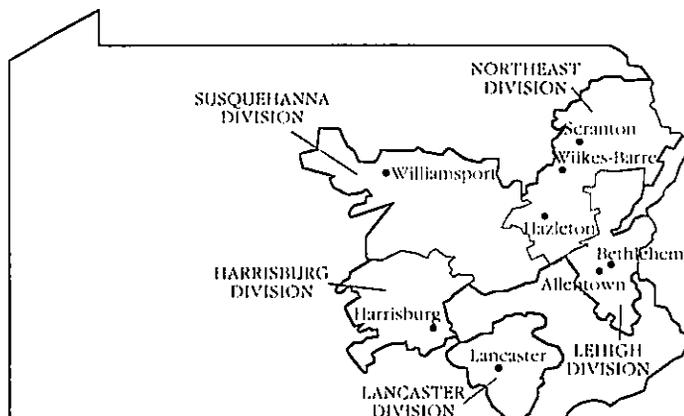


1993

ANNUAL REPORT
PENNSYLVANIA POWER & LIGHT COMPANY

COMPANY PROFILE

Pennsylvania Power & Light Company, headquartered in Allentown, Pa., provides electric service to approximately 1.2 million homes and businesses throughout a 10,000-square-mile area in 29 counties of Central Eastern Pennsylvania. Principal cities in the PP&L service area are Allentown, Bethlehem, Harrisburg, Hazleton, Lancaster, Scranton, Wilkes-Barre and Williamsport. The area is at the heart of the nation's largest industrial and commercial market area. More than 70 million consumers live within a 300-mile radius.



1994 ANNUAL MEETING

PP&L's 1994 annual meeting will be held April 27 at the F. M. Kirby Center for the Performing Arts, Public Square, Wilkes-Barre, Pa. See page 46 for details.

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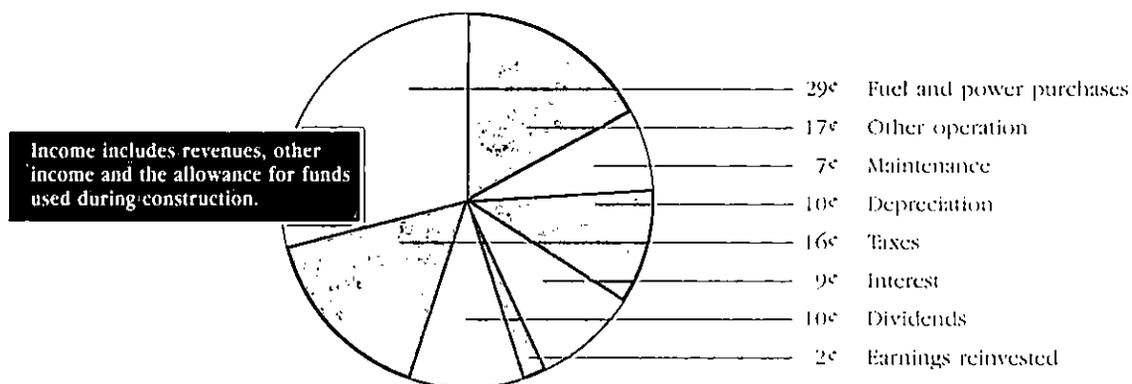


HIGHLIGHTS (Consolidated)

	1993	1992	1993-1992 % Change	1991
Operating Data (in thousands)				
Total Energy Sales, Kilowatt-hours	42,333,831	42,242,334	0.2	43,772,159
System Energy Sales, Kilowatt-hours (a)	31,050,172	29,755,211	4.4	29,036,169
Contractual Sales to Other Utilities, Kilowatt-hours	7,142,189	7,326,845	(2.5)	7,182,642
PJM Interchange Power Sales, Kilowatt-hours	4,141,470	5,160,278	(19.7)	7,553,348
Electricity Generated, Kilowatt-hours	39,245,835	39,186,425	0.2	41,551,242
Net System Capacity, Kilowatts (b)(c)	7,802	7,802	0.0	7,797
Winter Peak Demand, Kilowatts (d)	6,403	6,130	4.5	5,974
Financial Data (in thousands)				
Operating Revenues	\$2,727,002	\$2,744,122	(0.6)	\$2,740,715
Operating Income	\$562,808	\$573,431	(1.9)	\$582,331
Net Income	\$348,126	\$346,724	0.4	\$348,414
Common Dividends Declared	\$250,611	\$242,655	3.3	\$234,626
Common Equity (b)	\$2,425,835	\$2,366,939	2.5	\$2,298,010
Capital Provided by Investors (b)	\$5,797,040	\$5,702,658	1.7	\$5,623,378
Construction Expenditures	\$430,672	\$387,220	11.2	\$336,741
Construction Work in Progress (b)	\$238,600	\$211,534	12.8	\$183,242
Property, Plant and Equipment—Net (b)	\$7,145,581	\$7,019,504	1.8	\$6,929,578
Total Assets (b)	\$9,454,113	\$8,191,768	15.4	\$7,934,595
Per Common Share				
Earnings	\$2.07	\$2.02	2.5	\$2.01
Dividends Declared	\$1.65	\$1.60	3.1	\$1.55
Market Price (b)	\$ 27	\$27 $\frac{1}{4}$	(0.9)	\$26 $\frac{3}{8}$
Book Value (b)	\$15.95	\$15.58	2.4	\$15.15
Other Information				
Return on Average Common Equity	13.06%	13.11%	(0.4)	13.42%
Times Interest Earned Before Income Taxes	3.33	3.18	4.7	3.06
Number of Customers—Electric (b)	1,203,139	1,186,682	1.4	1,173,680
Common Shares Outstanding (b)	152,132,089	151,885,335	0.2	151,655,268
Number of Common Shareowners (b)	130,677	129,394	1.0	127,272
Number of Employees—Electric (b)	7,765	7,981	(2.7)	8,144

- (a) Excludes contractual sales to other utilities and PJM interchange power sales.
 (b) At year-end.
 (c) Total generating capacity plus firm capacity purchases less firm capacity sales.
 (d) Winter peaks were reached early in the subsequent year.

WHERE THE PP&L INCOME DOLLAR WENT IN 1993



You get the future for which you plan.

At PP&L, we believe that adage but we also believe that plans don't amount to much unless you do a good job in executing them. I'm pleased to report to you that we are implementing plans that will enable us to take full advantage of the changes that are shaping a new electric utility industry. Provisions of the National Energy Policy Act of 1992 have altered the very nature of the electric business in the United States. Opportunities abound for companies that are prepared to move.

During the past year, we have begun work on initiatives that will help us shape a successful future for PP&L customers, for PP&L investors and for PP&L employees.

Also, we are implementing a Continuous Performance Improvement Process. We are continuing our aggressive cost-reduction effort. And, we are responding to the new competition in our industry with a renewed commitment to high quality service and reasonable prices.

A series of initiatives, many of which stem from the new rules in our business, will lead to new sources of revenue for the company and will allow us to compete effectively as some of our markets are deregulated. Several of our initiatives involve cost-reduction measures that are necessary to solidify our position as a low cost supplier of electricity. Some of these initiatives involve expanding operations in our traditional business to gain new revenues. And, still other initiatives involve PP&L reaching out beyond the confines of our present service area. These initiatives are detailed on page 5 of this report.

While we remain sharply focused on providing high quality service at reasonable prices to the people of Central Eastern Pennsylvania, we also are convinced that



William F. Hecht

there are growth opportunities for PP&L in the worldwide power market. We are establishing a subsidiary to take advantage of emerging opportunities in the United States and in other countries — opportunities in the electric power business that are outside the scope of the traditional utility structure.

To take advantage of such opportunities, in February our board of directors gave approval to form a holding company. During this year, we will be seeking regulatory approvals for the holding company arrangement. If appropriate approvals are granted, the process will culminate in our asking you for approval of the holding company at next year's annual meeting.

The holding company structure is a visible demonstration of the dramatic changes that we see coming to PP&L. A similar dramatic change is under way in the way we work with each other in the company. That's the reasoning behind our Continuous Performance Improvement Process.

CPIP, which was developed by a union-management team, heralds a

new era of partnership and employee participation at PP&L. Our success in the future will come from the ideas and the enthusiasm of every PP&L employee. CPIP will be the catalyst that will bring more of those ideas and that enthusiasm to the surface. For more details on CPIP, see the article on page 6.

These changes come none too soon because, in many ways, the future already is here.

New competition has arrived in our "wholesale" business. Each year, about \$44 million in revenues have come from our sales to small utilities—municipals, cooperatives and investor-owned—that don't operate their own generating facilities. The 1992 energy act specifically says that this group is no longer bound to their traditional utility supplier and is now free to "shop around" for electricity. This led to significant opportunity for us.

We reacted in two ways: First, we began to explore the additional "markets" — those customers located in other utilities' service areas. Second, we took action to renegotiate the sales agreements that we had with municipal and small utilities located in Central Eastern Pennsylvania.

The results were good. We are talking with several potential buyers about sales agreements and we were able to retain as customers those small utilities that we have been selling to for years. These new agreements are subject to Federal Energy Regulatory Commission approval.

The wholesale market was not the only place in which we can report success in 1993. Sales to our service area customers were up by 4.4 percent for the year. It is especially significant that industrial sales also increased by 4 percent. Even when accounting for an unusually hot summer, which tends to increase residential and commercial sales, the strong sales performance indicates an encouraging underlying growth in our service area economy.

Earnings for 1993 were \$2.07 per share, an increase of 5 cents per share over the previous year. A full discussion of earnings can be found on page 12.

The news also was good for our customers in 1993. Our rates continue to hold steady. At the end of 1993, PP&L rates were roughly the same as they were in 1986, an impressive record when you consider that the Consumer Price Index has increased by more than 20 percent over that same period.

1993 also was a good year for financing. Taking advantage of favorable interest rates, we sold \$1.15 billion in securities and redeemed \$1.09 billion of high-cost securities, in each case more than in any year in our history. This reduced our costs by lowering our interest charges and dividends on preferred stock. Also on the financial front, at year's end we expressed a fond farewell to a man who was involved in the company's financial operations for nearly four decades. Charles E. Russoli, executive vice president and chief financial officer, retired. Charlie also retired from his position on the company's board of directors.

The 12 months of 1993 also were productive ones for our power plants. Our fossil plants exceeded their goal as they were available to produce electricity 82 percent of the time during the year. Our Susquehanna nuclear plant fell just short of its goal for the year.

Our marketing and economic development program had another successful year, exceeding its goals by accounting for 556 million kwh in increased annual sales.

We continued our environmental efforts in 1993, publishing our first-ever environmental annual report.

The report, which is available upon request, provides details of the company's environmental efforts and of the impact of its operations.

In other environmental news, the company signed an agreement with federal and state agencies as well as private sporting groups to restore shad to the Susquehanna River. Under the agreement, we will install fish lifts at our Holtwood hydro plant by the spring of 1997. Also, PP&L's Comfort Home[®] program was recognized as a "model of excellence" by a group of environmental organizations.

The news was not so good in the safety area during 1993. Tragically, a Distribution Department employee from our Susquehanna Division died of complications resulting from injuries he suffered when he came in contact with a 7,200-volt underground line. Francisco Garcia, 48, was a PP&L employee for 15 years. This was the first job-related fatality of a PP&L employee since 1988.

We also failed to reach our safety goals in 1993 as lost-time accidents, no-lost-time accidents and motor vehicle accidents all exceeded targets. Reacting to the clearly subpar safety performance during the year, we appointed a union-management team to examine the problem and make recommendations for improvement. After talking to hundreds of employees throughout the company, the team made dozens of recommendations for improvements, on which we are now acting.

Our performance in 1993, our initiatives for the more competitive future and the promise of our CPIP effort give us great confidence in the future — a future that we are now working to shape. PP&L is a solid investment today and will continue to be in the new competitive future.

A look at our history tells you why we are optimistic:

- We have been a leader in the competitive bulk power sales market. In the last five years, we have sold more than 71 billion kwh to other utility companies, about 32 percent of the electrici-

ty we have available for sale.

