustee under the Escrow Agreement are sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and any premium and interest on the 1987 Bonds to the date of their redemption as set forth in the notice of redemption or in the document irrevocably providing, to the satisfaction of the Trustee, for the giving of that notice, as described in the next succeeding paragraph.

(xi) A notice of redemption of the 1987 B Bonds on a date that is not more than ninety (90) days after the Closing Date or such other written document irrevocably providing, to the satisfaction of the Trustee, for the giving of that notice.

(xii) Such additional certificates, opinions and other documents as you may reasonably request to evidence the validity of, authorization for, performance of or compliance with the provisions of this Bond Purchase Agreement and the transactions and agreements contemplated hereby and by the Official Statement, all such certificates, opinions and other documents to be satisfactory in substance to you and to your counsel.

(b) Between the date hereof and the Closing Date, legislation shall not have been enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or introduced in either House of Congress by any committee of such House, nor a decision rendered by a federal court or the Tax Court of the United States, nor an order, ruling, regulation or official statement made by the United States Treasury Department or the Internal Revenue Service, with the purpose or effect of imposing federal income taxation upon the revenues from, or other income of the character derived by the Issuer under, the Loan Agreement and the First Mortgage Bonds or upon the interest to be paid on the Bonds.

(c) Between the date hereof and the Closing Date, no legislation shall have been enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or introduced in either House of Congress by any committee of such House, and no decision, order or decree of a court of competent jurisdiction, and no order, ruling, regulation or official statement of or on behalf of the Securities and Exchange Commission or the Municipal Securities Rulemaking Board, shall have been rendered or made, with the purpose or effect that the issuance, offering or sale of the Bonds, as contemplated hereby or by the Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act or the Trust Indenture Act of 1939, as amended, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement.

(d) Between the date hereof and the Closing Date, no legislation, ordinance, rule or regulation shall have been enacted or favorably reported for passage by any governmental body, department or agency of the State, nor shall any decision have been rendered by any court of competent jurisdiction in the State, which would adversely affect the excludability from gross income for purposes of federal income taxation of interest on the Bonds, or the exemption of the Bonds from personal income taxes in Ohio, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

(e) Between the date hereof and the Closing Date, no calamity, crisis or outbreak or escalation of hostilities, the effect of which on the financial markets of the United States is to materially impair the marketability or materially lower the market price of the Bonds, shall have occurred.

(f) The marketability of the Bonds shall not have been materially impaired and the market price of the Bonds shall not have been materially lowered by reason of the imposition between the date hereof and the Closing Date by the New York Stock Exchange, or any governmental authority, as to the Bonds or similar obligations, of any material restrictions not in force at the date hereof, or the material increase of those in force at the date hereof, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters.

(g) As of the Closing Date, no event shall have occurred which could reasonably be expected to result in, and there shall not have been, any material adverse change in the financial condition, results of operations, business or prospects of the Company from that set forth in or contemplated by the Official Statement as it exists on the date hereof, which, in the reasonable judgment of the Senior Manager, will materially impair the marketability or materially lower the market price of the Bonds.

(h) As of the Closing Date, no material litigation or proceeding to which the Company is a party shall have been adversely decided in respect of the Company's interests which, in the reasonable judgment of the Senior Manager, will materially impair the marketability or materially lower the market price of the Bonds.

(i) The Issuer shall have cooperated with the Trustee in the filing of financing statements under the Uniform Commercial Code of the State in such manner and in such places as may be required in order to establish, protect or preserve the interest of the Trustee in the rights assigned to it under the Indenture, and evidence of such filings shall have been furnished to you.

(j) All matters relating to this Bond Purchase Agreement, the Official Statement, the Bonds and the sale thereof, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Resolution, the Indenture, the Continuing Disclosure Agreement and the Letter of Representation between the Company and DTC and all matters contemplated hereby and thereby shall be satisfactory to and approved by you and your counsel. All matters relating to the Letter of Representation dated the date hereof and previously delivered to the Issuer and to you shall be satisfactory to and approved by the Issuer and you.

(k) The Trustee shall have received duly executed and authenticated First Mortgage Bonds satisfactory in form and substance to you and your counsel.

(l) The Company shall not have failed to provide to the Underwriters, within the time set forth in Article II hereof, copies of the final Official Statement in such quantities as the Underwriters may reasonably request.

(m) Between the date hereof and the Closing Date there shall not have occurred any downgrading nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's debt securities by any "nationally recognized statistical

rating organization", as such term is defined for purposes of Rule 436(8)(2) under the Securities Act.

## VI.

The Issuer covenants as follows:

(a) To furnish or cause to be furnished to you (i) on or prior to the Closing Date, a specimen of the form of the Bonds and (ii) on or prior to the Closing Date, a certified copy of the Resolution and executed or conformed copies of the Loan Agreement and the Indenture (which documents shall be in the form previously delivered to you, subject to such amendments, supplements, modifications, or changes as you shall approve).

(b) Before amending or supplementing the Official Statement (other than an amendment by way of a filing by the Company under the Exchange Act), to furnish you and the Company a copy of each such proposed amendment or supplement. No amendment or supplement to the Official Statement will be made to which you or the Company shall reasonably object in writing or which will contain material information substantially different from that contained in the Official Statement on the date it was issued which is unsatisfactory to you or the Company.

(c) To cooperate with you in endeavoring to qualify the Bonds for offer and sale under the state securities or Blue Sky laws of such jurisdictions as you may reasonably request and in determining their eligibility for investment under the laws of such jurisdictions as you may reasonably request; provided that the foregoing shall not require the Issuer to execute a general consent to service of process or to qualify as a foreign corporation in connection with such qualification in any foreign jurisdiction.

(d) Not to take any action which will prevent the application of the proceeds from the sale of the Bonds, as provided in, and subject to all of the terms and provisions of, the Indenture, the Resolution and the Loan Agreement.

(e) Not to take or omit to take any action which will adversely affect (i) the excludability from gross income for purposes of federal income taxation of interest on the Bonds or (ii) the exemption of the Bonds from personal income taxes in Ohio, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

(f) To notify you if, prior to the delivery of and payment for the Bonds on the Closing Date, any event occurs which is known to the Issuer and which makes any statement concerning the Issuer under the captions "THE AUTHORITIES -- The Air Authority" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS" in the Official Statement untrue in any material respect or which requires the making of any amendments or supplements to or modifications of the Official Statement in order to make any statement concerning the Issuer under the captions "The AUTHORITIES -- The Air Authority" or "SPECIAL LEGAL

**INVESTMENT CONSIDERATIONS" not misleading in any material respect.**

(g) To cooperate with the Trustee to promptly file, register and record, or refile, reregister and rerecord, at the expense of the Company, the Loan Agreement, the Indenture and the related financing statements, at such times and in such places as may be required by law, in order to maintain, protect or preserve the interest of the Trustee in the rights assigned to it under the Indenture.

(h) To perform and observe all of the obligations and agreements made or undertaken by the Issuer in this Bond Purchase Agreement.

The agreements contained in this Article VI and the representations and warranties of the Issuer set forth in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling an Underwriter and (ii) acceptance of and payment for the Bonds.

## **VII.**

If any Underwriter (but not all) shall fail or refuse to purchase its Original Participation and arrangements satisfactory to the non-defaulting Underwriters, the Company and the Issuer for the purchase of such Bonds are not made within 72 hours after such default, this Bond Purchase Agreement will terminate without liability on the part of any non-defaulting Underwriters or of the Issuer. In any such case which does not result in a termination of this Bond Purchase Agreement, either you or the Issuer, with the approval of the Company, shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Official Statement or in any other documents or arrangements may be effected. Any action taken under this Article VII shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Bond Purchase Agreement.

## **VIII.**

All expenses incident to the performance of the obligations of the Issuer hereunder (including the reasonable fees and disbursements of Bond Counsel, counsel to the Issuer and counsel to the Underwriters) are to be paid by the Company as provided in the Letter of Representation. Provided you have not defaulted in your obligations hereunder, you shall have no obligation to pay any such expense. The Issuer shall not be responsible for your costs and expenses, including the fees and expenses of your counsel and any advertising expenses incurred in connection with any offering of the Bonds.

This Bond Purchase Agreement is made solely for the benefit of you, persons controlling you, the Company and its directors and officers, and the Issuer, its officers and members, and

their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Bond Purchase Agreement. The terms "successors" and "assigns" shall not include any purchaser of Bonds from or through you merely because of such purchase.

This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the State.

This Bond Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

If the foregoing is in accordance with your understanding of the agreement between you and the Issuer, kindly sign and return to the Issuer the enclosed copy hereof, whereupon it will constitute a binding agreement between the Issuer and you in accordance with its terms.

Very truly yours,

OHIO AIR QUALITY DEVELOPMENT  
AUTHORITY

By: \_\_\_\_\_  
Executive Director

Accepted and confirmed as of  
the date above written.

MORGAN STANLEY & CO. INCORPORATED,  
on behalf of itself and the Underwriters  
named herein

  

---

## SCHEDULE I

\$15,900,000

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

STATE OF OHIO

\_\_% COLLATERALIZED POLLUTION CONTROL REVENUE REFUNDING BONDS,

SERIES 1997-A

(THE CLEVELAND ELECTRIC ILLUMINATING COMPANY PROJECT)

The captioned Bonds will be issued upon the following terms:

Maturity Date: July 1, 2020

Interest Rate: \_\_%

Optional Redemption Schedule:

<u>Redemption Period</u> <u>(dated inclusive)</u>	<u>Redemption Prices</u>
July 1, 2007 through June 30, 2008	102%
July 1, 2008 through June 30, 2009	101
July 1, 2009 and thereafter	100

Interest Payment Dates: January 1 and July 1, commencing January 1, 1998



## SCHEDULE II

<u>Name</u>	<u>Original Participation-- Principal Amount</u>
Morgan Stanley & Co. Incorporated.....	\$ __,000
First Chicago Capital Markets, Inc.....	\$ __,000
Citicorp Securities, Inc. ....	\$ __,000
Total .....	<u>\$15,900,000</u>

Appendix A to the Bond  
Purchase Agreement

Proposed Form of Opinion of Counsel for the Issuer

August \_\_, 1997

Ohio Air Quality Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as hereinafter  
described

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

We are counsel to the Ohio Air Quality Development Authority (the "Authority"). This opinion is being rendered pursuant to Section V(a)(i)(A) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") between the Authority and Morgan Stanley & Co. Incorporated, Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (the "Underwriters"), relating to the issuance and sale by the Authority of \$15,900,000 State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds"), such Bonds to be issued under and pursuant to a Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as trustee (the "Trustee"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company"), pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Authority and the Company, to assist in refunding the outstanding principal amount of \$15,900,000 of the Authority's State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series B (The Cleveland Electric Illuminating Company

Project), dated October 15, 1987 (the "Project Bonds"), as more particularly described in the Indenture. The proceeds of the Project Bonds were loaned to the Company to assist in the financing of its portion of the cost of the acquisition, construction and installation of certain air quality facilities in connection with the Perry Nuclear Power Plant Unit 1 in Lake County, Ohio. Terms defined in the Bond Purchase Agreement, and not otherwise defined herein, are used in this opinion with the meanings assigned to them in the Bond Purchase Agreement. We are of the opinion that:

1. The Authority is a validly existing body politic and corporate under the laws of the State of Ohio. Pursuant to the Act, the Authority is authorized and empowered to adopt the Resolution (hereinafter defined), to make the loan pursuant to the Loan Agreement, to issue the Bonds for the purpose of obtaining funds to make the loan, and to secure the Bonds in the manner contemplated by the Indenture.

2. Resolution No. 97-\_\_ (the "Resolution") is a valid resolution of the Authority and has been duly adopted by the Authority and is in full force and effect on the date hereof and has not been modified, amended or revoked. All legal action required to be taken by the Authority (a) to authorize the use and distribution of the Preliminary Official Statement and the Official Statement and (b) in connection with the issuance, execution and delivery of the Bonds, and the execution, delivery and due performance of the Indenture, the Loan Agreement, the Bond Purchase Agreement and the Official Statement and the acceptance of the Letter of Representation have been taken, and none of the proceedings held or actions taken by the Authority with respect to any of the foregoing has been repealed, rescinded or revoked.

3. The Loan Agreement, the Bond Purchase Agreement, the Indenture, the Bonds and the Official Statement have been duly authorized, executed and delivered by the Authority and the Letter of Representation has been duly accepted by the Authority; the Bonds and, assuming due execution and delivery by the other parties thereto, the Loan Agreement, the Bond Purchase Agreement, and the Indenture constitute valid, legal and binding obligations of the Authority enforceable in accordance with their terms, except to the extent that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity and may be subject to limitations upon the right to obtain judicial orders requiring specific performance. The Bonds are entitled to the benefits of the Indenture.

4. The members and officers of the Authority named in the Authority's General Certificate delivered concurrently herewith have been duly appointed as such members and have been elected to such offices as have been indicated, and are qualified to serve as such members and officers.

5. No approval, permit, consent, authorization or order of any court or any Ohio governmental or public agency, authority or person not already obtained (other than the approvals that may be required under the Blue Sky laws of any jurisdiction) is required of the

Authority in connection with the issuance, execution and delivery of the Bonds, authorization of the use and distribution of the Preliminary Official Statement and the Official Statement, or the execution and delivery by the Authority of the Bond Purchase Agreement, the Indenture and the Loan Agreement, the acceptance of the Letter of Representation or the adoption of the Resolution.

No facts have come to our attention that would lead us to believe that the information with respect to the Authority set forth in the Official Statement under the caption "THE AUTHORITIES", on its date or the date hereof, contained or contains any untrue statement of material fact or omitted or omits to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. We are not called upon to and do not express belief or opinion as to any portion of the Official Statement (including the documents incorporated therein by reference) other than that portion under the caption "THE AUTHORITIES".

We know of no litigation or administrative action or proceeding, pending or threatened, which challenges the validity of, or seeks to restrain or enjoin the issuance, execution or delivery of the Bonds or the execution and delivery of the Indenture, the Loan Agreement or the Bond Purchase Agreement or the performance of the Authority's obligations thereunder, or the Authority's acceptance of the Letter of Representation, or contesting or questioning the adoption of the Resolution or the proceedings and authority under which the Bonds have been issued, executed and delivered, or under which the Indenture, the Loan Agreement and the Bond Purchase Agreement have been executed and delivered or under which the Letter of Representation has been accepted, or under which the use and distribution of the Preliminary Official Statement and the Official Statement have been authorized or the validity of the Bonds, the Indenture, the Loan Agreement, the Bond Purchase Agreement or the Authority's acceptance of the Letter of Representation or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

The issuance, execution and delivery of the Bonds, the execution and delivery of the Indenture, the Loan Agreement and the Bond Purchase Agreement and the acceptance of the Letter of Representation do not conflict with, violate or result in a breach of, or constitute a default under, any agreement or other instrument to which the Authority is a party or by which the Authority or any of its properties are bound or any Ohio constitutional or statutory provision, order, rule, regulation, decree or resolution to which the Authority or any of its property is subject.

Respectfully submitted,

[to be signed "Forbes, Fields & Associates"]

Appendix B to the Bond  
Purchase Agreement

Proposed Form of Supplemental Opinion of Bond Counsel

August \_\_, 1997

To: Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as  
hereinafter described

Ohio Air Quality Development Authority  
Columbus, Ohio

The Cleveland Electric Illuminating Company  
Independence, Ohio

This opinion is being rendered pursuant to the Bond Purchase Agreement, dated July \_\_, 1997 (the "Bond Purchase Agreement"), between the Underwriters named therein and the Ohio Air Quality Development Authority (the "Authority") relating to the issuance and sale of \$15,900,000 aggregate principal amount of State of Ohio, \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds"). All capitalized terms used as defined terms in this opinion and not otherwise defined herein shall have the same meanings assigned to them as in the Bond Purchase Agreement.

We have acted as Bond Counsel in connection with the issuance of the Bonds and in that capacity have examined the transcript of proceedings (the "Transcript") relating to the issuance of the Bonds by the Authority.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The statements pertaining to the Bonds under the captions "THE AUTHORITIES" and "TAX EXEMPTION" fairly and accurately present the information purported to be shown and the statements under the captions "THE BONDS" (except for the information and statements

under "THE BONDS - Book Entry System" to the extent such information and statements do not purport to summarize the provisions of the Indenture or to the extent they purport to describe the organization and operations of The Depository Trust Company ("DTC"), the relation and arrangements among DTC, DTC participants, indirect participants or beneficial owners with respect to the book entry system including, but not limited to, the recordation of book entry interests, payments or credits of payments, transmittal of notices and other communications, or DTC's call procedures), "THE LOAN AGREEMENTS" and "THE INDENTURES", insofar as they describe the Bonds, the Loan Agreement and the Indenture, fairly and accurately summarize the material provisions of those documents.

2. Neither the Bonds nor any securities evidenced thereby which are separate from the obligations of the State of Ohio or the Authority are required to be registered under the Securities Act of 1933, as amended, and the Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended. The Bonds are negotiable instruments, subject to the provisions in the Indenture for registration.

3. There are no stamp, documentary or similar transfer taxes within the State of Ohio which would be applicable to the original issuance or subsequent transfers of the Bonds, and the revenues derived or income of the character to be derived by the Authority under the Loan Agreement are exempt in the hands of the Authority from federal income taxation and from taxation in or by the State of Ohio. No legislation, ordinance, rule or regulation has been enacted or favorably reported for passage by any governmental body, department or agency of the State of Ohio, nor has any decision been rendered by any court of competent jurisdiction in the State of Ohio which would adversely affect the exemptions or exclusions from taxation referred to in this paragraph or in the third paragraph of our approving opinion, of even date herewith, given with respect to the Bonds.

4. All conditions required pursuant to the Indenture precedent to the delivery of the Bonds have been fulfilled. All instruments furnished to the Trustee in connection with the order of the Authority to authenticate and deliver the Bonds conform to the requirements of the Indenture, and such instruments constitute sufficient authority under the Indenture for the Trustee to authenticate and deliver the Bonds as directed in such order.

5. The facts, estimates and circumstances as set forth in the certifications in the Transcript given pursuant to Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder are sufficient to satisfy the criteria which are necessary under Section 148 and those regulations to support the conclusion that the Bonds are not "arbitrage bonds" as defined in Section 148 and those regulations. No matters have come to our attention which make unreasonable or incorrect the representations made in such certifications.

This opinion is supplemental to our approving opinion of even date herewith with respect to the Bonds, and, to the same extent indicated therein in giving this supplemental opinion, we have also relied upon certifications and representations of fact contained in the Transcript and the opinion of even date herewith of counsel for the Company contained in the Transcript.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey L.L.P."]

Appendix C to the Bond  
Purchase Agreement

Proposed Form of Opinion of Company Counsel

August \_\_, 1997

Morgan Stanley & Co. Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as  
hereinafter described

Squire, Sanders & Dempsey L.L.P.  
Cleveland, Ohio

Calfee, Halter & Griswold LLP  
Cleveland, Ohio

Ladies and Gentlemen:

This opinion is being rendered to you pursuant to Section V(a)(i)(C) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") between Morgan Stanley & Co. Incorporated, Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (together, the "Underwriters") and the Ohio Air Quality Development Authority (the "Authority"), relating to the issuance and sale by the Authority of \$15,900,000 aggregate principal amount of its \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds") which are being issued under the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as trustee (the "Trustee"); and with reference to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Authority and The Cleveland Electric Illuminating Company (the "Company") and to the delivery to the Trustee of the \$15,900,000 aggregate principal amount of First Mortgage Bonds \_\_% Series due 2020 (the "First Mortgage Bonds") of the Company issued under the Mortgage and Deed of Trust dated July 1, 1940 from the Company to Guaranty Trust Company of New York (now The Chase Manhattan Bank (National Association)), as trustee, as supplemented and modified in certain respects by indentures supplemental thereto, including the Seventy-Fifth Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage Indenture"; said Indenture of Mortgage and Deed of Trust as so supplemented and modified herein called the "First Mortgage").



I am counsel for the Company and attorneys acting under my supervision have examined the transcript of proceedings relating to the issuance of the Bonds by the Authority and such other records of the Company, documents and certifications as I deem necessary to express the opinion hereinafter set forth.

Attorneys acting under my supervision have also examined originals or copies, certified or otherwise identified to their satisfaction, of such other documents, corporate records and other instruments and have made such investigation of fact and law as they have deemed necessary or advisable for purposes of this Opinion. Terms used herein and not otherwise defined are used as defined in the Bond Purchase Agreement.

Based upon the foregoing and such legal considerations as I deem relevant, I am of the opinion that:

1. The Company is a public utility and corporation duly organized and validly existing under the laws of the State of Ohio, with full corporate power to conduct the business now being conducted by it and to execute and deliver the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation and to carry out and perform its obligations under the Loan Agreement, the Escrow Agreement, the First Mortgage, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation;

2. The Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the First Mortgage, the Continuing Disclosure Agreement and the Letter of Representation have been duly authorized, executed and delivered by the Company and, as to the First Mortgage Bonds, assuming they have been duly authenticated by the First Mortgage Trustee, constitute legal, valid and binding obligations of the Company enforceable in accordance with their respective terms, except to the extent that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally or the enforcement of the security provided by the First Mortgage, and except to the extent that the enforceability thereof may be limited by the application of general principles of equity and may be subject to limitations upon the right to obtain judicial orders requiring specific performance;

3. The execution and delivery of the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation, and the performance by the Company of its obligations thereunder and under the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), do not constitute a default under, or conflict with or violate any of the provisions of, the Company's Amended Articles of Incorporation or Regulations, any law, rule, regulation, judgment, order or decree to which the Company is subject or, to my knowledge, any agreement, indenture, mortgage, lease, note or other obligation or instrument to which the

Company is a party or by which it is bound;

4. All consents or approvals of The Public Utilities Commission of Ohio and of any other federal or state regulatory agency required in connection with the Company's execution and delivery of, and the performance of its obligations under, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Letter of Representation have been obtained;

5. Except as disclosed in the Official Statement, as it may be amended or supplemented to the date hereof, I know of no actions, suits, proceedings, inquiries or investigations at law or in equity before or by any judicial or administrative court or agency, pending or threatened against the Company, and to my knowledge, there is not any reasonable basis for any such action, suit, proceeding, inquiry or investigation, wherein the decision, ruling or finding would materially or adversely affect the validity or enforceability of the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Continuing Disclosure Agreement or the Letter of Representation;

6. The Company has good title to substantially all the properties referred to or described in the Official Statement and in the granting clauses of the First Mortgage as being subject to the lien thereof and now owned by it which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage, subject only to the conditions and exceptions set forth in the Official Statement under the subheadings "Security" and "Title to Property" under the heading "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE", none of which materially impairs the use of the property affected thereby in the operation of the business of the Company;

7. The First Mortgage and all financing statements related thereto have been duly filed and recorded in all places where such filing or recording is necessary for the perfection or preservation of the lien of the First Mortgage, and the First Mortgage constitutes a valid and direct first lien upon all of the property referred to in paragraph 6 above, subject only to the conditions and exceptions referred to therein and, under current law, all property acquired by the Company hereafter, other than property excepted from the lien of the First Mortgage, will become subject to the lien thereof upon acquisition;

8. The First Mortgage Bonds have been duly authorized, executed, authenticated, issued and delivered and are valid and legally binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits and security of the First Mortgage, equally and ratably with all other bonds outstanding under the First Mortgage except as the enforceability thereof may be subject to the limitations set forth in paragraph 2 above;

9. The Company has statutory authority, franchises and consents free from burdensome restrictions and adequate for the conduct of the business in which it is engaged;

10. The Bonds, and the offer and sale thereof as contemplated by the Official Statement, and the First Mortgage Bonds are not required to be registered under the Securities Act of 1933, as amended, and the Indenture and the First Mortgage are exempt from qualification under the Trust Indenture Act of 1939, as amended. In rendering this opinion, I have assumed that, except as described in the Official Statement, there are no agreements with purchasers of the Bonds concerning payments due on or with respect to the Bonds;

11. The statements as to matters of law and legal conclusions referred to or incorporated by reference in Appendix A to the Official Statement accurately and fairly summarize, as of the respective dates thereof, the material aspects of the legal matters discussed therein;

12. Each document incorporated by reference in the Official Statement as originally filed pursuant to the Securities Exchange Act of 1934 (except for the operating statistics, financial statements and other financial data therein, as to which I do not express an opinion) complied as to form when so filed in all material respects with the requirements of said Act and the applicable rules and regulations thereunder;

13. The Company is a "subsidiary" of Centerior Energy Corporation, a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Centerior Energy Corporation is exempt from regulation under such Act pursuant to Section 3(a)(1) thereof and the rules and regulations thereunder promulgated by the Securities and Exchange Commission and, therefore, the Company is also exempt from such regulation; and

14. Assuming that the Trustee holds the First Mortgage Bonds as provided in the Indenture, the Indenture creates a valid and perfected first priority security interest in the First Mortgage Bonds.

I believe that the statements in the Official Statement relating to the Company, the Project, the Bonds, the Loan Agreement, the Indenture, the First Mortgage and the First Mortgage Bonds contained under the captions "INTRODUCTORY STATEMENT", "THE PROJECT", "USE OF PROCEEDS", "THE BONDS", "THE LOAN AGREEMENTS", "THE INDENTURES" and "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE" and in Appendix A to the Official Statement (except for the financial statements, operating statistics and other financial data included in such Appendix, as to which I express no opinion) did not, at the time the distribution of the Official Statement was authorized on July \_\_, 1997, and, as it may have been amended, supplemented or modified do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

This Opinion is expressed as of the date hereof. No Opinion is expressed as to the effect of any changes or events which may occur hereafter. I neither accept nor recognize any duty or responsibility to inform you of any subsequent change or event.

In rendering the foregoing Opinion, I have assumed, but not independently verified, that

the signatures (other than on behalf of the Company) on all documents examined by attorneys acting under my supervision are genuine. I have also assumed the due execution and delivery, pursuant to due authorization, of the documents and instruments referred to herein by the other parties thereto. I have relied, as to all questions of fact material to this Opinion, upon certificates of public officials and officers of the Company.

I am qualified to practice law in the State of Ohio and do not purport to be an expert on any laws other than the laws of the State of Ohio and the Federal laws of the United States. If an operative document to which reference is made hereunder is governed by the laws of another jurisdiction, this Opinion is applicable only to the extent that the application of the relevant laws of such jurisdiction is identical to that of the State of Ohio or the Federal laws of the United States.

Also in rendering this Opinion, I have relied upon the opinion of [McNees, Wallace & Nurick, Harrisburg, Pennsylvania, and Whitmore, Verlihay & Douglass, Beaver Falls, Pennsylvania,] with respect to certain matters of Pennsylvania law.

In expressing the opinion stated in Item 10 above, I am relying upon the opinion of Squire, Sanders & Dempsey L.L.P., which you have received today, to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended.

Respectfully submitted,

361/11177ABC.32E

Appendix D to the Bond  
Purchase Agreement

Proposed Form of Opinion of Counsel for the Underwriters

August \_\_, 1997

To: Morgan Stanley & Co., Incorporated  
New York, New York, and the other  
Underwriters of the Bonds as  
hereinafter described

This opinion is rendered pursuant to Section V(a)(i)(D) of the Bond Purchase Agreement dated July \_\_, 1997 (the "Bond Purchase Agreement") between you and the Ohio Air Quality Development Authority (the "Issuer") relating to your purchase from the Issuer of \$15,900,000 aggregate principal amount of its \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"), and as counsel to you solely for your use in connection with the issuance and sale of the Bonds to you by the Issuer. Capitalized terms used in this opinion as defined terms which are not defined herein are used as defined in the Bond Purchase Agreement.

We have examined (a) copies or executed counterparts of the Indenture, the Loan Agreement, the Letter of Representation and the Bond Purchase Agreement, (b) the Official Statement dated July \_\_, 1997 (the "Official Statement"), relating to the Bonds, (c) the Securities Act of 1933, as amended (the "1933 Act"), the Trust Indenture Act of 1939, as amended (the "1939 Act"), and the rules, regulations and interpretive advice issued by the Securities and Exchange Commission (the "Commission") thereunder, (d) Rule 15c2-12 promulgated by the Commission under the Securities Exchange Act of 1934, and interpretive advice issued by the Commission thereunder, including without limitation, the letter, dated June 23, 1995, from Robert L.D. Colby, Deputy Director, Division of Market Regulation, to the National Association of Bond Lawyers (the "Rule"), and (e) executed opinions, addressed to you and dated the date hereof, of Bond Counsel, Counsel for the Issuer and Company Counsel, relating to the issuance of the Bonds and required to be delivered pursuant to the Bond Purchase Agreement (the "Closing Opinions"). We also have examined originals or copies, certified or otherwise identified to our satisfaction, of such other documents, resolutions, instruments, records, certificates and opinions, have reviewed such laws and information and have made such investigations as we have considered necessary or appropriate for the purpose of rendering this opinion, including without limitation (i) the certificate of the Company, dated the date hereof, required to be delivered pursuant to Section V(a)(ii) of the Bond Purchase Agreement and (ii) the "agreed-upon procedures letter" of even date herewith, delivered to you by Arthur Andersen LLP

pursuant to Section V(a)(ix) of the Bond Purchase Agreement.

Based upon the foregoing, we are of the opinion that, under the law in effect on the date of this opinion:

1. It is not necessary in connection with the offering and sale of the Bonds to the public in the manner contemplated by the Bond Purchase Agreement to register the Bonds under the 1933 Act or to qualify the Indenture under the 1939 Act.

2. Assuming the validity, binding effect and enforceability thereof against the parties thereto, the Continuing Disclosure Agreement constitutes the undertaking required by Section (b)(5)(i) of the Rule.

3. The Closing Opinions are substantially in the form required by the Bond Purchase Agreement.

In accordance with our understanding with you, we have rendered legal advice and assistance to you in the course of your investigations pertaining to, and your participation in the preparation of, the Official Statement. That assistance involved, among other things, inquiries concerning various legal and related matters, our review of certain corporate documents, and our participation in discussions with your representatives, representatives of the Company and representatives of Arthur Andersen LLP, independent public accountants with respect to the Company, Bond Counsel, and Counsel for the Issuer concerning the contents of the Official Statement and related matters.

While we are not passing upon, and do not assume responsibility for, the accuracy, completeness or fairness of the contents of the Official Statement, on the basis of the information which was developed in the course of our performance of the services referred to above and, without having undertaken to verify independently that accuracy, completeness or fairness, nothing has come to our attention which leads us to believe that the Official Statement, as of its date or as of this date, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements made in the Official Statement, in the light of the circumstances under which they were made, not misleading. Reference in this paragraph to the Official Statement does not include (a) the financial statements of the Company included or incorporated by reference in Appendix A to the Official Statement or (b) any other financial, technical or statistical data included or incorporated by reference in the Official Statement or any Appendix thereto, as to all of which we express no opinion or belief.

The opinions expressed in this letter are limited to the laws of the State of Ohio and the federal laws of the United States of America.

This letter is furnished to you as representative of the Underwriters and is solely for the benefit of the Underwriters. As such, it may not be relied upon by or disseminated to any other person without the prior written consent of the undersigned, except that it may be reproduced for inclusion in a transcript of proceedings compiled with respect to the Bonds.

Respectfully submitted,

[to be signed "Calfee, Halter & Griswold LLP"]

**APPENDIX E**

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
DEFAULTED BOND ISSUES  
SINCE DECEMBER 31, 1975**

**[NONE]**

H:\RINK\CEI97REF\11177ABA.82E



DRAFT OF 7/2/97

---

\$62,560,000

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

State of Ohio

Collateralized Pollution Control Revenue Refunding Bonds

Series 1997-B

(The Cleveland Electric Illuminating Company Project)

LETTER OF REPRESENTATION

July \_\_, 1997

---

July \_\_, 1997

MORGAN STANLEY & CO. INCORPORATED  
New York, New York

OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
Columbus, Ohio

Ladies and Gentlemen:

This Letter of Representation is being executed and delivered by The Cleveland Electric Illuminating Company, an Ohio corporation (the "Company"), in order to induce Morgan Stanley & Co. Incorporated (the "Underwriter") and the Ohio Air Quality Development Authority (the "Issuer") to enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") to be dated July \_\_, 1997, a copy of which has been delivered to the Company. The Bond Purchase Agreement provides for the issuance by the Issuer and the delivery to, for the sale by, the Underwriter of the State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project) (the "Bonds"). The Bonds will be issued pursuant to the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Issuer and Mellon Bank, F.S.B., Cleveland, Ohio, as Trustee (the "Trustee"), and the resolution adopted by the Issuer on July 8, 1997 (the "Resolution"). The proceeds of the Bonds will be lent to the Company pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), to be used to pay a portion of the costs of refunding the Issuer's \$62,560,000 aggregate principal amount of 7.70% Collateralized Pollution Control Revenue Bonds, 1987 Series B (The Cleveland Electric Illuminating Company Project), presently outstanding in such aggregate principal amount, which were issued to assist the Company in financing its portion of the cost of the acquisition, construction and installation of certain air pollution control facilities (the "Project") in connection with various coal-fired facilities in the State. Concurrently with the issuance and delivery by the Issuer of the Bonds, the Company will execute and deliver to the Trustee the Company's First Mortgage Bonds, \_\_% Series due 2020 (the "First Mortgage Bonds"), issued pursuant to a Seventy-fifth Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage Indenture"), to the Mortgage and Deed of Trust, dated July 1, 1940 (said Mortgage and Deed of Trust, as supplemented and modified in certain respects by indentures supplemental thereto, including the Supplemental Mortgage Indenture, being herein called the "First Mortgage"), from the Company to Guaranty Trust Company of New York, as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee (the "First Mortgage Trustee"), in a principal amount equal to the aggregate principal amount of the Bonds, to evidence and secure collaterally the Company's obligations as provided in the Loan Agreement. Terms used as defined terms herein and not otherwise defined herein shall have the meaning assigned to them in the Bond Purchase Agreement, unless otherwise indicated.

The Company hereby (i) approves the terms and provisions of the Bond Purchase

Agreement and of the Bonds as described in the Official Statement and (ii) requests the Issuer to issue and deliver the Bonds to the Underwriter for sale.

1. The Company represents and warrants to the Issuer and the Underwriter as follows:

(a) The information contained in the Official Statement is, and as it may be amended or supplemented on the Closing Date will be, true and correct in all material respects, and the Official Statement does not, and as it may be amended or supplemented on the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. In addition, any amendments or supplements to the Official Statement prepared and furnished by the Company pursuant to Section 6 hereof will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties contained in this paragraph (i) are based upon the best of the Company's knowledge insofar as they pertain to the information relating to the Issuer contained in the Official Statement, or to be contained in the Official Statement, as amended or supplemented, under the captions "THE AUTHORITY" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS", and (ii) do not apply to statements or omissions based upon information contained in the Official Statement, or to be contained in the Official Statement as amended or supplemented, (A) under the caption "UNDERWRITING" or otherwise furnished in writing to the Issuer or the Company by or on behalf of the Underwriter expressly for use therein, (B) under the caption "TAX EXEMPTION", except to the extent that the information thereunder is based upon statements and representations made by the Company, (C) under the subcaption "Book Entry System" and (D) in Appendices B and C. The terms "amendment" and "supplement" as used in this Letter of Representation include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents.

(b) The financial statements incorporated by reference into Appendix A of the Official Statement have been prepared in accordance with generally accepted accounting principles consistently applied except to the extent noted therein and fairly present the financial condition of the Company and the results of its operations as of the dates and for the periods indicated (except to the extent that unaudited interim financial statements are not required to contain, and do not contain, all of the notes required for fair presentation in audited financial

statements and subject to, in the case of interim unaudited statements, normal year-end adjustments).

(c) Except as contemplated or set forth in the Official Statement, since the respective dates as of which information is given in the Official Statement, the financial condition, results of operation, business or prospects of the Company have not changed in a material adverse manner from that set forth in the Official Statement as it exists on the date hereof. The issuance by the Company of securities in the ordinary course shall not be deemed, for this purpose, to be a material adverse change.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the best of the Company's knowledge, threatened which challenges the validity of or seeks to enjoin the performance by the Company of its obligations with respect to the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Continuing Disclosure Agreement or this Letter of Representation or challenges the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and, other than as disclosed in or contemplated by the Official Statement, as supplemented and amended, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the best of the Company's knowledge, threatened against or affecting the Company wherein an unfavorable decision, ruling or finding would materially adversely affect any of the transactions contemplated by the Bond Purchase Agreement, the Supplemental Mortgage Indenture or the Official Statement, including any amendments or supplements thereto, or which could reasonably be expected to result in any material adverse change in the financial condition, results of operation, business or prospects of the Company.

(e) The Company was duly organized and is validly existing under the laws of the State of Ohio, is duly qualified to do business in and is in good standing under the laws of each jurisdiction in which the ownership or leasing of property of the character of the properties owned or leased by it or the nature of the business transacted by it makes such qualification necessary, and has full corporate power to conduct its business and to own and operate its properties as set forth in the Official Statement, to execute and deliver the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and this Letter of Representation and to carry out and perform its obligations under the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the First Mortgage Bonds, the Continuing Disclosure Agreement and this Letter of

Representation.

(f) This Letter of Representation has been duly authorized, executed and delivered by the Company, and is a legal, valid and binding obligation of the Company in accordance with its terms (except to the extent that the binding effect hereof may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles and except as rights to indemnity hereunder may be limited by principles of public policy and applicable securities laws), and the execution and delivery of this Letter of Representation and compliance with the provisions hereof will not conflict with or constitute on the part of the Company a breach or default under the Company's Amended Articles of Incorporation or Regulations or any other material agreement or instrument to which the Company is a party or by which it is bound or any order, rule or regulation applicable to the Company of any court or any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its properties.

(g) The Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement have been duly authorized by the Company and, when the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement are duly executed and delivered by the Company (and, as to the First Mortgage Bonds, when duly authenticated by the First Mortgage Trustee), each of such agreements or instruments and the First Mortgage will be legal, valid and binding obligations of the Company enforceable in accordance with their respective terms except to the extent that the enforceability and the binding effect thereof may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles. The execution and delivery of the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement, and compliance with the provisions of the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement, will not conflict with or constitute on the part of the Company a breach or default under the Company's Amended Articles of Incorporation or Regulations or any other material agreement or instrument to which the Company is a party or by which it is bound or any order, rule or regulation applicable to the Company of any court or of any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its properties.

(h) Each approval, permit, consent or authorization of, or registration or filing with, any governmental or public agency, authority or person required to

be obtained or made by the Company in connection with the execution and delivery by the Company of this Letter of Representation, the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture or the Continuing Disclosure Agreement, or the performance by the Company of its obligations under this Letter of Representation, the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), or the Continuing Disclosure Agreement has been obtained or made and remains in full force and effect.

(i) The Company is a "subsidiary" of Centerior Energy Corporation, a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Centerior Energy Corporation is exempt from regulation under such Act pursuant to Section 3(a)(1) thereof and the rules and regulations thereunder promulgated by the Securities and Exchange Commission and, therefore, the Company is also exempt from such regulation.

(j) On and after the Closing Date, the Indenture will create a valid and perfected first priority security interest in the First Mortgage Bonds, assuming that the Trustee holds the First Mortgage Bonds as provided in the Indenture.

(k) The Company has good title to substantially all the properties referred to or described in the Official Statement and in the granting clauses of the First Mortgage as being subject to the lien thereof and now owned by it which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage, subject only to the conditions and exceptions set forth in the Official Statement under the subheadings "Security" and "Title to Property" under the heading "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE", none of which materially impairs the use of the property affected thereby in the operation of the business of the Company, and the First Mortgage constitutes a valid and perfected first lien on said property subject to said conditions and exceptions.

(l) No event of default and no event which, with notice or lapse of time, or both, would constitute an event of default or a default under any material agreement, indenture, mortgage or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject has occurred and is continuing; the Company is not in violation of any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property or operations that could reasonably be expected to have a material adverse effect on the financial condition, results of operations, business or prospects of the Company.

(m) The Company possesses such certificates, authorities or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct the business now operated by it, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially and adversely affect the financial condition, results of operations, business or prospects of the Company.

2. The Company approves of the use and distribution by the Underwriter of the Preliminary Official Statement and the Official Statement and any required amendments or supplements thereto. The Company hereby confirms that it approves [\_\_\_%] of the principal amount, plus accrued interest, if any, as the price which the Underwriter will cause to be paid by the purchaser or purchasers of the Bonds to the Issuer; and the other terms of the Bonds and all of the terms and conditions of the issuance, delivery and sale of the Bonds as set forth in the Bond Purchase Agreement and in the Official Statement. At the same date and time at which payment for and delivery of the Bonds is made, the Company agrees to pay to the Underwriter a fee of \$ \_\_\_, \_\_\_ by official check in New York Clearinghouse funds.

3. The Company represents to the Issuer and the Underwriter that, to the best of its knowledge, it has not taken or omitted to take any action, and knows of no action that any other person has taken or omitted to take, which would cause interest on the Bonds to be includable in gross income for federal income tax purposes, and covenants that it will not take any action or omit to take any action which action or omission would have any such result; provided that the Company is relying on the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, to be delivered on the Closing Date, as to the exclusion from gross income for federal income tax purposes of the interest on the Bonds. The Company represents and warrants that each of the statements contained in certificates, to be dated the Closing Date, from the Company to the Issuer and to Squire, Sanders & Dempsey L.L.P., Bond Counsel, upon which Bond Counsel will rely in rendering its opinion in the form attached to the Official Statement as Appendix C, will, as of the Closing Date, be true and accurate and such certificates will not omit to state any fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company agrees that it will execute and deliver such certificates to the Underwriter on the Closing Date in such forms as may be acceptable to the Underwriter, the Issuer, counsel to the Underwriter and Bond Counsel.

4. The Company agrees to indemnify and hold harmless the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 20 of the Exchange Act or Section 15 of the Securities Act and the Issuer and each of the Issuer's members, officers and employees from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or in the Preliminary Official Statement or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the

light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages or liabilities are caused by any untrue statement or omission or alleged untrue statement or alleged omission (i) under the captions "THE AUTHORITY" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS", (ii) under the caption "UNDERWRITING" or on information otherwise furnished in writing to the Issuer or the Company by or on behalf of the Underwriter expressly for use therein, (iii) under the caption "TAX EXEMPTION", except to the extent that the information thereunder is based upon statements and representations made by the Company, (iv) under the subcaption "Book Entry System", or (v) in Appendices B or C.

The Underwriter agrees to indemnify and hold harmless the Company to the same extent as the foregoing indemnity from the Company to the Underwriter but only with reference to information relating to the Underwriter furnished in writing by the Underwriter expressly for use in the Official Statement and the Preliminary Official Statement.

In case any proceeding (including any governmental investigation) shall be instituted involving any person which may seek indemnity pursuant to either of the two preceding paragraphs, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel relating to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) included both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to a conflict of interest between them. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction arising out of the same allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate counsel for all such indemnified parties. Such counsel shall be designated in writing by the Underwriter in the case of parties indemnified pursuant to the second preceding paragraph and by the Company in the case of parties indemnified pursuant to the first preceding paragraph. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but, if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment.

If the indemnification provided for in this Section 4 is unavailable to an indemnified party under the first or second paragraphs hereof in respect of any losses, claims, damages or liabilities referred to therein, then the indemnifying party in lieu of indemnifying such indemnified party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to



reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, including relative benefit. The relative fault of the indemnifying party on the one hand and of the indemnified party on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Issuer and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4, the Underwriter shall not be required to contribute any amount in excess of the fee received by the Underwriter specified in the Bond Purchase Agreement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

5. The Company covenants to furnish or cause to be furnished promptly to the Underwriter, without charge, as many copies of the Official Statement, and any amendment or supplement thereto, and of the Supplemental Mortgage Indenture as the Underwriter may reasonably request.

6. The Company hereby confirms its authorization or ratification of the use by the Underwriter of the Preliminary Official Statement. The Company further authorizes the use and distribution of the Official Statement, substantially in the form of the Preliminary Official Statement, and including any amendments or supplements thereto, in connection with the sale of the Bonds. The Company agrees to provide to the Underwriter, in such quantities as may be reasonably requested, the final Official Statement within seven business days of the date hereof (or within such shorter period as the Issuer, the Company and the Senior Manager may agree), but in no event later than the Closing Date. The terms "amendments" and "supplements" as used herein include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement until the date which is 25 days after the Closing Date, pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents. The Company hereby authorizes the use and distribution by the Underwriter, in connection with the sale of the Bonds, of the Indenture, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture and the Bond Purchase Agreement upon the request of any person

purchasing Bonds.

If, during such period (not to exceed 25 days after the Closing Date) as in the judgment of the Underwriter, delivery of the Official Statement as it may be amended or supplemented is necessary or desirable in connection with the sale of the Bonds by the Underwriter or any dealer or as otherwise may be required by applicable law or regulation, any event shall occur as a result of which, in the judgment of the Underwriter, it is necessary to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser or "potential customer" (as defined for purposes of SEC Rule 15c2-12(b)(4)), not misleading, the Company will forthwith prepare and furnish, at its expense, to the Underwriter and to any party with whom the Underwriter may have placed Bonds, either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended or supplemented will not, in the light of the circumstances when the Official Statement as so amended or supplemented is delivered to a purchaser or "potential customer", be misleading.

7. The Company further covenants that it will cooperate with the Issuer and the Underwriter in endeavoring to qualify the Bonds for sale under the state securities or Blue Sky laws of such jurisdictions as the Underwriter may request and which are agreed to by the Company, and that it will pay all reasonable expenses (including fees of counsel) incurred in connection therewith and in connection with the determination of the eligibility of the Bonds for investment under the laws of such jurisdictions, provided that the foregoing shall not require the Company to qualify as a foreign corporation or file any consent to general service of process under the laws of any foreign jurisdiction.

8. Subject to the terms and conditions of the Bond Purchase Agreement, the Company agrees to pay the expenses, if any, contemplated to be paid by it pursuant to Article VII thereof. If the Bond Purchase Agreement shall be terminated by the Underwriter because the Issuer is unable or otherwise fails to perform its obligations under the Bond Purchase Agreement or refuses or otherwise fails to comply with the terms or to fulfill any of the conditions of the Bond Purchase Agreement, or if for any reason the Company shall be unable, refuse or otherwise fail to perform the agreements and actions or comply with the terms and fulfill the conditions contemplated to be performed, complied with or fulfilled on its part under the Bond Purchase Agreement or this Letter of Representation, the Company will reimburse the Issuer (unless the failure to so consummate the transaction is a result of the failure or refusal by the Issuer to take any action which is reasonably contemplated that the Issuer shall take in order to consummate the issuance, delivery and sale of the Bonds) and the Underwriter for all out-of-pocket expenses (including the fees and disbursements of counsel) reasonably incurred by them in connection with the Bond Purchase Agreement, this Letter of Representation and the offering contemplated thereunder and hereunder.

9. The Issuer and the Underwriter severally agree with the Company that they will perform and observe all of the obligations and agreements made or undertaken by them

H:\RICHARD\11177BAA.REP

in the Bond Purchase Agreement, subject to all of the terms and conditions therein set forth.

10. The indemnity, contribution and other agreements contained herein and the representations and warranties of the Company set forth in this Letter of Representation shall remain operative and in full force and effect regardless of (a) any termination of the Bond Purchase Agreement, (b) any investigation made by or on behalf of the Underwriter or any person controlling the Underwriter and (c) acceptance of and payment for the Bonds. The indemnity, contribution and other agreements of the Issuer and the Underwriter contained herein shall remain operative and in full force and effect regardless of (x) any termination of the Bond Purchase Agreement, (y) any investigation made by or on behalf of the Company or any person controlling the Company and (z) acceptance of and payment for the Bonds by the purchaser or purchasers.

11. This Letter of Representation is made solely for the benefit of the Underwriter, persons, if any, controlling the Underwriter, the Issuer, its members and officers, the Company, and their respective successors and assigns, and no other person, partnership, association, corporation or governmental body shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds through you merely because of such purchase.

12. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of New York, except for those portions of this Letter of Representation that relate to the Issuer, which provisions, as applied to the Issuer, shall be governed by the laws of the State of Ohio.

13. This Letter of Representation may be executed in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

[Balance of page left blank intentionally.]

If the foregoing is in accordance with your understanding of the agreement between each of you and the Company, kindly sign and return to the Company the enclosed copy of this Letter of Representation, whereupon it will constitute a binding agreement between each of you and the Company in accordance with its terms.

Very truly yours,

THE CLEVELAND ELECTRIC  
ILLUMINATING COMPANY

By: \_\_\_\_\_  
Title:

Accepted and confirmed as of  
the date first above written.

MORGAN STANLEY & CO. INCORPORATED,  
as Underwriter of the Bonds described herein

By: \_\_\_\_\_  
Title:

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Secretary/Treasurer

HARICHARD\11177BAA.REP

\$54,600,000

**OHIO WATER DEVELOPMENT AUTHORITY**

State of Ohio

**Collateralized Pollution Control Revenue Refunding Bonds**

Series 1997-A

**(The Cleveland Electric Illuminating Company Project)**

**LETTER OF REPRESENTATION**

July 2, 1997

---

July \_\_, 1997

MORGAN STANLEY & CO. INCORPORATED  
New York, New York, and the other  
Underwriters of the Bonds as hereinafter  
described

OHIO WATER DEVELOPMENT AUTHORITY  
Columbus, Ohio

Ladies and Gentlemen:

This Letter of Representation is being executed and delivered by The Cleveland Electric Illuminating Company, an Ohio corporation (the "Company"), in order to induce Morgan Stanley & Co. Incorporated, Citicorp Securities, Inc. and First Chicago Capital Markets, Inc. (collectively, the "Underwriters") and the Ohio Water Development Authority (the "Issuer") to enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") to be dated July \_\_, 1997, a copy of which has been delivered to the Company. The Bond Purchase Agreement provides for the purchase from the Issuer by the Underwriters, severally and not jointly, of the Original Participations (the Original Participations aggregating \$54,600,000) of the State of Ohio --% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds"). The Bonds will be issued pursuant to the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Issuer and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as Trustee (the "Trustee"), and the resolution adopted by the Issuer on June 26, 1997 (the "Resolution"). The proceeds of the Bonds will be lent to the Company pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), to be used to pay a portion of the costs of refunding the Issuer's \$54,600,000 aggregate principal amount of Collateralized Pollution Control Revenue Bonds, 1987 Series A-1 and A-2 (The Cleveland Electric Illuminating Company Project), presently outstanding in such aggregate principal amount, which were issued to assist the Company in financing its portion of the cost of the acquisition, construction and installation of certain waste water facilities and solid waste facilities in connection with the Perry Nuclear Power Plant Unit 1 in Lake County, Ohio (the "Project"). Concurrently with the issuance and delivery by the Issuer of the Bonds, the Company will execute and deliver to the Trustee the Company's First Mortgage Bonds, --% Series due 2020 (the "First Mortgage Bonds"), issued pursuant to a Seventy-- Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage Indenture"), to the Mortgage and Deed of Trust, dated July 1, 1940 (said Mortgage and Deed of Trust, as supplemented and modified in certain respects by indentures supplemental thereto, including the Supplemental Mortgage Indenture, being herein called the "First Mortgage"), from the Company to Guaranty Trust Company of New York, as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee (the "First Mortgage Trustee"), in a principal amount equal to the aggregate principal amount of the Bonds. Terms used as defined terms herein and not otherwise defined herein shall the meaning assigned to them in the Bond Purchase Agreement, unless otherwise indicated.

The Company hereby (i) approves the terms and provisions of the Bond Purchase Agreement and of the Bonds as described in the Official Statement and (ii) requests the Issuer to issue and sell the Bonds.

1. The Company represents and warrants to the Issuer and the Underwriters as follows:

(a) The information contained in the Official Statement is, and as it may be amended or supplemented on the Closing Date will be, true and correct in all material respects, and the Official Statement does not, and as it may be amended or supplemented on the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. In addition, any amendments or supplements to the Official Statement prepared and furnished by the Company pursuant to Section 6 hereof will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties contained in this paragraph (i) are based upon the best of the Company's knowledge insofar as they pertain to the information relating to the Issuer contained in the Official Statement, or to be contained in the Official Statement, as amended or supplemented, under the captions "THE AUTHORITIES -- The Water Authority" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS", and (ii) do not apply to statements or omissions based upon information contained in the Official Statement, or to be contained in the Official Statement as amended or supplemented, (A) under the caption "UNDERWRITING" or otherwise furnished in writing to the Issuer or the Company by or on behalf of the Underwriters expressly for use therein, (B) under the caption "TAX EXEMPTION", except to the extent that the information thereunder is based upon statements and representations made by the Company, (C) under the subcaption "Book Entry System" and (D) in Appendices B and C. The terms "amendment" and "supplement" as used in this Letter of Representation include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents.

(b) The financial statements incorporated by reference into Appendix A of the Official Statement have been prepared in accordance with generally accepted accounting principles consistently applied except to the extent noted therein and fairly present the financial condition of the Company and the results of its operations as of the dates and for the periods indicated (except to the

extent that unaudited interim financial statements are not required to contain, and do not contain, all of the notes required for fair presentation in audited financial statements and subject to, in the case of interim unaudited statements, normal year-end adjustments).

(c) Except as contemplated or set forth in the Official Statement, since the respective dates as of which information is given in the Official Statement, the financial condition, results of operation, business or prospects of the Company have not changed in a material adverse manner from that set forth in the Official Statement as it exists on the date hereof. The issuance by the Company of securities in the ordinary course shall not be deemed, for this purpose, to be a material adverse change.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the best of the Company's knowledge, threatened which challenges the validity of or seeks to enjoin the performance by the Company of its obligations with respect to the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Continuing Disclosure Agreement or this Letter of Representation or challenges the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and, other than as disclosed in or contemplated by the Official Statement, as supplemented and amended, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the best of the Company's knowledge, threatened against or affecting the Company wherein an unfavorable decision, ruling or finding would materially adversely affect any of the transactions contemplated by the Bond Purchase Agreement, the Supplemental Mortgage Indenture or the Official Statement, including any amendments or supplements thereto, or which could reasonably be expected to result in any material adverse change in the financial condition, results of operation, business or prospects of the Company.

(e) The Company was duly organized and is validly existing under the laws of the State of Ohio, is duly qualified to do business in and is in good standing under the laws of each jurisdiction in which the ownership or leasing of property of the character of the properties owned or leased by it or the nature of the business transacted by it makes such qualification necessary, and has full corporate power to conduct its business and to own and operate its properties as set forth in the Official Statement, to execute and deliver the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and this Letter of Representation and to carry out and perform its obligations under the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the First Mortgage Bonds, the Continuing Disclosure Agreement and this Letter of Representation.



(f) This Letter of Representation has been duly authorized, executed and delivered by the Company, and is a legal, valid and binding obligation of the Company in accordance with its terms (except to the extent that the binding effect hereof may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles and except as rights to indemnity hereunder may be limited by principles of public policy and applicable securities laws), and the execution and delivery of this Letter of Representation and compliance with the provisions hereof will not conflict with or constitute on the part of the Company a breach or default under the Company's Amended Articles of Incorporation or Regulations or any other material agreement or instrument to which the Company is a party or by which it is bound or any order, rule or regulation applicable to the Company of any court or any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its properties.

(g) The Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement have been duly authorized by the Company and, when the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement are duly executed and delivered by the Company (and, as to the First Mortgage Bonds, when duly authenticated by the First Mortgage Trustee), each of such agreements or instruments and the First Mortgage will be legal, valid and binding obligations of the Company enforceable in accordance with their respective terms except to the extent that the enforceability and the binding effect thereof may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles. The execution and delivery of the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement, and compliance with the provisions of the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement, will not conflict with or constitute on the part of the Company a breach or default under the Company's Amended Articles of Incorporation or Regulations or any other material agreement or instrument to which the Company is a party or by which it is bound or any order, rule or regulation applicable to the Company of any court or of any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its properties.

(h) Each approval, permit, consent or authorization of, or registration or filing with, any governmental or public agency, authority or person required to be obtained or made by the Company in connection with the execution and delivery by the Company of this Letter of Representation, the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental

Mortgage Indenture or the Continuing Disclosure Agreement, or the performance by the Company of its obligations under this Letter of Representation, the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) or the Continuing Disclosure Agreement has been obtained or made and remains in full force and effect.

(i) The Company is a "subsidiary" of Centerior Energy Corporation, a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Centerior Energy Corporation is exempt from regulation under such Act pursuant to Section 3(a)(1) thereof and the rules and regulations thereunder promulgated by the Securities and Exchange Commission and, therefore, the Company is also exempt from such regulation.

(j) On and after the Closing Date, the Indenture will create a valid and perfected first priority security interest in the First Mortgage Bonds, assuming that the Trustee holds the First Mortgage Bonds as provided in the Indenture.

(k) The Company has good title to substantially all the properties referred to or described in the Official Statement and in the granting clauses of the First Mortgage as being subject to the lien thereof and now owned by it which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage, subject only to the conditions and exceptions set forth in the Official Statement under the subheadings "Security" and "Title to Property" under the heading "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE", none of which materially impairs the use of the property affected thereby in the operation of the business of the Company, and the First Mortgage constitutes a valid and perfected first lien on said property subject to said conditions and exceptions.

(l) No event of default and no event which, with notice or lapse of time, or both, would constitute an event of default or a default under any material agreement, indenture, mortgage or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject has occurred and is continuing; the Company is not in violation of any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property or operations that could reasonably be expected to have a material adverse effect on the financial condition, results of operations, business or prospects of the Company.

(m) The Company possesses such certificates, authorities or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct the business now operated by it, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit which, singly or in the aggregate, if the

subject of an unfavorable decision, ruling or finding, would materially and adversely affect the financial condition, results of operations, business or prospects of the Company.

2. The Company approves of the use and distribution by the Underwriters of the Preliminary Official Statement and the Official Statement and any required amendments or supplements thereto. The Company hereby confirms that it approves 100% of the principal amount as the price to be paid by the Underwriters to the Issuer for the Bonds; 100% of the principal amount as the initial offering price for the Bonds; and the other terms of the Bonds and all of the terms and conditions of the issuance, sale and delivery of the Bonds as set forth in the Bond Purchase Agreement and in the Official Statement. At the same date and time at which payment for and delivery of the Bonds is made, the Company agrees to pay to the Senior Manager, on behalf of the Underwriters, an underwriting commission of by official check in New York Clearinghouse funds.

3. The Company represents to the Issuer and the Underwriters that, to the best of its knowledge, it has not taken or omitted to take any action, and knows of no action that any other person has taken or omitted to take, which would cause interest on the Bonds to be includable in gross income for federal income tax purposes, and covenants that it will not take any action or omit to take any action which action or omission would have any such result; provided that the Company is relying on the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, to be delivered on the Closing Date, as to the exclusion from gross income for federal income tax purposes of the interest on the Bonds. The Company represents and warrants that each of the statements contained in certificates, to be dated the Closing Date, from the Company to the Issuer and to Squire, Sanders & Dempsey L.L.P., Bond Counsel, upon which Bond Counsel will rely in rendering its opinion in the form attached to the Official Statement as Appendix B, will, as of the Closing Date, be true and accurate and such certificates will not omit to state any fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company agrees that it will execute and deliver such certificates to the Underwriters on the Closing Date in such forms as may be acceptable to the Underwriters, the Issuer, counsel to the Underwriters and Bond Counsel.

4. The Company agrees to indemnify and hold harmless the Underwriters and each person, if any, who controls an Underwriter within the meaning of Section 20 of the Exchange Act or Section 15 of the Securities Act and the Issuer and each of the Issuer's members, officers and employees from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or in the Preliminary Official Statement or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages or liabilities are caused by any untrue statement or omission or alleged untrue statement or alleged omission (i) under the captions "THE AUTHORITIES" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS", (ii) under the caption "UNDERWRITING" or on information otherwise furnished in writing to the Issuer or the Company by or on behalf of the Underwriters expressly for use therein, (iii) under the caption

"TAX EXEMPTION", except to the extent that the information thereunder is based upon statements and representations made by the Company, (iv) under the subcaption "Book Entry System", or (v) in Appendices B or C.

Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company to the same extent as the foregoing indemnity from the Company to each Underwriter but only with reference to information relating to such Underwriter furnished in writing by such Underwriter expressly for use in the Official Statement and the Preliminary Official Statement.

In case any proceeding (including any governmental investigation) shall be instituted involving any person which may seek indemnity pursuant to either of the two preceding paragraphs, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel relating to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) included both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to a conflict of interest between them. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction arising out of the same allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate counsel for all such indemnified parties. Such counsel shall be designated in writing by the Senior Manager in the case of parties indemnified pursuant to the second preceding paragraph and by the Company in the case of parties indemnified pursuant to the first preceding paragraph. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but, if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment.

If the indemnification provided for in this Section 4 is unavailable to an indemnified party under the first or second paragraphs hereof in respect of any losses, claims, damages or liabilities referred to therein, then the indemnifying party in lieu of indemnifying such indemnified party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, including relative benefit. The relative fault of the indemnifying party on the one hand and of the indemnified party on the other shall be determined by reference to, among other things, whether the untrue or

alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Issuer and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4, no Underwriter shall be required to contribute any amount in excess of the underwriting discounts or commissions received by such Underwriter specified in the Bond Purchase Agreement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11 (f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

5. The Company covenants to furnish or cause to be furnished promptly to the Underwriters, without charge, as many copies of the Official Statement, and any amendment or supplement thereto, and of the Supplemental Mortgage Indenture as the Underwriters may reasonably request.

6. The Company hereby confirms its authorization or ratification of the use by the Underwriters (together with all members of any selling group which may be formed in connection with the offering and sale of the Bonds, and all dealers to whom any of the Bonds may be sold or by any member of any selling group) of the Preliminary Official Statement. The Company further authorizes the use and distribution of the Official Statement, substantially in the form of the Preliminary Official Statement, and including any amendments or supplements thereto, in connection with the offering and sale of the Bonds. The Company hereby confirms that the Preliminary Official Statement was "deemed final" (except for permitted omissions) as of its date by the Company for purposes of Rule 15c2-12(b)(1) promulgated by the SEC. The Company agrees to provide to the Underwriters, in such quantities as may be reasonably requested, the final Official Statement within seven business days of the date hereof (or within such shorter period as the Issuer, the Company and the Senior Manager may agree), but in no event later than the Closing Date. The terms "amendments" and "supplements" as used herein include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement until the date which is 25 days after the "end of the underwriting period" (as defined for purposes of SEC Rule 15c2-12(b)(4)), pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents. The Company hereby authorizes the use and distribution by the Underwriters, in connection with the offering and sale of the Bonds, of the Indenture, the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture and the Bond Purchase Agreement upon the request of any person purchasing Bonds.

If, during such period (not to exceed 25 days after the "end of the underwriting period", as defined for purposes of SEC Rule 15c2-12(b)(4)) as in the judgment of the Senior Manager, delivery of the Official Statement as it may be amended or supplemented is necessary or desirable in connection with sales of the Bonds by the Underwriters or any dealer or as otherwise may be required by applicable law or regulation, any event shall occur as a result of which, in the judgment of the Senior Manager, it is necessary to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser or "potential customer" (as defined for purposes of SEC Rule 15c2-12(b)(4)), not misleading, the Company will forthwith prepare and furnish, at its expense, to the Underwriters and to any dealers to whom the Underwriters may have sold Bonds, either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended or supplemented will not, in the light of the circumstances when the Official Statement as so amended or supplemented is delivered to a purchaser or potential customer", be misleading.

7. The Company further covenants that it will cooperate with the Issuer and the Underwriters in endeavoring to qualify the Bonds for offer and sale under the state securities or Blue Sky laws of such jurisdictions as the Underwriters may request and which are agreed to by the Company, and that it will pay all reasonable expenses (including fees of counsel) incurred in connection therewith and in connection with the determination of the eligibility of the Bonds for investment under the laws of such jurisdictions, provided that the foregoing shall not require the Company to qualify as a foreign corporation or file any consent to general service of process under the laws of any foreign jurisdiction.