- We have been a leader in attracting business and industry to Central Eastern Pennsylvania, despite intense competition. Over the past five years, we have been involved in attracting a net increase of more than 30,000 jobs to Central Eastern Pennsylvania.
- In the face of a strong challenge from other fuels, electricity continues to be the heating source of choice for new home builders in Central Eastern Pennsylvania. About 69 percent of the homes built in our service area in the past five years are all-electric.

We have been successful in the competitive markets in which we have been involved. And, while the new challenges are unlike those we have seen in the past, we feel confident we will be able to meet the competitive challenges in the future as well.

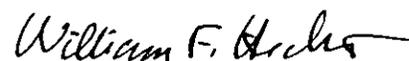
Our experiences give us a competitive advantage. We have put together a cohesive strategy for the future. We are empowering PP&L people to meet the challenge. We are trimming down to face the competition.

These are the reasons that we look with confidence to the opportunities created by the new rules in our business.

These are the reasons that PP&L will be one of the winners in the new electric power business.

On behalf of all of us at PP&L, I thank you for your continued support.

Respectfully submitted,



William F. Hecht
March 1, 1994

Competition & Deregulation

Since the passage of the National Energy Policy Act of 1992, there has been a great deal of discussion about changes in the utility business. At PP&L, we are convinced that the new rules in our industry present tremendous opportunity.

The 1992 act changes the nature of the electric utility business — a business in which PP&L has been a major player. Because of changes in the regulations, to remain a force in the electric power industry, we are expanding our operations beyond the borders of Central Eastern Pennsylvania.

The new regulations provide PP&L with new marketing opportunities. For instance, we are negotiating to sell electricity to small utilities in areas beyond those we have traditionally served.

Also, we will be seeking opportunities in power plant construction and operation outside our service territory and outside the United States (see article on next page).

The changes in our industry usher in a new era of competition, the likes of which we have not seen before. Exactly how does this competition come about?

The answer is very simple: Among other things, the 1992

Energy Act empowers all utilities, including those that do not now generate their full requirements, the opportunity to shop around for a wholesale supplier, rather than being limited to purchasing their needs from their traditional supplier.

What does this mean?

It means we have enhanced opportunities to market PP&L electric service beyond the bound-

While this competition affects only about 3 percent of our total sales today, we think that will change.

Although the National Energy Act requires open access to the transmission system for these wholesale energy sales, it does not provide such opportunity for retail industrial and commercial customers. It does not, however, prohibit states from doing so. Already, several states have legislation being con-

sidered that would do exactly that.

Competition in the retail market, starting with the industrial and commercial sector, will dramatically alter our industry.

While we don't know when this retail competition

Since the passage of the National Energy Policy Act of 1992, there has been a great deal of discussion about changes in the utility business. At PP&L, we are convinced that the new rules in our industry present tremendous opportunity.

aries of our traditional operating territory. It also means that another utility company, or a non-utility generator, could attempt to sell electricity to utilities that are now receiving service from us.

We are reacting aggressively to this change in our marketplace. In addition to negotiating with potential customers outside of Central Eastern Pennsylvania, we have successfully renegotiated long-term agreements with a number of small utilities that we have served for years.

will occur, we are convinced it will come. That's why we are taking actions that will enable us to be successful in a more competitive environment.

To take advantage of the new opportunities in a restructured utility industry, we are reducing our employment levels, we are aggressively reducing our costs and we are vigorously implementing productivity gains. Initiatives that we have put in place in 1993 involve an increase in these activities as well as other actions.

Meeting Competition Head-On

Increased competition in the utility industry will make PP&L a healthier company.

We are well positioned, with reasonable costs, excellent employees, abundant capacity and a history of being innovative in the competitive energy business. But, we are not standing still. PP&L is working to take advantage of the opportunities that the new rules present.

Our initiatives are in three basic areas: resource management in the traditional business; revenue enhancement in the traditional business; and expanded business growth opportunities.

Resource Management in the Traditional Business

We are developing ways to be more productive in all our operations.

At our power plants, we have established cost targets based on the future prices that will be set by the marketplace (see previous article on competition). Employee teams at each of our plants are undertaking activities to meet those targets.

Power plants are not the only area in which we are developing productivity improvements. We are establishing stretch goals, based on the best practices in the industry, for our transmission and distribution operations.

As a third part of the resource management initiative, the company's service organizations are improving operational processes and lowering costs.

In all cases, employee teams — in the spirit of the company's Continuous Performance Improvement Process — are helping to establish stretch goals and to implement improvements. (See following article.)

By taking these aggressive cost-reduction measures, and by establishing new plateaus in customer service, the company will be in an excellent position to take advantage of the opportunities offered by the new regulatory rules.

Revenue Enhancement in the Traditional Business

We are also developing ways to raise revenues from new sources in the traditional business.

This involves a concerted effort to develop new products and services for customers. For example, the company is piloting the rental of a whole-house surge protection device to customers in the Allentown area. Along with this device, for a fee, comes insurance against damage to electronic appliances from changes in voltage. This is just one example of new "products" that we will offer to customers.

And, this effort is not confined to our residential market. There are opportunities in the industrial and commercial market. For instance, we are now offering energy-management services to our larger business customers.

Other utilities are another market. We recently sold to several other utilities substation control computer

software that PP&L people had developed for our use. In addition, we are marketing to other utilities a videotape that describes the benefits of a ground source heat pump.

In our revenue enhancement effort, the key is to identify areas in which we can provide new services, or better services, at a lower cost than is being provided by others.

As part of this initiative we have named a business growth manager for the company — a person who will be responsible for assessing ideas that might bring new revenues into the traditional business.

Expanded Growth Opportunities

PP&L always has been a leader in the electric power business. We have every intention of remaining so.

Prior to the National Energy Act of 1992, the electric power business and the electric utility business were essentially the same thing. But the changing rules of our business have separated the two. The generation portion of the electric power business is being opened up to all companies, not just utilities.

That means that any company now can build and operate a power plant, selling the electricity to utility companies. A utility that does not aggressively enter the marketplace will no longer be in the electric power business. Its opportunities for growth will be very limited.

We are not satisfied with the prospect of limited growth.

Meeting Competition (Continued)

We believe that we bring some special abilities to the worldwide power market, so we have decided to step outside the boundaries of Central Eastern Pennsylvania. This will allow us to take full advantage of the new opportunities in the electric power business.

Therefore, our initiatives involve expanding beyond our traditional boundaries.

In addition to the worldwide power effort, we are investing in allied businesses — enterprises that we understand but are outside our traditional scope. Any such allied businesses also would be operated outside the normal utility environment.

We do plan, however, to stay within areas akin to the energy business. We will not consider, for

A utility that does not aggressively enter the marketplace will no longer be in the electric power business. Its opportunities for growth will be very limited.

We have completed a business plan for PP&L's entry in the worldwide power market. The plan calls for some small investment initially, which enables us to get experience in the market and develop the skills necessary to be a major player.

While the worldwide power initiative could include projects in the United States, our study shows that, at this time, broader opportunities exist outside North America.

example, getting into the food service industry or building theme parks, or any other business about which we know little. Our expertise is in energy and allied businesses. We will continue to concentrate our efforts here.

The initiatives that we have kicked off over the past year put in place the key elements that will permit PP&L to prosper in the future, as we have for the past seven decades.

W

hen you strip away all the jargon, the Continuous Performance Improvement Process is just common sense.

It's common sense that the people who are closest to the work — those who are doing it — would have the best ideas regarding how to improve. It's common sense that a team with diverse strengths will outperform any one individual.

It is that belief that has driven the development of CPIP.

The process was developed by a joint union-management team, which talked to hundreds of employees before making recommendations. In a year-long study, the team considered a wide variety of options and talked with hundreds of people from other businesses and industries about implementing quality programs.

That team, in setting up the structure for the process, developed a guiding premise:

We will achieve excellence and ongoing success for customers, employees and shareowners through continuous improvement by:

1. Serving our customers.

With the changes taking place in the utility industry, customer satisfaction will be crucial to the continued success of PP&L. To ensure our long-term financial health, "serving our customers" must

How PP&L Will Change

become an obsession and the focus of everything we do.

2. Striving to meet customer, employee and shareowner expectations by being a cost-competitive producer.

The fundamental and underlying purpose of CPIP is to enable the company to progress from its current level of performance to a higher future level. The interests

of the corporate vision and business direction is crucial to the success of CPIP and the company.

5. Leaders role-modeling the behavior they expect from others.

We look to our leaders to "live" our shared values, both in the behavior they demonstrate and in the behavior they recognize and support.

operational decisions as possible.

8. Creating a high level of teamwork throughout the organization.

In the competitive environment, our greatest opportunity for success clearly lies in the collective efforts of all employees. The potential of all people working together is far greater than the most significant individual efforts.

The team selected a butterfly as a symbol for the change that PP&L must undergo to successfully implement this process. CPIP, like a butterfly, is about metamorphosis — about totally changing the face of PP&L.

We are making progress. A joint union-management team is overseeing the process. Continuous Improvement Managers have been appointed in each of the major departments to provide support for the effort. Every employee in the company is receiving CPIP orientation in the first quarter of 1994.

At the heart of the process will be employee teams looking for a better way to serve customers and to improve productivity. During 1994, we expect that teams will be established throughout the organization.

CPIP is crucial to the company's future.

While our strategic initiatives provide us with the direction for the future, CPIP provides us with a method to get there. CPIP provides the framework to change the very culture of PP&L.

We will achieve excellence and ongoing success for customers, employees and shareowners through continuous improvement.

of PP&L's primary stakeholders — employees, customers and shareowners — are served by our ability to be a cost-competitive producer.

3. Measuring and assessing performance constantly.

When things are not measured, they usually don't improve. Measurement and assessment will provide valuable information in establishing ongoing improvement plans.

4. Ensuring that all employees understand and support strategic and operational plans.

A clear, consistent communica-

6. Creating a climate of trust.

Trust is not an issue that needs to be addressed only between managers and non-managers. It is something that needs to be a priority for all employees in all relationships. Each individual needs to evaluate his or her own actions in regard to improving the level of trust in the organization.

7. Empowering people to think and act.

The concept of empowerment, in its simplest terms, means that people who are closest to the work have the authority and the responsibility to make as many

January

- President and Chief Operating Officer William F. Hecht assumes the additional titles of chairman and chief executive officer Jan. 1, succeeding John T. Kauffman, who retired Dec. 31, 1992.
- Frank A. Long, senior vice president-System Power & Engineering, becomes executive vice president and assumes the duties and title of chief operating officer from Hecht, effective Jan. 1.
- Robert G. Byram, vice president-Nuclear Operations, is named senior vice president-System Power & Engineering and becomes a member of the Corporate Management Committee, effective Jan. 1.
- PP&L offers \$300 million of first mortgage bonds to the public, and, using funds supplied by the company, redeems \$305 million of first mortgage bonds having a higher interest rate.

February

- A cold snap leads to a new winter peak record for electricity use. In a one-hour period, customers use 6,130,000 kilowatt-hours of electricity.
- A plan to reclaim open pit mines with power plant ash, providing economic and environmental benefits for PP&L and the communities it serves, is outlined to the public.
- The quarterly common stock dividend is increased by 3.1 percent, from 40 cents a share to 41.25 cents a share. PP&L has increased the common stock dividend every year since 1979.

March

- Helen J. Wolfer retires as assistant secretary and assistant treasurer, effective March 1, after 45 years with PP&L.
- A fierce winter storm knocks out electric service to 153,000 customers. Most service is restored within 24 hours. A week later,

the Blizzard of '93 buries the service territory in a blanket of deep snow, but advance preparation and long hours by PP&L employees minimize service interruptions.

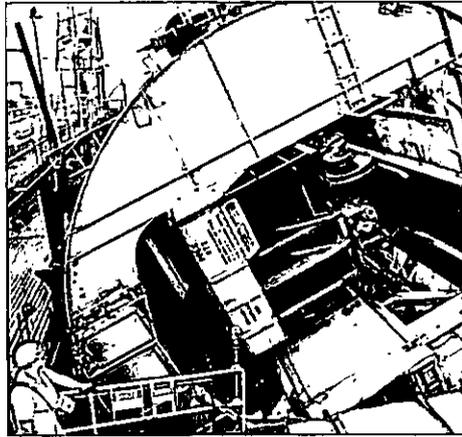
- Distribution employee Francisco Garcia dies from injuries sustained when he accidentally touched a 7,200-volt underground power line in February. It is the first job-related fatality at PP&L since May 1988.
- Harold W. Keiser, senior vice president-Nuclear since 1988, resigns to accept a position at another utility. Robert G. Byram, senior vice president-System Power & Engineering, is named senior vice president-Nuclear.