8. Subject to the terms and conditions of the Bond Purchase Agreement, the Company agrees to pay the expenses, if any, contemplated to be paid by it pursuant to Article VIII thereof. If the Bond Purchase Agreement shall be terminated by the Underwriters because the Issuer is unable or otherwise fails to perform its obligations under the Bond Purchase Agreement or refuses or otherwise fails to comply with the terms or to fulfill any of the conditions of the Bond Purchase Agreement, or if for any reason the Company shall be unable, refuse or otherwise fail to perform the agreements and actions or comply with the terms and fulfill the conditions contemplated to be performed, complied with or fulfilled on its part under the Bond Purchase Agreement or this Letter of Representation, the Company will reimburse the Issuer (unless the failure to so consummate the transaction is a result of the failure or refusal by the Issuer to take any action which is reasonably contemplated that the Issuer shall take in order to consummate the issuance, sale and delivery of the Bonds) and the Underwriters for all out-of-pocket expenses (including the fees and disbursements of counsel) reasonably incurred by them in connection with the Bond Purchase Agreement, this Letter of Representation and the offering contemplated thereunder and hereunder.

9. The Issuer and the Underwriters severally agree with the Company that they will perform and observe all of the obligations and agreements made or undertaken by them in the Bond Purchase Agreement, subject to all of the terms and conditions therein set forth.

10. The indemnity, contribution and other agreements contained herein and the representations and warranties of the Company set forth in this Letter of Representation shall remain operative and in full force and effect regardless of (a) any termination of the Bond Purchase Agreement, (b) any investigation made by or on behalf of the Underwriters or any person controlling the Underwriters and (c) acceptance of and payment for the Bonds. The indemnity, contribution and other agreements of the Issuer and the Underwriters contained herein shall remain operative and in full force and effect regardless of (x) any termination of the Bond Purchase Agreement, (y) any investigation made by or on behalf of the Company or any person controlling the Company and (z) acceptance of and payment for the Bonds.

11. This Letter of Representation is made solely for the benefit of the Underwriters, persons, if any, controlling each Underwriter, the Issuer, its members and officers, the Company, and their respective successors and assigns, and no other person, partnership, association, corporation or governmental body shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from or through you merely because of such purchase.

12. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of New York, except for those portions of this Letter over representation that relate to the Issuer, which provisions, as applied to the Issuer, shall be governed by the laws of the State of Ohio.

13. This Letter of Representation may be executed in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

[Balance of page left blank intentionally.]

If the foregoing is in accordance with your understanding of the agreement between each of you and the Company, kindly sign and return to the Company the enclosed copy of this Letter of Representation, whereupon it will constitute a binding agreement between each of you and the Company in accordance with its terms.

Very truly yours,

THE CLEVELAND ELECTRIC  
ILLUMINATING COMPANY

By: \_\_\_\_\_  
Title:

Accepted and confirmed as of  
the date first above written.

MORGAN STANLEY & CO. INCORPORATED,  
on behalf of itself and the other Underwriters  
of the Bonds described herein

By: \_\_\_\_\_  
Title:

OHIO WATER DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Secretary/Treasurer



DRAFT OF 7/2/97

---

\$15,900,000

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

State of Ohio

Collateralized Pollution Control Revenue Refunding Bonds

Series 1997-A

(The Cleveland Electric Illuminating Company Project)

LETTER OF REPRESENTATION

July \_\_, 1997

---

July \_\_, 1997

MORGAN STANLEY & CO. INCORPORATED  
New York, New York

OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
Columbus, Ohio

Ladies and Gentlemen:

This Letter of Representation is being executed and delivered by The Cleveland Electric Illuminating Company, an Ohio corporation (the "Company"), in order to induce Morgan Stanley & Co. Incorporated (the "Underwriter") and the Ohio Air Quality Development Authority (the "Issuer") to enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") to be dated July \_\_, 1997, a copy of which has been delivered to the Company. The Bond Purchase Agreement provides for the issuance by the Issuer and the delivery to, for the sale by, the Underwriter of the State of Ohio \_\_% Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project) (the "Bonds"). The Bonds will be issued pursuant to the Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Issuer and Mellon Bank, F.S.B., Cleveland, Ohio, as Trustee (the "Trustee"), and the resolution adopted by the Issuer on July 8, 1997 (the "Resolution"). The proceeds of the Bonds will be lent to the Company pursuant to the Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), to be used to pay a portion of the costs of refunding the Issuer's \$15,900,000 aggregate principal amount of 7.70% Collateralized Pollution Control Revenue Bonds, 1987 Series B (The Cleveland Electric Illuminating Company Project), presently outstanding in such aggregate principal amount, which were issued to assist the Company in financing its portion of the cost of the acquisition, construction and installation of certain air quality facilities (the "Project") in connection with the Perry Nuclear Power Plant Unit 1 in Lake County Ohio. Concurrently with the issuance and delivery by the Issuer of the Bonds, the Company will execute and deliver to the Trustee the Company's First Mortgage Bonds, \_\_% Series due 2020 (the "First Mortgage Bonds"), issued pursuant to a Seventy-Fifth Supplemental Indenture, dated July 1, 1997 (the "Supplemental Mortgage Indenture"), to the Mortgage and Deed of Trust, dated July 1, 1940 (said Mortgage and Deed of Trust, as supplemented and modified in certain respects by indentures supplemental thereto, including the Supplemental Mortgage Indenture, being herein called the "First Mortgage"), from the Company to Guaranty Trust Company of New York, as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee (the "First Mortgage Trustee"), in a principal amount equal to the aggregate principal amount of the Bonds, to evidence and secure collaterally the Company's obligations as provided in the Loan Agreement. Terms used as defined terms herein and not otherwise defined herein shall have the meaning assigned to them in the Bond Purchase Agreement, unless otherwise indicated.

The Company hereby (i) approves the terms and provisions of the Bond Purchase Agreement and of the Bonds as described in the Official Statement and (ii) requests the Issuer to issue and deliver the Bonds to the Underwriter for sale.

1. The Company represents and warrants to the Issuer and the Underwriter as follows:

(a) The information contained in the Official Statement is, and as it may be amended or supplemented on the Closing Date will be, true and correct in all material respects, and the Official Statement does not, and as it may be amended or supplemented on the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. In addition, any amendments or supplements to the Official Statement prepared and furnished by the Company pursuant to Section 6 hereof will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties contained in this paragraph (i) are based upon the best of the Company's knowledge insofar as they pertain to the information relating to the Issuer contained in the Official Statement, or to be contained in the Official Statement, as amended or supplemented, under the captions "THE AUTHORITY" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS", and (ii) do not apply to statements or omissions based upon information contained in the Official Statement, or to be contained in the Official Statement as amended or supplemented, (A) under the caption "UNDERWRITING" or otherwise furnished in writing to the Issuer or the Company by or on behalf of the Underwriter expressly for use therein, (B) under the caption "TAX EXEMPTION", except to the extent that the information thereunder is based upon statements and representations made by the Company, (C) under the subcaption "Book Entry System" and (D) in Appendices B and C. The terms "amendment" and "supplement" as used in this Letter of Representation include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents.

(b) The financial statements incorporated by reference into Appendix A of the Official Statement have been prepared in accordance with generally accepted accounting principles consistently applied except to the extent noted therein and fairly present the financial condition of the Company and the results of its operations as of the dates and for the periods indicated (except to the extent that unaudited interim financial statements are not required to contain, and

do not contain, all of the notes required for fair presentation in audited financial statements and subject to, in the case of interim unaudited statements, normal year-end adjustments).

(c) Except as contemplated or set forth in the Official Statement, since the respective dates as of which information is given in the Official Statement, the financial condition, results of operation, business or prospects of the Company have not changed in a material adverse manner from that set forth in the Official Statement as it exists on the date hereof. The issuance by the Company of securities in the ordinary course shall not be deemed, for this purpose, to be a material adverse change.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the best of the Company's knowledge, threatened which challenges the validity of or seeks to enjoin the performance by the Company of its obligations with respect to the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the Continuing Disclosure Agreement or this Letter of Representation or challenges the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and, other than as disclosed in or contemplated by the Official Statement, as supplemented and amended, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the best of the Company's knowledge, threatened against or affecting the Company wherein an unfavorable decision, ruling or finding would materially adversely affect any of the transactions contemplated by the Bond Purchase Agreement, the Supplemental Mortgage Indenture or the Official Statement, including any amendments or supplements thereto, or which could reasonably be expected to result in any material adverse change in the financial condition, results of operation, business or prospects of the Company.

(e) The Company was duly organized and is validly existing under the laws of the State of Ohio, is duly qualified to do business in and is in good standing under the laws of each jurisdiction in which the ownership or leasing of property of the character of the properties owned or leased by it or the nature of the business transacted by it makes such qualification necessary, and has full corporate power to conduct its business and to own and operate its properties as set forth in the Official Statement, to execute and deliver the Loan Agreement, the Escrow Agreement, the Supplemental Mortgage Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and this Letter of Representation and to carry out and perform its obligations under the Loan Agreement, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), the

First Mortgage Bonds, the Continuing Disclosure Agreement and this Letter of Representation.

(f) This Letter of Representation has been duly authorized, executed and delivered by the Company, and is a legal, valid and binding obligation of the Company in accordance with its terms (except to the extent that the binding effect hereof may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles and except as rights to indemnity hereunder may be limited by principles of public policy and applicable securities laws), and the execution and delivery of this Letter of Representation and compliance with the provisions hereof will not conflict with or constitute on the part of the Company a breach or default under the Company's Amended Articles of Incorporation or Regulations or any other material agreement or instrument to which the Company is a party or by which it is bound or any order, rule or regulation applicable to the Company of any court or any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its properties.

(g) The Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement have been duly authorized by the Company and, when the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement are duly executed and delivered by the Company (and, as to the First Mortgage Bonds, when duly authenticated by the First Mortgage Trustee), each of such agreements or instruments and the First Mortgage will be legal, valid and binding obligations of the Company enforceable in accordance with their respective terms except to the extent that the enforceability and the binding effect thereof may be limited by bankruptcy or other laws affecting the enforcement of creditors' rights generally or by general equitable principles. The execution and delivery of the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture and the Continuing Disclosure Agreement, and compliance with the provisions of the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds) and the Continuing Disclosure Agreement, will not conflict with or constitute on the part of the Company a breach or default under the Company's Amended Articles of Incorporation or Regulations or any other material agreement or instrument to which the Company is a party or by which it is bound or any order, rule or regulation applicable to the Company of any court or of any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or its properties.

(h) Each approval, permit, consent or authorization of, or registration

or filing with, any governmental or public agency, authority or person required to be obtained or made by the Company in connection with the execution and delivery by the Company of this Letter of Representation, the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the Supplemental Mortgage Indenture or the Continuing Disclosure Agreement, or the performance by the Company of its obligations under this Letter of Representation, the Loan Agreement, the Escrow Agreement, the First Mortgage Bonds, the First Mortgage (to the extent pertinent to the issuance of the First Mortgage Bonds), or the Continuing Disclosure Agreement has been obtained or made and remains in full force and effect.

(i) The Company is a "subsidiary" of Centerior Energy Corporation, a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Centerior Energy Corporation is exempt from regulation under such Act pursuant to Section 3(a)(1) thereof and the rules and regulations thereunder promulgated by the Securities and Exchange Commission and, therefore, the Company is also exempt from such regulation.

(j) On and after the Closing Date, the Indenture will create a valid and perfected first priority security interest in the First Mortgage Bonds, assuming that the Trustee holds the First Mortgage Bonds as provided in the Indenture.

(k) The Company has good title to substantially all the properties referred to or described in the Official Statement and in the granting clauses of the First Mortgage as being subject to the lien thereof and now owned by it which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage, subject only to the conditions and exceptions set forth in the Official Statement under the subheadings "Security" and "Title to Property" under the heading "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE", none of which materially impairs the use of the property affected thereby in the operation of the business of the Company, and the First Mortgage constitutes a valid and perfected first lien on said property subject to said conditions and exceptions.

(l) No event of default and no event which, with notice or lapse of time, or both, would constitute an event of default or a default under any material agreement, indenture, mortgage or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject has occurred and is continuing; the Company is not in violation of any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property or operations that could reasonably be expected to have a material adverse effect on the financial condition, results of operations, business or prospects of the Company.

(m) The Company possesses such certificates, authorities or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct the business now operated by it, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially and adversely affect the financial condition, results of operations, business or prospects of the Company.

2. The Company approves of the use and distribution by the Underwriter of the Preliminary Official Statement and the Official Statement and any required amendments or supplements thereto. The Company hereby confirms that it approves [\_\_%] of the principal amount, plus accrued interest, if any, as the price which the Underwriter will cause to be paid by the purchaser or purchasers of the Bonds to the Issuer; and the other terms of the Bonds and all of the terms and conditions of the issuance, delivery and sale of the Bonds as set forth in the Bond Purchase Agreement and in the Official Statement. At the same date and time at which payment for and delivery of the Bonds is made, the Company agrees to pay to the Underwriter a fee of \$ \_\_, \_\_ by official check in New York Clearinghouse funds.

3. The Company represents to the Issuer and the Underwriter that, to the best of its knowledge, it has not taken or omitted to take any action, and knows of no action that any other person has taken or omitted to take, which would cause interest on the Bonds to be includable in gross income for federal income tax purposes, and covenants that it will not take any action or omit to take any action which action or omission would have any such result; provided that the Company is relying on the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, to be delivered on the Closing Date, as to the exclusion from gross income for federal income tax purposes of the interest on the Bonds. The Company represents and warrants that each of the statements contained in certificates, to be dated the Closing Date, from the Company to the Issuer and to Squire, Sanders & Dempsey L.L.P., Bond Counsel, upon which Bond Counsel will rely in rendering its opinion in the form attached to the Official Statement as Appendix C, will, as of the Closing Date, be true and accurate and such certificates will not omit to state any fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company agrees that it will execute and deliver such certificates to the Underwriter on the Closing Date in such forms as may be acceptable to the Underwriter, the Issuer, counsel to the Underwriter and Bond Counsel.

4. The Company agrees to indemnify and hold harmless the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 20 of the Exchange Act or Section 15 of the Securities Act and the Issuer and each of the Issuer's members, officers and employees from and against any and all losses, claims, damages and liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or in the Preliminary Official Statement or caused by any omission or

alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages or liabilities are caused by any untrue statement or omission or alleged untrue statement or alleged omission (i) under the captions "THE AUTHORITY" or "SPECIAL LEGAL INVESTMENT CONSIDERATIONS", (ii) under the caption "UNDERWRITING" or on information otherwise furnished in writing to the Issuer or the Company by or on behalf of the Underwriter expressly for use therein, (iii) under the caption "TAX EXEMPTION", except to the extent that the information thereunder is based upon statements and representations made by the Company, (iv) under the subcaption "Book Entry System", or (v) in Appendices B or C.

The Underwriter agrees to indemnify and hold harmless the Company to the same extent as the foregoing indemnity from the Company to the Underwriter but only with reference to information relating to the Underwriter furnished in writing by the Underwriter expressly for use in the Official Statement and the Preliminary Official Statement.

In case any proceeding (including any governmental investigation) shall be instituted involving any person which may seek indemnity pursuant to either of the two preceding paragraphs, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel relating to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) included both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to a conflict of interest between them. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction arising out of the same allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate counsel for all such indemnified parties. Such counsel shall be designated in writing by the Underwriter in the case of parties indemnified pursuant to the second preceding paragraph and by the Company in the case of parties indemnified pursuant to the first preceding paragraph. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but, if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment.

If the indemnification provided for in this Section 4 is unavailable to an indemnified party under the first or second paragraphs hereof in respect of any losses, claims, damages or liabilities referred to therein, then the indemnifying party in lieu of indemnifying such indemnified party shall contribute to the amount paid or payable by such indemnified party



as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, including relative benefit. The relative fault of the indemnifying party on the one hand and of the indemnified party on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Issuer and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4, the Underwriter shall not be required to contribute any amount in excess of the fee received by the Underwriter specified in the Bond Purchase Agreement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

5. The Company covenants to furnish or cause to be furnished promptly to the Underwriter, without charge, as many copies of the Official Statement, and any amendment or supplement thereto, and of the Supplemental Mortgage Indenture as the Underwriter may reasonably request.

6. The Company hereby confirms its authorization or ratification of the use by the Underwriter of the Preliminary Official Statement. The Company further authorizes the use and distribution of the Official Statement, substantially in the form of the Preliminary Official Statement, and including any amendments or supplements thereto, in connection with the sale of the Bonds. The Company agrees to provide to the Underwriter, in such quantities as may be reasonably requested, the final Official Statement within seven business days of the date hereof (or within such shorter period as the Issuer, the Company and the Senior Manager may agree), but in no event later than the Closing Date. The terms "amendments" and "supplements" as used herein include or refer to all documents filed by the Company with the SEC subsequent to the date of the Official Statement until the date which is 25 days after the Closing Date, pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, which are deemed to be incorporated by reference in the Official Statement from the date of filing of such documents. The Company hereby authorizes the use and distribution by the Underwriter, in connection with the sale of the Bonds, of the Indenture, the Loan Agreement, the Escrow Agreement, the Supplemental

Mortgage Indenture and the Bond Purchase Agreement upon the request of any person purchasing Bonds.

If, during such period (not to exceed 25 days after the Closing Date) as in the judgment of the Underwriter, delivery of the Official Statement as it may be amended or supplemented is necessary or desirable in connection with the sale of the Bonds by the Underwriter or any dealer or as otherwise may be required by applicable law or regulation, any event shall occur as a result of which, in the judgment of the Underwriter, it is necessary to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser or "potential customer" (as defined for purposes of SEC Rule 15c2-12(b)(4)), not misleading, the Company will forthwith prepare and furnish, at its expense, to the Underwriter and to any party with whom the Underwriter may have placed Bonds, either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended or supplemented will not, in the light of the circumstances when the Official Statement as so amended or supplemented is delivered to a purchaser or "potential customer", be misleading.

7. The Company further covenants that it will cooperate with the Issuer and the Underwriter in endeavoring to qualify the Bonds for sale under the state securities or Blue Sky laws of such jurisdictions as the Underwriter may request and which are agreed to by the Company, and that it will pay all reasonable expenses (including fees of counsel) incurred in connection therewith and in connection with the determination of the eligibility of the Bonds for investment under the laws of such jurisdictions, provided that the foregoing shall not require the Company to qualify as a foreign corporation or file any consent to general service of process under the laws of any foreign jurisdiction.

8. Subject to the terms and conditions of the Bond Purchase Agreement, the Company agrees to pay the expenses, if any, contemplated to be paid by it pursuant to Article VII thereof. If the Bond Purchase Agreement shall be terminated by the Underwriter because the Issuer is unable or otherwise fails to perform its obligations under the Bond Purchase Agreement or refuses or otherwise fails to comply with the terms or to fulfill any of the conditions of the Bond Purchase Agreement, or if for any reason the Company shall be unable, refuse or otherwise fail to perform the agreements and actions or comply with the terms and fulfill the conditions contemplated to be performed, complied with or fulfilled on its part under the Bond Purchase Agreement or this Letter of Representation, the Company will reimburse the Issuer (unless the failure to so consummate the transaction is a result of the failure or refusal by the Issuer to take any action which is reasonably contemplated that the Issuer shall take in order to consummate the issuance, delivery and sale of the Bonds) and the Underwriter for all out-of-pocket expenses (including the fees and disbursements of counsel) reasonably incurred by them in connection with the Bond Purchase Agreement, this Letter of Representation and the offering contemplated thereunder and hereunder.

9. The Issuer and the Underwriter severally agree with the Company that

they will perform and observe all of the obligations and agreements made or undertaken by them in the Bond Purchase Agreement, subject to all of the terms and conditions therein set forth.

10. The indemnity, contribution and other agreements contained herein and the representations and warranties of the Company set forth in this Letter of Representation shall remain operative and in full force and effect regardless of (a) any termination of the Bond Purchase Agreement, (b) any investigation made by or on behalf of the Underwriter or any person controlling the Underwriter and (c) acceptance of and payment for the Bonds. The indemnity, contribution and other agreements of the Issuer and the Underwriter contained herein shall remain operative and in full force and effect regardless of (x) any termination of the Bond Purchase Agreement, (y) any investigation made by or on behalf of the Company or any person controlling the Company and (z) acceptance of and payment for the Bonds by the purchaser or purchasers.

11. This Letter of Representation is made solely for the benefit of the Underwriter, persons, if any, controlling the Underwriter, the Issuer, its members and officers, the Company, and their respective successors and assigns, and no other person, partnership, association, corporation or governmental body shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds through you merely because of such purchase.

12. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of New York, except for those portions of this Letter of Representation that relate to the Issuer, which provisions, as applied to the Issuer, shall be governed by the laws of the State of Ohio.

13. This Letter of Representation may be executed in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

[Balance of page left blank intentionally.]

If the foregoing is in accordance with your understanding of the agreement between each of you and the Company, kindly sign and return to the Company the enclosed copy of this Letter of Representation, whereupon it will constitute a binding agreement between each of you and the Company in accordance with its terms.

Very truly yours,

THE CLEVELAND ELECTRIC  
ILLUMINATING COMPANY

By: \_\_\_\_\_  
Title:

Accepted and confirmed as of  
the date first above written.

MORGAN STANLEY & CO. INCORPORATED,  
as Underwriter of the Bonds described herein

By: \_\_\_\_\_  
Title:

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Secretary/Treasurer

## **EXHIBIT 8**

**DRAFT COPIES OF THE NEAR FINAL PRELIMINARY OFFICIAL STATEMENT AND  
PRELIMINARY PRIVATE PLACEMENT MEMORANDUM**

PRELIMINARY OFFICIAL STATEMENT DATED JULY \_\_, 1997

(See "Ratings" herein)

<p><b>\$54,600,000</b> <b>Ohio Water Development Authority</b> <b>State of Ohio</b> ____ % Collateralized Pollution Control <b>Revenue Refunding Bonds,</b> <b>Series 1997-A (AMT)</b> (The Cleveland Electric Illuminating Company Project)</p>	<p><b>\$15,900,000</b> <b>Ohio Air Quality Development Authority</b> <b>State of Ohio</b> ____ % Collateralized Pollution Control <b>Revenue Refunding Bonds,</b> <b>Series 1997-A (AMT)</b> (The Cleveland Electric Illuminating Company Project)</p>
--	--

**\$62,560,000**  
**Ohio Air Quality Development Authority**  
**State of Ohio**  
\_\_\_\_ % Collateralized Pollution Control  
**Revenue Refunding Bonds,**  
**Series 1997-B (Non-AMT)**  
(The Cleveland Electric Illuminating Company Project)

**Dated: July 1, 1997**

**Due: July 1, 2020**

The Bonds of each issue will be special obligations of the State of Ohio issued by the Ohio Water Development Authority and the Ohio Air Quality Development Authority, respectively, and will not constitute a debt, or a pledge of the faith and credit, of either Authority or the State or of any political subdivision thereof, and the registered owners of the Bonds will have no right to have taxes levied by the General Assembly of the State or by the taxing authority of any political subdivision of the State for the payment of the principal thereof or any premium or interest thereon. The Bonds of each issue will be payable solely, except to the extent paid out of moneys attributable to proceeds of such issue of Bonds, from and secured by the pledge and assignment by the respective Authority of payments to be made in respect of a series of First Mortgage Bonds issued by

### **The Cleveland Electric Illuminating Company**

The Bonds will bear interest payable semiannually on January 1 and July 1 beginning January 1, 1998. The Bonds will be issuable only as fully registered Bonds, in authorized denominations of \$5,000 and integral multiples thereof, under a book entry system, registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). There will be no distribution of Bonds to the ultimate purchasers of book entry interests. The Bonds will not be transferable or exchangeable, except for transfers to another nominee of DTC or as otherwise described under "THE BONDS--Book Entry System" herein. For further information regarding the book entry system and transfer of book entry interests by such ultimate purchasers, see "THE BONDS--Book Entry System" herein.

**PROSPECTIVE PURCHASERS OF THE BONDS SHOULD BE AWARE OF CERTAIN INVESTMENT CONSIDERATIONS IN EVALUATING AN INVESTMENT IN THE BONDS. SEE THE INFORMATION SET FORTH IN APPENDIX A TO THIS OFFICIAL STATEMENT UNDER THE CAPTION "INVESTMENT CONSIDERATIONS".**

Mellon Bank, F.S.B., Pittsburgh, Pennsylvania is Trustee and Paying Agent for the Bonds. Principal or redemption price of any Bond is payable upon presentation and surrender of such Bond at the principal office of the Paying Agent. Interest on the Bonds will be paid by check or draft mailed by the Trustee to the registered owner thereof (initially, Cede & Co.).

The Bonds are not subject to redemption prior to July 1, 2007, except as described herein. Thereafter, the Bonds will be subject to redemption prior to maturity as described herein.

---

**Price**  
**(plus accrued interest from July 1, 1997)**

---

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants, interest on each issue of the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person", as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest on the Series 1997-A Bonds is an item of tax preference under Section 57 of the Code and therefore may be subject to the alternative minimum tax imposed on individuals and corporations under the Code; (iii) interest on the Series 1997-B Air Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under Section 57 of the Code but may be subject to the corporate alternative minimum tax on a portion of that interest; and (iv) interest on the Bonds and any profit made on their sale, exchange or other disposition are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. See "TAX EXEMPTION" herein.

The Bonds are offered, subject to prior sale, when, as and if issued by each Authority and accepted by the Underwriters, subject to approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel, and approval of certain legal matters by Baker, Baker & Sweterlitsch, as General Counsel for the Ohio Water Development Authority and Forbes, Fields & Associates, as Special Counsel for the Ohio Water Development Authority, by Forbes, Fields & Associates, as counsel for the Ohio Air Quality Development Authority, and by Calfee, Halter & Griswold LLP, as counsel for the Underwriters, and certain other conditions. Legal matters pertaining to the Company will be passed upon by its counsel. It is expected that delivery of the Bonds will be made in New York, New York on or about August \_\_, 1997.

**Morgan Stanley Dean Witter**

**First Chicago Capital Markets, Inc.**

**Citicorp Securities, Inc.**

**July \_\_, 1997**

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No person has been authorized by the Ohio Water Development Authority, the Ohio Air Quality Development Authority, The Cleveland Electric Illuminating Company or the Underwriters named herein to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of either Authority or the Company since the date hereof.

The information contained herein has been obtained from the Authorities, the Company and the Underwriters. The accuracy or completeness of information furnished by any of those parties is not guaranteed and should not be construed as a representation by the other parties.

Upon issuance, the Bonds will not be registered by the respective Authority under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency will have passed upon the adequacy of this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

	<u>Page</u>
Introductory Statement.....	1
The Authorities .....	3
The Projects .....	4
Use of Proceeds.....	4
The Bonds .....	4
The Loan Agreements.....	11
The Indentures .....	13
The 1997 First Mortgage Bonds and First Mortgage.....	17
Tax Exemption.....	22
Legal Matters .....	23
<b><u>Ratings .....</u></b>	<b><u>24</u></b>
Underwriting .....	24
Special Legal Investment Considerations .....	25
Continuing Disclosure .....	25
Miscellaneous .....	26

Appendix A --	The Cleveland Electric Illuminating Company
Appendix B --	Form of Opinion of Bond Counsel - Water Bonds
Appendix C --	Form of Opinion of Bond Counsel - Series 1997-A Air Bonds
Appendix D --	Form of Opinion of Bond Counsel - Series 1997-B Air Bonds



\$54,600,000  
Ohio Water Development Authority  
State of Ohio  
\_\_\_\_\_% Collateralized Pollution Control  
Revenue Refunding Bonds,  
Series 1997-A (AMT)  
(The Cleveland Electric Illuminating  
Company Project)

\$15,900,000  
Ohio Air Quality Development Authority  
State of Ohio  
\_\_\_\_\_% Collateralized Pollution Control  
Revenue Refunding Bonds,  
Series 1997-A (AMT)  
(The Cleveland Electric Illuminating  
Company Project)

\$62,560,000  
Ohio Air Quality Development Authority  
State of Ohio  
\_\_\_\_\_% Collateralized Pollution Control  
Revenue Refunding Bonds,  
Series 1997-B (Non-AMT)  
(The Cleveland Electric Illuminating Company Project)

---

### INTRODUCTORY STATEMENT

This Official Statement is provided to furnish information in connection with the issuance and sale by the Ohio Water Development Authority (the "Water Authority") of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (AMT) (The Cleveland Electric Illuminating Company Project), in the principal amount of \$54,600,000 (the "Water Bonds"), and by the Ohio Air Quality Development Authority (the "Air Authority") of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (AMT) (The Cleveland Electric Illuminating Company Project), in the principal amount of \$15,900,000 (the "Series 1997-A Air Bonds" and collectively, with the Water Bonds, the "Series 1997-A Bonds") and State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (Non-AMT) (The Cleveland Electric Illuminating Company Project), in the principal amount of \$62,560,000 (the "Series 1997-B Air Bonds" and collectively with the Series 1997-A Air Bonds, the "Air Bonds"). The Water Authority and the Air Authority are referred to herein collectively as the "Authorities" and, where one is intended, as the "Authority", and the Water Bonds and the Air Bonds are referred to herein collectively as the "Bonds". The Water Bonds and each issue of the Air Bonds will be issued pursuant to separate Trust Indentures, each dated as of July 1, 1997 (individually, the "Indenture" and, collectively, the "Indentures"), between the respective Authority and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as Trustee (the "Trustee").

Each Authority will use the proceeds received by it to make a loan (individually, the "Loan", and, collectively, the "Loans") to The Cleveland Electric Illuminating Company (the "Company"), a public utility and corporation organized and existing under the laws of the State of Ohio (the "State"), pursuant to separate Loan Agreements corresponding to each issue of Bonds, dated as of July 1, 1997 (individually, the "Loan Agreement", and, collectively, the "Loan Agreements"), between the respective Authority and the Company to assist the Company in refunding, in the case of the Water Bonds, the outstanding \$54,600,000 State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series A-1 and A-2 (The Cleveland Electric Illuminating Company Project) (the "Prior Perry Water Bonds") previously issued by the Water Authority, and, in the case of the Series 1997-A Air Bonds, the outstanding \$15,900,000

State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series B (The Cleveland Electric Illuminating Company Project) (the "Prior Perry Air Bonds") and in the case of the Series 1997-B Air Bonds, the outstanding \$48,560,000 State of Ohio Collateralized Pollution Control Revenue Bonds, <sup>^</sup> 1979 Series (The Cleveland Electric Illuminating Company Project) and the outstanding \$14,000,000 State of Ohio Collateralized Pollution Control Revenue Bonds, <sup>^</sup> 1976 Series (The Cleveland Electric Illuminating Company Project) (collectively, the "Prior Coal Air Bonds"), all of which were previously issued by the Air Authority.

The proceeds of the Prior Coal Air Bonds were loaned by the Air Authority to the Company to assist the Company in financing the cost of the acquisition, construction and installation of certain air pollution control facilities, as hereinafter described, in connection with various coal-fired facilities in the State (individually, the "Project" and collectively, the "Projects"). The proceeds of the Prior Perry Water Bonds and the Prior Perry Air Bonds were loaned by the respective Authority to the Company to assist the Company in financing its portion of the cost of the acquisition, construction and installation of certain waste water facilities and solid waste facilities and certain air pollution control facilities, respectively, as hereinafter described (individually, the "Project", and, collectively, the "Projects") in connection with the Perry Nuclear Power Plant Unit 1 ("Perry Unit 1") in Lake County, Ohio. That plant is operated by the Company and is owned or leased as tenants-in-common by the Company, The Toledo Edison Company ("Toledo Edison"), Duquesne Light Company ("Duquesne"), Ohio Edison Company ("Ohio Edison") and Pennsylvania Power Company ("Pennsylvania Power") (these five companies comprise the Central Area Power Coordination Group or "CAPCO Group"). The Company and Toledo Edison are wholly owned subsidiaries of Centerior Energy Corporation ("Centerior").

As evidence of, and to secure, its obligations under each of these Loan Agreements to repay the Loans, the Company will issue three series of First Mortgage Bonds (collectively, the "1997 First Mortgage Bonds") under the Mortgage and Deed of Trust, dated July 1, 1940, from the Company to Guaranty Trust Company of New York, as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee (the "First Mortgage Trustee"), as supplemented and modified by supplemental indentures thereto and as to be further supplemented to provide for the issuance of the 1997 First Mortgage Bonds by the Seventy-Fifth Supplemental Indenture dated July 1, 1997 (collectively, the "First Mortgage"). Each of the three series of 1997 First Mortgage Bonds will correspond to the Water Bonds, the Series 1997-A Air Bonds and the Series 1997-B Air Bonds, respectively, as to aggregate principal amount, interest rate, maturity date and redemption provisions. Pursuant to the Indentures and Loan Agreements, each Authority will assign its interests in the 1997 First Mortgage Bonds issued to it, together with payments due under the related Loan Agreement, to the Trustee to secure the payment of that Authority's Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD BE AWARE OF CERTAIN INVESTMENT CONSIDERATIONS IN EVALUATING AN INVESTMENT IN THE BONDS. SEE THE INFORMATION SET FORTH IN APPENDIX A TO THIS OFFICIAL STATEMENT UNDER THE CAPTION "INVESTMENT CONSIDERATIONS".

*The Water Bonds, the Series 1997-A Air Bonds and the Series 1997-B Air Bonds contain substantially the same terms and provisions, but each issue is entirely separate from the other. The Bonds of one issue are not payable from or entitled to the benefit of any of the revenues or receipts pledged in respect of the Bonds of the other issues. Redemption of the Bonds of one issue may be made in the manner described herein without redemption of the other issues, and a*

*default in respect of one issue will not in and of itself constitute a default in respect of other issues; however, the same event may result in a default with respect to all three issues. Except as otherwise noted, and except for the fact that each of the Loan Agreements and the Indentures and the rights and obligations thereunder relate to separate series of 1997 First Mortgage Bonds and that the rights of the Authorities under the respective Loan Agreements have been separately assigned to the Trustee pursuant to the related Indentures, the provisions of the Loan Agreements and the Indentures are substantially the same. References to the Loan Agreements, the Bonds, the Indentures, the Projects, the 1997 First Mortgage Bonds and other defined terms are to such instruments and terms relating to each of the three separate issues of Bonds.*

Brief descriptions of the Authorities, the Projects, the Bonds, the Loan Agreements, the Indentures, the 1997 First Mortgage Bonds and the First Mortgage are included in this Official Statement. Information regarding the business and financial condition of the Company has been furnished by the Company and is included in or incorporated by reference into Appendix A attached hereto. Certain information relating to The Depository Trust Company ("DTC") has been furnished by DTC. The descriptions herein of the Loan Agreements, the Indentures and the First Mortgage do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents. The descriptions herein of the Bonds and the 1997 First Mortgage Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights.

## **THE AUTHORITIES**

### **The Water Authority**

The Water Authority is a body politic and corporate, organized and existing under the laws of the State, including Chapters 6121 and 6123, Ohio Revised Code, as amended (the "Water Act"). Pursuant to the Water Act, the Water Authority is authorized to issue the Water Bonds and to loan the proceeds thereof to the Company for the purpose of refunding the Prior Water Bonds which were issued for the purpose of assisting in financing the Company's portion of the costs of acquiring, constructing and installing the Water Project (as defined below) and to secure the Water Bonds by an assignment to the Trustee of the payments on the related series of 1997 First Mortgage Bonds and under the Loan Agreement. To accomplish such actions, the Water Authority is authorized to enter into the Indenture and the Loan Agreement.

### **The Air Authority**

The Air Authority is a body politic and corporate, organized and existing under the laws of the State, including Chapter 3706, Ohio Revised Code, as amended (the "Air Act"). Pursuant to the Air Act, the Air Authority is authorized to issue the Air Bonds and to loan the proceeds thereof to the Company for the purpose of refunding the Prior Air Bonds which were issued for the purpose of assisting in financing the Company's portion of the costs of acquiring, constructing and installing the Air Project (as defined below) and to secure the Air Bonds by an assignment to the Trustee of the payments on the related series of 1997 First Mortgage Bonds and under the Loan Agreement. To accomplish such actions, the Air Authority is authorized to enter into the Indenture and the Loan Agreement.

## THE PROJECTS

### The Water Project

The Project which was financed with the proceeds of the Prior Water Bonds (the "Water Project") consists of various systems which are designed for the abatement and control of water pollution and the treatment and disposal of sewage and solid wastes resulting from the operation of Perry Unit 1.

### The Air Projects

The Project which was financed with the proceeds of the Prior Perry Air Bonds (the "Perry Air Project") consists of various systems which are designed for the abatement and control of air pollution resulting from the operation of Perry Unit 1.

The Projects which were financed with the proceeds of the Prior Coal Air Bonds (collectively, the "Coal Air Project") consists of various systems which are designed for the abatement and control of air pollution resulting from the operation of the Avon Lake Power Plant in Lorain County, Ohio; the Eastlake Power Plant in Lake County, Ohio; the Ashtabula Power Plants in Ashtabula County, Ohio; and the Canal Road Steam Heating Plant in Cuyahoga County, Ohio.

## USE OF PROCEEDS

All of the proceeds of the Water Bonds will be used, together with funds provided by the Company, to refund within 90 days of the date of issuance of the Water Bonds all of the outstanding Prior Water Bonds which were issued to finance the Water Project. All of the proceeds of the Series 1997-A Air Bonds will be used, together with funds provided by the Company, to refund within 90 days of the date of the issuance of the Series 1997-A Air Bonds, all of the outstanding Prior Perry Air Bonds which were used to finance the Perry Air Project.

All of the proceeds of the Series 1997 B Air Bonds will be used, together with funds provided by the Company, to refund within 90 days of the date of the issuance of the Series 1997-B Air Bonds, all of the outstanding Prior Coal Air Bonds which were used to finance the Coal Air Project.

## THE BONDS

*Each issue of the Bonds is an entirely separate issue and is issued under a separate Indenture, although each Indenture contains substantially the same terms and provisions, except as otherwise described below. The occurrence of an event of default with respect to one issue of the Bonds will not, in and of itself, constitute an event of default with respect to the other issues of the Bonds. Redemption of one issue of the Bonds may be made in the manner described below without the redemption of the Bonds of the other issues. Reference is made to each Indenture and the form of the Bonds included therein for the detailed provisions of the Bonds.*

## **General**

The Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement and will be dated as of July 1, 1997. The Bonds will mature on July 1, 2020, and are subject to redemption prior to maturity as set forth herein. The Bonds will bear interest at the rate per annum set forth on the cover page of this Official Statement from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from July 1, 1997. Interest on the Bonds will be payable on January 1 and July 1, commencing January 1, 1998 (the "Interest Payment Dates"). Principal and any premium will be payable in clearinghouse funds upon presentation and surrender of the Bonds at the principal office of any Paying Agent designated under the Indenture (the "Paying Agent"). The Trustee has been designated as the Paying Agent.

Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be paid in clearinghouse funds. So long as the Bonds are in book entry form, all such payments of interest will be made to DTC (or any successor securities depository) or its nominee. See "THE BONDS -- Book Entry System" herein.

In the event the book entry system is discontinued and the Bonds are issued in registered form, interest will be paid by check mailed to the person who is the owner of record on the 15th day of the month preceding the Interest Payment Date. At the written election of an owner who holds an aggregate principal amount of Bonds of \$1,000,000 or more and which written election is delivered to the Paying Agent prior to the record date (the fifteenth day of the calendar month immediately preceding the calendar month in which an Interest Payment Date occurs) for which such election will be effective, interest will be paid by wire transfer. Bonds will be issued in denominations of \$5,000 and integral multiples thereof.

### **Source of Payment and Security for the Bonds**

The Bonds will be payable, except to the extent paid out of moneys attributable to the proceeds of the Bonds and certain other moneys pledged therefor, solely from and secured by the pledge and assignment by the Authority to the Trustee of payments to be made in respect of the 1997 First Mortgage Bonds. See "THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE" herein.

The Project does not constitute any part of the security for the Bonds, except to the extent that the Project, as property of the Company, will be subject to the lien of the First Mortgage and as a consequence will, together with substantially all of the other property of the Company, secure the 1997 First Mortgage Bonds ratably with all other bonds issued and to be issued under the First Mortgage (collectively, the "First Mortgage Bonds").

The Bonds will be special obligations of the State and will not constitute a debt or pledge of the faith and credit of the Authority or the State or of any political subdivision thereof, and the owners of Bonds will have no right to have taxes levied by the General Assembly of the State or by the taxing authority of any political subdivision of the State for the payment of the principal thereof or interest or any premium thereon.

## Redemption Provisions

The Bonds are subject to redemption prior to maturity as described below. In the event of any redemption of the Bonds, there will be a corresponding redemption of the 1997 First Mortgage Bonds.

**Optional Redemption.** The Bonds will not be subject to optional redemption prior to July 1, 2007. The Bonds are redeemable by the Authority, at the direction of the Company, on or after July 1, 2007, in whole on any date or in part on any Interest Payment Date, at the redemption prices plus accrued and unpaid interest, if any, to the redemption date as follows:

<u>Redemption Periods</u> <u>(dates inclusive)</u>	<u>Redemption Price</u> <u>(Expressed as a Percentage of the</u> <u>Principal Amount Being Redeemed)</u>
July 1, 2007 through June 30, 2008	102%
July 1, 2008 through June 30, 2009	101
July 1, 2009 and thereafter	100

**Extraordinary Optional Redemption.** The Bonds are subject to redemption by the Authority, in whole or in part on any date, at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date, upon the exercise by the Company of its option to prepay the Loan under the Loan Agreement upon the occurrence of any of the following events:

(a) The Project or any system included therein (each such system, a "System") or the production facility being served thereby is damaged or destroyed to such an extent that (i) it cannot reasonably be expected to be restored within a period of six consecutive months to its condition immediately preceding such damage or destruction or (ii) the Company is reasonably expected to be prevented from carrying on its normal operations in connection therewith for a period of six consecutive months;

(b) Title to, or the temporary use of, all or a significant part of the Project, any System or the production facility being served thereby is taken by eminent domain to such an extent that (i) it cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness to the Company comparable to that existing prior to such taking or (ii) the Company is reasonably expected to be prevented from carrying on its normal use and operations in connection therewith for a period of six consecutive months;

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States, or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Authority or the Company in good faith, the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement;

(d) Unreasonable burdens or excessive liabilities are imposed upon the Authority or the Company with respect to the Project, any System or the production facility being served thereby, including but not limited to the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied

upon privately owned property used for the same purpose as the Project, that System or the production facility being served thereby;

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies, or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or any System for the purposes permitted by the Act or necessary for the operation of the production facility served thereby or such technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render the Project, that System or the production facility being served thereby uneconomic or obsolete for such purposes;

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project or any System to the extent that the Company is or will be prevented from carrying on its normal operations at the production facility being served by the Project or that System for a period of six consecutive months; or

(g) The termination by the Company of operations at the production facility being served by the Project.

To the extent one or more of the foregoing conditions affects fewer than all of the Systems comprising the Project, the Company may exercise its option to direct the redemption of Bonds only in an amount not in excess of the percentage of the outstanding principal amount of Bonds equal to the percentage of the proceeds of the Prior Bonds (rounded to the nearest one-tenth of one percentage point) used to acquire, construct or install the affected Systems.

**Mandatory Redemption Due to Determination of Taxability.** The Bonds will be subject to mandatory redemption at 100% of the principal amount thereof plus accrued and unpaid interest to the redemption date at the earliest practicable date selected by the Trustee, after consultation with the Company, but in any event no later than 180 days following the Trustee's notification of a Determination of Taxability, as defined below. Such redemption will be either in whole or in part, if in the Opinion of Bond Counsel (as defined in the Indenture) the Determination of Taxability will not apply to Bonds remaining outstanding after such partial redemption. A "Determination of Taxability" means a final decision, ruling or technical advice by any federal judicial or administrative authority to the effect that, as a result of a failure by the Company to observe or perform any covenant, agreement or obligation on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation made by the Company in the Loan Agreement, interest on any Bond is or was includable in the gross income of the owner of that Bond for federal income tax purposes, other than an owner who is a "substantial user" of the Project or a "related person" as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); provided that no decision by any court or decision, ruling or technical advice by any administrative authority will be considered final (a) unless the owner involved in the proceeding or action giving rise to such decision, ruling or technical advice (i) gives the Company and the Trustee prompt notice of the commencement thereof and (ii) offers the Company the opportunity to control the contest thereof, provided that the Company shall have agreed to bear all expenses in connection therewith and to indemnify that owner against all liabilities in connection therewith, and (b) until the expiration of all periods for judicial review or appeal. A Determination of Taxability will not result from the inclusion of interest on any Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code

or the tax imposed on excess net passive income of certain S corporations under Section 1375 of the Code. IF THE INDENTURE IS RELEASED AS DESCRIBED BELOW UNDER "THE INDENTURES -- DISCHARGE OF INDENTURE" PRIOR TO THE OCCURRENCE OF A DETERMINATION OF TAXABILITY, THE BONDS WILL NOT BE REDEEMED AS DESCRIBED IN THIS PARAGRAPH.

**Procedure for and Notice of Redemption.** If fewer than all of the Bonds are called for redemption, the selection of Bonds to be redeemed, or portions thereof in amounts equal to the lowest authorized denomination or integral multiples thereof, will be made by the Trustee by lot in any manner which the Trustee may determine. When Bonds are outstanding in denominations greater than the lowest authorized denomination, each unit of face value equal to the lowest authorized denomination will be treated as though it were a separate Bond. Any Bonds and portions thereof selected for redemption which are deemed to be paid in accordance with the provisions of the Indenture will cease to bear interest on the date fixed for redemption. Payment of the redemption price will be made to owners upon presentation and surrender of redeemed Bonds at the place of payment. Notice of redemption will be mailed by the Trustee by first-class mail at least 30 days but no more than 90 days prior to the date fixed for redemption to the owners of the Bonds to be redeemed; provided, however, that failure to receive such notice by mail, or any defect therein, will not affect the validity of the proceedings for the redemption of any Bond.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to Cede & Co., and delivery of notices of redemption to the Direct Participants, if any, will be solely the responsibility of DTC.

#### **Exchange, Transfer or Replacement of Bonds**

Bonds may be exchanged or transferred at the principal office of the Trustee, as bond registrar (the "Bond Registrar"). See "THE BONDS -- Revision of Book Entry System; Replacement Bonds" herein.

If any Bond is mutilated, lost, stolen or destroyed, in the absence of written notice to the Authority or the Registrar that a lost, wrongfully taken or destroyed Bond has been acquired by a bona fide purchaser, the Authority will execute and the Bond Registrar will authenticate and deliver a new Bond; provided, however, that the Authority, the Company, the Trustee and the Bond Registrar may require satisfactory indemnification prior to authenticating a new Bond and satisfactory evidence of the ownership and the loss, theft or destruction of the affected Bond. The expense of issuing a substitute Bond in place of a mutilated, lost, stolen or destroyed Bond will be borne by the registered owner.

#### **Book Entry System**

*Portions of the following information concerning DTC and DTC's book entry system have been obtained from DTC. The Authorities, the Company, the Trustee and the Underwriters make no representation as to the accuracy or completeness of such information.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond will be issued for each series of the Bonds in the aggregate principal amount of such issue of the Bonds, and will be deposited with DTC.



DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds of an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those

Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authorities, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authorities or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the applicable Authority or the Trustee. Under such circumstances, in the event a successor securities depository is not obtained, bond certificates are required to be printed and delivered. The Authority, pursuant to a request by the Company for the removal or replacement of the securities depository, and upon 30 days' notice to the securities depository and the Trustee, shall remove or replace the securities depository, as applicable. In the event that the book entry system is discontinued, bond certificates will be printed and delivered. The holders of the Bonds have no right to either a book entry system or a securities depository for the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indentures, payments made by the Trustee to DTC or its nominee will satisfy the Authorities' obligations under the respective Indentures and the Company's obligations under the 1997 First Mortgage Bonds, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Authorities or the Trustee to be, and will not have any rights as, holders of Bonds under the Indentures.

THE AUTHORITIES, THE COMPANY, THE UNDERWRITERS AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR ANY PREMIUM ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

The Authorities, the Company, the Trustee and the Underwriters cannot and do not give any assurances that DTC will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

### **Revision of Book Entry System; Replacement Bonds**

In the event that DTC determines not to continue as securities depository or is removed by the Authority as securities depository, the Authority, at the direction of the Company, may appoint a successor securities depository. If the Authority does not or is unable to appoint a successor securities depository, the Authority will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or its nominee. If the event is not the result of Authority action or inaction (including action at the request of the Company), such authentication and delivery will be at the cost and expense (including costs of printing or otherwise preparing and delivering such replacement Bonds) of those persons requesting that authentication and delivery.

In the event that the book entry system is discontinued, the principal of and interest and any premium on the Bonds will be payable in the manner described above under "THE BONDS - General" and the following provisions will apply: Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the designated office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Trustee, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Authority and the Trustee will not be required to transfer or exchange (i) any Bond during the 15 days preceding the mailing of any notice of redemption of any Bonds called for redemption or (ii) any Bonds selected, called or being called for redemption. Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Authority and the Trustee may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### **THE LOAN AGREEMENTS**

*The Loan Agreement relating to an issue of the Bonds is separate from and will operate independently of the other Loan Agreements, and the occurrence of an event of default under one Loan Agreement will not, in and of itself, constitute an event of default under the other Loan Agreements. The Loan Agreements contain substantially the same terms and provisions. Reference is made to each Loan Agreement for the detailed provisions thereof.*

#### **The Loan**

In the Loan Agreement, the Authority agrees to issue the Bonds and to lend the proceeds thereof to the Company to pay a portion of the costs of refunding the Prior Bonds. As evidence of its obligation to repay the Loan, the Company will issue to the Authority the Company's 1997 First Mortgage Bonds equal in principal amount to the principal amount of the Bonds. Pursuant to the Indenture and the Loan Agreement, the Authority will assign its interests in the 1997 First Mortgage Bonds to the Trustee. Under the 1997 First Mortgage Bonds, the Company will be obligated to make payments to the Trustee equal to the amount of principal of and any premium

and interest due on the Bonds on each Interest Payment Date, redemption date and maturity date in respect of the Bonds.

### **Maintenance and Modification**

During the term of the Loan Agreement, the Company will keep and maintain the Project in good repair and good operating condition so that the Project will continue to constitute a waste water, solid waste, or air pollution control facility for the purpose of the operation thereof.

Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

### **Tax Exemption**

The Company will covenant and represent in the Loan Agreement that it has taken and caused to be taken and will take and cause to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

### **Events of Default and Remedies**

Each of the following will constitute an event of default under the Loan Agreement:

(a) the occurrence of an "Event of Default" described in clause (a) or (b) under "THE INDENTURES -- Events of Default" below; or

(b) failure by the Company to observe and perform any agreement, term or condition contained in the Loan Agreement, other than an occurrence which has resulted in an event of default described in (a) above or relating to the operation and maintenance of the Project, which continues for a period of 60 days after written notice by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided that, any such failure shall not constitute an event of default so long as the Company institutes curative action within the applicable period and is diligently pursuing that action to completion; or

(c) the occurrence of an "event of default" under the First Mortgage, including those described under "1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE -- Remedies in the Event of Default" below.

A failure by the Company described in paragraph (b) above is not an event of default if it occurs by reason of events beyond the control of the Company. If any event of default under the Loan Agreement occurs and is subsisting, the Trustee or the Authority may have access to the books, records, accounts and financial data of the Company pertaining to the Project and may pursue any remedies at law or in equity to recover all amounts due and thereafter to become due under the Loan Agreement or to enforce the performance and observance of any other obligation or agreement of the Company thereunder.

## **Amendments to the Loan Agreement**

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the owners of the Bonds only as may be required (i) by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission therein, (iii) in connection with an amendment of the Indenture not requiring the consent of owners, or (iv) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Bonds. The Loan Agreement may be amended, but only with the consent of the owners of all of the outstanding Bonds, to change the amount or time as of which loan payments under the Loan Agreement are required to be made or the requirements for amendment of the Loan Agreement. Any other amendments to the Loan Agreement may be made only with the written approval or consent of the owners of not less than a majority in aggregate principal amount of the Bonds outstanding.

## **THE INDENTURES**

*Each Indenture is separate from and will operate independently of the other Indentures, and the occurrence of an event of default under one Indenture will not, in and of itself, constitute an event of default under the other Indentures. The Indentures contain substantially the same terms and provisions. Reference is made to each Indenture for the detailed provisions thereof.*

### **Terms of the Bonds**

The Bonds will be issued under the provisions of the Indenture and will have the terms set forth in the Indenture. See "THE BONDS" herein.

### **Assignment**

Pursuant to the Indenture, the Authority will absolutely and irrevocably assign to the Trustee, to secure the payment of the principal of and premium, if any, and interest on the Bonds, all right, title and interest of the Authority in and to (i) the Revenues (as defined in the Indenture), (ii) the Loan Agreement (except for certain expense reimbursement, indemnification and other rights) and (iii) the 1997 First Mortgage Bonds. Revenues consist generally of all payments made in respect of the 1997 First Mortgage Bonds, all moneys and investments in the Bond Fund created under the Indenture (the "Bond Fund") and all income and profit from the investment of the foregoing moneys.

### **Application of Proceeds**

Concurrently with the delivery of the Bonds, the Trustee will deliver, or cause to be delivered, the proceeds from the sale of the Bonds, other than accrued interest, to Mellon Bank, F.S.B., as escrow trustee (the "Escrow Trustee"), pursuant to an Escrow Agreement, to be dated as of July 1, 1997, between the Company and the Escrow Trustee.

Under the Escrow Agreement, the Escrow Trustee will apply such proceeds held thereunder, together with moneys provided by the Company, to refund the Prior Bonds within 90 days of the date of issuance of the Bonds.

## **Application of the Bond Fund**

There will be deposited in the Bond Fund any accrued interest, all payments made in respect of payment of principal of, premium, if any, or interest on the Bonds derived under the 1997 First Mortgage Bonds and all other Revenues not required to be deposited with the Escrow Trustee. While the Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal or redemption price of and interest on the Bonds as they mature or become due. Any amounts remaining in the Bond Fund after payment in full of the principal or redemption price of and interest on the Bonds (or provision for the payment thereof) shall be paid to the Company.

## **Investment of Funds**

Moneys in the Bond Fund will be invested and reinvested by the Trustee at the direction of the Company in Eligible Investments, as defined in the Indenture.

## **Events of Default**

Each of the following will constitute an "Event of Default" under the Indenture:

- (a) failure to pay interest on any Bond when the same becomes due and payable and for a period of 30 days thereafter;
- (b) failure to pay the principal or redemption price of any Bond when the same becomes due and payable, whether at stated maturity, by redemption, by acceleration or otherwise;
- (c) failure by the Authority to observe or perform any covenant, agreement or obligation contained in the Bonds or the Indenture (other than a failure described in clause (a) or (b) above), which failure shall continue for a period of 60 days after written notice given to the Authority and the Company by the Trustee, which notice may be given in the discretion of the Trustee and shall be given at the written request of the owners of not less than 25% in principal amount of Bonds then outstanding; or
- (d) the occurrence and continuance of an "event of default" as defined in the Loan Agreement.

## **Remedies**

Upon the occurrence and continuation of an Event of Default described in clause (a), (b) or (d) above, the Trustee may, and upon the written request of the owners of not less than 25% in aggregate principal amount of Bonds then outstanding, the Trustee shall, by written notice to the Company and the Authority, declare the principal of all Bonds then outstanding and the interest accrued thereon to be immediately due and payable, whereupon they will become and be immediately due and payable, and the Trustee will immediately exercise such rights as it may have as holder of 1997 First Mortgage Bonds for the benefit of the registered owners of the Bonds. The Trustee will give notice of such declaration by mail to the owners of the Bonds as shown by the register maintained for registration of the Bonds at the close of business 15 days prior to the mailing of such notice.

The provisions described in the preceding paragraph are subject to the condition that if, after the Bonds shall have been so declared to be due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter described, and prior to the First Mortgage Trustee mailing a firm, valid and unconditional notice of the redemption or acceleration of all of the First Mortgage Bonds of the Company, there shall be paid, or there shall be deposited with the Trustee a sum sufficient to pay, all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration and certain other amounts payable under the Indenture, and all Events of Default under the Indenture other than nonpayment of the principal of Bonds which shall have become due by reason of said declaration shall have been remedied, then, in every such case, such Event of Default will be automatically waived and such declaration and its consequences rescinded and annulled, and the Trustee will promptly give written notice of such waiver, rescission and annulment to the Authority and the Company and will mail notice thereof to owners of the Bonds as shown upon the books kept and maintained by the Bond Registrar for the registration and transfer of the Bonds at the close of business 15 days prior to the mailing of such notice.

The provisions described in the preceding paragraph are subject to the condition that (i) if, at or prior to the time any such waiver, rescission and annulment would otherwise take effect, all First Mortgage Bonds have been declared to be due and payable by the First Mortgage Trustee, such waiver, rescission and annulment will not occur or take effect unless and until such declaration is rescinded under the First Mortgage and (ii) if, after the time such waiver, rescission and annulment takes effect, all First Mortgage Bonds are declared to be due and payable by reason of one or more events of default under the First Mortgage, any of which is based on the same facts which in whole or in part constituted the Event of Default upon which the declaration of acceleration under the Indenture is based, such waiver, rescission and annulment will automatically be revoked upon such declaration under the First Mortgage and will not be reinstated unless and until the declaration under the First Mortgage is rescinded thereunder. Any such declaration may also be limited by applicable bankruptcy or similar laws. No waiver, rescission and annulment will affect any subsequent Event of Default or impair any rights consequent thereon.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may pursue any available remedy to enforce the rights of the owners of the Bonds and require the Authority or the Company to carry out its agreements or obligations. If, upon the occurrence and continuance of an Event of Default, the Trustee is requested to do so by the owners of at least 25% in aggregate principal amount of Bonds outstanding, the Trustee (subject to the provisions of the Indenture) is required to exercise any rights and powers conferred by the Indenture. The owners of a majority in aggregate principal amount of Bonds then outstanding will have the right, subject to certain provisions of the Indenture, to direct the time, method and place of conducting all remedial proceedings under the Indenture or exercising any trust or power conferred on the Trustee.

All moneys received by the Trustee pursuant to any remedial action will be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such moneys, and the balance of such moneys will be deposited in the Bond Fund and applied to the payment of principal of and interest on the Bonds in the manner and in the order of priority set forth in the Indenture.

## **Supplemental Indentures**

The Authority and the Trustee may enter into supplemental indentures, without the consent of or notice to any of the owners of the Bonds, for certain purposes specified in the Indenture which will not, in the opinion of the Authority and the Trustee, be inconsistent with the terms and provisions of the Indenture. Supplemental indentures for any other purpose require the consent of the owners of not less than a majority in aggregate principal amount of the Bonds then outstanding, provided that: (i) without the consent of the owner of each Bond affected, no supplemental indenture may permit an extension of the maturity of the principal of or the date for the payment of the interest on any Bond, a reduction in the principal amount of any Bond or the rate of interest on any Bond and (ii) without the consent of the owners of all Bonds then outstanding, no supplemental indenture may permit a privilege or priority of any Bond over any other Bond or a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture. Any supplemental indenture which affects any rights of the Company will not become effective without the consent of the Company.

## **Discharge of Indenture**

The Indenture will be discharged if (a) the Authority pays or causes to be paid and discharged all the outstanding Bonds, or there is otherwise paid to the owners of the outstanding Bonds all the principal of or interest due or to become due thereon and (b) provision is made for paying all other amounts payable under the Indenture, the 1997 First Mortgage Bonds and the Loan Agreement.

All the outstanding Bonds will be deemed to have been paid and discharged if the Trustee has received (a) sufficient moneys or (b) noncallable Government Obligations (as defined in the Indenture) certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, be sufficient together with any moneys received by the Trustee in trust for and irrevocably committed thereto, for the payment of all the principal of and interest and any premium on the Bonds at their maturity or redemption dates, or, if a default in payment shall have occurred on any maturity or redemption date, then for the payment of all principal of and interest and any premium thereon to the date of the tender of payment.

## **The Trustee**

Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, is the Trustee. The Trustee may resign by giving written notice of its resignation as provided in the Indenture. The resignation will take effect only upon the appointment of a successor trustee. The holders of a majority of the then outstanding principal amount of the Bonds may remove the Trustee. The Trustee may also be removed for any breach of trust or for acting or proceeding in violation of, or for failing to perform its duties and obligations under the Indenture by a court of competent jurisdiction upon the application of the Authority or the holders of at least 25% of the then outstanding principal amount of the Bonds. The Authority with the consent of the Company may appoint a successor trustee. Any successor trustee must be a trust company or a bank having the powers of a trust company, be duly authorized to accept the trust under the Indenture, be willing to accept the trusteeship under the terms and conditions of the Indenture and have a combined capital and surplus of at least \$25,000,000 or be guaranteed pursuant to Ohio law by a bank or trust company with a reported capital and surplus of at least \$25,000,000.



## **No Personal Liability of Authority's Officials**

No agreement of the Authority contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Authority in other than his or her official capacity. No official of the Authority executing the Bonds will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

## **THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE**

*The following summarizes certain provisions of the 1997 First Mortgage Bonds and the First Mortgage, to which reference is made for the detailed provisions thereof. The statements made herein concerning the 1997 First Mortgage Bonds and the First Mortgage are an outline and do not purport to be complete. Such statements make use of defined terms and are qualified in their entirety by express reference to the definitions in the appropriate sections and articles of the First Mortgage.*

### **General**

All payments by the Company of principal of and premium, if any, and interest on the 1997 First Mortgage Bonds in repayment of the Loan will be made to the Trustee, as assignee of the Authority, on or before the opening of business on the date that the corresponding payment is required to be made under the Bonds. The 1997 First Mortgage Bonds will mature on the date and bear interest, payable at the same times and at the same rate, as the Bonds. Dates and amounts of the payments of principal, whether at maturity or upon redemption, on the 1997 First Mortgage Bonds will correspond to those applicable to the Bonds. Upon the acceleration of the Bonds, the Trustee is empowered to cause the mandatory redemption of the outstanding 1997 First Mortgage Bonds. The Seventy-Fifth Supplemental Indenture creating the 1997 First Mortgage Bonds contains provisions for redemption of the 1997 First Mortgage Bonds which are consistent with those described above with respect to the Bonds. The Articles cited below refer to Articles of the First Mortgage.

### **Security**

The 1997 First Mortgage Bonds and all First Mortgage Bonds of other series currently outstanding and hereafter issued under the First Mortgage will, in the opinion of counsel for the Company, be secured equally and ratably (except as to any sinking or analogous fund established for the First Mortgage Bonds of any particular series) by a valid and perfected first lien, subject only to certain permitted liens and other encumbrances, on substantially all the property owned and franchises held by the Company, except the following: (a) cash, receivables and contracts not pledged or required to be pledged under the First Mortgage and leases in which the Company is lessor; (b) securities not specifically pledged or required to be pledged under the First Mortgage; (c) property held for consumption in operation or in advance of use for fixed capital purposes or for resale or lease to customers; (d) electric energy and other materials or products produced or purchased by the Company for sale, distribution or use in the ordinary conduct of its business; and (e) all the property of any other corporation which may now or hereafter be wholly or substantially wholly owned by the Company. (Clauses preceding Article I) All property acquired by the Company after June 30, 1940, other than the property excepted from the lien of the First Mortgage, becomes subject to the lien thereof upon acquisition. (Article I and granting and other clauses preceding Article I) Under certain conditions, the First Mortgage permits the Company to acquire property subject to a lien prior to the lien of the First Mortgage. (Article IV)

Property subject to the lien of the First Mortgage will be released from the lien upon the sale or transfer of such property if the Company deposits the fair value of the property with the First Mortgage Trustee and meets certain other conditions specified in the First Mortgage. (Article VII) Moneys received by the First Mortgage Trustee for the release of property will, under certain circumstances, be applied to redeem outstanding First Mortgage Bonds, be applied to satisfy other obligations of the Company or be paid over to the Company from time to time based upon property additions or refundable First Mortgage Bonds. (Article VIII)

In the Nineteenth Supplemental Indenture, the First Mortgage was modified to permit the Company without the vote or consent of the holders of any First Mortgage Bonds issued after November, 1976 (a) to exclude nuclear fuel from the lien of the First Mortgage to the extent not excluded therefrom by its existing provisions and (b) to revise the definition of property additions which can constitute bondable property to include facilities outside the State even though they are not physically connected with property of the Company in the State and to clarify its general scope.