April

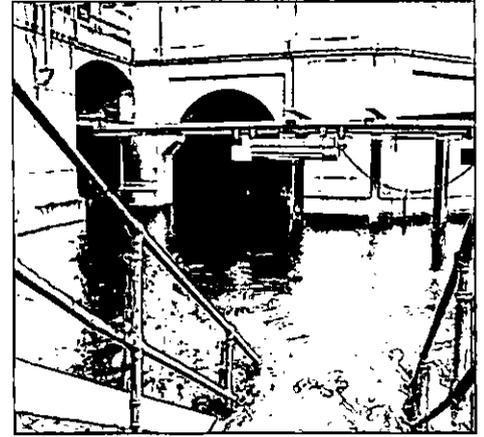
- PP&L offers \$275 million of first mortgage bonds to redeem \$250 million of first mortgage bonds with higher interest rates.
- Raymond F. Suhocki, vice president-Susquehanna Division, is



An employee helps dig out from the Blizzard of '93. Advance planning and hard work throughout the company minimized service interruptions to customers.



A rail car full of low-sulfur coal from outside Pennsylvania is dumped at PP&L's Brunner Island power plant, as part of a test burn to help the company identify options to meet new clean-air requirements.



Swollen by heavy rain and melting snow, the Susquehanna River spilled over its banks in late March and early April, causing flooding at the company's Holtwood hydroelectric power plant.

named vice president-System Power, effective April 1.

- Robert M. Geneczko, manager-System Planning, is named vice president-Susquehanna Division, succeeding Suhocki.
- Customers get a \$6 million decrease in their electricity rates because of adjustments to account for changing energy costs and state taxes — the second rate decrease in 2 years.
- PP&L marketing personnel continue their excellent showing in the annual Pennsylvania Electric Association marketing competition by winning half of the available awards. Later in the year, similar performance was exhibited in the national Edison Electric Institute marketing competition. Additionally, PP&L's ground source heat pump program won top residential program honors.

May

- A national independent review board renews accreditation for

six training programs for Susquehanna nuclear power plant operators.

- Top business leaders, nationally recognized experts and members of PP&L management gather at PP&L's first Key Executives Forum to discuss Pennsylvania's business future.
- PP&L extends through 1998 an employee and information exchange agreement with Japan's Chugoku Electric Power Co.
- PP&L offers \$100 million of series preferred stock, using the proceeds to retire four series of preferred stock with higher dividend rates.
- A new state-of-the-art control room simulator, used to train the people who operate the company's Susquehanna nuclear plant, is dedicated and placed in service.
- The Idea Home at Bent Creek in Lancaster County, a showcase of residential electric and thermal technology built by PP&L in partnership with a local builder

and more than 100 other firms, opens to the public.

June

- Harold G. Stanley and George T. Jones are named vice president-Nuclear Operations and vice president-Nuclear Engineering, respectively, effective June 1. The restructuring of the Nuclear Department sharpens the focus on day-to-day operations at the Susquehanna nuclear plant.
- Chairman Bill Hecht joins officials of federal and state agencies and private sporting groups in signing an agreement to restore the American shad to the Susquehanna River. PP&L's Holtwood hydroelectric dam will get two fish lifts by spring 1997.
- The Susquehanna nuclear plant earns the highest possible rating in a performance evaluation by the Institute for Nuclear Power Operations, an independent industry organization.



Koki Yada, president of Japan's Chugoku Electric Power Co. (left), and PP&L Chairman Bill Hecht (right), with interpreter, sign five-year extension of an employee- and information-exchange agreement between the two companies.



Procurement analyst Mark Thomas (left) is one of the PP&L volunteers who tutor children at an Allentown elementary school as part of PP&L 2000, the company's business-education partnership effort. In this photo, he discusses the program at the Lehigh Valley Business-Education Showcase.



Pennsylvania Gov. Robert Casey (right) and Maryland Gov. William Donald Schaefer release a shad into the Susquehanna River, symbolizing the return of the migratory fish to the river as the result of PP&L and other utilities committing to build fish lifts at hydroelectric dams.

- PP&L offers \$125 million of first mortgage bonds. Proceeds are used to redeem \$125 million of first mortgage bonds with a higher interest rate.
- The Susquehanna nuclear plant is named to the Nuclear Regulatory Commission's list of the nation's top safety performers because of its "sustained high level of safety performance." It is the third straight appearance for Susquehanna on the NRC's biannual good performer list.
- The Pennsylvania Public Utility Commission rates PP&L's consumer complaint performance the best among the state's major electric utilities for the eighth straight year.

July

- The Pennsylvania-New Jersey-Maryland Interconnection, the regional power pool to which PP&L belongs, becomes an independent association. The pool coordinates bulk power

operations to better serve customers of its 11 member utilities.

- Heavy air conditioner use during a summer heat wave leads to a new record for customer summer electricity demand — 5,409,000 kilowatt-hours during a one-hour period.
- Turbine damage discovered after an automatic shutdown of Unit 1 at the Susquehanna nuclear plant sidelines the generating unit for seven weeks.

August

- Clair W. Noll, vice president-Information Services, retires after 33 years with PP&L. Michael D. Hill, manager-System Operation, is named vice president-Information Services to replace Noll, effective Aug. 1.
- Edward F. Reis, vice president-Corporate Planning, retires, effective Aug. 1, after 37 years with PP&L.
- PP&L offers \$115 million of se-

ries preferred stock. The proceeds are used to retire three series of preference stock with higher dividend rates.

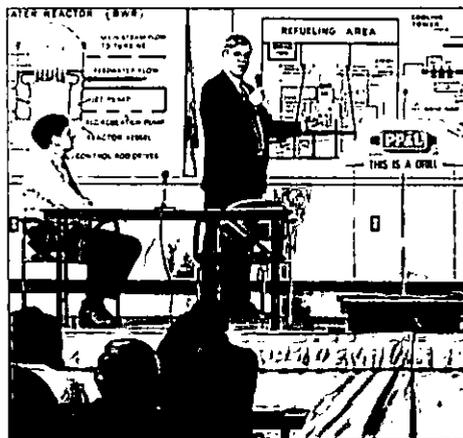
- Joining other utilities nationwide, PP&L pledges to cooperate with the U.S. Department of Energy in helping formulate a national policy on greenhouse gas emissions.

September

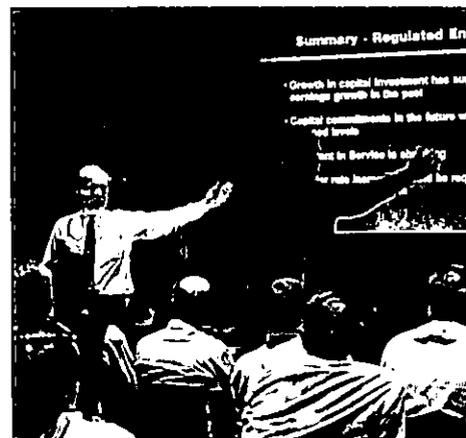
- The company's Comfort Home[®] program is recognized as a "model of environmental excellence" by a group of 30 American environmental organizations.
- PP&L begins exploring options to expand interim storage of spent uranium fuel from the Susquehanna nuclear power plant while awaiting federal government action on a permanent storage facility.
- PP&L offers \$85 million of series preferred stock, using the proceeds to retire two series of preferred stock with higher divi-



The company's new Northeast Division headquarters and Media Operations Center for the Susquehanna nuclear plant was a unique, fast-track project managed by PP&L and completed on time and under budget.



Herb Woodesbick, special assistant to the president for the Susquehanna nuclear power plant, makes a point during one of the plant's emergency drills at the company's new Media Operations Center. Nuclear safety engineer Rich Henry acted as a resource person for Woodesbick.



Ray Subocki, vice president-System Power, outlines PP&L's strategy for the future to a group of employees from System Operating. The strategy was explained by top executive to 7,700 employees in several hundred small group meetings throughout the company.

lend rates.

- The company's new Northeast Division headquarters and Media Operations Center for the Susquehanna nuclear plant opens near Wilkes-Barre.

October

- Quality land management practices and environmental education earn PP&L national recognition as the 1993 recipient of an Edison Electric Institute land management award.
- PP&L and General Motors announce an electric vehicle test drive program in Harrisburg. About 80 PP&L customers will be selected to test-drive GM's electric "Impact" for two- and four-week periods in 1994.
- PP&L offers \$150 million of first mortgage bonds, using the proceeds to redeem \$125 million of first mortgage bonds having a higher interest rate, and to retire short-term debt. With this transaction, securities sales reach

\$1.15 billion, making the year PP&L's biggest ever for selling new stocks and bonds to redeem higher-cost issues.

- A series of fuel-handling problems during refueling of Unit 1 at the Susquehanna nuclear power plant leads to a Nuclear Regulatory Commission inspection and a series of corrective actions by PP&L. The unit's return to service is delayed further by a decision to replace metal supports for reactor pumps after similar components developed cracks at a nuclear plant in Mississippi.
- Richard S. Barton, president of U.S. Customer Operations for Xerox Corp., and a corporate vice president of Xerox, is elected a director of PP&L, effective Jan. 1, 1994.

November

- Pennsylvania Mines Corp., a PP&L subsidiary, transfers ownership of a coal-

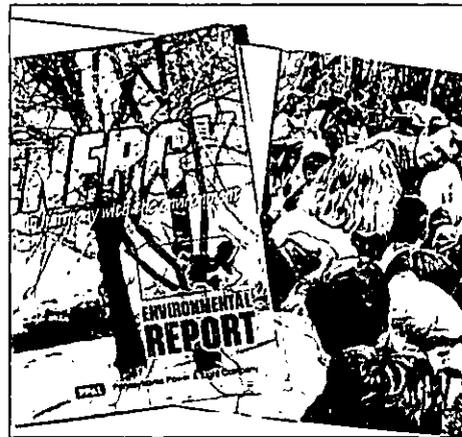
processing facility to a Pittsburgh-based company, completing the phase-out of subsidiary mining operations.

December

- Nance K. Dicciani, vice president and business director of the Petroleum Chemicals Division of Rohm and Haas Company, is elected to PP&L's board of directors, effective Feb. 1, 1994.
- A partnership agreement with the Ministry of Energy and Electrification of Ukraine is signed, calling for study tours and exchange visits.
- Charles E. Russoli, executive vice president and chief financial officer, retires as an employee and a director, ending a 38-year career at PP&L. Ronald E. Hill, vice president and comptroller, is named senior vice president-Financial, effective Jan. 1, 1994, to replace Russoli as head of the Financial Department. Hill also joins the Corporate Management Committee.



Doug Rehner, manager-Safety and Health Services, reminds meter installer Lester Dietrich of the Lancaster Service Center about the importance of safe driving. The company boosted its safety awareness efforts during 1993 after a disturbing increase in employee accidents.



During 1993, PP&L produced its first comprehensive environmental report for shareholders, customers, employees and the public. The report, titled "Energy in Harmony With the Environment," explains how the company provides reliable and economical electric service while protecting the environment.



Frank Long, PP&L's executive vice president and chief operating officer (left), and Vladimir Trafimov of the Ukraine Ministry of Energy and Electrification, sign an agreement under which PP&L will help Ukraine, a former Soviet Republic, meet its energy challenges.

REVIEW OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Earnings

Earnings per share of common stock were \$2.07 in 1993, \$2.02 in 1992 and \$2.01 in 1991. Increasing economic activity in central eastern Pennsylvania and the effects of hotter-than-normal weather during the summer were the main reasons for the earnings improvement. If weather had been normal, earnings would have been 2 cents per share lower in 1993. Weather conditions affect sales and earnings as heating and cooling demands change. To make valid comparisons of financial performance, the Company adjusts the figures to reflect "normal" conditions as determined by historical weather data.