### **Title to Property**

The generating plants and other principal facilities of the Company are owned by the Company, except as follows:

(a) The Company and Toledo Edison jointly lease from others for a term of about 29-1/2 years starting on October 1, 1987 undivided 6.5%, 45.9% and 44.38% tenant-in-common interests in Units 1, 2 and 3, respectively, of the Bruce Mansfield Generating Plant (the "Mansfield Plant") and also jointly lease from others for the same term an 18.26% undivided tenant-in-common interest in Beaver Valley Power Station Unit 2 ("Beaver Valley Unit 2"), all located in Shippingport, Pennsylvania. The Company owns another 24.47% interest in Beaver Valley Unit 2 as a tenant-in-common.

(b) Most of the Lake Shore Plant ("Lake Shore") facilities are situated on artificially filled land, extending beyond the natural shoreline of Lake Erie as it existed in 1910. As of December 31, 1996, the cost of the Company's facilities, other than water intake and discharge facilities, located on such artificially filled land aggregated \$97,081,000.

Title to land under the water of Lake Erie within the territorial limits of the State (including artificially filled land) is in the State in trust for the people of the State for the public uses to which it may be adapted, subject to the powers of the United States, the public rights of navigation, water commerce and fishery and the rights of upland owners to wharf out or fill to make use of the water. The State is required by statute, after appropriate proceedings, to grant a lease to an upland owner, such as the Company, which erected and maintained facilities on such filled land prior to October 13, 1955. The Company does not have such a lease from the State with respect to the artificially filled land on which its Lake Shore facilities are located, but the Company's position, on advice of counsel for the Company, is that the Lake Shore facilities and occupancy may not be disturbed because they do not interfere with the free flow of commerce in navigable channels and also constitute, at least in part, and are on land filled pursuant to, the exercise by it of its property rights as owner of the land above the shoreline adjacent to the filled land. The Company does hold permits, under federal statutes relating to navigation, to occupy such artificially filled land.

(c) The facilities at the pumped-storage hydroelectric Seneca Power Plant in Pennsylvania ("Seneca") are located on land owned by the United States and occupied by the Company and Pennsylvania Electric Company pursuant to a license issued by the Federal Energy Regulatory Commission for a 50-year period starting December 1, 1965 for the construction, operation and maintenance of a pumped-storage hydroelectric plant.

(d) The water intake and discharge facilities at the electric generating plants located along Lake Erie and the Ohio River are extended into the lake and river under the Company's property rights as owner of the land above the water line and pursuant to permits under federal statutes relating to navigation.

(e) The transmission system is located on land, easements or rights-of-way owned by the Company. The distribution system also is located, in part, on land owned by the Company, but, for the most part, it is located on lands owned by others and on streets and highways. In most cases, the Company has obtained permission from the apparent owner, or, if located on streets and highways, from the apparent owner of the abutting property. The electric underground transmission and distribution systems are located for the most part in public streets. The Pennsylvania portions of the main transmission lines from Seneca, the Mansfield Plant and Beaver Valley Unit 2 are not owned by the Company.

The fee title which the Company has as a tenant-in-common owner, and the leasehold interests it has as a joint lessee, of certain generating units do not include the right to require a partition or sale for division of proceeds of the units without the concurrence of all the other owners and their respective mortgage trustees and the First Mortgage Trustee.

#### **Issuance of Additional First Mortgage Bonds**

In addition to the \$3,230,000,000 principal amount of First Mortgage Bonds outstanding at June 30, 1997 (which includes \$140,400,000 principal amount of First Mortgage Bonds pledged to secure the Company's obligations to various bank creditors), and the principal amount of the 1997 First Mortgage Bonds, additional First Mortgage Bonds may be issued under Article III of the First Mortgage, ranking equally and ratably with such outstanding First Mortgage Bonds and the 1997 First Mortgage Bonds and without limit as to amount, on the basis of: (a) 70% of bondable property (as described under "1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE -- Security") not previously used as the basis for issuance of First Mortgage Bonds or applied for some other purpose under the First Mortgage; (b) the deposit of cash (which may be withdrawn thereafter on the basis of bondable property or refundable First Mortgage Bonds); and (c) substitution for refundable First Mortgage Bonds. First Mortgage Bonds become refundable First Mortgage Bonds when they are paid upon maturity, redemption or purchase out of money deposited with the First Mortgage Trustee for such payment or when money for such payment is irrevocably deposited with the First Mortgage Trustee. (Articles I, III and VIII) In general, all property subject to the lien of the First Mortgage which is used or useful in the Company's electric business (including property not located in the State if it is physically connected with property of the Company in the State, either directly or through other property of the Company), which is not subject to an unfunded prior lien and as to which the Company has good title and corporate power to own and operate, is bondable property and as such is available as a basis for the issuance of First Mortgage Bonds. (Article I) The facilities of the Company on the artificially filled land at Lake Shore will become bondable property only when the Company acquires, under conditions specified in the First Mortgage, either good title to such land or the right to occupy it; and the facilities of the Company on the land at Seneca are not now bondable property. See "1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE -- Title to

Property". The tenant-in-common interests owned by the Company in certain generating units qualify as bondable property, except that its interest in property located in Pennsylvania, including Beaver Valley Unit 2, does not qualify because it is located outside the State and is not physically connected with property of the Company in the State. (Article I) With certain exceptions, property which the Company leases from others is not bondable property. (Articles I and III)

Also, with certain exceptions, in order to issue additional First Mortgage Bonds based on bondable property, net earnings of the Company available for interest and property retirement appropriations for any 12 consecutive months within the 15 calendar months immediately preceding the month in which application for authentication and delivery of such additional First Mortgage Bonds is made must be at least twice the annual interest charges on all First Mortgage Bonds outstanding and on the issue applied for. (Article III)

At June 30, 1997, the Company would not have been permitted to issue a material amount of additional First Mortgage Bonds in addition to required reserves and refinancings. The amount of additional First Mortgage Bonds which may be issued will fluctuate depending upon the amount of available refundable First Mortgage Bonds, available bondable property, earnings and interest rates. FirstEnergy [define] has not decided whether to apply, or push down, the effects of purchase accounting to the financial statements of the Companies if the CEC-OE Merger is completed. If such push-down accounting is applied, Cleveland Electric's available bondable property would be reduced to below zero.

#### **Covenant to Charge Earnings Not Applicable to the 1997 First Mortgage Bonds**

The supplemental indentures applicable to First Mortgage Bonds issued prior to 1974 contain a covenant to the effect that, so long as any of those First Mortgage Bonds remain outstanding (which will be until November 15, 2005, assuming no prior redemption), the Company will charge against earnings, and credit to reserves for depreciation and retirement of property, an amount not less than 15% of gross operating revenues for each year (after deducting the costs of purchased power and net electric energy received on interchange), less the amounts expended for maintenance and repairs during the year. The Seventy-Fifth Supplemental Indenture will not extend such covenant to the 1997 First Mortgage Bonds.

#### **Remedies in the Event of Default**

Events of default under the First Mortgage include the failure of the Company (a) to pay the principal of or premium, if any, on any First Mortgage Bond when due; (b) to pay any interest on or sinking fund obligation of any First Mortgage Bond within 30 days after it is due; (c) to pay the principal of or interest on any prior lien bonds within any allowable period; (d) to discharge, appeal or obtain the stay of any final judgment against the Company in excess of \$5,000 within 30 days after it is rendered; or (e) to perform any other covenant in the First Mortgage within 60 days after notice to the Company from the First Mortgage Trustee or the holders of not less than 15% in principal amount of the First Mortgage Bonds. Events of default also include certain events of bankruptcy, insolvency or reorganization in bankruptcy or insolvency of the Company. (Article IX) The Company is required to furnish periodically to the First Mortgage Trustee a certificate as to the absence of any default or as to compliance with the terms of the First Mortgage, and such a certificate is also required in connection with the issuance of any additional First Mortgage Bonds and in certain other circumstances. (Article III) The First Mortgage provides that the First Mortgage Trustee, within 90 days after notice of defaults under the First Mortgage (60 days with respect to events of default described in (e)

above), is required to give notice of such defaults to all holders of First Mortgage Bonds, but, except in the case of a default resulting from the failure to make any payment of principal or interest on the First Mortgage Bonds or in the payment of any sinking or purchase fund installments, the First Mortgage Trustee may withhold such notice if it determines in good faith that it is in the best interests of the holders of the First Mortgage Bonds to do so. (Article XIII)

Upon the occurrence of any event of default, the First Mortgage Trustee or the holders of not less than 25% in principal amount of the First Mortgage Bonds may declare the principal amount of all First Mortgage Bonds due, and, if the Company cures all defaults before a sale of the mortgaged property, the holders of a majority in principal amount of the First Mortgage Bonds may waive the default. If any event of default occurs, the First Mortgage Trustee also may (a) take possession of and operate the mortgaged property for the purpose of paying the principal of and interest on the First Mortgage Bonds; (b) sell at public auction all of the mortgaged property, or such parts thereof as the holders of a majority in principal amount of the First Mortgage Bonds may request or, in the absence of such request, as the First Mortgage Trustee may determine; (c) bring suit to enforce payment of the principal of and interest on the First Mortgage Bonds, to foreclose the First Mortgage or for the appointment of a receiver of the mortgaged property; and (d) pursue any other remedy. (Article IX)

No holder of First Mortgage Bonds may institute any action, suit or proceeding for any remedy under the First Mortgage unless he has previously given the First Mortgage Trustee written notice of a default by the Company, and in addition: (a) the holders of not less than 25% in principal amount of the First Mortgage Bonds have requested the First Mortgage Trustee and afforded it a reasonable opportunity to exercise its powers under the First Mortgage or to institute such action, suit or proceeding in its own name; (b) such holder has offered to the First Mortgage Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred thereby; and (c) the First Mortgage Trustee has refused or neglected to comply with such request within a reasonable time. The holders of a majority in outstanding principal amount of the First Mortgage Bonds, upon furnishing the First Mortgage Trustee with security and indemnification satisfactory to it, may require the First Mortgage Trustee to pursue any available remedy, and any holder of the First Mortgage Bonds has the absolute and unconditional right to enforce the payment of the principal of and interest on his First Mortgage Bonds. (Article IX)

### **Modification of First Mortgage and First Mortgage Bonds**

Certain modifications which do not in any manner impair any of the rights of the holders of any series of First Mortgage Bonds then outstanding or of the First Mortgage Trustee may be made without the vote of the holders of the First Mortgage Bonds by supplemental indenture entered into between the Company and the First Mortgage Trustee. (Article XIV)

Modifications of the First Mortgage or any indenture supplemental thereto, and of the rights and obligations of the Company and of holders of all series of First Mortgage Bonds outstanding, may be made with the consent of the Company by the vote of the holders of at least 80% in principal amount of the outstanding First Mortgage Bonds entitled to vote at a meeting of the holders of the First Mortgage Bonds or, if one or more, but less than all, of the series of First Mortgage Bonds outstanding under the First Mortgage are affected by any such modification, by the vote of the holders of at least 80% in principal amount of the outstanding First Mortgage Bonds entitled to vote of each series so affected; but no such modification may be made which will affect the terms of payment of the principal of or premium, if any, or interest on any First Mortgage Bond issued under the First Mortgage or to change the voting percentage described above to less than 80% with respect to any First Mortgage Bonds outstanding when such

modification becomes effective. First Mortgage Bonds owned or held by or for the account or benefit of the Company or an affiliate of the Company (as defined in the First Mortgage) are not entitled to vote. (Article XV) In the Nineteenth Supplemental Indenture, the First Mortgage was modified, effective when none of the First Mortgage Bonds of any series issued prior to December 1976 are outstanding, so as to change the 80% voting requirements discussed above to 60%. Based on the series of First Mortgage Bonds outstanding at June 30, 1997, the 60% voting requirement will become effective on May 1, 2009.

### **Defeasance and Discharge**

The First Mortgage provides that the Company will be discharged from any and all obligations under the First Mortgage if the Company pays the principal, interest and premium, if any, due on all First Mortgage Bonds outstanding in accordance with the terms stipulated in each such Bond and if the Company has performed all other obligations under the First Mortgage. In the event of such discharge, the Company has agreed to continue to indemnify the First Mortgage Trustee from any liability arising out of the First Mortgage. (Article XVI)

### **TAX EXEMPTION**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law, (i) interest on each issue of the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Code; (ii) interest on the Series 1997-A Bonds is an item of tax preference under Section 57 of the Code and therefore may be subject to the alternative minimum tax imposed on individuals and corporations under the Code; (iii) interest on the Series 1997-B Air Bonds is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations under the Code, but may be subject to the corporate alternative minimum tax on a portion of such interest; and (iv) interest on each issue of the Bonds and any profit made on the sale, exchange or other disposition thereof are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications and compliance with certain covenants of the Company and each Authority to be contained in the respective transcripts of proceedings and which are intended to evidence and assure the foregoing, including that the Bonds of each issue are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Company and each Authority.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the issuer to the federal government, require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Company or either Authority with respect to either issue of the Bonds could cause the interest on such issue of the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income tax

retroactively to the date of their issuance. The Company and each Authority will covenant to take actions required for the interest on the related issue of the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under the Code, interest on each issue of the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and a tax imposed on excess net passive income on certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can have certain adverse federal income tax consequences for certain taxpayers, including among them financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding such consequences.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend the federal tax matters referred to herein or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

## LEGAL MATTERS

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the legal opinions of Squire, Sanders & Dempsey L.L.P., Bond Counsel. Signed copies of those opinions, dated and speaking only as of the date of original delivery of the Bonds, will be delivered to the Underwriters at the time of such original delivery and the text of the corresponding opinion will be printed on the related Bonds and the forms of those opinions are set forth as Appendices B, C and D to this Official Statement.

Certain legal matters will be passed upon for the Company by Terrence G. Linnert, Vice President of the Company and Centerior and Vice President - Legal & Governmental Affairs and General Counsel of Centerior Service Company (the "Service Company"), Mary E. O'Reilly, Managing Attorney of the Service Company, or Paul N. Edwards, Principal Corporate Counsel of the Service Company. Certain legal matters will be passed upon for the Underwriters by Calfee, Halter & Griswold LLP. Certain legal matters in connection with the issuance of the Bonds will be passed upon for the Water Authority by Baker, Baker & Sweterlitsch, General Counsel for the Water Authority and Forbes, Fields & Associates, Special Counsel for the Water Authority, and for the Air Authority by Forbes, Forbes & Associates, Counsel for the Air Authority.

Squire, Sanders & Dempsey L.L.P. also represents Centerior, the Company and Toledo Edison in connection with, among other matters, certain litigation, corporate matters, employee benefits and taxation matters.

## RATINGS

Standard & Poor's Ratings Group ("S&P") has assigned the Bonds a rating of "\_\_\_\_," Moody's Investors Service ("Moody's") has assigned the Bonds a rating of "\_\_\_\_," and Fitch Investor's Service ("Fitch") has assigned the Bonds a rating of "\_\_\_\_." Any desired further explanation of the significance of this rating should be obtained from S&P, Moody's or Fitch, respectively. The Company furnished S&P, Moody's and Fitch with certain information and materials respecting the Bonds and the Company. Generally, rating agencies base their ratings on the information and materials so furnished to them and on their own investigations, studies and assumptions. There is no assurance that such rating will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Bonds. The Company has not applied for a rating with respect to the Bonds from any other credit rating agency.

## UNDERWRITING

Under the terms of separate bond purchase agreements, Morgan Stanley & Co. Incorporated, First Chicago Capital Markets, Inc., and Citicorp Securities, Inc. (collectively, the "Underwriters") have agreed to purchase each issue of the Bonds from each Authority at the public offering price set forth on the cover page of this Official Statement. The Underwriters are committed to purchase all of each issue of the Bonds if any Bonds of that issue are purchased. In connection with the underwriting of the Bonds, the Underwriters will be paid by the Company fees in the amount of \$\_\_\_\_ with respect to the Water Bonds and \$\_\_\_\_ with respect to the Air Bonds.

[UPDATE]First Chicago Capital Markets, Inc. is a separate subsidiary of First Chicago Corporation. While First Chicago Capital Markets, Inc. is an affiliate of The First National Bank of Chicago, American National Bank and Trust Company of Chicago and other banks, First Chicago Capital Markets, Inc. is not a bank, but is a registered broker/dealer. Any obligations of First Chicago Capital Markets, Inc. are the sole responsibility of First Chicago Capital Markets, Inc. and do not create any obligations on the part of any affiliate of First Chicago Capital Markets, Inc. No affiliate of First Chicago Capital Markets, Inc. is responsible for securities sold or placed by First Chicago Capital Markets, Inc. Securities sold, offered or recommended by First Chicago Capital Markets, Inc. are not deposits, are not insured by the Federal Deposit Insurance Corporation, are not guaranteed by any affiliated bank of First Chicago Capital Markets, Inc. and are not otherwise an obligation or responsibility of any affiliated bank.]

[UPDATE]Citibank, N.A., an affiliate of Citicorp Securities, Inc., is a lender to Centerior, the Company and Toledo Edison. In addition, Citibank, N.A. may from time to time participate in various general financing transactions or provide other banking services to Centerior, the Company and Toledo Edison.]

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the federal securities laws. The Underwriters may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the offering price stated on the cover page hereof. After the initial public offering, the public offering price may be changed from time to time by the Underwriters.



## **SPECIAL LEGAL INVESTMENT CONSIDERATIONS**

[The Florida Securities and Investor Protection Act provides that securities issued or guaranteed by any state of the United States or any political subdivision, agency or instrumentality thereof are subject to registration with the Florida Department of Banking and Finance, Division of Securities and Investor Protection, if the issuer or guarantor of such securities is in default or has been in default at any time after December 31, 1975 as to principal and interest with respect to an obligation issued by such issuer or guaranteed by such guarantor (or their respective successors), unless the offering circular contains full and fair disclosure concerning the circumstances of such default. Certain bond issues for which the Authorities are the issuers have been in default due to the default of the underlying obligors (other than the Company) with respect to such issues. However, the Bonds are payable solely from the funds pledged under the applicable Indenture and any other obligations issued by the Authorities are payable solely from the funds specifically pledged for the payment of such obligations. Accordingly, a default on another issue of obligations issued by the Authorities would not constitute a default on the Bonds and the respective Authority does not consider that disclosures relating to defaults on other Authority obligations would be appropriate or material to prospective purchasers of the Bonds.][If no defaults, may be deleted.]

## **CONTINUING DISCLOSURE**

Because the Bonds will be special obligations of the Authorities, the Authorities are not "obligated persons" for purposes of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission") and have no continuing disclosure obligations thereunder. Accordingly, neither Authority will provide any continuing disclosure information with respect to the Bonds or the Authority.

Pursuant to the requirements of the Rule, the Company has undertaken, by executing a Continuing Disclosure Agreement with the Trustee, as representative of the Beneficial Owners of the Bonds (the "Continuing Disclosure Agreement"), all responsibilities for any continuing disclosure, as described below.

In the Continuing Disclosure Agreement, the Company has covenanted (i) (a) to provide the annual financial information and audited financial statements required by the Rule by filing with the Commission the reports on Form 10-K required under Sections 13 or 15(d) of the Exchange Act, including any successor provisions thereto (the "Form 10-K") not later than the dates required thereunder and (b) to provide to each nationally recognized municipal securities information repository designated by the Commission in accordance with the Rule and to the Ohio Municipal Advisory Council, the state information depository designated by the State (collectively, the "Repositories"), at the option of the Company (1) a copy of the Form 10-K within ten (10) days of the filing thereof with the Commission or (2) notice on an annual basis that the Form 10-K constitutes the annual financial information with respect to the Company required under the Rule or (ii) in the event that the Company is not required to file the Form 10-K under the Exchange Act, to provide to the Repositories (a) annual financial information of the type set forth in Appendix A hereto and (b) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than one hundred twenty (120) days after the end of the Company's fiscal year and, in any case, (iii) to provide to the Repositories, in a timely manner, notice of (a) the occurrence of material events with respect to the Bonds required to be disclosed under the Rule and (b) the failure by the Company to provide the annual financial information by the date due.

Failure of the Company to comply with the terms of the Continuing Disclosure Agreement will not constitute an event of default under the Loan Agreements, the Indentures, the First Mortgage, the 1997 First Mortgage Bonds or the Bonds. In the event of a failure by the Company to comply with any provision of the Continuing Disclosure Agreement, the Trustee may (and, at the request of the Beneficial Owners of at least 25% aggregate principal amount of outstanding Bonds, shall), and any Beneficial Owner of Bonds may, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Company to comply with its obligations under the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement is solely for the benefit of the Authorities, the Company, the Underwriters and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

### MISCELLANEOUS

Appendix A to this Official Statement contains or incorporates by reference information concerning the Company, including certain financial information. Such information, the information contained under the captions "THE PROJECTS" and "1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE" and the other information in this Official Statement relating thereto has been furnished by the Company. The information contained under the caption "THE AUTHORITIES--The Water Authority" has been furnished by the Water Authority. The information contained under the caption "THE AUTHORITIES--The Air Authority" has been furnished by the Air Authority. The information contained under the caption "UNDERWRITING" has been furnished by the Underwriters. Although the Authorities have consented to the use of this Official Statement in connection with the initial issuance and sale of the Bonds, the Authorities have not participated in the preparation of this Official Statement and make no representation with respect to the accuracy or completeness hereof, except for the information furnished by them, as set forth in this paragraph.

Copies of the Loan Agreements, the Indentures and the Seventy-Fifth Supplemental Indenture may be obtained from the Underwriters during the period of the offering or from the Company. Requests for such copies should be directed to Janis T. Percio, Secretary, The Cleveland Electric Illuminating Company, c/o Centerior Energy Corporation, P.O. Box 94661, Cleveland, OH 44101-4661, or by telephone (216) 447-3100. The First Mortgage may be inspected at the principal corporate trust office of the First Mortgage Trustee.

The use of the Official Statement has been duly authorized by each Authority.

#### OHIO WATER DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Executive Director

#### OHIO AIR QUALITY DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Executive Director

## **APPENDIX A**

### **THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

*The information contained herein as Appendix A to the Official Statement has been obtained from The Cleveland Electric Illuminating Company. Neither the Authorities nor the Underwriters make any representations as to the accuracy or completeness of such information.*

## APPENDIX B

### FORM OF OPINION OF BOND COUNSEL--WATER BONDS

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Water Development Authority (the "Issuer") of \$54,600,000 aggregate principal amount of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company") to assist in refunding the outstanding aggregate principal amount of \$54,600,000 State of Ohio Collateralized Pollution Control Revenue Bonds, 1987 Series A-1 and A-2 (The Cleveland Electric Illuminating Company Project) dated as of October 15, 1987 (the "Project Bonds") as more particularly described in the Trust Indenture (the "Indenture"), dated as of July 1, 1997, between the Issuer and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as trustee (the "Trustee"). The proceeds of the Project Bonds were loaned to the Company to assist in the financing of its portion of the costs of the acquisition, construction and installation of certain facilities comprising "waste water facilities" and "solid waste facilities" as defined, respectively, in Sections 6121.01 and 6123.01 of the Ohio Revised Code. The Transcript documents include an executed counterpart of the Indenture and the Loan Agreement (the "Agreement"), dated as of July 1, 1997, between the Issuer and the Company. We also have examined a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement, and the Company's obligation to make those payments is evidenced and secured by the Company's \$54,600,000 principal amount of First Mortgage Bonds, \_\_\_ % Series due 2020 (the "First Mortgage Bonds") issued under and secured by the Mortgage and Deed of Trust dated July 1, 1940 from the Company to Guaranty Trust Company of New York, as trustee (now The Chase Manhattan Bank (National Association), as successor trustee), as amended and supplemented by various indentures supplemental thereto, including the Seventy-Fifth Supplemental Indenture dated July 1, 1997 (collectively, the "First Mortgage"). The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio for the payment of debt service.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"),

except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is treated as an item of tax preference under Section 57 of the Code and therefore may be subject to the alternative minimum tax imposed on individuals and corporations under the Code. The interest on the Bonds and any profit made on the sale, exchange or other disposition thereof are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds (or with certain similar requirements with respect to certain other bonds issued by the Ohio Air Quality Development Authority simultaneously with the issuance of the Bonds) subsequent to the issuance of the Bonds may cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We also have relied upon the opinion of counsel for the Company contained in the Transcript as to all matters concerning the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement, the First Mortgage and the First Mortgage Bonds, the binding effect and priority of the lien of the First Mortgage upon properties of the Company and the title of the Company to the properties which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage. We further have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey L.L.P."]

## APPENDIX C

### FORM OF OPINION OF BOND COUNSEL—AIR BONDS

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Air Quality Development Authority (the "Issuer") of \$15,900,000 aggregate principal amount of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-A (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company") to assist in refunding the outstanding aggregate principal amount of \$15,900,000 State of Ohio 9.75% Collateralized Pollution Control Revenue Bonds, Series 1987-B (The Cleveland Electric Illuminating Company Project) dated as of \_\_\_\_\_, 1987 (the "Project Bonds") as more particularly described in the Trust Indenture (the "Indenture"), dated as of July 1, 1997, between the Issuer and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as trustee (the "Trustee"). The proceeds of the Project Bonds were loaned to the Company to assist in the financing of its portion of the costs of the acquisition, construction and installation of certain facilities comprising "air quality facilities" as defined in Section 3706.01 of the Ohio Revised Code. The Transcript documents include an executed counterpart of the Indenture and the Loan Agreement (the "Agreement"), dated as of July 1, 1997, between the Issuer and the Company. We also have examined a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement, and the Company's obligation to make those payments is evidenced and secured by the Company's \$15,900,000 principal amount of First Mortgage Bonds, \_\_\_\_% Series due 2020 (the "First Mortgage Bonds") issued under and secured by the Mortgage and Deed of Trust dated July 1, 1940 from the Company to Guaranty Trust Company of New York, as trustee (now The Chase Manhattan Bank (National Association), as successor trustee), as amended and supplemented by various indentures supplemental thereto, including the Seventy-Supplemental Indenture dated July 1, 1997 (collectively, the "First Mortgage"). The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio for the payment of debt service.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is treated as an item of tax preference under Section 57 of the Code and therefore may be subject to

the alternative minimum tax imposed on individuals and corporations under the Code. The interest on the Bonds and any profit made on the sale, exchange or other disposition thereof are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax, and interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States, and a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds (or with certain similar requirements with respect to certain other bonds issued by the Ohio Water Development Authority simultaneously with the issuance of the Bonds) subsequent to the issuance of the Bonds may cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We also have relied upon the opinion of counsel for the Company contained in the Transcript as to all matters concerning the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement, the First Mortgage and the First Mortgage Bonds, the binding effect and priority of the lien of the First Mortgage upon properties of the Company and the title of the Company to the properties which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage. We further have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey L.L.P."]

## APPENDIX D

### FORM OF OPINION OF BOND COUNSEL--AIR BONDS

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Air Quality Development Authority (the "Issuer") of \$62,560,000 aggregate principal amount of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (Non-Amt) (The Cleveland Electric Illuminating Company Project), dated as of July 1, 1997 (the "Bonds"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company") to assist in refunding the outstanding aggregate principal amount of \$48,560,000 State of Ohio Collateralized Pollution Control Revenue Bonds, 1976 Series (The Cleveland Electric Illuminating Company Project) dated as of \_\_\_\_\_, 1987 and the outstanding \$14,000,000 State of Ohio Collateralized Pollution Control Revenue Bonds, 1979 Series (The Cleveland Electric Illuminating Company Project) (collectively the "Project Bonds") as more particularly described in the Trust Indenture (the "Indenture"), dated as of July 1, 1997, between the Issuer and Mellon Bank, F.S.B., Pittsburgh, Pennsylvania, as trustee (the "Trustee"). The proceeds of the Project Bonds were loaned to the Company to assist in the financing of its portion of the costs of the acquisition, construction and installation of certain facilities comprising "air quality facilities" as defined in Section 3706.01 of the Ohio Revised Code. The Transcript documents include an executed counterpart of the Indenture and the Loan Agreement (the "Agreement"), dated as of July 1, 1997, between the Issuer and the Company. We also have examined a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement, and the Company's obligation to make those payments is evidenced and secured by the Company's \$62,560,000 principal amount of First Mortgage Bonds, \_\_\_\_\_% Series due 2020 (the "First Mortgage Bonds") issued under and secured by the Mortgage and Deed of Trust dated July 1, 1940 from the Company to Guaranty Trust Company of New York, as trustee (now The Chase Manhattan Bank (National Association), as successor trustee), as amended and supplemented by various indentures supplemental thereto, including the Seventy-Fifth Supplemental Indenture dated July 1, 1997 (collectively, the "First Mortgage"). The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio for the payment of debt service.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a



"related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is not an item of tax preference under Section 57 of the Code and is subject to the alternative minimum tax imposed on individuals and corporations under the Code. The interest on the Bonds and any profit made on the sale, exchange or other disposition thereof are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax, and interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States, and a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds (or with certain similar requirements with respect to certain other bonds issued by the Ohio Water Development Authority simultaneously with the issuance of the Bonds) subsequent to the issuance of the Bonds may cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We also have relied upon the opinion of counsel for the Company contained in the Transcript as to all matters concerning the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement, the First Mortgage and the First Mortgage Bonds, the binding effect and priority of the lien of the First Mortgage upon properties of the Company and the title of the Company to the properties which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the First Mortgage. We further have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey L.L.P."]

This redlined draft, generated by CompareRite - The Instant Redliner, shows the differences between -

original document : H:\RINK\CEI97REF\11177AAB.82D

and revised document: H:\RINK\CEI97REF\11177AAC.82D

CompareRite found 9 change(s) in the text

Deletions appear as a underlined ^

Additions appear as bold+dbl underlined text

**PRELIMINARY PRIVATE PLACEMENT MEMORANDUM, DATED JULY \_\_, 1997**

**\$47,500,000**

**Ohio Water Development Authority**

**State of Ohio**

**Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B  
(The Cleveland Electric Illuminating Company Project Facilities)**

Dated: Date of Issuance

Due: July 1, 2020

The Bonds will be special obligations of the State of Ohio (the "State") issued by the Ohio Water Development Authority (the "Authority"). The Bonds will not constitute a debt or a pledge of the faith and credit of the Authority or the State or of any political subdivision thereof, and the holders or owners of the Bonds will have no right to have taxes levied by the General Assembly of the State or the taxing authority of any political subdivision of the State for the payment of the principal or purchase price thereof or premium, if any, or interest thereon. The Bonds will be payable solely, except to the extent paid out of moneys attributable to proceeds thereof, from and secured by an assignment by the Authority of loan payments to be received under a Loan Agreement with

**The Cleveland Electric Illuminating Company**

From the date of original issuance of the Bonds through \_\_\_\_\_, 200\_ (subject to extension or earlier termination), the Bonds of each series also will be payable from funds drawn under an irrevocable direct-pay letter of credit issued by

**THE FIRST NATIONAL BANK OF CHICAGO**

The Bonds initially will bear interest from the date of issuance at the Daily Rate, payable initially on September \_\_, 1997. The Bonds will continue to bear interest at the Daily Rate until the conversion of the Bonds to a different Variable Rate or until the maturity of the Bonds. Each interest rate for the Bonds will be determined by The First National Bank of Chicago, as Remarketing Agent.

The Bonds will be subject to redemption prior to maturity and to optional and mandatory purchase, all at the times and subject to the conditions described herein.

Initially, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as a securities depository for the Bonds and purchases of beneficial interests in the Bonds initially will be made in book-entry-only for (without certificates) in denominations of \$100,000 and any integral multiple thereof, and under certain circumstances are exchangeable as more fully described herein. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co. See "The Bonds—Book-Entry-Only System" herein. Mellon Bank, F.S.B., Pittsburgh, Pa., will be Trustee and Paying Agent for the Bonds.

**PRICE 100%**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest on the Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code but may be subject to the corporate alternative minimum tax on a portion of such interest; and (iii) the interest on the Bonds and any profit made on their sale, exchange or other disposition are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. See "Tax Exemption" herein.

The Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Placement Agent and subject to the approval of legality by Bond Counsel, the approval of certain legal matters by Calfee, Halter & Griswold, LLP, Counsel for the Placement Agent, and certain other conditions. The approval of certain legal matters will be passed upon for the Company by \_\_\_\_\_; for The First National Bank of Chicago, as issuer of the letter of credit, by \_\_\_\_\_ and, as Placement Agent and Remarketing Agent, by \_\_\_\_\_; and for the Authority by Baker, Baker & Sweterlitsch, General Counsel for the Authority. It is expected that delivery of the Bonds will be made in book-entry-only form on or about August \_\_, 1997 in New York, New York against payment therefor.

**The First National Bank of Chicago  
Placement Agent**

July \_\_, 1997

This Preliminary Private Placement Memorandum and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Private Placement Memorandum is delivered in final form. Under no circumstances shall this Preliminary Private Placement Memorandum constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No person has been authorized to give any information or to make any representations other than those contained in this Private Placement Memorandum in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Ohio Water Development Authority, The Cleveland Electric Illuminating Company, 1997 Series B Bank or the Placement Agent. Neither the delivery of this Private Placement Memorandum nor any sale hereunder will under any circumstances create any implication that there has been no change in the affairs of the Ohio Water Development Authority, 1997 Series B Bank or The Cleveland Electric Illuminating Company since the date hereof. This Private Placement Memorandum does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

IN CONNECTION WITH THIS OFFERING, THE PLACEMENT AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
THE AUTHORITY .....	3
USE OF PROCEEDS .....	3
THE BONDS .....	3
THE 1997 SERIES B LETTER OF CREDIT .....	23
THE LOAN AGREEMENT .....	26
THE INDENTURE .....	29
THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE .....	37
TAX EXEMPTION .....	43
LEGAL MATTERS .....	44
PLACEMENT OF THE BONDS .....	45
SPECIAL LEGAL INVESTMENT CONSIDERATIONS .....	45
CONTINUING DISCLOSURE .....	45
MISCELLANEOUS .....	46

Appendix A - The Cleveland Electric Illuminating Company  
Appendix B - 1997 Series B Bank  
Appendix C - Proposed Form of Bond Counsel Opinion

**\$47,500,000**  
**Ohio Water Development Authority**  
**State of Ohio**  
**Collateralized Pollution Control Revenue**  
**Refunding Bonds, Series 1997-B**  
**(The Cleveland Electric Illuminating**  
**Company Project Facilities)**

**INTRODUCTORY STATEMENT**

This Private Placement Memorandum, including the cover page and Appendices, of the Ohio Water Development Authority (the "Authority"), is provided to furnish information in connection with the offer and sale by the Authority of \$47,500,000 aggregate principal amount of its Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project Facilities) (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and Mellon Bank, F.S.B., Pittsburgh, Pa., as Trustee (the "Trustee").

The Bond proceeds received by the Authority will be loaned (the "Loan") to The Cleveland Electric Illuminating Company, a public utility and corporation organized and existing under the laws of the State of Ohio (the "Company"), pursuant to a Loan Agreement, dated as of July 1, 1997 (the "Loan Agreement"), between the Authority and the Company to refund the Authority's \$47,500,000 State of Ohio 6.20% Collateralized Pollution Control Revenue Bonds, 1978 Series A (The Cleveland Electric Illuminating Company Project Facilities), dated as of May 1, 1978 (the "Refunded Bonds") originally issued to assist the Company in financing its portion of the cost of the acquisition, construction and installation of certain waste water facilities and solid waste facilities, as hereinafter described (the "Project Facilities") in connection with the Perry Nuclear Power Plant Unit 1 ("Perry Unit 1") in Lake County, Ohio. That plant is operated by the Company and is owned or leased as tenants-in-common by the Company, The Toledo Edison Company ("Toledo Edison"), Duquesne Light Company ("Duquesne"), Ohio Edison Company ("Ohio Edison") and Pennsylvania Power Company ("Pennsylvania Power") (these five companies comprise the Central Area Power Coordination Group or "CAPCO Group"). The Company and Toledo Edison are wholly owned subsidiaries of Centerior Energy Corporation ("Centerior"). Pursuant to the Loan Agreement and the First Mortgage, as defined below, the Company will make loan payments sufficient to pay when due the principal of and interest and any premium on the Bonds, including payments of purchase price. See "THE LOAN AGREEMENT."

Concurrently with, and as a condition to, the issuance of the Bonds, the Company will cause to be delivered an irrevocable, direct-pay letter of credit (the "1997 Series B Letter of Credit"), issued by The First National Bank of Chicago (the "1997 Series B Bank"), to provide for the timely payment of principal of and interest (calculated for 285 days at the maximum rate of 10% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the 1997 Series B Bank for all amounts drawn by the Trustee under the 1997 Series B Letter of Credit pursuant to the terms of the Letter of Credit Agreement, dated as of July 1, 1997 (the "1997 Series B Letter of Credit Agreement") between the Company and the 1997 Series B

Bank. The 1997 Series B Letter of Credit will expire on \_\_\_\_\_, 200\_, unless terminated or extended.

Upon expiration of a Letter of Credit or any Alternate Credit Facility (see "The Letters of Credit—Alternate Credit Facility"), the Bonds will be subject to mandatory tender for purchase. See "THE BONDS—Mandatory Tenders—Cancellation, Expiration or Replacement of Credit Facility." As used in this Private Placement Memorandum, and, "Bank" refers to the 1997 Series B Bank, as the issuer of 1997 Series B Letter of Credit and the issuer of any Alternate Credit Facility delivered in accordance with the Indenture; "Credit Facility" means the Series 1997 B Letter of Credit delivered under the Indenture and any Alternate Credit Facility which may be subsequently delivered in accordance with the Indenture; and "Letter of Credit Agreement" refers to the 1997 Series B Letter of Credit Agreement entered into in connection with the 1997 Series B Letter of Credit and any subsequent agreement entered into between the Company and the issuer of any Alternate Credit Facility.

As evidence of, and to secure, its obligations under the Loan Agreement to repay the Loan, the Company will issue its First Mortgage Bonds (the "1997 First Mortgage Bonds") under the Mortgage and Deed of Trust, dated July 1, 1940, from the Company to Guaranty Trust Company of New York, as trustee, under which The Chase Manhattan Bank (National Association) is successor trustee (the "First Mortgage Trustee"), as supplemented and modified by supplemental indentures thereto and as to be further supplemented to provide for the issuance of the 1997 First Mortgage Bonds by the Seventy-\_\_\_\_\_ Supplemental Indenture dated July 1, 1997 (the "First Mortgage"). The 1997 First Mortgage Bonds will correspond to the Bonds as to aggregate principal amount, interest rate, maturity date and redemption provisions. Pursuant to the Indenture and Loan Agreement, the Authority will assign its interests in the 1997 First Mortgage Bonds, together with payments due under the Loan Agreement, to the Trustee to secure the payment of the Bonds.

Brief descriptions of the Authority, the Bonds, the 1997 Series B Letter of Credit, the 1997 Series B Letter of Credit Agreement, the Loan Agreement, the Indenture and the 1997 First Mortgage Bonds and the First Mortgage are included in this Private Placement Memorandum. Information regarding the business and financial condition of the Company is included in or incorporated by reference into Appendix A attached hereto. Certain information with respect to the 1997 Series B Bank is included as Appendix B. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. The descriptions herein of the Loan Agreement, the Indenture and the 1997 Series B Letter of Credit Agreement, the First Mortgage do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds, the 1997 First Mortgage Bonds and the 1997 Series B Letter of Credit are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights.

## **THE AUTHORITY**

The Authority is a body politic and corporate, organized and existing under the laws of the State, including Chapters 6121 and 6123, Ohio Revised Code, as amended (the "Act"). Pursuant to the Act, the Authority is authorized to issue the Bonds and to loan the proceeds thereof to the Company for the purpose of refunding the Refunded Bonds which were issued for the purpose of assisting in financing the Company's portion of the costs of acquiring, constructing and installing the Project Facilities (as defined below) and to secure the Bonds by an assignment to the Trustee of the payments on the 1997 First Mortgage Bonds and under the Loan Agreement. To accomplish such actions, the Authority is authorized to enter into the Indenture, the Loan Agreement and the First Mortgage.

**The Bonds are special obligations of the State issued by the Authority. The Bonds do not constitute a debt, or a pledge of the faith and credit, of the Authority or the State or of any political subdivision thereof, and the registered owners of the Bonds will have no right to have taxes levied by the General Assembly of the State or the taxing authority of any political subdivision of the State for the payment of the principal or purchase price thereof or premium, if any, or interest thereon.**

## **THE PROJECT FACILITIES**

The Project Facilities which were financed with the proceeds of the Refunded Bonds (the "Project Facilities") consists of various systems which are designed for the abatement and control of water pollution and the treatment and disposal of sewage and solid wastes resulting from the operation of Perry Unit 1.

## **USE OF PROCEEDS**

Upon issuance of the Bonds, the proceeds of the Bonds will be deposited with \_\_\_\_\_, as the escrow trustee (the "Escrow Trustee") in the Escrow Agreement, dated as of July 1, 1997 (the "Escrow Agreement"), between the Escrow Trustee and the Company, to be used, together with investment income thereon, to refund the Refunded Bonds and redeem the same on September \_\_, 1997 at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date. The Company will pay the fees and expenses of the Placement Agent and other issuance costs and any other costs of the Refunded Bonds from other available moneys of the Company.

## **THE BONDS**

### **General**

The Bonds will be issued in the aggregate principal amounts set forth on the cover page hereof and will mature July 1, 2020, subject to redemption prior to maturity.

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at the Daily Rate until converted at the option of the Company to another Variable Rate in accordance with the Indenture. The permitted Variable Rates are the "Daily Rate," the

"Weekly Rate," the "Term Rate" and the "Commercial Paper Rate." Changes in the Variable Rate will be effected, and notice of such changes will be given, as described below in "THE BONDS—Conversions.

For each Rate Period for each Variable Rate, the interest rate or rates for the Bonds will be determined by the Remarketing Agent, as defined herein, in accordance with the Indenture; provided that the interest rate or rates borne by the Bonds may not exceed the lesser of 10% per annum or the maximum interest rate permitted by the Credit Facility then in effect.

Interest on the Bonds will be computed on the basis of a year of 365 or 366 days, as applicable, for the actual number of days elapsed during Commercial Paper, Daily or Weekly Rate Periods and on the basis of a 360-day year consisting of twelve 30-day months during a Term Rate Period. Interest will be payable on each Interest Payment Date, as defined below, and on each such Interest Payment Date will be payable to the registered owner of the Bond as of the Regular Record Date for such payment. The Regular Record Date, in the case of interest accrued for the Daily Rate or the Weekly Rate, will be the close of business on the last Business Day of the Interest Periods; for the Term Rate, will be the close of business on the fifteenth day of the month preceding each Interest Payment Date; and for the Commercial Paper Rate, will be the close of business on the last day of the Commercial Paper Rate Period applicable to such Bond.

If, and to the extent, however, that the Authority fails to make payment or provision for payment of interest on any Bond when payable pursuant to the Indenture, that interest will cease to be payable to the holder of that Bond as of the Regular Record Date. When moneys become available for the payment of interest, the Trustee will establish a Special Record Date for the payment of that interest which must be no more than 15 nor fewer than 10 days prior to the date of proposed payment. The Trustee will cause notice of the proposed payment and Special Record Date to be mailed to each holder not fewer than 10 days prior to the Special Record Date, and interest will be payable to the holders of the Bonds at the close of business on the Special Record Date.

The Bonds originally will be issued solely in book-entry-only form to DTC or its nominee, Cede & Co., to be held in DTC's book-entry-only system. So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Private Placement Memorandum. See "The BONDS—Book-Entry-Only System" below.

Except as otherwise described below for Bonds held in DTC's book-entry-only system, the principal or redemption price of the Bonds is payable at the principal trust office in Pittsburgh, Pa., of Mellon Bank, F.S.B., as paying agent (the "Paying Agent"), located at \_\_\_\_\_, Pittsburgh, Pa. (the "Principal Office"). Except as otherwise described below for Bonds held in DTC's book-entry-only system, interest on the Bonds is payable by clearinghouse funds check or draft mailed to the owner of record; provided that (i) during a Daily or Weekly Rate Period interest on the Bonds will be paid in immediately available funds, and (ii) during any Commercial Paper Rate Period, interest will be payable in immediately available funds, provided that, if such Bonds are not in book-entry form, such interest will be paid only



upon presentation and surrender of those Bonds to the Paying Agent. During a Term Rate Period, the holder of at least \$1,000,000 in aggregate principal amount of Bonds may deliver a written request to the Paying Agent prior to the applicable Regular Record Date or Special Record Date, and in that case interest accrued will be paid by wire transfer to a bank within the continental United States to such holder, by direct deposit thereof to the account of the holder if such account is maintained with the Paying Agent.

Owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Paying Agent for purchase at the times and in the manner described below under "The BONDS—Optional Tenders" and "The Bonds—Mandatory Tenders."

The First National Bank of Chicago will act as the Remarketing Agent with respect to the Bonds. The Remarketing Agent may be removed by the Company and may resign in accordance with the Remarketing Agreement.

*Certain Definitions.* As used herein, each of the following terms will have the meaning indicated:

*"Business Day"* means a day of the year (a) on which banks located in Chicago, Illinois, New York City or any other city in which is located the office of the Bank at which certificates for drawings under the Letter of Credit are to be presented or the Principal office of the Trustee or the Paying Agent are not required or authorized by law to be closed and (b) on which the New York Stock Exchange is not closed. Draws under the 1997 Series B Letter of Credit initially are to be made at the office of the 1997 Series B Bank in [Chicago, Illinois].

*"Commercial Paper Rate "* means, when used with respect to any particular Bond, the interest rate determined by the Remarketing Agent for each Commercial Paper Rate Period applicable thereto.

*"Commercial Paper Rate Period"* means a period during which a Bond bears interest at a Commercial Paper Rate.

*"Conversion Date"* means a day on which the Bonds are converted to bear interest from one Variable Rate to another Variable Rate in accordance with the terms of the Indenture, including any change from a Term Rate Period to a Term Rate Period of a different duration.

*"Daily Rate "* means the interest rate to be determined for the Bonds on each Business Day pursuant to the Indenture.

*"Daily Rate Period"* means a period during which the Bonds bear interest at a Daily Rate.

*"Interest Payment Date "* means (a) when used with respect to Bonds bearing interest at the Daily or Weekly Rate, the first Business Day of each calendar month to which

interest at such rate has accrued; (b) when used with respect to Bonds bearing interest at a Term Rate, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a conversion to a Daily, Weekly or Commercial Paper Rate Period (but not a conversion to a Term Rate Period of a different duration) shall be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; and (c) when used with respect to any particular Bond bearing interest at a Commercial Paper Rate, the first Business Day following the last day of each Commercial Paper Rate Period applicable thereto. In any case, the final Interest Payment Date will be the Maturity Date.

*"Interest Period"* means the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, as applicable, provided, however, that the first Interest Period will begin on (and include) the date of original issuance of the Bonds and the final Interest Period will end on (and include) the day immediately preceding the Maturity Date.

*"Maturity Date"* means July 1, 2020.

*"PSA Index"* means, as of any date, the seven-day high-grade market index of tax exempt variable-rate demand obligations, as produced by Municipal Market Data or any successor thereto and published or made available by the Public Securities Association ("PSA"), or any person acting in cooperation with or under the sponsorship of PSA, or, if such index is unavailable, then such other publicly available index or measurement of seven-day yields on high-grade tax exempt variable-rate demand obligations selected by the Company and agreed to by the Remarketing Agent.

*"Rate Period"* means a period during which a particular rate of interest determined for the Bonds is to remain in effect until a subsequently determined rate of interest becomes effective pursuant to the Indenture. In any case, the final Rate Period will end on (and include) the day immediately preceding the Maturity Date.

*"Term Rate"* means the interest rate to be determined pursuant to the Indenture for the Bonds for a term of one or more whole years or for a term to the Maturity Date.

*"Term Rate Period"* means a period during which the Bonds bear interest at a particular Term Rate.

*"Term Rate Period of a different duration"* means a conversion to a Term Rate Period of a different duration than the then current Term Rate Period and, if the conversion is occurring on a date other than that originally scheduled as the last Interest Payment Date of the then current Term Rate Period, a conversion to a Term Rate Period of the same duration as the then current Term Rate Period.

"*Variable Rate*" means, as the context requires, the Commercial Paper, Daily, Weekly or Term Rate applicable from time to time to the Bonds.

"*Weekly Rate*" means the interest rate to be determined for the Bonds on a weekly basis pursuant to the Indenture.

"*Weekly Rate Period*" means a period during which the Bonds bear interest at a Weekly Rate.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Authority, the Company and the Placement Agent make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. So long as the Bonds are maintained in book-entry form with DTC, the following procedures will be applicable with respect to the Bonds.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Company or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner may give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records to the Paying Agent. The requirement for physical delivery of Bonds in connection with a

demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice- to the Authority, the Company, the Registrar, the Paying Agent and the Trustee, or the Company may remove DTC as the securities depository for the Bonds. Under such circumstances, bond certificates are required to be delivered as described in the Indenture. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

The Authority, pursuant to a request by the Company and the Remarketing Agent, if any, for the removal or replacement of DTC, as Depository, and upon 30 days' notice to DTC and the Trustee, may remove or replace DTC as Depository. In such event, Bond certificates will be delivered as described in the Indenture (see "The Bonds—Revision of Book-Entry-only System" below).

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Paying Agent to DTC or its nominee will satisfy the Authority's obligations under the Indenture, the Company's obligations under the Loan Agreement and the Bank's obligations under the Credit Facility, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Authority or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

THE AUTHORITY, THE COMPANY, THE PAYING AGENT, THE PLACEMENT AGENT AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE REGISTRAR AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR; BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER; IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF, THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS. TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

The Trustee and the Authority, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments, requiring

consent of registered owners, and any other notices required by the document to be sent to registered owners only, to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment or any other action premised on that notice.

The Authority, the Company, the Trustee, the Paying Agent and the Placement Agent cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Private Placement Memorandum.

### **Revision of Book-Entry-Only System**

In the event that the book-entry-only system is discontinued, the following provisions will apply: all Bonds bearing interest at a Term Rate will be in denominations of \$5,000 or integral multiples thereof. All Bonds bearing interest at Daily or Weekly Rates will be issued in denominations of \$100,000 or integral multiples thereof. All Bonds bearing interest at Commercial Paper Rates will be issued in integral multiples of \$1,000, but in no denomination lower than \$100,000. Bonds may be exchanged, at the option of their holder, for Bonds of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of the Bonds being exchanged, upon presentation and surrender of the Bonds being exchanged at the principal corporate trust office of the Trustee, as registrar, or at the principal corporate trust office of any authenticating agent, together with an assignment duly executed by the holder or its duly authorized attorney. Any exchange or transfer will be made without charge; provided, that the Authority and the registrar or the authenticating agent, as the case may be, may make a charge for every exchange or transfer of Bonds, sufficient to reimburse them for any tax or excise required to be paid with respect to the exchange or transfer. Neither the Authority, the registrar nor any authenticating agent, as the case may be, will be required to make any exchange or transfer of a Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing or to transfer or exchange any Bonds selected for redemption, in whole or in part.

### **Summary of Certain Provisions of the Bonds**

The following table summarizes, for each of the permitted Variable Rates: the dates on which interest will be paid (Interest Payment Dates), provided that the initial Interest Payment Date will be September [2], 1997; the dates on which each interest rate will be determined (Interest Rate Determination Dates); the period of time (Rate Periods) each interest rate will be in effect (provided that the initial Rate Period for each Variable Rate may begin on a different date from that specified, which date will be the Conversion Date); the dates on which registered owners may tender their Bonds for purchase to the Paying Agent and the notice

requirements therefor (Optional Tender on Demand of Owner; Notice of Tender); the dates on which Bonds are subject to mandatory tender (Mandatory Tender for Purchase); the purchase price applicable to the Bonds (Purchase Price); and the notice requirements for redemption and mandatory purchase (Notices of Redemption and Mandatory Purchase). All times stated are New York City time.

	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
<b>Interest Payment Dates</b>	The first Business Day of each calendar month to which interest at such rate has accrued	The first Business Day of each calendar month to which interest at such rate has accrued
<b>Interest Rate Determination Dates</b>	Not later than 10:30 a.m. on each Business Day.	Not later than 10:00 a.m. on the first day of each Weekly Rate Period.
<b>Rate Periods</b>	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
<b>Optional Tender on Demand of Owner; Notice of Tender</b>	Any Business Day; upon telephonic (promptly confirmed in writing) or electronic notice to the Paying agent by 11:00 a.m. on such Business Day.	Any Business Day; by written or electronic notice to the Paying Agent at or before 5:00 p.m. on a Business Day at least seven days prior to the purchase date.
<b>Mandatory Tenders for Purchase</b>	Any Conversion Date (other than to the Weekly Rate); the Interest Payment Date preceding the cancellation or expiration of the Credit Facility; the Interest Payment Date on which the Credit Facility is replaced.	Any Conversion Date (other than to the Daily Rate); the Interest Payment Date preceding the cancellation or expiration of the Credit Facility; the Interest Payment Date on which the Credit Facility is replaced.
<b>Purchase Price</b>	100% of principal amount thereof plus accrued interest, if any.	100% of principal amount thereof plus accrued interest, if any.
<b>Notices of Redemption and Mandatory Purchase</b>	Not fewer than 30 days or greater than 90 days notice of redemption; not fewer than 15 days notice of mandatory purchase.	Not fewer than 30 days or greater than 90 days notice of redemption; not fewer than 15 days notice of mandatory purchase.

	<b>COMMERCIAL PAPER RATE</b>	<b>TERM RATE</b>
<b>Interest Payment Dates</b>	The first Business Day following the last day of each Commercial Paper Rate Period applicable thereto.	The first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter, except that the last Interest Payment Date for any term Rate Period which is followed by a conversion to a Daily, Weekly or Commercial Paper Rate period (but not a conversion to Term Rate Period of a different duration) will be the first Business Day of the sixth calendar month following the monthly in which the immediately preceding Interest Payment Date occurs.
<b>Interest Rate Determination Dates</b>	Not later than 1:00 p.m. on the first day of each commercial Paper Rate Period.	Not later than 12:00 noon on the Business Date immediately preceding the commencement date of each Term Rate Period.
<b>Rate Periods</b>	From and including the commencement date of such Commercial Paper Rate Period to and including the last day thereof; provided that each such Period will be from one day to 270 days in length.	From and including the commencement date of such term Rate Period through and including the last day thereof.
<b>Optional Tender on Demand of Owner; Notice of Tender</b>	No optional tender on demand of owner.	On the first day of the succeeding Term Rate Period of the same duration; by written or electronic notice to the Paying Agent not later than 5:00 p.m. on a Business Day at least 15 days prior to the purchase date.
<b>Mandatory Tenders for Purchase</b>	Each Interest Payment Date applicable to such Bond; any Conversion Date; the Interest Payment Date preceding the cancellation or expiration of the Credit Facility; the Interest Payment Date on which the Credit Facility is replaced.	Any Conversion Date, including from a Term Rate Period to a Term Rate Period of a different duration; the Interest Payment Date preceding the cancellation or expiration of the Credit Facility, the Interest Payment Date on which the Credit Facility is replaced.
<b>Purchase Price</b>	100% of principal amount thereof.	100% of the principal amount thereof, provided that Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount will be purchased at a price equal to that redemption price.
<b>Notices of Redemption and Mandatory Purchase</b>	Not fewer than 30 days or greater than 90 days notice of redemption; not fewer than 15 days notice of mandatory purchase, except that no notice will be given in connection with a mandatory purchase on the Interest Payment Date applicable to a Bond bearing interest at the Commercial Paper Rate.	Not fewer than 30 days or greater than 90 days notice of redemption; not fewer than 15 days notice of mandatory purchase, except not fewer than 30 days notice in the case of a conversion from a Term Rate Period.



## **Determination of Interest Rates and Rate Periods**

Each interest rate to be determined by the Remarketing Agent will be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value on the commencement date of such Rate Period equal to the principal amount thereof plus accrued and unpaid interest, if any, under prevailing market conditions as of the date of determination. All determinations of Variable Rates, including Commercial Paper Rate Periods and Term Rate Periods, pursuant to the Indenture will be conclusive and binding upon the Authority, the Company, the Trustee, the Paying Agent, the Bank and the holders of the Bonds.

*Commercial Paper Rate and Commercial Paper Rate Period.* The Commercial Paper Rate Period for each Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Commercial Paper Rate Period as being the Commercial Paper Rate Period which, in the judgment of the Remarketing Agent, will, with respect to each Bond, ultimately produce the lowest overall interest cost on the Bonds during the Commercial Paper Rate Period; provided that each Commercial Paper Rate Period will be from one day to 270 days in length, will begin on a Business Day and end on a day preceding a Business Day or the day preceding the Maturity Date. The Commercial Paper Rate for each Commercial Paper Rate Period will be effective from and including the commencement date of such period and remain in effect to and including the last day thereof. Each such Commercial Paper Rate will be determined by the Remarketing Agent no later than 1:00 p.m., New York City time, on the first day of the Commercial Paper Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. If the Remarketing Agent has received notice of any conversion to a Term Rate Period, the remaining number of days prior to the Conversion Date or, if the Remarketing Agent has received notice of any conversion from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, the length of each Commercial Paper Rate Period for each Bond will be determined by the Remarketing Agent to be either (i) that length of period that, as soon as possible, will enable the Commercial Paper Rate Periods for all Bonds to end on the day before the Conversion Date, or (ii) that length of period which, based on the Remarketing Agent's judgment, will best promote an orderly transition to the next Rate Period. If a Credit Facility is then in effect, no Commercial Paper Rate Period may be established which is longer than a period equal to the maximum number of days' interest coverage provided by such Credit Facility minus 15 days or which extends beyond the remaining term of such Credit Facility minus 15 days.

*Daily Rate and Daily Rate Period.* Daily Rate Periods will commence on a Business Day and will extend to, but not include, the next succeeding Business Day. The Daily Rate for each Daily Rate Period will be effective from and including the commencement date thereof and will remain in effect during that Daily Rate Period. Each such Daily Rate will be determined by the Remarketing Agent no later than 10:30 a.m., New York City time, on the Business Day which is the commencement date of the Daily Rate Period to which it relates.

**Weekly Rate and Weekly Rate Period.** Weekly Rate Periods will commence on Wednesday of each week and end on Tuesday of the following week, except that (i) in the case of a conversion to a Weekly Rate Period, the initial Weekly Rate Period for Bonds will commence on the Conversion Date and end on Tuesday of the following week; and (ii) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion will end on the last day immediately preceding the Conversion Date. The Weekly Rate for each Weekly Rate Period will be effective from and including the commencement date of such period and will remain in effect through and including the last day thereof. Each such Weekly Rate will be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Weekly Rate Period to which it relates.

**Term Rate and Term Rate Period.** Term Rate Periods will commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which a Daily, Weekly or Commercial Paper Rate Period becomes effective. The Term Rate for each Term Rate Period will be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate will be determined by the Remarketing Agent not later than 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of such period. The duration of each successive Term Rate Period will be the same as the then current Term Rate Period until the Company elects to convert the Term Rate Period to a Daily, Weekly or Commercial Paper Rate Period, or to a Term Rate Period of a different duration, all as provided in the Indenture.

**Failure of Remarketing Agent to Set Rate.** If the Remarketing Agent fails for any reason to determine the rate for any Rate Period, then the Bonds will bear such interest at the last effective rate established for such Rate Period as set forth in the Indenture.

## **Conversions**

**Conversions Between Rate Periods.** At the option of the Company, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration. The Conversion Date must be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that (i) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date must be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption pursuant to the Indenture or the last Interest Payment Date of that Term Rate Period, as the case may be; (ii) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date may be any Wednesday, regardless of whether the Wednesday is an Interest Payment Date; and (iii) if the conversion is from a Commercial Paper Rate Period, the Conversion Date must be the last Interest Payment Date on

which interest is payable for all Bonds bearing Commercial Paper Rates theretofore established; provided, however, that if the conversion is from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Indenture and in that case the Conversion Date with respect to each Bond must be an Interest Payment Date for such Bond.

Not fewer than 15 days prior to the Conversion Date in the case of conversions from Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period, the Trustee will mail by first class mail a written notice of the conversion to each holder stating the type of Rate Period to which the conversion will be made and the Conversion Date, that the Bonds will be subject to mandatory tender for purchase on the Conversion Date (except in the case of conversions between Daily and Weekly Rate Periods) and the purchase price of the Bonds, and if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price pursuant to the Indenture.

Conditions Precedent to Conversions. Any conversion (i) from a Daily, Weekly or Commercial Paper Rate Period to a Term Rate Period, (ii) from a Term Rate Period to a Daily, Weekly or Commercial Paper Rate Period, or (iii) to a Term Rate Period from a Term Rate Period (on a date other than the date originally scheduled as the last Interest Payment Date of the then current Term Rate Period) will be subject to the condition that on or before the Conversion Date, the Company will have delivered to the Authority, the Trustee, the Paying Agent, the Bank and the Remarketing Agent an Opinion of Bond Counsel to the effect that the conversion is authorized under the Indenture and the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

The Credit Facility, if any, to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Rate Period plus 15 days, and, if a Credit Facility is to be held by the Trustee after the conversion of the Bonds to a Term Rate Period, that Credit Facility must also extend for the entire Term Rate Period plus 15 days. If a Credit Facility is in effect and the purchase price of the Bonds under the Indenture includes any premium, such conversion will be subject to the condition that the Trustee will have confirmed prior to mailing notice to the holders of such conversion that the Trustee is entitled to draw on that Credit Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium).

Failure of Conversion. If for any reason a condition precedent to a conversion of the Bonds is not met, the conversion will not be effective (although any mandatory tender pursuant to the Indenture will be made on such date if the notice required under the Indenture has been sent to holders stating that the Bonds would be subject to mandatory purchase on that date), and the Bonds, (i) if they bore interest at a Daily Rate, Weekly Rate, Commercial Paper Rate or Term Rate for a Term Rate Period of a duration of one year will be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur, or (ii) if they bore interest at a Term Rate for a Term Rate

Period of a duration of more than one year, may be converted to a Weekly Rate Period so long as an Opinion of Bond Counsel has been delivered to the Trustee to the effect that the conversion to a Weekly Rate Period will not adversely affect the exclusion of interest on the Bonds from gross income and, in that case, will bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur. In the event that an Opinion of Bond Counsel has not been delivered, those Bonds will automatically be converted to a Term Rate Period of a duration of two years, and will bear interest at a Term Rate equal to a Term Rate for such period determined by the Remarketing Agent as of the date on which the conversion was to occur, or if in that instance the Remarketing Agent fails to determine that rate, then at a rate of interest equal to 115% of the most recently announced PSA Index.

### **Optional Tenders**

*Purchase Price and Purchase Dates.* The holders of Bonds bearing interest for a Daily, Weekly or Term Rate Period may elect to have their Bonds or portions thereof purchased at a purchase price equal to 100% of the principal amount of such Bonds (or portions thereof), plus in the case of Bonds bearing interest at a Daily or Weekly Rate, any interest accrued from the immediately preceding Interest Payment Date and unpaid.

*Daily Rate.* Bonds bearing interest at Daily Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon telephonic or electronic notice of tender given not later than 11:00 a.m., New York City time, on the purchase date to the Paying Agent. Any telephonic notice must be promptly confirmed by the holder to the Paying Agent in writing.

*Weekly Rate.* Bonds bearing interest at Weekly Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon delivery of written or electronic notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the purchase date.

*Term Rate.* Bonds bearing interest at a Term Rate may be tendered for purchase on the commencement date of the succeeding Term Rate Period of the same duration at a price payable in clearinghouse funds upon delivery of a written or electronic notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day which is not fewer than 15 days prior to the purchase date; provided, however, that if the succeeding Term Rate Period is a Term Rate Period of a different duration, then such Bonds will be subject to mandatory tender on such date pursuant to the provisions described below under "THE BONDS - Mandatory Tenders. " In connection with any such optional tender for purchase, the Trustee, at least 30 days prior to the last day of the then current Term Rate Period, will notify each holder, by first class mail, postage prepaid, that such holder has a right to have such Bond purchased.

*Notice of Tender.* When a book-entry-only system is in effect, a Beneficial Owner through its Direct Participant of that book-entry-only system may tender its interest in a Bond (or portion of Bond) by delivering notice, in the manner and by the time set forth above, to the Paying Agent stating the principal amount of the Bond (or portion of Bond being tendered), payment instructions for the purchase price and the purchase date. The Beneficial Owner will

effect delivery of such Bonds by causing such Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of DTC to the participant account of the Paying Agent with DTC. When a book-entry-only system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering a notice, in the manner and by the time set forth above, to the Paying Agent which states (A) the principal amount of the Bond or Bonds to which the notice relates, (B) that the holder irrevocably demands purchase of such Bond or Bonds or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (C) the date on which such Bond or portion is to be purchased, and (D) payment instructions with respect to the purchase price.