Earnings also benefited from continuing efforts to control operating and maintenance costs and by the continuing refinancing of higher cost securities to take advantage of favorable market conditions.

In the fourth quarter of 1993, the Company recorded charges against income that, in the aggregate, adversely affected net income by about \$18 million or 12 cents per share of common stock. The charges related to: (i) credits to be included in the Company's Energy Cost Rate (ECR) due to entering a settlement agreement with complainants against the Company's ECR; (ii) the write-off of certain deferred retiree benefit costs; and (iii) the recognition of certain employee benefit costs in connection with the adoption of a new accounting standard. These matters are discussed in more detail in the remainder of this review.

Earnings for 1992 and 1991 were affected by extremely mild weather. Earnings per share would have been 7 cents higher in 1992 and 6 cents higher in 1991 had there been normal weather in the Company's service territory.

Earnings per share over the last five years have essentially been flat, generally reflecting a slowdown in the rate of growth of energy sales, higher Susquehanna depreciation and increased competition. To achieve continued earnings growth and to respond to this increased competition, the Company has begun strategic initiatives as explained under "Increasing Competition" on page 19. In addition, the Company will continue its aggressive marketing and economic development programs aimed at increasing energy sales, will continue to emphasize effective cost reduction and will also continue to take advantage of favorable financial market conditions to refinance long-term

debt and preferred stock with lower cost securities to reduce interest expense and dividends on preferred stock.

Electric Energy Sales

System, or service area, sales were 31.1 billion kwh in 1993, an increase of about 1.3 billion kwh, or 4.4%, over 1992. The effects of hotter weather during the summer, which resulted in higher air conditioner use, and the increased economic activity in central eastern Pennsylvania were the primary reasons for the increases in system sales. Sales in all major customer categories were higher in 1993 than in 1992. Milder-than-normal weather depressed system sales in 1992 primarily due to reduced use of electricity for heating by residential and commercial customers. System sales were down an estimated 334 million kwh in 1992 due to milder-than-normal weather. The Company estimates that if normal weather had been experienced in both years, system sales for 1993 would have increased by 855 million kwh, or 2.8%, over 1992.

Actual sales to residential and commercial customers in 1993 increased 439 million kwh, or 4.1%, and 334 million kwh, or 3.7%, respectively, over 1992. The Company estimates that under normal weather conditions for both years, sales to residential and commercial customers in 1993 would have increased 167 million kwh, or 1.5%, and 189 million kwh, or 2.1%, respectively, over 1992.

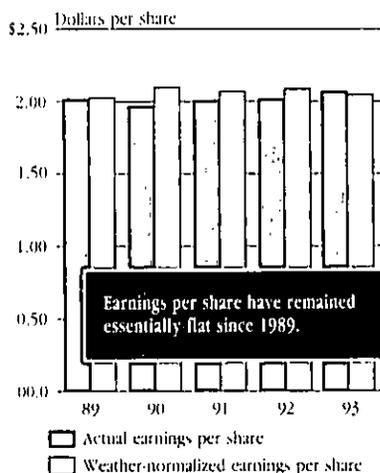
Industrial sales, which are not affected by weather conditions, increased 354 million kwh in 1993, or 4.0%, over 1992. The continued growth trend in this category is an encouraging sign of increased industrial activity.

System sales in 1994 are currently forecasted to be approximately 31.7 billion kwh, an increase of 665 million kwh, or 2.1%, over 1993 actual system sales, and a 771 million kwh, or 2.5%, increase over 1993 weather-normalized sales.

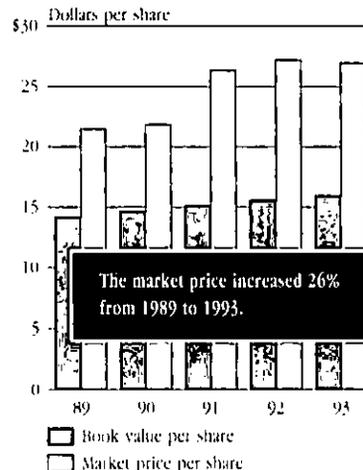
Additional energy sales from marketing and economic development efforts is a key corporate initiative. These additional sales generally will be realized over at least a two-year period, and possibly longer if a major commercial or industrial customer is involved. The level of additional sales estimated from these programs in 1993 was 556 million kwh. The Company's 1994 marketing and economic development goal is to achieve annual net sales growth of 650 million kwh.

Competition from other fuel sources for certain energy applications

**EARNINGS PER SHARE
WEATHER-NORMALIZED VS. ACTUAL**



**COMMON STOCK BOOK VALUE
VS. MARKET PRICE**



has increased in recent years. The Company's electric heat market share in new residential construction has dropped from 69% in 1991 to 65% in 1993. The Company's goal for 1994 is a 68% electric heat market share in new residential construction.

Certain large customers have considered self-generation of electricity over the past several years. However, the Company has lost no significant load to customer-owned generation.

Total electric energy sales, which include contractual sales to other utilities and interchange power sales, were 42.3 billion kwh in 1993, an increase of 0.1 billion kwh, or 0.2%, compared to 1992.

Contractual sales to other major utilities include: (i) energy sold to Atlantic City Electric Company (Atlantic), Baltimore Gas & Electric Company (BG&E) and Jersey Central Power & Light Company (JCP&L) pursuant to long-term contracts under which these utilities purchase a specified percentage of the capacity and related energy from Company-owned generating units; and (ii) energy sold on a short-term basis to other electric utilities. Contractual sales to other utilities were about 7.1 billion kwh in 1993, or 2.5% lower than 1992.

Interchange power sales to Pennsylvania-New Jersey-Maryland Interconnection Association (PJM) utilities were about 4.1 billion kwh in 1993, or 19.7% lower than 1992. The decrease was primarily due to increased system sales and an increase in the availability of nuclear generating capacity of other PJM utilities, which reduced the operation of certain of the Company's generating units.

Capacity-Related and Transmission Entitlement Transactions

The Company's strong generating capacity position has enabled it to enter into a number of capacity-related transactions with other electric utilities. These transactions include: (i) the sale of capacity credits but no energy to other utilities in the PJM to enable them to satisfy their PJM contractual capacity obligations; (ii) agreements with both PJM and non-PJM utilities for the reservation of output during certain periods from the Company's Martins Creek units, with the option to purchase energy from those units; and (iii) arrangements whereby other PJM utilities can purchase the Company's entitlements to use the PJM transmission system to import energy from utilities outside the PJM.

Revenues from the sale of capacity credits, the reservation of output from the Martins Creek units and the sale of transmission entitle-

ments, net of foregone PJM interchange savings which are included in the Company's ECR, totaled \$35.0 million in 1993, \$35.0 million in 1992 and \$35.4 million in 1991. The Company currently expects about \$35 million of revenues from these transactions during 1994. Increased competition involving capacity credit transactions has reduced the price received for such sales.

The Company is continuing to look for opportunities to derive additional revenues due to its strong generating capacity position. The amount of revenues from these types of transactions depends on many factors, and it is difficult to predict the amount of revenues the Company will ultimately realize from these transactions.

The Company, the Pennsylvania Office of Consumer Advocate (OCA) and certain industrial customers have reached a settlement agreement resolving all complaints pending against the ECR. The agreement provides, among other things, for crediting the 1994-95 ECR with a portion of the receipts from capacity credit sales. See "Rate Matters" below for additional information.

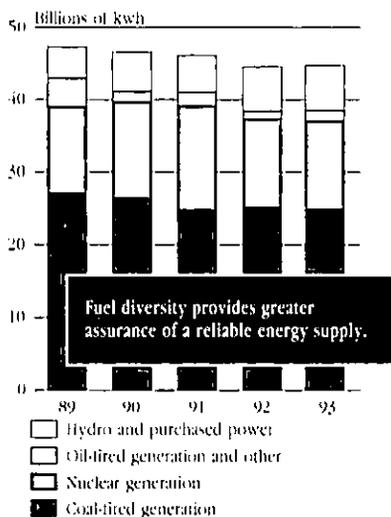
Rate Matters

The OCA and certain industrial customers filed complaints against the Company's ECR for the last four years. The complainants argued, among other things, that the Company should not be able to recover the cost of energy purchased from non-utility generating companies on a current basis, and that revenues from the sale of capacity-related and transmission entitlement transactions should be credited against the ECR.

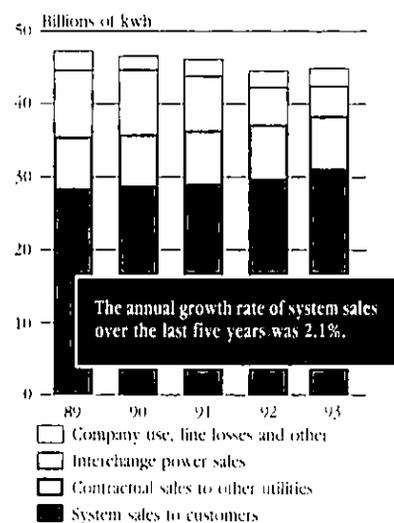
As a result of discussions which began in late 1993, the Company and the complainants to the Company's ECR reached a settlement agreement having major provisions that credits the 1994-95 ECR with a portion of the receipts from capacity credit sales from April 1990 through December 31, 1993; credits a portion of the receipts from future capacity credit sales to the ECR; excludes from recovery through the ECR a portion of the Pennsylvania Public Utility Commission (PUC)-jurisdictional amount of deferred retired miners' health care benefits costs; and settles all pending complaints against the Company's 1990-91 through 1993-94 ECRs.

This agreement is subject to PUC approval. As a result of this agreement, in the fourth quarter of 1993, the Company recorded a charge to expense of \$17.1 million, which after income taxes, reduced net income by approximately \$9.7 million or 6.4 cents per share of

SOURCES OF ENERGY



DISPOSITION OF ENERGY



common stock. The Company estimates that about \$8 million of 1994 capacity credit sales will be credited to the ECR.

The Company has negotiated new five-year, lower-priced sales contracts with certain small utilities it currently serves. The contracts are subject to Federal Energy Regulatory Commission (FERC) approval and will reduce rates to these small utilities by about \$3.6 million in 1994 and 1995 and by about an additional \$4.1 million for the years 1996 through 1998.

In connection with the new contracts, in the fourth quarter of 1993, the Company wrote off \$6.6 million of deferred retired miners' health care benefits costs and \$2.3 million of postretirement benefits other than pensions applicable to FERC-jurisdictional services. The charge to expense amounted to \$8.9 million, which after income taxes, reduced net income by \$5.1 million or about 3.4 cents per share of common stock.

Operating Revenues

Total operating revenues decreased \$17.1 million, or 0.6%, in 1993 from 1992. Details of changes in operating revenues from the prior year are shown in the schedule below.

Changes in Operating Revenues

	1993	1992	1991
	<i>(Millions of Dollars)</i>		
Recovery of fuel and energy costs	\$ (20.0)	\$ 44.0	\$ 79.9
ECR credits to be applied in 1994	(12.7)		
Change in customer usage	58.9	20.6	38.2
Roll-in of state taxes into base rates . . .	26.4		
State tax adjustment surcharge	(32.0)	22.2	22.0
Special base rate credit adjustment	(5.4)	(22.6)	(16.7)
Wholesale rate increase		1.7	2.4
Capacity-related and transmission entitlement transactions		(0.4)	3.1
Contractual sales to other major utilities	(16.4)	7.7	9.1
PJM interchange power sales	(14.8)	(68.8)	(37.0)
Other	(1.1)	(1.0)	1.8
Total	\$ (17.1)	\$ 3.4	\$ 102.8

Tariffs subject to PUC jurisdiction accounted for approximately 82% of the Company's revenues from energy sales in 1993. The remaining 18% of such revenues resulted from sales regulated by the FERC and include the Company's PJM interchange power sales.

Billings to customers under PUC jurisdiction include: (i) base rate charges; (ii) the ECR which is a supplemental charge or credit for fuel and other energy costs over or under the levels included in base rates; (iii) a state tax adjustment surcharge (STAS) which adjusts retail customers' bills for the effects of changes in state tax rates; and (iv) a special base rate credit adjustment (SBRCA) that flows through to customers the effects of certain nonrecurring items.

The last base rate increase for PUC-jurisdictional customers went into effect in April 1985. The Company is unable to predict the timing of its next PUC-jurisdictional base rate filing, but intends to delay that filing for as long as possible.

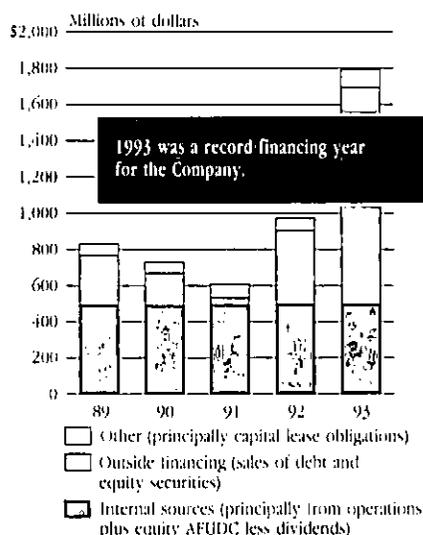
Billings to utilities are subject to FERC jurisdiction. In the case of certain small utilities, billings include base rate charges and a supplemental charge or credit for fuel costs over or under the levels included in base rates. See "Rate Matters" on page 13 for additional information concerning rates for these customers.

The FERC also regulates contractual sales to other major utilities, PJM interchange power sales and capacity-related and transmission entitlement transactions. Sales to Atlantic, BG&E and JCP&L are made at a price covering the Company's cost of service, including a return on investment. Energy sales relating to the reservation of output from the Martins Creek units are generally made at a price equal to the cost of fuel plus an amount to reflect foregone interchange savings. PJM interchange power sales are made at a price equal to the midpoint between the sellers' actual costs and costs that the buyers would have incurred to produce the energy. Capacity-related and transmission entitlement transactions are made at prices negotiated by the Company and the purchaser, subject to a price cap accepted by the FERC.

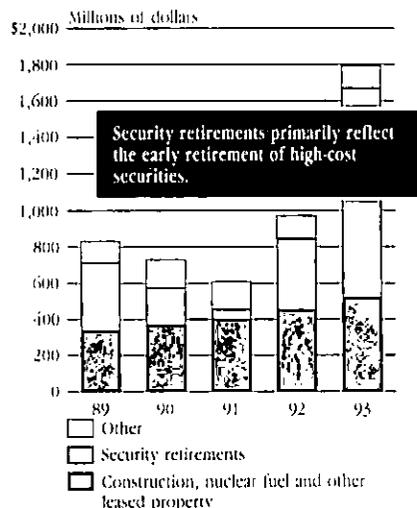
Fuel Expense

Fuel expense for 1993 decreased by \$38.5 million from 1992. The decrease was primarily due to lower unit fuel costs for coal-fired generation, partially offset by higher oil-fired generation and the write-off of \$11.0 million of the deferred cost of retired miners' health care benefits. For 1993, the cost of coal delivered to the Company's generating stations declined to \$36.23 per ton from \$41.44 per ton for 1992.

SOURCES OF CAPITAL



USES OF CAPITAL



Power Purchases

In 1993, power purchases were \$278.8 million, an increase of \$3.3 million over 1992. The increase was the result of additional purchases from other electric utilities and the PJM, partially offset by a lower level of purchases from non-utility generating companies.

Other Operation, Maintenance and Depreciation

The reduction in revenues resulting from flowing the benefits of a settlement of certain claims arising from construction of the Susquehanna station through to customers in the SBRCA is offset by a credit to other operation expense on the Consolidated Statement of Income (see Financial Note 3). The credit was \$14.3 million in 1993 and \$8.5 million in 1992.

During 1993, the Company recorded an estimated minimum liability of \$4.4 million for the cost of environmental remediation at several sites. At December 31, 1993, the estimated minimum liability recorded for such remediation totaled \$5.2 million. The Company's share of actual remediation costs may be greater than the minimum amounts accrued, but the Company at this time cannot reasonably estimate its expected cost.

During 1993, the Company wrote off \$9.1 million of obsolete and excess materials and supplies at its fossil-fueled steam generating stations. Of this amount, \$2.2 million was charged to other operation expense and \$6.9 million was charged to maintenance expense.

In December 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) 112, "Employers' Accounting for Postemployment Benefits," as discussed in Financial Note 13. The adoption of SFAS 112 resulted in a \$5.5 million charge to other operation expense.

Excluding the credits associated with the SBRCA, the accruals for the environmental remediation costs, the recognition of obsolete and excess materials and supplies and the expense associated with the adoption of SFAS 112 discussed above, other operation expense remained essentially unchanged in 1993 compared to 1992.

The Company intends to reduce the number of full-time employees by approximately 6.8% from 8,043 at year-end 1991 to about 7,500 by the mid-1990s. This is one of the actions being taken to contain costs and keep the price of the Company's electric service competitive. This reduction is expected to come primarily from normal attrition and close examination of the need to fill vacancies. As of year-end 1993, the number of full-time employees was 7,677.

The amortization of the deferred income effect of adopting the inventory method of accounting for power plant spare parts is credited to maintenance expense on the Consolidated Statement of Income (see Financial Note 3). Excluding this amortization, which amounted to \$24.3 million in 1993 and \$23.5 million in 1992, and the write-off of obsolete and excess materials and supplies as discussed above, maintenance expense decreased by \$14.1 million, or 6.3%, in 1993 compared to 1992. The reduction in maintenance expense resulted primarily from lower costs associated with maintaining the Company's generating stations.

Higher depreciation expense in 1993 reflects the annual increase associated with the method of depreciating the Susquehanna station and the depreciation of new property, plant and equipment placed in service. As approved by the PUC and the FERC, depreciation expense for the Susquehanna station will increase annually through the year 1998. In 1993, the amount of depreciation expense applicable to the Susquehanna station exceeded the amount that would have been recorded using the straight-line method, resulting in an amortization of previously deferred depreciation. Beginning in 1999, depreciation will change to the straight-line method at a level substantially less than the amount expected to be recorded in 1998. The amount of depreciation applicable to that portion of the Susquehanna station

subject to an annual increasing amount of depreciation was \$116 million in 1993 and will increase annually to \$192 million in 1998 and then decline to \$102 million in 1999.

Taxes

Effective January 1, 1993, the Company adopted SFAS 109, "Accounting for Income Taxes." Under the provisions of SFAS 109, the Company, in January 1993, recorded an increase of approximately \$1.1 billion in its deferred tax liability for tax benefits previously flowed through to customers and for other temporary differences. The increased tax liability was offset by a corresponding asset representing the future revenue expected through the ratemaking process to pay for the taxes based on the established regulatory practice and legislative history in Pennsylvania permitting recovery of actual taxes payable.

In August 1991, Pennsylvania enacted legislation that increased the Company's state taxes by approximately \$38 million on an annual basis. The Company recovered substantially all of the increased state taxes through application of a surcharge on billings to retail customers and through billings for the contractual sale of capacity and related energy to other utilities. Except for recovery of a prior undercollection, the tax surcharge was rolled into the Company's base rates effective April 1, 1993.

In August 1993, the Omnibus Budget Reconciliation Act of 1993 was enacted, which contains a provision that increased the Company's federal income tax rate from 34% to 35% retroactive to January 1, 1993. This higher tax rate increased the Company's federal income tax expense for 1993 by about \$5.9 million. Additionally, the Company recorded an increase in deferred income tax liabilities and taxes recoverable through future rates of \$79.5 million due to the increase in the federal tax rate.

Financing Costs

The Company has continued to take advantage of opportunities to reduce its financing costs by the retirement of long-term debt and preferred and preference stock with the proceeds from the sales of securities at a lower cost. Interest on long-term debt and dividends on preferred and preference stock have decreased by \$25 million from \$285 million in 1990 to \$260 million in 1993. Additionally, interest on short-term debt has decreased by \$13 million for the same period.

Financial Condition

Financing and Liquidity

For the years 1991-1993, the Company issued \$1.39 billion of long-term debt, \$300 million of preferred stock and about \$21 million of common stock, and also incurred \$218 million of obligations under capital leases (primarily nuclear fuel). In 1993, the Company sold \$850 million principal amount of first mortgage bonds and \$300 million of preferred stock, increased its short-term debt by \$43 million and issued \$7 million of common stock to the Employee Stock Ownership Plan. During the year, the Company retired \$809 million of long-term debt and \$343 million of preferred and preference stock.

After the payment of dividends, internally generated funds during the years 1994-1996 are currently expected to provide approximately 86% of the Company's construction expenditures.

Sales of securities will be undertaken during the 1994-1996 period as needed to meet the Company's capital requirements, to meet a total of \$166 million of long-term debt maturities and preferred stock sinking fund requirements and to provide funds for the early retirement of high cost securities if such retirements are determined to be appropriate in the light of market conditions and other factors. The

Company expects to issue \$55 million of common stock in 1994 through its Dividend Reinvestment Plan. In addition, depending on market conditions and other factors, the Company plans to issue up to an additional \$150 million of preferred stock through the end of 1994, of which about \$80 million is expected to be used to refinance higher cost preferred stock at a lower cost and the balance is to provide financing for the Company's capital requirements. The Company also plans to issue up to an additional \$750 million principal amount of first mortgage bonds through the end of 1994, which is expected to be used to refinance higher cost first mortgage bonds at a lower cost. Of this amount, \$300 million is expected to be redeemed through the provisions of the maintenance and replacement fund under the Company's Mortgage. In addition, the Company expects to arrange for the refinancing of \$169 million of higher cost tax-exempt securities issued to provide pollution control and solid waste disposal facilities at the Company's generating stations.

The Company's ability to issue securities during the 1994-1996 period is not expected to be limited by earnings or other issuance tests. To enhance financing flexibility, a \$140 million revolving credit arrangement is maintained with a group of banks and is used principally as a back-up for the Company's commercial paper and \$60 million in credit arrangements are maintained with a group of banks to provide back-up for the Company's commercial paper and short-term borrowings of certain subsidiaries. The Company also maintains a \$5 million bank line of credit. No borrowings were outstanding at December 31, 1993 under these arrangements.

Capital Expenditure Requirements

The schedule below shows the Company's actual capital expenditures for electric utility operations for the years 1991-1993 and current projections for the years 1994-1996. Construction expenditures during the years 1991-1993 totaled about \$1.2 billion and are expected to be about \$1.3 billion during the years 1994-1996.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC), a non-cash credit to income, accounted for about 5% of earnings in 1993. In 1994, AFUDC is expected to increase as the Company accelerates capital expenditures to comply with clean air legislation. The amount

of AFUDC recorded will depend on the timing and level of construction work in progress as well as the rate treatment afforded the capital expenditures required to comply with the clean air legislation. Under current Pennsylvania law, construction work in progress for non-revenue producing assets, such as capital expenditures for pollution control equipment, can be claimed in rate base.

Financial Indicators

The Company earned a 13.06% return on average common equity during 1993, down slightly from the 13.11% earned in 1992. The ratio of the Company's pretax income to interest charges increased slightly from 3.2 times in 1992 to 3.3 times in 1993. The Company increased common stock dividends from an annual per share rate of \$1.60 in 1992 to \$1.65 in 1993. The book value per share of common stock increased 2.4% from \$15.58 at the end of 1992 to \$15.95 at the end of 1993. The ratio of the market price to book value of common stock was 169% at the end of 1993 compared with 175% at the end of 1992.

Termination of Coal-Mining Operations

The Company has ceased its subsidiary coal-mining operations due principally to the depletion of coal reserves and the high cost of mined coal as compared to the price of coal purchased on the open market. One of the three operating mines closed at the end of June 1991. A second operating mine closed at the end of March 1992, and a third mine was sold in September 1992. A coal processing and loading facility was sold in November 1993, completing the planned phase-out of coal-mining operations.

The Energy Policy Act of 1992 (Energy Act) imposed a new liability on the Company or its coal-mining subsidiaries for the health care of retired coal miners previously employed by those subsidiaries. The estimated liability amounts to approximately \$68 million on a net present value basis. At the time coal-mining operations ceased, subsidiary mining companies had accrued \$32 million for anticipated payments to the miners' health care trust funds to provide for health care benefits of retired miners. Under the Energy Act, the Company or its subsidiaries will be directly liable for these benefits and the \$32 million will not have to be paid to the trust funds. The Company intends to use the amount accrued by its subsidiary mining companies to partially offset the new liability.