### **Mandatory Tenders**

*Commercial Paper Rate Periods.* Each Bond bearing interest at a Commercial Paper Rate will be subject to mandatory tender for purchase, on the Interest Payment Date applicable to such Bond, at a purchase price equal to 100% of the principal amount thereof, without premium.

*Conversions to Certain Rate Periods.* On any Conversion Date (other than a Conversion Date from a Daily Rate Period to a Weekly Rate Period or from a Weekly Rate Period to a Daily Rate Period) the Bonds will be subject to mandatory tender for purchase on such Conversion Date at a purchase price equal to 100% of the principal amount thereof or, in the case of Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount redeemed, at a purchase price equal to that redemption price.

*Conversion to a Term Rate Period of Different Duration.* On any Conversion Date from a Term Rate Period to a Term Rate Period of a different duration, the Bonds will be subject to mandatory tender for purchase on such Conversion Date at a purchase price equal to 100% of the principal amount thereof or, in the case of such Bonds which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount redeemed, at a purchase price equal to that redemption price.

*Cancellation, Expiration or Replacement of Credit Facility.* If the Bonds are secured by a Credit Facility, such Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, (i) on the Interest Payment Date immediately preceding the date of the cancellation of or the expiration of the term of the then current Credit Facility and (ii) on the Interest Payment Date on which the current Credit Facility is replaced with an Alternate Credit Facility pursuant to the Indenture. If the then current Credit Facility is not expiring in accordance with its stated terms, the conditions set forth in the Indenture for termination of the Credit Facility must also be met (including providing an Opinion of Bond Counsel to the effect that such cancellation will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes) and the purchase date is required to be an Interest Payment Date (if the Bonds are in a Term Rate Period, either the last Interest Payment Date for such Term Rate Period or an Interest Payment Date on which the

Bonds are subject to optional redemption). In any event, the purchase price will be equal to the redemption price for that Interest Payment Date as set forth in the Indenture.

**Notices of Mandatory Tenders.** Not fewer than 15 days prior to the Conversion Date in the case of conversions from Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period, the Trustee will mail by first class mail a written notice of the conversion to each holder, setting forth those matters required by the Indenture, including a statement that the Bonds will be subject to mandatory purchase on the Conversion Date. Not later than 15 days prior to the purchase date in connection with a mandatory purchase upon cancellation, expiration or replacement of a Credit Facility, the Trustee will mail a written notice of mandatory purchase to the holders of all Bonds. No notice will be given in connection with the mandatory purchase of a Bond bearing interest at a Commercial Paper Rate on an Interest Payment Date applicable to such Bond.

### **Remarketing and Purchase of Tendered Bonds**

The Indenture provides that, unless otherwise instructed by the Company, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for Bonds for which notice of tender has been received or which are subject to mandatory tender for purchase. The Remarketing Agent will not sell any Bond as to which a notice of conversion from one type of Rate Period to another has been given by the Trustee, unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. There will be no purchase of Bonds if there has occurred and is continuing an Event of Default described under clauses (a), (b), (c), (d) or (g) under "THE INDENTURE - Events of Default" and notice of such Event of Default has been provided as required by the Indenture, and there will be no remarketing of Bonds if there has occurred and is continuing an Event of Default or a Default under the Indenture, except in the sole discretion of the Remarketing Agent.

The purchase price of Bonds tendered for purchase will be paid by the Paying Agent from the following funds in the priority indicated: (i) proceeds of the remarketing of such Bonds by the Remarketing Agent to persons other than the Company, its affiliates or the Authority, (ii) proceeds of the Credit Facility, if any, and (iii) proceeds of the remarketing of such Bonds by the Remarketing Agent to the Company, its affiliates or the Authority.

### **Payment of Purchase Price**

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Paying Agent.

When a book-entry-only system is not in effect, all Bonds to be purchased on any date must be delivered to the Principal Office of the Paying Agent at or before (i) 12:30 p.m., New York City time, on the purchase date in the case of Bonds accruing interest at Daily, Weekly or Commercial Paper Rates or (ii) 3:00 p.m., New York City time, on the Business Day immediately preceding the purchase date in the case of Bonds bearing interest at a Term Rate. If

the holder of any Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Paying Agent for purchase on the purchase date, and if the Paying Agent is in receipt of the purchase price, the Bond will be purchased on the day fixed for purchase and ownership of such Bond (or portion thereof) will be transferred to the purchaser. If on the purchase date the Paying Agent is in receipt of the purchase price for all Bonds to be purchased on that purchase date, the holder of any such Bond will have no further rights thereunder except the right to receive the purchase price thereof and, if the purchase date coincides with an Interest Payment Date and if such holder was the holder of the Bond on the Regular Record Date pertaining to the Interest Payment Date, such rights as the holder may have to interest accrued to and unpaid on such Interest Payment Date.

## Redemptions

### Optional Redemption.

The Bonds will be subject to optional redemption by the Authority at the direction of the Company, in whole or in part, as follows:

(i) During any Daily or Weekly Rate Period, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(ii) During any Commercial Paper Rate Period, on the Interest Payment Date for that Bond, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(iii) During a Term Rate Period, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, expressed as a percentage of the principal amount being redeemed, plus accrued and unpaid interest, if any, to the redemption date, as follows:

Length of Term Rate Period	First Day of Optional Redemption Period	Redemption Price
More than 15 years	Tenth anniversary of commencement of Term Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%
More than 10, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter

		at 100%
More than 5, but not more than 10 years	Fifth anniversary of commencement of Term Rate Period	101½%, declining by ½% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%
5 years or less	Non-callable	Non-callable

If at the time of the Company's notice to the Trustee of a conversion to a Term Rate Period (including a conversion from a Term Rate Period to a Term Rate Period of a different duration), the Company satisfies certain conditions, including provision of an Opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the date of such conversion.

*Extraordinary Optional Redemption During a Term Rate Period.* During a Term Rate Period, the Bonds are subject to redemption by the Authority in whole at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date upon the occurrence of any of the following events:

(a) The Project Facilities or the production facility being served thereby is damaged or destroyed to such an extent that (1) the Project Facilities or the production facility being served thereby cannot reasonably be expected to be restored, within a period of six consecutive months, to the condition thereof immediately preceding such damage or destruction or (2) the Company is reasonably expected to be prevented from carrying on its normal operations in connection therewith for a period of six consecutive months.

(b) Title to, or the temporary use of, all or a significant part of the Project Facilities or the production facility being served thereby is taken under the exercise of the power of eminent domain to such an extent that (1) the Project Facilities or the production facility being served thereby cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness comparable to that existing prior to the taking or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the production facility being served thereby for a period of six consecutive months.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or



federal) entered after any contest thereof by the Authority or the Company in good faith, the Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in that Loan Agreement.

(d) Unreasonable burdens or excessive liabilities are imposed upon the Authority or the Company with respect to the Project Facilities or the production facility being served thereby or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied upon privately owned property used for the same general purpose as the Project Facilities or the production facility being served thereby.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project Facilities or the production facility being served thereby occur or technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render the Project Facilities or the production facility being served thereby uneconomic or obsolete.

(f) Any court or administrative body enters a judgment, order or decree, or takes administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project Facilities or the production facility being served thereby to such extent that the Company is or will be prevented from carrying on its normal operations at the Project Facilities or the production facility being served thereby for a period of six consecutive months.

(g) The termination by the Company of operations at the production facility being served thereby.

*Mandatory Redemption Upon a Determination of Taxability.* The Bonds are subject to mandatory redemption by the Authority at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, at the earliest practicable date selected by the Trustee, after consultation with the Company, but in no event later than 180 days following the receipt by the Trustee of notification of a Determination of Taxability, as defined below. Such redemption will be either in whole or, if in the Opinion of Bond Counsel (as defined in the Indenture) the Determination of Taxability will not apply to Bonds remaining outstanding after such redemption, in part. A "Determination of Taxability" means a final decision, ruling or technical advice by any federal judicial or administrative authority to the effect that, as a result of a failure by the Company to observe or perform any covenant, agreement or obligation on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation made by the Company in the Loan Agreement, interest on any Bond is or was includable in the gross income of the owner of that Bond for federal income tax

purposes, other than an owner who is a "substantial user" of the Project Facilities or a "related person" as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); provided that, no decision by any court or decision, ruling or technical advice by any administrative authority will be considered final (a) unless the owner involved in the proceeding or action giving rise to such decision, ruling or technical advice (i) gives the Company and the Trustee prompt notice of the commencement thereof and (ii) offers the Company the opportunity to control the contest thereof, provided that the Company has agreed to bear all expenses in connection therewith and to indemnify the owner against all liabilities in connection therewith, and (b) until the expiration of all periods for judicial review or appeal. A Determination of Taxability will not result from the inclusion of interest on any Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, [the environmental tax on corporations imposed by Section 59A of the Code,] the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on net excess passive income of certain S corporations under Section 1375 of the Code.

If the Indenture has been released in accordance with its terms prior to the occurrence of a Determination of Taxability, the Bonds will not be subject to mandatory redemption.

Notice of Redemption. The Trustee will give notice of the redemption on behalf of the Authority by mailing a copy of the redemption notice by first class mail, postage prepaid, at least 30 days but not more than 90 days prior to the redemption date, to the owner of each Bond subject to redemption in whole or in part. Failure to receive any such notice, or any defect therein in respect of any Bond, will not affect the validity of the redemption of any Bond. If at the time of mailing of the notice of redemption there has not been deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, such notice may state that it is conditional, subject to the deposit of moneys sufficient for the redemption. If either (A) unconditional notice of redemption was mailed or (B) conditional notice was mailed and the moneys sufficient to redeem all Bonds on the redemption date have been deposited with the Trustee, then in either event, the Bonds and portions thereof called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, will be paid at the redemption price, plus interest accrued to the redemption date.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to Cede & Co., and delivery of notice of redemption to the Direct Participants, if any, will be solely the responsibility of DTC.

## **THE 1997 SERIES B LETTER OF CREDIT**

### **[SUBJECT TO REVISION BY 1997 SERIES B BANK]**

#### **General**

The 1997 Series B Letter of Credit will be an irrevocable obligation of the 1997 Series B Bank, issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus 285 days' interest thereon at the rate of 10% per annum (the "Cap Interest Rate").

The Trustee, upon compliance with the terms of the 1997 Series B Letter of Credit, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of the Bonds (other than Company Bonds, as defined in the 1997 Series B Letter of Credit Agreement) when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of Bonds (other than Company Bonds) delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of such Bonds, plus (b) an amount not to exceed 285 days of accrued interest on such Bonds at the Cap Interest Rate (i) to pay interest on Bonds (other than Company Bonds) when due, and (ii) to pay the portion of the purchase price of Bonds (other than Company Bonds) delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed, equal to the interest accrued, if any, on such Bonds.

The amount available under the 1997 Series B Letter of Credit will be reduced to the extent of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the 1997 Series B Letter of Credit will be automatically reinstated effective the sixth day from the date of such drawing unless the Trustee has received notice from the 1997 Series B Bank that the 1997 Series B Bank has not been reimbursed in full for such drawing or any other "event of default" has occurred under the 1997 Series B Letter of Credit Agreement and as a consequence thereof the amount drawn under the Letter of Credit will not be reinstated. With respect to a Liquidity Drawing, upon a remarketing of Bonds (or portions thereof) purchased with the proceeds of such Liquidity Drawing, the amount available under the 1997 Series B Letter of Credit will be reinstated in an amount equal to the principal amount of the Bonds purchased with the proceeds of such Liquidity Drawing, plus the amount of accrued interest thereon paid with the proceeds of such Liquidity Drawing, upon receipt by the 1997 Series B Bank of the amount of any Liquidity Drawing relating to Bonds purchased with the proceeds of such Liquidity Drawing plus all accrued interest thereon.

The 1997 Series B Letter of Credit will terminate on the earliest of (a) the close of business of the 1997 Series B Bank on the stated expiration date (September 13, 2000, unless renewed or extended) or, if not a Business Day, on the next succeeding Business Day; (b) the date which is 15 days following the conversion of the Bonds to a Term Rate for a Term Rate Period ending on the Maturity Date of the Bonds, as specified in a notice from the Trustee to the 1997 Series B Bank; (c) the date which is 15 days following the 1997 Series B Bank's receipt of

written notice from the Trustee that all Bonds have been paid or that an Alternate Credit Facility has been issued to replace the Letter of Credit in accordance with the terms of the Indenture; (d) the date on which an acceleration drawing is honored by the 1997 Series B Bank; or (e) the date which is 15 days following the date the Trustee receives a written notice from the 1997 Series B Bank specifying the occurrence of an event of default under the 1997 Series B Letter of Credit Agreement and directing the Trustee to accelerate the Bonds.

### **1997 Series B Letter of Credit Agreement**

The Company will agree to certain affirmative and negative covenants and to pay certain fees and expenses to the 1997 Series B Bank under the 1997 Series B Letter of Credit Agreement. If an event of default under the 1997 Series B Letter of Credit Agreement occurs and is continuing, the 1997 Series B Bank, may, among other things (i) require that the Company immediately prepay to the 1997 Series B Bank an amount equal to the amount then available under the Letter of Credit, (ii) declare all amounts due under the 1997 Series B Letter of Credit Agreement by the Company immediately due and payable, (iii) give notice of the occurrence of such event of default to the Trustee directing the Trustee to accelerate the Bonds, thereby causing the Letter of Credit to expire 15 days thereafter, (iv) pursue any rights or remedies the 1997 Series B Bank may have under the Letter of Credit, the Bonds, the Loan Agreement, the Indenture or any other agreement or instrument related thereto (the "Related Documents"), or (v) pursue any other action available at law or in equity. The Indenture directs the Trustee, upon receipt of the notice described in clause (iii) of the preceding sentence, to immediately accelerate the Bonds and to make the required drawing under the Letter of Credit prior to the third business day following receipt of such notice.

"Events of Default" under the 1997 Series B Letter of Credit Agreement include the following:

- (a) any material representation or warranty made by the Company in the Letter-of Credit Agreement (or incorporated therein by reference) or in any Of the Related Documents or in any certificate, agreement, instrument or statement made or delivered pursuant to or in connection with the 1997 Series B Letter of Credit Agreement or with any of the other Related Documents proves to be false or incorrect in any material respect when made;
- (b) any "event of default" has occurred under the Related Documents;
- (c) failure to pay to the 1997 Series B Bank any obligation required to be paid or reimbursed under the 1997 Series B Letter of Credit Agreement when and as due thereunder;
- (d) default in any material respect in the due observance or performance of certain covenants set forth in the 1997 Series B Letter of Credit Agreement;

(e) default in any material respect in the due observance or performance by the Company of any other term, covenant or agreement set forth in the 1997 Series B Letter of Credit Agreement and the continuance of such default for 30 days after the occurrence thereof;

(f) any material provision of the 1997 Series B Letter of Credit Agreement or any of the other Related Documents ceases to be valid and binding on the Company, or the Company contests any such provision, or the Company or any agent or trustee on behalf of the Company denies that it has any or further liability under the 1997 Series B Letter of Credit Agreement or any of the other Related Documents;

(g) the occurrence of certain events of bankruptcy, insolvency, or liquidation of the Company;

(h) the occurrence and continuance of a default by the Company under any agreement or obligation of the Company, if the effect of such default is to accelerate, or permit the acceleration of, the maturity of any indebtedness of the Company under such agreement or obligation in an aggregate principal amount exceeding \$25,000,000; or

(i) entry or filing of certain judgments or writs against the Company or against any of its property in an aggregate principal amount in excess of \$25,000,000 which remain unvacated, unbonded or unstayed for a period of 30 days.

### **Alternate Credit Facility**

The Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility in replacement of any Credit Facility then in effect. An Alternate Credit Facility will be an irrevocable direct pay letter of credit or other credit enhancement or support facility in favor of the Trustee for the benefit of the owners of the Bonds. The terms of the Alternate Credit Facility will in all respects material to the owners of the Bonds be the same (except for the term, maximum interest rate, number of days of interest coverage and any redemption premium coverage, all as set forth in such Alternate Credit Facility) as the Credit Facility being replaced. Such Alternate Credit Facility (i) must have a term of not less than one year and, if the Rate Period is a Term Rate Period, have a term at least equal to the then remaining term of the Credit Facility then being replaced, (ii) must be in an amount sufficient to cover the principal of and accrued interest on the Bonds for the maximum Interest Period permitted for the Rate Period that the Bonds are then in plus 15 days, and (iii) must set forth a maximum interest rate on the Bonds with respect to which drawings may be made. At least 20 days (35 days if the interest rate on the Bonds is a Term Rate) prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company must give notice, which notice, during any Commercial Paper Rate Period, must also be given to the Remarketing Agent and must contain a certification with respect to the maximum length of each Commercial Paper Rate Period permitted under the Indenture after delivery of such Alternate Credit Facility, of such

replacement to the Trustee, together with an Opinion of Bond Counsel stating that the delivery of such Alternate Credit Facility to the Trustee is authorized under the Indenture and complies with the terms thereof and that the delivery of such Alternate Credit Facility will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. An Alternate Credit Facility must become effective on an Interest Payment Date and, if the Bonds are in a Term Rate Period, may only become effective on either the last Interest Payment Date for such Term Rate Period or an Interest Payment Date on which the Bonds are subject to optional redemption.

## **THE LOAN AGREEMENT**

### **Loan of Proceeds**

The Authority will loan the proceeds of the sale of the Bonds to the Company (the "Loan"), in accordance with the Loan Agreement and the Indenture, to assist the Company in refunding the Refunded Bonds. The proceeds of the Bonds will be delivered to the Escrow Trustee as provided in the Indenture to be held, together with any moneys provided by the Company and any interest earnings on those proceeds and those moneys, in trust as provided in the Escrow Agreement for the purpose of paying all of the remaining principal and interest due on the Refunded Bonds to their redemption date.

### **Loan Payments**

Upon the terms and conditions of the Loan Agreement, the Authority agrees to make the Loan to the Company. As evidence of its obligation to repay the Loan, the Company will issue to the Authority the Company's 1997 First Mortgage Bonds equal in principal amount to the principal amount of the Bonds. Pursuant to the Indenture and the Loan Agreement, the Authority will assign its interests in the 1997 First Mortgage Bonds to the Trustee. In consideration of and in repayment of the Loan, the Company is obligated to make, as Loan Payments, to the Trustee for the account of the Authority, payments on the 1997 First Mortgage Bonds which correspond, as to time, and are equal in amount, to the under the Loan Agreement which correspond, as to time, and are equal in amount, to the amount then payable as principal of and premium, if any, and interest on the Bonds. All payments under the Loan Agreement will be assigned to the Trustee, and the Company will make such payments directly to the Trustee for the account of the Authority and for deposit in the Bond Fund created under the Indenture. The Company's obligation to make Loan Payments will be reduced to the extent of any payments made by the Bank to the Trustee in respect of the principal of, premium, if any, or interest on the Bonds when due pursuant to any Credit Facility, provided, that the Bank has been reimbursed for such payments in accordance with the terms of the Credit Facility.

### **Obligation to Purchase Bonds**

The Company will agree to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which Bonds may be or are required to be tendered for purchase, amounts equal to the amounts to be paid by the Trustee or the Paying Agent with respect to the

Bonds tendered for purchase on such dates pursuant to the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent, (B) moneys drawn under any Credit Facility, for the purpose of paying such purchase price and (C) other moneys made available by the Company.

### **Term of Loan Agreement**

The Loan Agreement will remain in full force and effect until such time as all of the Bonds are fully paid (or provision has been made for such payment) and the Indenture has been released pursuant to the terms thereof.

### **Maintenance and Modification**

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain the Project Facilities in good repair and good operating condition so that the Project Facilities will continue to constitute Waste Water facilities for the purpose of the operation thereof.

Subject to certain conditions, the Company has the right, from time to time, to remodel the Project Facilities or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project Facilities.

### **Maintenance of Corporate Existence**

The Company will agree that during the term of the Loan Agreement it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided that the Company may consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided the surviving, resulting or transferee corporation, as the case may be (if other than the Company), is a corporation organized and existing under the laws of one of the states of the United States, and assumes in writing all of the obligations of the Company under or contemplated by the Loan Agreement.

### **Tax Covenant**

The Company will covenant and represent in the Loan Agreement that it has taken and caused to be taken and will take and cause to be taken all actions that may, be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and, it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

## **Events of Default and Remedies**

The Loan Agreement provides that the occurrence of each the following events will constitute an "event of default":

(a) The occurrence of an event of default described in paragraphs (a), (b), (c) or (d) under "THE INDENTURE—Events of Defaults and Remedies";

(b) Failure by the Company to observe and perform any other agreement, term or condition contained in the Loan Agreement, other than a failure as will have resulted in an event of default described in (a) above or in breach of the Company's covenants relating to maintenance and operation of the Project Facilities, which failure continues for a period of 60 days after written notice by the Authority or the Trustee, or for such longer period as the Authority and the Trustee agree to in writing; provided, that such failure will not constitute an event of default so long as the Company institutes curative action within the applicable period and diligently pursues that action to completion; and

(c) The occurrence of an "event of default" under the First Mortgage.

A failure by the Company described in paragraph (b) above will not be a default if it occurs by reason of certain events of "force majeure" specified in the Loan Agreement not reasonably within the control of the Company.

Whenever any event of default under the Loan Agreement has happened and is subsisting, either or both of the following remedial steps may be taken by the Authority or the Trustee:

(a) Have access to, inspect, examine and make copies of the books, records, accounts, and financial data of the Company, only, however, insofar as they pertain to the Project Facilities; and

(b) Pursue all remedies existing at law or in equity to recover all amounts then due and thereafter to become due under the Loan Agreement or to enforce performance and observance of any other obligation or agreement of the Company under the Loan Agreement.

Any amounts collected pursuant to action taken upon the happening of an event of default will be paid into the Bond Fund and applied pursuant to the Indenture.

## **Amendment to the Loan Agreement**

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the holders of the Bonds only as may be required (i) by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission therein, (iii) in connection with an amendment of the Indenture not



requiring the consent of holders, or (iv) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the holders of the Bonds. The Loan Agreement may be amended, but only with the consent of the holders of all of the outstanding Bonds, to change the amounts or times as of which Loan Payments under the Loan Agreement are required to be made. Any other amendments to the Loan Agreement may be made only with the written approval or consent of the holders of not less than a majority in aggregate principal amount of the Bonds outstanding.

Before the Authority and the Trustee may consent to any amendment to the Loan Agreement, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such amendment is authorized or permitted by the Act and is authorized under the Indenture, that such amendment will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such amendment will not adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

## **THE INDENTURE**

### **Pledge of Revenues**

Pursuant to the Indenture, to secure the payment of the principal or redemption price of and interest on the Bonds, the Authority will (a) absolutely and irrevocably assign to the Trustee, and to its successors in trust, and its and their assigns, (i) all right, title and interest of the Authority in and to all moneys and investments (including proceeds of the Credit Facility in the Credit Facility Account) of the Bond Fund, (ii) all of the Authority's rights and remedies under the Loan Agreement (except for Unassigned Authority Rights) and (iii) the First Mortgage Bonds, and (b) grant a security interest to the Trustee, its successors in trust and its and their assigns, in all right, title and interest of the Authority in and to the "Revenues" (as defined below) (other than the Credit Facility Account, all money and investments therein and the proceeds of the Credit Facility).

"Revenues" are defined to mean: (a) the Loan Payments, including the payment of principal of, premium, if any, and interest on the 1997 First Mortgage Bonds, in repayment of the Loan, (b) all other moneys received or to be received by the Authority (excluding the Authority's fee) or the Trustee in respect of repayment of the Loan including, without limitation, all moneys and investments in the Bond Fund, (c) all income and profit from the investment of the foregoing moneys. The term "Revenues" does not include any moneys or investments in the Rebate Fund or the Bond Purchase Fund as those terms are defined in the Indenture.

### **Bond Fund**

A Bond Fund will be established with the Authority and maintained by the Trustee as a trust fund under the Indenture. The amounts with respect to the payment of principal of and premium, if any, and interest on the Bonds derived under the Loan Agreement and any Credit Facility and certain other amounts specified in the Indenture will be deposited in the Bond Fund. While the Bonds are outstanding, moneys in the Bond Fund will be used solely

for the payment of the principal or redemption price of and interest on the Bonds as they mature or become due. Moneys derived from any Credit Facility will be used prior to any other funds to pay principal or redemption price of and interest on the Bonds, except as otherwise provided in the Indenture.

### **Bond Purchase Fund**

A Bond Purchase Fund will be established and maintained by the Paying Agent for the deposit of amounts to be used to pay the purchase price of Bonds. Moneys in the Bond Purchase Fund will be used solely for the payment of the purchase price of Bonds. Moneys in the Bond Purchase Fund will not be pledged to the payment of the principal of or interest or any premium on the Bonds and will not be invested.

### **Investments**

Any moneys held as a part of the Bond Fund will be invested by the Trustee as provided in the Indenture. Any such investments will be held by or under the control of the Trustee and will be deemed at all times a part of the respective Fund.

### **Events of Default**

The Indenture provides that each of the following events will constitute an "Event of Default" thereunder:

(a) If a Credit Facility is then held by the Trustee, payment of any interest on any Bond is not made when it becomes due and payable, or if no Credit Facility is then held by the Trustee, payment of any interest on any Bond is not made when and as that interest becomes due and payable and for a period of 30 days thereafter;

(b) Payment of the principal or redemption price of any Bond is not made when it becomes due and payable, whether at stated maturity, by redemption, by acceleration or otherwise;

(c) Payment of the purchase price of any Bond tendered for purchase pursuant to the provisions of Indenture is not made when due and payable;

(d) The Trustee receives written notice from a Bank of an "event of default" by the Company under and as defined in the related Letter of Credit Agreement;

(e) Failure by the Authority to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Bonds or the Indenture (other than a failure described in paragraphs (a), (b) or (c) above), which failure has continued for a period of 60 days after written notice to the Authority and the Company specifying the failure and requiring that it be

remedied given by the Trustee, either in its discretion or at the written request of the holders of not less than 25% in aggregate principal amount of Bonds then outstanding;

(f) If no Credit Facility is then held by the Trustee, the occurrence and continuance of an event of default under the Loan Agreement; or

(g) If a Credit Facility is then held by the Trustee, receipt by the Trustee, on or before the close of business on the fifth calendar day following a drawing under such Credit Facility to pay interest on the Bonds on an Interest Payment Date, of written notice from the Bank that the interest component of the Credit Facility will not be reinstated as of the date of such notice to the amount required to be maintained pursuant to the Indenture.

## **Remedies**

Upon the occurrence and continuance of any Event of Default (i) described in paragraphs (a), (b), (c) or (f) under "Events of Default" above (except an Event of Default under paragraph (f) above occurring solely as a result of the failure of the Company to perform or observe its agreements pertaining to the operation and maintenance of the Project under the Loan Agreement), the Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of Bonds then outstanding, must, or (ii) described in paragraphs (d) or (g) under "Events of Default" above, the Trustee must, by written notice to the Authority, the Company and any Bank, declare the principal of all Bonds then outstanding (if not then due and payable), and the accrued and unpaid interest thereon, to be due and payable immediately.

Interest on the Bonds will accrue at the rates per annum borne by the Bonds to the date determined by the Trustee for the tender of payment to the holders pursuant to that declaration, which date, if the Bonds are then secured by a Credit Facility, will be not more than three days from the date of such declaration; provided, that interest on any unpaid principal of Bonds outstanding will continue to accrue from the date determined by the Trustee for the tender of payment to the holders of those Bonds until that principal amount has been paid or made available to the Trustee for the benefit of the holders. The Trustee will give immediate written notice of such declaration by mail to the holders of all Bonds then outstanding and the Trustee will, if the Bonds are then secured by a Credit Facility, immediately draw moneys under the Credit Facility in accordance with the terms of the Credit Facility, to the extent available thereunder, in an amount sufficient to pay the principal of and accrued and unpaid interest to the tender date on the Bonds.

If no Credit Facility is in effect, then the provisions above are subject to the condition that if at any time after declaration of acceleration and prior to the entry of a judgment in a court for enforcement (after an opportunity for hearing by the Authority and the Company), and prior to the Mortgage Trustee mailing a firm, valid and unconditional notice to the Trustee of the redemption or acceleration of all of the outstanding first mortgage bonds of the Company, all sums payable, plus interest to the extent permitted by law on any overdue installments of interest at the rate then borne by the Bonds, have been duly paid or provision therefor having been made

by deposit with the Trustee and all existing Events of Default have been cured, then such payment or provision for payment will constitute an automatic waiver of the Event of Default and its consequences and will constitute an automatic rescission and annulment of that declaration.

The provisions above are further subject to the condition that a notice from the Bank stating that the interest component of the Credit Facility has been reinstated in full following the declaration of an Event of Default described in paragraph (g) under "Events of Default" above or any waiver by the Bank of any event of default under its Letter of Credit Agreement and a rescission and annulment of its consequences following the giving of notice to the Trustee as described in paragraph (d) under "Events of Default" above will constitute a waiver of the corresponding Event of Default under paragraphs (d) or (g), respectively, and a rescission and annulment of the consequences thereof.

If any Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may pursue any available remedy to enforce the payment of principal of, premium, if any, and interest on the Bonds or the observance and performance of any other covenant, agreement or obligation under the Indenture, the Loan Agreement or any other instrument providing security, directly or indirectly, for the Bonds.

The Bank, if the Event of Default is described under paragraphs (d) or (g) under "Events of Default" above, or the holders of a majority in aggregate principal amount of Bonds then outstanding, if any other Event of Default, will have the right at any time to direct, by an instrument or document or instruments or documents in writing executed and delivered to the Trustee, the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture or any other proceedings thereunder; provided, that (i) any direction may not be other than in accordance with the provisions of law and of the Indenture, (ii) the Trustee must be indemnified as provided in the Indenture, (iii) the Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction and (iv) the Bank will have no rights in respect of remedies against the Bank.

All moneys received under the Indenture by the Trustee upon the occurrence of an Event of Default will be applied first to the payment of the costs, fees, charges and expenses of the proceedings resulting in the collection of such money and of the fees and expenses incurred by the Trustee, and the balance of such money will be deposited in the Bond Fund and applied to the payment of the principal of and premium, if any, and interest on the Bonds in the manner and in the priorities set forth in the Indenture.

No holder of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Indenture or for the exercise of any other remedy under the Indenture, unless (i) an Event of Default has occurred and is continuing of which the Trustee has notice, (ii) the holders of not less than 25% in aggregate principal amount of the then outstanding Bonds have made written request to the Trustee and have afforded the Trustee reasonable

opportunity to proceed to exercise the remedies, rights and powers granted by the Indenture or to institute a suit, action or proceeding in its own name and have offered to the Trustee satisfactory indemnity as provided in the Indenture, and (iii) the Trustee thereafter has failed or refused to exercise the remedies, rights and powers granted under the Indenture or to institute such action, suit or proceeding in its own name. Notwithstanding the foregoing, each holder of a Bond will have a right to enforce the payment of the principal of and premium, if any, and interest on any Bond held or owned by that holder at and after the maturity thereof at the place, from the sources and in the manner expressed in said Bond.