Capital Expenditure Requirements (a)

	Actual			Projected		
	1991	1992	1993	1994	1995	1996
	(Millions of Dollars)					
Construction expenditures						
Generating facilities	\$124	\$136	\$142	\$ 94	\$107	\$ 74
Transmission and distribution facilities	165	186	173	183	183	192
Environmental	11	13	65	135	55	105
Other	37	52	51	59	53	51
	<u>337</u>	<u>387</u>	<u>431</u>	<u>471</u>	<u>398</u>	<u>422</u>
Nuclear fuel owned and leased	41	42	64	44	58	82
Other leased property	17	20	20	27	22	23
Total	<u>\$395</u>	<u>\$449</u>	<u>\$515</u>	<u>\$542</u>	<u>\$478</u>	<u>\$527</u>

(a) Capital expenditure plans are revised from time to time to reflect changes in conditions. Actual expenditures may vary from those projected because of changes in plans, cost fluctuations, environmental regulations and other factors. Construction expenditures include AFUDC which is expected to be less than \$25 million in each of the years 1994-1996.

In December 1992, the Company recorded an additional liability of approximately \$36 million representing the balance of the liability imposed by the Energy Act for health care benefits for retired coal miners. The charge to expense was deferred. The net PUC-jurisdictional amount of this liability is \$30 million, and in 1993 the PUC permitted the Company to begin recovery of these costs applicable to retail customers through the ECR over ten years. The OCA and certain industrial customers filed complaints against the Company's 1993-94 ECR opposing, among other things, the Company's recovery of these costs.

In the fourth quarter of 1993, the Company charged to expense \$11.0 million of the deferred cost of retired miners' health care benefits representing all of the FERC-jurisdictional portion of the deferral and part of the PUC-jurisdictional portion of the deferred costs. The write-off was related to the ECR agreement and the agreements to reduce rates to certain small utilities discussed on page 13 under the caption "Rate Matters." The Company expects to recover the remaining PUC-jurisdictional amount of deferred retired miners' health care benefits costs of \$24.1 million through the ECR.

Clean Air Legislation and Other Environmental Matters

The Federal Clean Air Act Amendments of 1990 deal, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. The acid rain provisions, which are contained in Title IV of the legislation, specify Phase I sulfur dioxide emission limits on about 55% of the Company's coal-fired generating capacity by January 1, 1995, and more stringent Phase II sulfur dioxide emission limits for all of the Company's fossil-fueled generating units by January 1, 2000.

The Company expects to meet the 1995 Phase I sulfur dioxide standards by the use of lower sulfur coal, additional processing of coal through cleaning plants, and the installation of scrubbers at the Conemaugh station, in which the Company has an 11.39% ownership interest. The Company may also choose to limit the generation of certain units and to bank or trade emission allowances among its generating units or with other utilities to the extent permitted by the legislation.

The acid rain provisions also require installation of low nitrogen oxide burners on each unit by the same date that sulfur dioxide limits apply to that unit. In addition, the ambient ozone attainment provisions contained in Title I of the legislation specify other nitrogen oxide emission reductions. In this regard, the legislation defines a Northeast Ozone Transport Region that includes all of Pennsylvania in addition to all states in the Northeast from northern Virginia to Maine. All major stationary sources within the region must install reasonably available control technology (RACT) for nitrogen oxide emissions by May 1995.

The Company expects to meet this RACT requirement by installing low nitrogen oxide burners on the Phase I units as required by the acid rain title and by advancing the installation of low nitrogen oxide burners on certain Phase II units, where technically feasible, that would have been required in 2000 by the acid rain title.

The Company currently estimates that the cost of compliance with the Phase I sulfur dioxide standards and installation of the low nitrogen oxide burners will require capital expenditures of about \$200 million (in estimated 1994 dollars) and additional operating expenses which will result in an increase in customer rates of about 1.5% (based on 1993 revenue levels).

To meet the Phase II acid rain sulfur dioxide emission standards, the Company expects to install flue gas desulfurization (FGD) on up to 60% of its coal-fired generating capacity, to continue to purchase lower sulfur coal for its remaining generating capacity and to bank or trade emission allowances among its generating units or with other utilities to the extent permitted by the legislation. The exact mix of

lower sulfur fuel, emission allowance purchases, sales or trades, and the amount and timing of FGD will be determined based on FGD installation costs, fuel cost and availability, and emission allowance prices.

The Company currently estimates that the cost of compliance with the Phase II sulfur dioxide standards will require additional capital expenditures in the later half of the 1990s of \$400 million to \$500 million (in estimated 1994 dollars) and additional operating expenses which will result in an increase in customer rates (based on 1993 revenue levels) of about 3% above the increase expected to result from Phase I compliance with the sulfur dioxide standards of the legislation and installation of low nitrogen oxide burners.

The ambient ozone attainment provisions also require modeling of nitrogen oxide and volatile organic compound emissions in the Northeast Ozone Transport Region to determine what further reductions are needed beyond the RACT requirements to achieve ambient ozone attainment. If the results indicate further reductions are needed in power plant nitrogen oxide emissions, the Company may be required to install additional nitrogen oxide reduction equipment, such as selective catalytic reduction, on some or all of the fossil units around 2000. The Company's preliminary estimates indicate that the cost of compliance could require additional capital expenditures of up to \$600 million (in estimated 1994 dollars) and additional operating expenses which will result in a further increase in customer rates of as much as 4% (based on 1993 revenue levels).

In addition to acid rain and ambient ozone attainment provisions, the legislation requires the Environmental Protection Agency (EPA) to conduct a study of hazardous air emissions from power plants. Adverse findings from this study could cause the EPA to mandate additional ultra high efficiency particulate removal baghouses or specialized flue gas scrubbing to remove certain vaporous trace metals and certain gaseous emissions. If it is determined that the installation of such additional equipment is required, the Company's preliminary estimates indicate that the cost of compliance could require additional capital expenditures of up to \$400 million (in estimated 1994 dollars) and additional operating expenses which will result in a further increase in customer rates of as much as 2% (based on 1993 revenue levels).

Under current Pennsylvania law, construction work in progress for non-revenue producing assets, such as capital expenditures for pollution control equipment, can be claimed in rate base.

In February 1993, the PUC adopted a policy statement regarding the trading and usage of, and the ratemaking treatment for, emission allowances by Pennsylvania electric utilities. The policy statement determines, among other things, that the PUC will not require approval of specific transactions and the cost of allowances will be recognized as energy-related power production expenses and recoverable through the ECR.

The Pennsylvania Air Pollution Control Act, as amended, implements the 1990 federal clean air legislation. The state legislation essentially requires that new state air emission standards be no more stringent than federal standards. This legislation has no effect on the Company's plans for compliance with the Federal Clean Air Act Amendments of 1990.

Until action has been taken by the appropriate regulatory bodies, the Company will not be able to determine the exact method of compliance with the acid rain, ambient ozone and hazardous air emission provisions of the legislation, or the cost thereof and its impact on customer rates.

The Pennsylvania Department of Environmental Resources (DER) regulations governing the handling and disposal of industrial (or residual) solid waste require the Company to submit detailed information on waste generation, minimization and disposal practices. They also require the Company to upgrade and repermit existing ash basins

at all of its coal-fired generating stations by applying updated standards for waste disposal. Ash basins that cannot be re-permitted are required to close by July 1997. Any groundwater contamination caused by the basins must also be addressed. Any new ash basin must meet the rigid site and design standards set forth in the regulations. In addition, the siting of future facilities at Company facilities could be affected.

The fly ash basin at the Martins Creek station and the dry fly ash disposal area at the Montour station are expected to comply with the DER regulations. However, the fly ash basins at other fossil-fueled generating stations, bottom ash basins at all fossil-fueled generating stations and the coal refuse basin at the Brunner Island station do not meet the new requirements and must be retired by July 1997. The Company, in addressing the requirements of these regulations, plans to install dry fly ash handling systems at the Brunner Island, Sunbury and Holtwood stations. The Company, with siting assistance from a public advisory group, plans to use the dry fly ash from the Sunbury and Holtwood stations to reclaim strip mines in the anthracite coal region. The Company is exploring opportunities to beneficially use coal ash from Brunner Island in various roadway construction projects in the vicinity of the plant that may delay or preclude the need for a new disposal facility.

Groundwater degradation related to fuel oil leakage from underground facilities and to seepage from coal refuse disposal areas and coal storage piles has been identified at several generating stations. Many requirements of the DER regulations address these groundwater degradation issues. The Company has reviewed its remedial action plans with the DER. Remedial work has begun at one generating station, and remedial work may be required at others.

The DER has adopted, and recently revised, regulations to implement the toxic control provisions of the Federal Water Quality Act of 1987 and to advance Pennsylvania's toxic control program. These regulations authorize the DER to use both biomonitoring and a water quality based chemical-specific approach in National Pollutant Discharge Elimination System (NPDES) permits to control toxics. In the third quarter of 1993, the Company received a new NPDES permit for the Montour and Holtwood stations. The Montour permit contains very stringent limits for certain toxic metals and increased monitoring requirements. More toxic reduction studies will be conducted at Montour before the permit limits become effective. Additional water treatment facilities may be needed at Montour, depending on the results of the studies. At Holtwood, toxics are required to be monitored at the fly ash basin until its closure in 1997. No limits have been set at this point. The Company will therefore comply with an implementation schedule for such closure and for construction of a new dry ash handling system at Holtwood.

The Company currently estimates that about \$238 million of capital expenditures could be required to comply with the residual waste regulations, correct groundwater degradation at fossil-fueled generating stations and address waste water control at Company facilities. Such expenditures during the years 1994-1996 could total

about \$137 million, of which about \$68 million is included in the Company's estimate of 1994-1996 construction expenditures shown on page 16. Actions taken to correct groundwater degradation, to comply with the DER's regulations and to address waste water control are also expected to result in increased operating costs in amounts which are not now determinable but could be material.

The issue of potential polychlorinated biphenyl (PCB) contamination at certain of the Company's substations and pole sites is currently being pursued by the DER. In this regard, the DER sent the Company a proposed Consent Order under which the Company would assess and, if necessary, remediate sites where PCB contamination may exist. The Company is continuing to negotiate with the DER. The costs of addressing these PCB issues are not now determinable but could be material.

At December 31, 1993, the Company had accrued \$5.2 million, representing the minimum amount the Company at this time can reasonably estimate it will have to spend to remediate sites involving the removal of hazardous or toxic substances. The Company is involved in several other sites where it may be required, along with other parties, to contribute to such remediation. Some of these sites have been listed by the EPA under the federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (Superfund), and others may be candidates for listing at a future date. Future clean-up or remediation work at sites currently under review, or at sites currently unknown, may result in material additional operating costs which the Company cannot estimate at this time.

Concerns have been expressed by some members of the scientific community and others regarding the potential health effects of electric and magnetic fields (EMF). These fields are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Federal, state and local officials are focusing increased attention on this issue. The Company is actively participating in the current research effort to determine whether or not EMF causes any human health problems and is taking steps to reduce EMF, where practical, in the design of new transmission and distribution facilities. The Company is unable to predict what effect the EMF issue might have on Company operations and facilities.

In complying with statutes, regulations and actions by regulatory bodies involving environmental matters, including the areas of water and air quality, hazardous and solid waste handling and disposal and toxic substances, the Company may be required to modify, replace or cease operating certain of its facilities. The Company may also incur material capital expenditures and operating expenses in amounts which are not now determinable.

Uranium Enrichment Decontamination and Decommissioning Fund

The Energy Act established the Uranium Enrichment Decontamination and Decommissioning Fund (Fund) and provides for an assessment on domestic utilities with nuclear power operations, including

the Company. Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the Energy Act and are expected to be paid to the Fund by such utilities over a 15-year period. Amounts paid to the Fund are to be used for the ultimate decontamination and decommissioning of the Department of Energy's uranium enrichment facilities. The Energy Act states that the assessment shall be deemed a necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as the utility's other fuel costs.

As of December 31, 1993, the Company's recorded liability for its total assessment amounted to about \$34.5 million. The liability is subject to adjustment for inflation. The corresponding charge to expense was deferred because the Company includes its annual payments to the Fund of approximately \$2.6 million, subject to adjustment for inflation, in the ECR which is in the Company's PUC tariffs and in the fuel adjustment clause which is in the Company's FERC tariffs. As a result, the Company does not expect the assessment to have an adverse effect on net income.

Postretirement Benefits Other Than Pensions and Postemployment Benefits

Effective January 1, 1993, the Company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 establishes new rules for accounting for the costs of postretirement benefits other than pensions. The statement requires accrual, during the years that the employees render the necessary service, of the expected cost of providing those benefits. Caps have been established on the amount the Company will pay for retiree health care costs for all employees who retire on or after April 1, 1993. The Company's transition obligation on January 1, 1993 amounted to \$173.8 million and is being amortized over a 20-year period. The increase in the cost of retiree benefits attributable to PUC-jurisdictional customers due to the adoption of SFAS 106 is being deferred in accordance with a PUC order. Recovery of the PUC-jurisdictional deferred costs will be requested in the Company's next base rate proceeding. Current accounting rules permit deferral of the costs for about five years. At December 31, 1993, the deferred costs totaled \$14.9 million. In the fourth quarter of 1993, the Company charged to expense \$2.3 million of the cost of postretirement benefits other than pensions attributable to FERC-jurisdictional service, which, net of applicable income taxes, reduced earnings by 0.9 cents per share of common stock. See "Rate Matters" on page 13 and Financial Note 13 for additional information.

The Company provides health and life insurance benefits to disabled employees and income benefits to eligible spouses of deceased employees. In December 1993, the Company adopted SFAS 112, "Employers' Accounting for Postemployment Benefits," which requires the Company to accrue, during the years that the employees render the necessary service, the expected cost of providing benefits to

former or inactive employees after employment but before retirement. In connection with the adoption of SFAS 112, the Company recorded a charge to operating expense of \$5.5 million, which after income taxes, reduced net income by \$3.1 million or about 2.1 cents per share of common stock.

Accounting Statement Adopted After December 31, 1993

Effective January 1, 1994, the Company adopted SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. The adoption of SFAS 115 did not have a material effect on the Company's net income.

Increasing Competition

The Energy Act will have a significant impact on the Company and the electric utility industry, primarily through amendments to the Public Utility Holding Company Act of 1935 that creates a new class of independent power producers, and amendments to the Federal Power Act that opens access to electric transmission systems for wholesale transactions. These changes increase competition in the wholesale energy supply market.

In response to the increased competition, the Company has undertaken initiatives to strengthen its position in the wholesale market. The Company entered into new five-year supply agreements at reduced prices with its existing wholesale customers. These agreements are subject to FERC approval. The Company is actively participating in negotiations and proceedings involving the sale of electricity to wholesale customers currently served by other electric utilities. These wholesale customers are generally small utilities that do not have their own generating capability and purchase electricity from others.

While there is currently no comparable competition in the retail electric market, the Company anticipates that it will face similar competitive pressures in the industrial and large commercial sectors of that market in the future.

The Company's strategic initiatives also include an assessment of entering power-related businesses outside of the Company's service territory, both domestically and in foreign countries. Any expansion by the Company into these areas would be methodical and deliberate. To take advantage of these new business opportunities, in February 1994 the Company's Board of Directors approved a plan to (i) make an initial investment of \$50 million in these new businesses; and (ii) pursue the formation of a holding company structure to facilitate such investment, subject to the receipt of appropriate regulatory approvals and, ultimately, shareholder approval at the 1995 annual meeting.

INDEPENDENT AUDITORS' REPORT

To the Shareowners and Board of Directors
of Pennsylvania Power & Light Company:

We have audited the accompanying consolidated balance sheets and statements of preferred and preference stock and long-term debt of Pennsylvania Power & Light Company and its subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, shareowners' common equity, and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Pennsylvania Power & Light Company and its subsidiaries at December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Notes 5 and 13 to the consolidated financial statements, in 1993 the Company changed its method of accounting for postretirement benefit costs, income taxes and postemployment benefits to conform with Statements of Financial Accounting Standards Numbers 106, 109 and 112, respectively.

Deloitte & Touche

Parsippany, New Jersey
February 3, 1994

MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Pennsylvania Power & Light Company is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all other sections of this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. In preparing the financial statements, management makes informed estimates and judgments of the expected effects of events and transactions based upon currently available facts and circumstances. Management believes that the financial statements are free of material misstatement and present fairly the financial position, results of operations and cash flows of the Company.

The Company's consolidated financial statements have been audited by Deloitte & Touche, independent certified public accountants, whose report with respect to the financial statements appears above. Deloitte & Touche's appointment as auditors was previously ratified by the shareowners. Management has made available to Deloitte & Touche all the Company's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Management believes that all representations made to Deloitte & Touche during its audit were valid and appropriate.

The Company maintains a system of internal control designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and that there are inherent limitations in the effectiveness of any system of internal control.

Fundamental to the control system is the selection and training of qualified personnel, an organizational structure that provides appropriate segregation of duties, the utilization of written policies and procedures and the continual monitoring of the system for compliance. In addition, the Company maintains an internal auditing program to evaluate the Company's system of internal control for adequacy, application and compliance. Management considers the internal

auditors' and Deloitte & Touche's recommendations concerning its system of internal control and has taken actions which are believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that the Company's system of internal control is adequate to accomplish the objectives discussed in this report.

The Board of Directors, acting through its Audit Committee, oversees management's responsibilities in the preparation of the financial statements. In performing this function, the Audit Committee, which is composed of five independent directors, meets periodically with management, the internal auditors and the independent certified public accountants to review the work of each. Deloitte & Touche and the internal auditors have free access to the Audit Committee and to the Board of Directors, without management present, to discuss internal accounting control, auditing and financial reporting matters.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's Standards of Integrity, which is publicized throughout the Company. The Standards of Integrity addresses: the necessity of ensuring open communication within the Company; potential conflicts of interest; proper procurement activities; compliance with all applicable laws, including those relating to financial disclosure; and the confidentiality of proprietary information. The Company maintains a systematic program to assess compliance with these policies.

William F. Hecht

William F. Hecht
Chairman, President and Chief Executive Officer

R. E. Hill

R. E. Hill
Senior Vice President-Financial

Consolidated Statement of Income
Pennsylvania Power & Light Company and Subsidiaries

1993 1992 1991
(Thousands of Dollars)

Operating Revenues (Notes 1, 2, 3 and 4)	<u>\$2,727,002</u>	<u>\$2,744,122</u>	<u>\$2,740,715</u>
Operating Expenses			
Operation			
Fuel	506,900	545,361	586,325
Power purchases	278,800	275,499	256,320
Other	460,482	452,999	461,921
Maintenance	193,242	201,254	206,861
Depreciation (Notes 1 and 10)	271,390	258,357	246,212
Amortized (deferred) depreciation (Notes 1 and 10)	14,249	3,563	(7,047)
Income taxes (Note 5)	235,164	228,340	217,366
Taxes, other than income (Note 5)	203,967	205,318	190,426
	<u>2,164,194</u>	<u>2,170,691</u>	<u>2,158,384</u>
Operating Income	<u>562,808</u>	<u>573,431</u>	<u>582,331</u>
Other Income and (Deductions)			
Allowance for equity funds used during construction (Note 1)	7,981	6,771	2,961
Income tax credits (expense) (Note 5)	1,280	(322)	903
Other—net	8,700	12,337	7,616
	<u>17,961</u>	<u>18,786</u>	<u>11,480</u>
Income Before Interest Charges	<u>580,769</u>	<u>592,217</u>	<u>593,811</u>
Interest Charges			
Long-term debt	225,800	240,260	232,092
Short-term debt and other	14,443	13,402	22,254
Allowance for borrowed funds used during construction and interest capitalized (Note 1)	(7,600)	(8,169)	(8,949)
	<u>232,643</u>	<u>245,493</u>	<u>245,397</u>
Net Income	<u>348,126</u>	<u>346,724</u>	<u>348,414</u>
Dividends on Preferred and Preference Stock	33,885	40,495	44,687
Earnings Applicable to Common Stock	<u>\$ 314,241</u>	<u>\$ 306,229</u>	<u>\$ 303,727</u>
Earnings Per Share of Common Stock (a)	<u>\$ 2.07</u>	<u>\$ 2.02</u>	<u>\$ 2.01</u>
Average Number of Shares Outstanding (thousands)	151,904	151,676	151,382
Dividends Declared Per Share of Common Stock	\$ 1.65	\$ 1.60	\$ 1.55

(a) Based on average number of shares outstanding.

See accompanying Notes to Financial Statements.

Consolidated Balance Sheet at December 31
Pennsylvania Power & Light Company and Subsidiaries

Assets

1993 **1992**

(Thousands of Dollars)

Property, Plant and Equipment

Electric utility plant in service—at original cost	\$8,912,473	\$8,591,544
Accumulated depreciation (Notes 1 and 10)	(2,686,967)	(2,495,972)
Deferred depreciation (Notes 1 and 10)	282,115	296,285
	6,507,621	6,391,857
Construction work in progress—at cost	238,600	211,534
Nuclear fuel owned and leased—net of amortization (Note 9)	174,979	174,368
Other leased property—net of amortization (Note 9)	75,630	76,974
Electric utility plant—net	6,996,830	6,854,733
Other property—net of depreciation, amortization and depletion (1993, \$49,166; 1992, \$64,286)	148,751	164,771
	7,145,581	7,019,504

Investments

Associated company—at equity	17,069	17,088
Nuclear plant decommissioning trust fund (Notes 1 and 6)	76,913	65,159
Financial investments (Notes 1 and 7)	140,569	121,500
Other—at cost or less (Note 7)	31,249	33,657
	265,800	237,404

Current Assets

Cash and cash equivalents (Note 1)	8,271	15,110
Accounts receivable (less reserve: 1993, \$29,429; 1992, \$27,660)		
Customers	183,364	184,149
Interchange power sales		7,261
Other	17,502	14,128
Unbilled revenues	120,589	109,906
Fuel (coal and oil)—at average cost	95,702	142,374
Materials and supplies—at average cost	125,676	139,360
Common stock held for dividend reinvestment plan—at cost (Note 8)	15,937	14,383
Deferred income taxes (Note 5)	12,688	6,776
Other	37,083	52,153
	616,812	685,600

Deferred Debits

Utility plant carrying charges—net of amortization (Notes 1 and 10)	24,097	24,965
Reacquired debt costs (Notes 1 and 10)	101,836	78,917
Assessment for decommissioning uranium enrichment facilities (Notes 3 and 10)	33,710	38,925
Retired miners' health care benefits (Notes 3 and 10)	24,096	36,600
Taxes recoverable through future rates (Notes 5 and 10)	1,166,118	
Postretirement benefits other than pensions (Notes 10 and 13)	14,855	
Other	61,208	69,853
	1,425,920	249,260
	\$9,454,113	\$8,191,768

See accompanying Notes to Financial Statements.