### **Supplemental Indenture**

The Authority and the Trustee may, without the consent of, or notice to, any holder of a Bond, enter into supplemental indentures which will not, in the opinion of the Authority and the Trustee, be inconsistent with the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the holders or the Trustee;
- (c) To assign additional revenues under the Indenture;
- (d) To accept additional security and instruments and documents of further assurance with respect to the Project, including without limitation, first mortgage bonds of the Company;
- (e) To add to the covenants, agreements and obligations of the Authority under the Indenture, other covenants, agreements and obligations to be observed for the protection of the holders of the Bonds, or to surrender or limit any right, power or authority reserved to or conferred upon the Authority in the Indenture;
- (f) To evidence any succession to the Authority and the assumption by its successor of the covenants, agreements and obligations of the Authority under the Indenture, the Loan Agreement and the Bonds;
- (g) To make necessary or advisable amendments or additions in connection with the nontransferability, surrender and voting of the 1997 First Mortgage Bonds;
- (h) To permit the exchange of Bonds, at the option of the holder or holders thereof, for coupon Bonds payable to bearer, if the Trustee has received an Opinion of Bond Counsel (as defined in the Indenture) to the effect that the

exchange would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;

(i) To permit the transfer of Bonds from one securities depository to another, and the succession of securities depositories, or the withdrawal of Bonds issued to a securities depository for use in a book entry system and the issuance of replacement Bonds in fully registered form to others than a securities depository;

(j) To permit the Trustee to comply with any obligations imposed upon it by law;

(k) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the registrar, the Bank, the Remarketing Agent, and any authenticating agents or Paying Agents;

(l) To achieve compliance of the Indenture with any applicable federal securities or tax law;

(m) To make amendments to the provisions of the Indenture relating to arbitrage matters under Section 148(f) of the Code, if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;

(n) To make any amendments appropriate or necessary to provide for or facilitate the delivery of any Credit Facility, any liquidity facility, any municipal bond insurance policy or any other type of credit enhancement or support facility; and

(o) To permit any other amendment which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the holders of the Bonds.

Exclusive of such supplemental indentures, the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding will have the right to consent to and approve any supplemental indenture, except that no supplemental indenture will permit:

(a) (i) an extension of the maturity of the principal of or the date for payment of interest on any Bond, (ii) a reduction in the principal amount of any Bond or the rate of interest or premium thereon, (iii) a reduction in the purchase price of any Bond or (iv) an extension of the date for payment of the purchase price of any Bond without the consent of the holder of each Bond so affected; or

(b) (i) the creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (ii) a reduction in the aggregate principal amount of the Bonds required for consent to a supplemental indenture, without the consent of the holders of all of the Bonds then outstanding.

Any supplemental indenture which affects the rights or obligations of the Company or the Bank requires their consent. Before the Authority and the Trustee may enter into any supplemental indenture, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Act and is authorized under the Indenture, that such supplemental indenture will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such supplemental indenture will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

### **Discharge of Indenture**

The lien created by the Indenture will be discharged when the Authority pays or causes to be paid, or if there otherwise is paid, to or for the holders of the Bonds the principal, premium, if any, and interest due or to become due thereon, provision is also made for the payment of all other sums payable pursuant to the provisions of the Indenture, the Loan Agreement or the First Mortgage Bonds, and any amounts owed by the Company to the Bank under the Letter of Credit Agreement have been paid.

All of the Bonds will be deemed to have been paid and discharged within the meaning of the Indenture if:

(a) The Trustee has received, in trust for and irrevocably committed thereto, sufficient moneys, or

(b) The Trustee has received, in trust for and irrevocably committed thereto, Government Obligations which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates and to bear such interest as will be sufficient together with moneys referred to in (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and premium, if any, and interest on such Bonds (interest will be calculated at the maximum rate permitted to be borne by the Bonds pursuant to the Indenture unless the Bonds are in a Term Rate Period and the Bonds will mature or be redeemed on or prior to the last day of such Term Rate Period) at their maturity or redemption dates, as the case may be; provided, that if any of such Bonds are to be redeemed prior to maturity, notice of such redemption must have been given or irrevocable provision satisfactory to the Trustee must have been made for the giving of such notice; and provided, further, that if a Credit Facility is then held by the Trustee, (i) such payment and any payment of the purchase price of Bonds may be made only from proceeds of the Credit Facility or the Company has caused to be delivered to the Trustee an opinion of Bankruptcy Counsel to the effect described in the Indenture and (ii) the Trustee must receive written evidence that the defeasance of the Indenture will not result in a reduction or withdrawal of any then current rating on the Bonds.

"Government Obligations" are defined to mean (i) direct obligations of the United States for which its full faith and credit are pledged for the full and timely payment thereof, (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States, the full and timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States, or (iii) certificates or receipts representing direct ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii), which obligations are held by a custodian in safekeeping on behalf of such certificates or receipts.

In the event any of the Bonds are paid and discharged pursuant to any provision of the Loan Agreement or the Indenture so that the same are not thereafter outstanding under the Indenture, then an equal principal amount of corresponding 1997 First Mortgage Bonds will be deemed fully paid for purposes of the Indenture and to such extent the obligations of the Company in respect of the 1997 First Mortgage Bonds will be terminated.

#### **No Personal Liability of Authority's Officials**

No covenant, stipulation, obligation or agreement of the Authority contained in the Indenture will be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Authority in other than his or her official capacity. No official of the Authority executing the Bonds, the Indenture, the Loan Agreement (or amendments or supplements to either) will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the execution of the Indenture or the Loan Agreement (or amendments or supplements to either).

#### **The Trustee**

Except for any period during which an Event of Default, of which the Trustee has been notified or is deemed to have knowledge, has occurred and is continuing, the Trustee (i) will undertake to perform only the duties specifically set forth in the Indenture and (ii) in the absence of bad faith on its part, may rely conclusively upon the truth of the statements and the correctness of the opinions furnished to it pursuant to the Indenture. In case an Event of Default has occurred and is continuing (of which the Trustee has been notified or is deemed to have notice), the Trustee will exercise the rights and powers vested in it by the Indenture and will use the same degree of care and skill as a prudent man would use under the circumstances in the conduct of his own affairs. The Trustee will not be required to expend or risk its own funds in performing its duties under the Indenture and will be entitled to compensation and the reimbursement of its expenses and will have a lien therefor upon certain moneys held under the Indenture.

The Trustee may resign at any time from the trusts created by the Indenture by giving written notice of the resignation to the Authority, the Company, the registrar, any Paying Agents, the Remarketing Agent, any Bank and authenticating agents and by mailing written notice thereof to the holders of the Bonds. The resignation will take effect only upon the appointment of a successor Trustee. The Trustee may be removed at any time by the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, The



Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Authority, upon its own volition or at the request of the Company or the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding under the Indenture. The removal will take effect only upon the appointment of a successor Trustee.

Every successor Trustee appointed pursuant to the Indenture (i) must be a trust company or a bank having the powers of a trust company, (ii) must be in good standing within the State, (iii) must be duly authorized to exercise trust powers within the State, (iv) must be willing to accept the trusteeship under the terms and conditions of the Indenture, (v) must have a reported capital and surplus of not less than \$25,000,000 or be guaranteed pursuant to Section 1109.021 of the Ohio Revised Code by a bank or trust company with a reported capital and surplus of not less than \$25,000,000 and (vi) so long as the bonds are rated by Moody's Investors Service ("Moody's"), such successor Trustee must either be rated at least Baa3 or P-3 by Moody's or be otherwise acceptable to Moody's.

## **THE 1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE**

*The following summarizes certain provisions of the 1997 First Mortgage Bonds and the First Mortgage, to which reference is made for the detailed provisions thereof. The statements made herein concerning the 1997 First Mortgage Bonds and the First Mortgage are an outline and do not purport to be complete. Such statements make use of defined terms and are qualified in their entirety by express reference to the definitions in the appropriate sections and articles of the First Mortgage.*

### **General**

All payments by the Company of principal of and premium, if any, and interest on the 1997 First Mortgage Bonds in repayment of the Loan will be made to the Trustee, as assignee of the Authority, on or before the opening of business on the date that the corresponding payment is required to be made under the Bonds. The 1997 First Mortgage Bonds will mature on the date and bear interest, payable at the same times and at the same rate, as the Bonds. Dates and amounts of the payments of principal, whether at maturity or upon redemption, on the 1997 First Mortgage Bonds will correspond to those applicable to the Bonds. Upon the acceleration of the Bonds, the Trustee is empowered to cause the mandatory redemption of the outstanding 1997 First Mortgage Bonds. The Seventy-\_\_\_\_\_ Supplemental Indenture creating the 1997 First Mortgage Bonds contains provisions for redemption of the 1997 First Mortgage Bonds which are consistent with those described above with respect to the Bonds. The Articles cited below refer to Articles of the First Mortgage.

## **Security**

The 1997 First Mortgage Bonds and all First Mortgage Bonds of other series currently outstanding and hereafter issued under the First Mortgage will, in the opinion of counsel for the Company, be secured equally and ratably (except as to any sinking or analogous fund established for the First Mortgage Bonds of any particular series) by a valid and perfected first lien, subject only to certain permitted liens and other encumbrances, on substantially all the property owned and franchises held by the Company, except the following: (a) cash, receivables and contracts not pledged or required to be pledged under the First Mortgage and leases in which the Company is lessor; (b) securities not specifically pledged or required to be pledged under the First Mortgage; (c) property held for consumption in operation or in advance of use for fixed capital purposes or for resale or lease to customers; (d) electric energy and other materials or products produced or purchased by the Company for sale, distribution or use in the ordinary conduct of its business; and (e) all the property of any other corporation which may now or hereafter be wholly or substantially wholly owned by the Company. (Clauses preceding Article I) All property acquired by the Company after June 30, 1940, other than the property excepted from the lien of the First Mortgage, becomes subject to the lien thereof upon acquisition. (Article I and granting and other clauses preceding Article I) Under certain conditions, the First Mortgage permits the Company to acquire property subject to a lien prior to the lien of the First Mortgage. (Article IV)

Property subject to the lien of the First Mortgage will be released from the lien upon the sale or transfer of such property if the Company deposits the fair value of the property with the First Mortgage Trustee and meets certain other conditions specified in the First Mortgage. (Article VII) Moneys received by the First Mortgage Trustee for the release of property will, under certain circumstances, be applied to redeem outstanding First Mortgage Bonds, be applied to satisfy other obligations of the Company or be paid over to the Company from time to time based upon property additions or refundable First Mortgage Bonds. (Article VIII)

In the Nineteenth Supplemental Indenture, the First Mortgage was modified to permit the Company without the vote or consent of the holders of any First Mortgage Bonds issued after November, 1976 (a) to exclude nuclear fuel from the lien of the First Mortgage to the extent not excluded therefrom by its existing provisions and (b) to revise the definition of property additions which can constitute bondable property to include facilities outside the State even though they are not physically connected with property of the Company in the State and to clarify its general scope.

## **Title to Property**

The generating plants and other principal facilities of the Company are owned by the Company, except as follows:

(a) The Company and Toledo Edison jointly lease from others for a term of about 29-1/2 years starting on October 1, 1987 undivided 6.5%, 45.9% and 44.38% tenant-in-common

interests in Units 1, 2 and 3, respectively, of the Bruce Mansfield Generating Plant (the "Mansfield Plant") and also jointly lease from others for the same term an 18.26% undivided tenant-in-common interest in Beaver Valley Power Station Unit 2 ("Beaver Valley Unit 2"), all located in Shippingport, Pennsylvania. The Company owns another 24.47% interest in Beaver Valley Unit 2 as a tenant-in-common.

(b) Most of the Lake Shore Plant ("Lake Shore") facilities are situated on artificially filled land, extending beyond the natural shoreline of Lake Erie as it existed in 1910. As of December 31, 1996, the cost of the Company's facilities, other than water intake and discharge facilities, located on such artificially filled land aggregated \$\_\_\_\_,\_\_\_\_,\_\_\_\_.

Title to land under the water of Lake Erie within the territorial limits of the State (including artificially filled land) is in the State in trust for the people of the State for the public uses to which it may be adapted, subject to the powers of the United States, the public rights of navigation, water commerce and fishery and the rights of upland owners to wharf out or fill to make use of the water. The State is required by statute, after appropriate proceedings, to grant a lease to an upland owner, such as the Company, which erected and maintained facilities on such filled land prior to October 13, 1955. The Company does not have such a lease from the State with respect to the artificially filled land on which its Lake Shore facilities are located, but the Company's position, on advice of counsel for the Company, is that the Lake Shore facilities and occupancy may not be disturbed because they do not interfere with the free flow of commerce in navigable channels and also constitute, at least in part, and are on land filled pursuant to, the exercise by it of its property rights as owner of the land above the shoreline adjacent to the filled land. The Company does hold permits, under federal statutes relating to navigation, to occupy such artificially filled land.

(c) The facilities at the pumped-storage hydroelectric Seneca Power Plant in Pennsylvania ("Seneca") are located on land owned by the United States and occupied by the Company and Pennsylvania Electric Company pursuant to a license issued by the Federal Energy Regulatory Commission for a 50-year period starting December 1, 1965 for the construction, operation and maintenance of a pumped-storage hydroelectric plant.

(d) The water intake and discharge facilities at the electric generating plants located along Lake Erie and the Ohio River are extended into the lake and river under the Company's property rights as owner of the land above the water line and pursuant to permits under federal statutes relating to navigation.

(e) The transmission system is located on land, easements or rights-of-way owned by the Company. The distribution system also is located, in part, on land owned by the Company, but, for the most part, it is located on lands owned by others and on streets and highways. In most cases, the Company has obtained permission from the apparent owner, or, if located on streets and highways, from the apparent owner of the abutting property. The electric underground transmission and distribution systems are located for the most part in public streets. The Pennsylvania portions of the main transmission lines from Seneca, the Mansfield Plant and Beaver Valley Unit 2 are not owned by the Company.

The fee title which the Company has as a tenant-in-common owner, and the leasehold interests it has as a joint lessee, of certain generating units do not include the right to require a partition or sale for division of proceeds of the units without the concurrence of all the other owners and their respective mortgage trustees and the First Mortgage Trustee.

### **Issuance of Additional First Mortgage Bonds**

In addition to the [\$2,996,515,000] principal amount of First Mortgage Bonds outstanding at June 30, 1997 (which includes [\$140,400,000] principal amount of First Mortgage Bonds pledged to secure the Company's obligations to various bank creditors), and the principal amount of the 1997 First Mortgage Bonds, additional First Mortgage Bonds may be issued under Article III of the First Mortgage, ranking equally and ratably with such outstanding First Mortgage Bonds and the 1997 First Mortgage Bonds and without limit as to amount, on the basis of: (a) 70% of bondable property (as described under "1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE -- Security") not previously used as the basis for issuance of First Mortgage Bonds or applied for some other purpose under the First Mortgage; (b) the deposit of cash (which may be withdrawn thereafter on the basis of bondable property or refundable First Mortgage Bonds); and (c) substitution for refundable First Mortgage Bonds. First Mortgage Bonds become refundable First Mortgage Bonds when they are paid upon maturity, redemption or purchase out of money deposited with the First Mortgage Trustee for such payment or when money for such payment is irrevocably deposited with the First Mortgage Trustee. (Articles I, III and VIII) In general, all property subject to the lien of the First Mortgage which is used or useful in the Company's electric business (including property not located in the State if it is physically connected with property of the Company in the State, either directly or through other property of the Company), which is not subject to an unfunded prior lien and as to which the Company has good title and corporate power to own and operate, is bondable property and as such is available as a basis for the issuance of First Mortgage Bonds. (Article I) The facilities of the Company on the artificially filled land at Lake Shore will become bondable property only when the Company acquires, under conditions specified in the First Mortgage, either good title to such land or the right to occupy it; and the facilities of the Company on the land at Seneca are not now bondable property. See "1997 FIRST MORTGAGE BONDS AND FIRST MORTGAGE -- Title to Property". The tenant-in-common interests owned by the Company in certain generating units qualify as bondable property, except that its interest in property located in Pennsylvania, including Beaver Valley Unit 2, does not qualify because it is located outside the State and is not physically connected with property of the Company in the State. (Article I) With certain exceptions, property which the Company leases from others is not bondable property. (Articles I and III)

Also, with certain exceptions, in order to issue additional First Mortgage Bonds based on bondable property, net earnings of the Company available for interest and property retirement appropriations for any 12 consecutive months within the 15 calendar months immediately preceding the month in which application for authentication and delivery of such additional First Mortgage Bonds is made must be at least twice the annual interest charges on all First Mortgage Bonds outstanding and on the issue applied for. (Article III)

At June 30, 1997, the Company would have been permitted to issue approximately [\$205,000,000] of additional First Mortgage Bonds. The amount of additional First Mortgage Bonds which may be issued will fluctuate depending upon the amount of available refundable First Mortgage Bonds, available bondable property, earnings and interest rates.

### **Covenant to Charge Earnings Not Applicable to the 1997 First Mortgage Bonds**

The supplemental indentures applicable to First Mortgage Bonds issued prior to 1974 contain a covenant to the effect that, so long as any of those First Mortgage Bonds remain outstanding (which will be until November 15, 2005, assuming no prior redemption), the Company will charge against earnings, and credit to reserves for depreciation and retirement of property, an amount not less than 15% of gross operating revenues for each year (after deducting the costs of purchased power and net electric energy received on interchange), less the amounts expended for maintenance and repairs during the year. The Seventy-\_\_\_\_\_ Supplemental Indenture will not extend such covenant to the 1997 First Mortgage Bonds.

### **Remedies in the Event of Default**

Events of default under the First Mortgage include the failure of the Company (a) to pay the principal of or premium, if any, on any First Mortgage Bond when due; (b) to pay any interest on or sinking fund obligation of any First Mortgage Bond within 30 days after it is due; (c) to pay the principal of or interest on any prior lien bonds within any allowable period; (d) to discharge, appeal or obtain the stay of any final judgment against the Company in excess of \$5,000 within 30 days after it is rendered; or (e) to perform any other covenant in the First Mortgage within 60 days after notice to the Company from the First Mortgage Trustee or the holders of not less than 15% in principal amount of the First Mortgage Bonds. Events of default also include certain events of bankruptcy, insolvency or reorganization in bankruptcy or insolvency of the Company. (Article IX) The Company is required to furnish periodically to the First Mortgage Trustee a certificate as to the absence of any default or as to compliance with the terms of the First Mortgage, and such a certificate is also required in connection with the issuance of any additional First Mortgage Bonds and in certain other circumstances. (Article III) The First Mortgage provides that the First Mortgage Trustee, within 90 days after notice of defaults under the First Mortgage (60 days with respect to events of default described in (e) above), is required to give notice of such defaults to all holders of First Mortgage Bonds, but, except in the case of a default resulting from the failure to make any payment of principal of or interest on the First Mortgage Bonds or in the payment of any sinking or purchase fund installments, the First Mortgage Trustee may withhold such notice if it determines in good faith that it is in the best interests of the holders of the First Mortgage Bonds to do so. (Article XIII)

Upon the occurrence of any event of default, the First Mortgage Trustee or the holders of not less than 25% in principal amount of the First Mortgage Bonds may declare the principal amount of all First Mortgage Bonds due, and, if the Company cures all defaults before a sale of the mortgaged property, the holders of a majority in principal amount of the First Mortgage Bonds may waive the default. If any event of default occurs, the First Mortgage

Trustee also may (a) take possession of and operate the mortgaged property for the purpose of paying the principal of and interest on the First Mortgage Bonds; (b) sell at public auction all of the mortgaged property, or such parts thereof as the holders of a majority in principal amount of the First Mortgage Bonds may request or, in the absence of such request, as the First Mortgage Trustee may determine; (c) bring suit to enforce payment of the principal of and interest on the First Mortgage Bonds, to foreclose the First Mortgage or for the appointment of a receiver of the mortgaged property; and (d) pursue any other remedy. (Article IX)

No holder of First Mortgage Bonds may institute any action, suit or proceeding for any remedy under the First Mortgage unless he has previously given the First Mortgage Trustee written notice of a default by the Company, and in addition: (a) the holders of not less than 25% in principal amount of the First Mortgage Bonds have requested the First Mortgage Trustee and afforded it a reasonable opportunity to exercise its powers under the First Mortgage or to institute such action, suit or proceeding in its own name; (b) such holder has offered to the First Mortgage Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred thereby; and (c) the First Mortgage Trustee has refused or neglected to comply with such request within a reasonable time. The holders of a majority in outstanding principal amount of the First Mortgage Bonds, upon furnishing the First Mortgage Trustee with security and indemnification satisfactory to it, may require the First Mortgage Trustee to pursue any available remedy, and any holder of the First Mortgage Bonds has the absolute and unconditional right to enforce the payment of the principal of and interest on his First Mortgage Bonds. (Article IX)

### **Modification of First Mortgage and First Mortgage Bonds**

Certain modifications which do not in any manner impair any of the rights of the holders of any series of First Mortgage Bonds then outstanding or of the First Mortgage Trustee may be made without the vote of the holders of the First Mortgage Bonds by supplemental indenture entered into between the Company and the First Mortgage Trustee. (Article XIV)

Modifications of the First Mortgage or any indenture supplemental thereto, and of the rights and obligations of the Company and of holders of all series of First Mortgage Bonds outstanding, may be made with the consent of the Company by the vote of the holders of at least 80% in principal amount of the outstanding First Mortgage Bonds entitled to vote at a meeting of the holders of the First Mortgage Bonds or, if one or more, but less than all, of the series of First Mortgage Bonds outstanding under the First Mortgage are affected by any such modification, by the vote of the holders of at least 80% in principal amount of the outstanding First Mortgage Bonds entitled to vote of each series so affected; but no such modification may be made which will affect the terms of payment of the principal of or premium, if any, or interest on any First Mortgage Bond issued under the First Mortgage or to change the voting percentage described above to less than 80% with respect to any First Mortgage Bonds outstanding when such modification becomes effective. First Mortgage Bonds owned or held by or for the account or benefit of the Company or an affiliate of the Company (as defined in the First Mortgage) are not entitled to vote. (Article XV) In the Nineteenth Supplemental Indenture, the First Mortgage was modified, effective when none of the First Mortgage Bonds of any series issued prior to December 1976 are outstanding, so as to change the 80% voting requirements discussed above to

60%. Based on the series of First Mortgage Bonds outstanding at June 30, 1997, the 60% voting requirement will become effective on [May 1, 2009].

### **Defeasance and Discharge**

The First Mortgage provides that the Company will be discharged from any and all obligations under the First Mortgage if the Company pays the principal, interest and premium, if any, due on all First Mortgage Bonds outstanding in accordance with the terms stipulated in each such Bond and if the Company has performed all other obligations under the First Mortgage. In the event of such discharge, the Company has agreed to continue to indemnify the First Mortgage Trustee from any liability arising out of the First Mortgage. (Article XVI)

### **TAX EXEMPTION**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law, (i) the interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except on any Bond for any period during which it is held by a "substantial user" or a "related person", as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code, but may be subject to the corporate alternative minimum tax on a portion of such interest; and (iii) interest on the Bonds and any profit made on the sale, exchange or other disposition thereof are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications and compliance with certain covenants of the Company and the Authority to be contained in the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Company and the Authority.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the issuer to the federal government, require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Company or the Authority with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income tax retroactively to the date of their issuance. The Company and the Authority will covenant to take actions required for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under the Code, interest on the Bonds may be subject to [an environmental tax imposed on certain corporations for certain taxable years,] a branch profits tax imposed on certain foreign corporations doing business in the United States and a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can have certain adverse federal income tax consequences for certain taxpayers, including among them financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding such consequences.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend the federal tax matters referred to herein or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

## LEGAL MATTERS

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel. Signed copies of the Opinion, dated and speaking only as of the date of original delivery of the Bonds, will be delivered to the Placement Agent at the time of such original delivery and a copy of the opinion will be printed on the Bonds and the form of the opinion is set forth as Appendix C to this Private Placement Memorandum.

Certain legal matters in connection with the issuance of the Bonds will be passed upon for the Company by [Terrence G. Linnert, Vice President of the Company and Centerior and Vice President - Legal & Governmental Affairs and General Counsel of Centerior Service Company (the "Service Company"), Mary E. O'Reilly, Managing Attorney of the Service Company, or Kevin P. Murphy, Senior Corporate Counsel of the Service Company]. Certain legal matters will be passed upon for the Authority by Baker, Baker & Sweterlitsch, as General Counsel for the Authority, by Forbes, Forbes & Associates, as Special Counsel for the Authority. Neither Bond Counsel nor Counsel for the Authority has participated in the preparation of, or reviewed, Appendix A concerning the Company.

Certain legal matters pertaining to the 1997 Series B Bank will be passed upon by \_\_\_\_\_, as counsel to the 1997 Series B Bank. Certain legal matters will be passed upon for the Placement Agent by Calfee, Halter & Griswold LLP, as counsel for the Placement Agent.



From time to time, Squire, Sanders & Dempsey L.L.P. represents the Company in connection with certain regulatory and environmental matters.

### **PLACEMENT OF THE BONDS**

The First National Bank of Chicago, the Placement Agent named on the cover page, has agreed, subject to the approval of certain legal matters by counsel and to certain other conditions, to arrange for the private placement of the Bonds. Investors will purchase the Bonds directly from the Authority and not from the Placement Agent. The Company has agreed to indemnify the Placement Agent and the Authority against certain liabilities, including liabilities under Federal securities laws.

### **SPECIAL LEGAL INVESTMENT CONSIDERATIONS**

[The Florida Securities and Investor Protection Act provides that securities issued or guaranteed by any state of the United States or any political subdivision, agency or instrumentality thereof are subject to registration with the Florida Department of Banking and Finance, Division of Securities and Investor Protection, if the issuer or guarantor of such securities is in default or has been in default at any time after December 31, 1975 as to principal and interest with respect to an obligation issued by such issuer or guaranteed by such guarantor (or their respective successors), unless the offering circular contains full and fair disclosure concerning the circumstances of such default. Certain bond issues for which the Authority is the issuer have been in default due to the default of the underlying obligors (other than the Company) with respect to such issues. However, the Bonds are payable solely from the funds pledged under the applicable Indenture and any other obligations issued by the Authority are payable solely from the funds specifically pledged for the payment of such obligations. Accordingly, a default on another issue of obligations issued by the Authority would not constitute a default on the Bonds, and the Authority does not consider that disclosures relating to defaults on other Authority obligations would be appropriate or material to prospective purchasers of the Bonds.][If no defaults, may be deleted.]

### **CONTINUING DISCLOSURE**

Because the Bonds will be special obligations of the Authority, the Authority is not an "obligated person" for purposes of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission") and have no continuing disclosure obligations thereunder. Accordingly, the Authority will not provide any continuing disclosure information with respect to the Bonds or the Authority.

During the period that the Bonds bear interest at a Daily Rate or a Weekly Rate, the Bonds are exempt from the requirements of the Rule. Nevertheless, the Company has undertaken, by executing a Continuing Disclosure Agreement with the Trustee, as representative of the Beneficial Owners of the Bonds (the "Continuing Disclosure Agreement"), the following responsibilities for continuing disclosure.

In the Continuing Disclosure Agreement, the Company has covenanted (i) (a) to provide the annual financial information and audited financial statements required by the Rule by filing with the Commission the reports on Form 10-K required under Sections 13 or 15(d) of the Exchange Act, including any successor provisions thereto (the "Form 10-K") not later than the dates required thereunder and (b) to provide to each nationally recognized municipal securities information repository designated by the Commission in accordance with the Rule and to the Ohio Municipal Advisory Council, the state information depository designated by the State (collectively, the "Repositories"), at the option of the Company (1) a copy of the Form 10-K within ten (10) days of the filing thereof with the Commission or (2) notice on an annual basis that the Form 10-K constitutes the annual financial information with respect to the Company required under the Rule or (ii) in the event that the Company is not required to file the Form 10-K under the Exchange Act, to provide to the Repositories (a) annual financial information of the type set forth in Appendix A hereto and (b) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than one hundred twenty (120) days after the end of the Company's fiscal year and, in any case, (iii) to provide to the Repositories, in a timely manner, notice of (a) the occurrence of material events with respect to the Bonds required to be disclosed under the Rule and (b) the failure by the Company to provide the annual financial information by the date due.

Failure of the Company to comply with the terms of the Continuing Disclosure Agreement will not constitute an event of default under the Loan Agreement, the Indenture, the First Mortgage, the 1997 First Mortgage Bonds or the Bonds. In the event of a failure by the Company to comply with any provision of the Continuing Disclosure Agreement, the Trustee may (and, at the request of the Beneficial Owners of at least 25% aggregate principal amount of outstanding Bonds, shall), and any Beneficial Owner of Bonds may, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Company to comply with its obligations under the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement is solely for the benefit of the Authority, the Company, the Placement Agent and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity. **[Does Company want to provide continuing disclosure while in Daily/Weekly Rate Period?]**

### **MISCELLANEOUS**

Appendix A to this Private Placement Memorandum contains or incorporates by reference information concerning the Company, including certain financial information. Such information has been furnished by the Company. The information contained under the caption "THE AUTHORITY" has been furnished by the Authority. The information contained under the caption "PLACEMENT OF THE BONDS" has been furnished by the Placement Agent. The information contained in Appendix B has been furnished by the 1997 Series B Bank. Although the Authority has consented to the use of this Private Placement Memorandum in connection

with the initial issuance and sale of the Bonds, the Authority has not participated in the preparation of this Private Placement Memorandum and makes no representation with respect to the accuracy or completeness hereof, except for the information furnished by it, as set forth in this paragraph.

Copies of the Loan Agreement, the Seventy-\_\_\_\_\_ Supplemental Indenture, the Indenture and the Letters of Credit may be obtained from the Placement Agent during the period of the offering or from the Company. Requests to the Company should be directed to [Janis T. Percio, Secretary,] The Cleveland Electric Illuminating Company, c/o Centerior Energy Corporation, P.O. Box 94661, Cleveland, OHIO 44101-4661, or by telephone (216) 447-3100. The 1997 First Mortgage may be inspected at the principal corporate trust office of the First Mortgage Trustee.

The use of the Private Placement Memorandum has been duly authorized by the Authority.

OHIO WATER DEVELOPMENT  
AUTHORITY

By: \_\_\_\_\_  
Executive Director

## **APPENDIX A**

### **THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

*The information contained herein as Appendix A to the Private Placement Memorandum has been obtained from The Cleveland Electric Illuminating Company. Neither the Authority nor the Placement Agent make any representations as to the accuracy or completeness of such information.*

**[TO BE PROVIDED]**

## **APPENDIX B**

### **THE FIRST NATIONAL BANK OF CHICAGO**

*The information set forth below has been obtained from The First National Bank of Chicago, and the Company and the Authority make no representations as to the accuracy or completeness of such information,*

**[TO BE PROVIDED]**

## APPENDIX C

### FORM OF OPINION OF BOND COUNSEL

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Water Development Authority (the "Issuer") of \$47,500,000 principal amount of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds, Series 1997-B (The Cleveland Electric Illuminating Company Project) (the "Bonds"). The Bonds are being issued for the purpose of making a loan to The Cleveland Electric Illuminating Company (the "Company") to assist in refunding the outstanding aggregate principal amount of \$47,500,000 State of Ohio 6.20% Pollution Control Revenue Bonds, 1978 Series A (The Cleveland Electric Illuminating Company Project), dated as of May 1, 1978 (the "Project Facilities Bonds"), as more particularly described in the Trust Indenture (the "Indenture"), dated as of July 1, 1997, between the Issuer and Mellon Bank, F.S.B., Pittsburgh, Pa., as trustee (the "Trustee"). The proceeds of the Project Facilities Bonds were loaned to the Company to assist in the financing of its portion of the costs of the acquisition, construction and installation of certain facilities comprising "waste water facilities" and "solid waste facilities", as defined, respectively, in Sections 6121.01 and 6123.01 of the Ohio Revised Code. The Transcript documents include an executed counterpart of the Indenture and the Loan Agreement (the "Agreement"), dated as of July 1, 1997, between the Issuer and the Company. We also have examined a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement, and the Company's obligation to make those payments is evidenced and secured by the Company's \$47,500,000 principal amount of First Mortgage Bonds, \_\_\_\_% Series due 2020 (the "First Mortgage Bonds") issued under and secured by the Mortgage and Deed of Trust dated July 1, 1940 from the Company to Guaranty Trust Company of New York, as trustee (now The Chase Manhattan Bank (National Association), as successor trustee), as amended and supplemented by various indentures supplemental thereto, including the Seventy-\_\_\_\_ Supplemental Indenture dated July 1, 1997 (collectively, the "First Mortgage"). The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio for the payment of debt service.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code, and is not treated as an item of tax preference under Section 57 of the Code. The interest on the Bonds and any profit made on the sale, exchange or other disposition thereof are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax [and to an environmental tax imposed for certain taxable years], and interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States, and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds subsequent to the issuance of the Bonds may cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We also have relied upon the opinion of counsel for the Company contained in the Transcript as to all matters concerning the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement. We further have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture.

We express no opinion concerning the letter of credit identified in the Transcript and delivered in connection with the issuance of the Bonds.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey  
L.L.P."]