Liabilities

	1993	1992
	<i>(Thousands of Dollars)</i>	
Capitalization		
Common equity		
Common stock	\$1,370,783	\$1,364,148
Capital stock expense	(10,906)	(11,969)
Earnings reinvested	1,065,958	1,014,760
	<u>2,425,835</u>	<u>2,366,939</u>
Preferred and preference stock		
With sinking fund requirements	335,000	325,600
Without sinking fund requirements	171,375	223,612
Long-term debt	<u>2,618,031</u>	<u>2,620,720</u>
	<u>5,550,241</u>	<u>5,536,871</u>
Current Liabilities		
Commercial paper (Note 12)	117,000	67,000
Bank loans (Note 12)	85,260	92,348
Long-term debt due within one year	44,539	6,439
Capital lease obligations due within one year (Note 9)	78,740	86,899
Accounts payable	156,992	147,001
Taxes accrued	62,721	63,067
Interest accrued	60,373	59,429
Dividends payable	70,410	70,556
Accrued mine closing costs	7,842	20,296
Other	88,791	91,105
	<u>772,668</u>	<u>704,140</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred investment tax credits (Note 5)	242,317	255,823
Deferred income taxes (Note 5)	2,269,648	1,079,744
Capital lease obligations (Note 9)	170,285	164,159
Unamortized cost of power plant spare parts (Note 3)	51,147	75,457
Accrued nuclear plant decommissioning costs (Notes 1 and 6)	78,947	67,435
Accrued mine closing costs	55,876	61,841
Contract settlement proceeds to be credited to customers (Note 3)	43,894	55,794
Accrued pension costs (Note 13)	92,024	73,902
Accrued assessment for decommissioning uranium enrichment facilities (Note 3)	31,871	39,600
Accrued retired miners' health care benefits (Note 3)	38,751	36,600
Accrued postretirement benefits other than pensions and postemployment benefits (Note 13)	9,862	
Other	46,582	40,402
	<u>3,131,204</u>	<u>1,950,757</u>
Commitments and Contingent Liabilities (Note 15)		
	<u>\$9,454,113</u>	<u>\$8,191,768</u>

See accompanying Notes to Financial Statements.

Consolidated Statement of Cash Flows
Pennsylvania Power & Light Company and Subsidiaries

	1993	1992	1991
	<i>(Thousands of Dollars)</i>		
Cash Flows From Operating Activities			
Net income	\$ 348,126	\$ 346,724	\$ 348,414
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	289,055	270,048	261,180
Amortization of property under capital leases	79,437	81,916	96,565
Amortization of contract settlement proceeds and deferred cost of power plant spare parts	(38,602)	(31,973)	(17,818)
Deferred income taxes and investment tax credits	12,229	18,309	52,118
Equity component of AFUDC	(7,981)	(6,771)	(2,961)
Change in current assets and current liabilities			
Accounts receivable	4,672	16,010	(14,380)
Unbilled and refundable electric revenues	(10,291)	(37,865)	(45,725)
Fuel inventories	46,672	16,997	25,887
Materials and supplies	4,541	9,071	1,200
Accounts payable	9,991	41,790	(11,835)
Accrued interest and taxes	598	4,525	17,858
Other	1,630	(11,876)	8,012
Other operating activities—net	29,656	52,985	49,432
Net cash provided by operating activities	<u>769,733</u>	<u>769,890</u>	<u>767,947</u>
Cash Flows From Investing Activities			
Property, plant and equipment expenditures	(487,836)	(422,209)	(374,397)
Proceeds from sales of nuclear fuel to trust	63,431	42,778	48,914
Financial investments	(705)	(17,796)	(50,876)
Other investing activities—net	6,825	4,509	4,191
Net cash used in investing activities	<u>(418,285)</u>	<u>(392,718)</u>	<u>(372,168)</u>
Cash Flows From Financing Activities			
Issuance of long-term debt	850,000	390,000	150,000
Issuance of common stock	6,635	6,151	8,401
Issuance of preferred stock	300,000		
Retirement of long-term debt	(809,000)	(346,400)	(37,460)
Retirement of preferred and preference stock	(342,837)	(46,753)	(19,100)
Payments on capital lease obligations	(83,868)	(85,733)	(100,227)
Dividends paid	(284,642)	(282,209)	(277,323)
Net increase (decrease) in short-term debt	42,912	12,178	(118,770)
Costs associated with issuance and retirement of securities	(37,448)	(16,682)	(2,136)
Other financing activities—net	(39)	(126)	(160)
Net cash used in financing activities	<u>(358,287)</u>	<u>(369,574)</u>	<u>(396,775)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,839)	7,598	(996)
Cash and Cash Equivalents at Beginning of Period	<u>15,110</u>	<u>7,512</u>	<u>8,508</u>
Cash and Cash Equivalents at End of Period	<u>\$ 8,271</u>	<u>\$ 15,110</u>	<u>\$ 7,512</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for			
Interest (net of amount capitalized)	\$ 205,090	\$ 249,303	\$ 229,066
Income taxes	\$ 221,049	\$ 197,594	\$ 154,136

See accompanying Notes to Financial Statements.

Consolidated Statement of Long-Term Debt at December 31
Pennsylvania Power & Light Company and Subsidiaries

Company	Outstanding		Maturity (b)
	1993	1992	
	<i>(Thousands of Dollars)</i>		
First Mortgage Bonds (a)			
4 ⁵ / ₈ %	\$ 30,000	\$ 30,000	March 1, 1994
5 ⁵ / ₈ %	30,000	30,000	June 1, 1996
6 ³ / ₄ %	30,000	30,000	November 1, 1997
9 ¹ / ₄ %		125,000	March 1, 1998
5 ¹ / ₂ %	150,000		April 1, 1998
9 ⁵ / ₈ %		125,000	June 1, 1998
6% to 9%	720,000	495,000	1999-2003
6 ¹ / ₂ % to 9 ³ / ₄ %	375,000	555,000	2004-2008
9% to 9 ¹ / ₂ %		250,000	2014-2018
6 ³ / ₄ % to 10%	1,025,000	675,000	2019-2023
First Mortgage Pollution Control Bonds (a)			
5 ⁵ / ₈ % Series A	15,500	15,500	(c)
10 ⁵ / ₈ % Series E	37,750	37,750	March 1, 2014
10 ⁵ / ₈ % Series F	115,500	115,500	September 1, 2014
9 ³ / ₈ % Series G	55,000	55,000	July 1, 2015
6.40% Series H	90,000	90,000	November 1, 2021
	<u>2,673,750</u>	<u>2,628,750</u>	
Miscellaneous promissory notes	77	116	1994-1995
	<u>2,673,827</u>	<u>2,628,866</u>	
Unamortized (discount) and premium—net	(24,857)	(19,307)	
	<u>2,648,970</u>	<u>2,609,559</u>	
Less amount due within one year	30,939	39	
	<u>2,618,031</u>	<u>2,609,520</u>	
Subsidiaries			
Notes (d)	13,600	17,600	
Less amount due within one year	13,600	6,400	
		<u>11,200</u>	
Total long-term debt	<u>\$2,618,031</u>	<u>\$2,620,720</u>	

(a) Substantially all owned electric utility plant is subject to the lien of the Company's first mortgage.

(b) Aggregate long-term debt maturities through 1998 are (thousands of dollars): 1994, \$44,539; 1995, \$9,38; 1996, \$30,900; 1997, \$30,900; 1998, \$150,900. Maximum sinking fund requirements aggregate \$25.8 million through 1998 and may be met with property additions or retirement of bonds.

(c) Bonds mature annually on May 1 as follows (thousands of dollars): 1994-2002, \$900; 2003, \$7,400.

(d) Fixed rates ranging from 9% to 12%. During 1993, a subsidiary company retired \$4.0 million of maturing notes. In January 1994, a subsidiary company repaid \$13.6 million of its notes.

See accompanying Notes to Financial Statements.

Consolidated Statement of Shareowners' Common Equity
Pennsylvania Power & Light Company and Subsidiaries

	Common Stock Outstanding Shares (a)	Common Stock Outstanding Amount	Capital Stock Expense	Earnings Reinvested	Total
		<i>(Thousands of Dollars)</i>			
Balance at December 31, 1990	151,297,940	\$1,351,046	\$(12,449)	\$ 883,162	\$2,221,759
Net income				348,414	348,414
Cash dividends declared					
Preferred stock				(35,047)	(35,047)
Preference stock				(9,640)	(9,640)
Common stock (\$1.55)				(234,626)	(234,626)
Stock redemption costs				(157)	(157)
Employee stock ownership plan (b)	357,328	7,045			7,045
Other			262		262
Balance at December 31, 1991	151,655,268	\$1,358,091	\$(12,187)	\$ 952,106	\$2,298,010
Net income				346,724	346,724
Cash dividends declared					
Preferred stock				(30,855)	(30,855)
Preference stock				(9,640)	(9,640)
Common stock (\$1.60)				(242,655)	(242,655)
Stock redemption costs				(920)	(920)
Employee stock ownership plan (b)	230,067	6,057			6,057
Other			218		218
Balance at December 31, 1992	151,885,335	\$1,364,148	\$(11,969)	\$1,014,760	\$2,366,939
Net income				348,126	348,126
Cash dividends declared					
Preferred stock				(29,065)	(29,065)
Preference stock				(4,820)	(4,820)
Common stock (\$1.65)				(250,611)	(250,611)
Stock redemption costs				(12,432)	(12,432)
Employee stock ownership plan	246,754	6,635			6,635
Other			1,063		1,063
Balance at December 31, 1993	152,132,089	\$1,370,783	\$(10,906)	\$1,065,958	\$2,425,835

(a) No par value, 170,000,000 shares authorized. Each share entitles the holders to one vote on any question presented to any shareowners' meeting.
(b) Includes employee subscriptions.

Consolidated Statement of Preferred and Preference Stock at December 31
Pennsylvania Power & Light Company and Subsidiaries

	Outstanding		Shares Outstanding 1993	Shares Authorized
	1993	1992		
	<i>(Thousands of Dollars)</i>			
Preferred Stock —\$100 par, cumulative (a)				
4½%	\$ 53,019	\$ 53,019	530,189	629,936
Series	453,356	381,193	4,533,556	10,000,000
	<u>\$506,375</u>	<u>\$434,212</u>		
Preference Stock —no par, cumulative (a)		\$115,000		5,000,000

(a) Each share of preferred and preference stock entitles the holders to one vote on any question presented to any shareowners' meeting.
(b) The involuntary liquidation price of the preferred stock is \$100 per share. The optional voluntary liquidation price is the optional redemption price per share in effect, except for the 4½% Preferred Stock for which such price is \$100 per share (plus in each case any unpaid dividends).
(c) The aggregate amount of sinking fund redemption requirements through 1998 are (thousands of dollars): 1994, \$30,000; 1995, \$30,000; 1996, \$30,000; 1997, \$30,000; 1998, none.
(d) This series of preferred stock is not redeemable prior to 2003.
(e) Shares to be redeemed annually on October 1 as follows: 2003-2007, 57,500; 2008, 862,500.
(f) Shares to be redeemed annually on July 1 as follows: 2003-2007, 50,000; 2008, 750,000.
(g) On certain sinking fund redemption dates, additional shares may be redeemed up to the number of shares required to be redeemed annually.
(h) In January 1994, the Company redeemed through sinking fund provisions at \$100 per share 200,000 shares of 7.00% Series Preferred Stock.

See accompanying Notes to Financial Statements.

Details of Preferred and Preference Stock (b)

	Outstanding		Shares Outstanding 1993	Optional Redemption Price Per Share 1993	Sinking Fund Provisions (c)	
	1993	1992			Shares to be Redeemed Annually	Redemption Period
<i>(Thousands of Dollars)</i>						
With Sinking Fund Requirements						
Series Preferred						
6.125%	\$115,000		1,150,000	(d)	(c)	2003-2008
6.33%	100,000		1,000,000	(d)	(f)	2003-2008
6.875% (g)	40,000	\$ 50,000	400,000	\$101.72	100,000	1994-1997
7.00% (g)(h)	80,000	100,000	800,000	101.75	200,000	1994-1997
7.375%		50,000				
7.40%		17,600				
7.82%		50,000				
7.927%		3,000				
8.00%		25,000				
8.75%		30,000				
	\$335,000	\$325,600				
Without Sinking Fund Requirements						
4½ % Preferred	\$ 53,019	\$ 53,019	530,189	\$110.00		
Series Preferred						
3.35%	4,178	4,178	41,783	103.50		
4.40%	22,878	22,878	228,773	102.00		
4.60%	6,300	6,300	63,000	103.00		
6.75%	85,000		850,000	(d)		
8.60%		22,237				
Preference						
\$8.00		35,000				
\$8.40		40,000				
\$8.70		40,000				
	\$171,375	\$223,612				

Increases (Decreases) in Preferred and Preference Stock (Thousands of Dollars)

	1993		1992		1991	
	Shares	Amount	Shares	Amount	Shares	Amount
Series Preferred Stock						
6.125%	1,150,000	\$115,000				
6.33%	1,000,000	100,000				
6.75%	850,000	85,000				
6.875%	(100,000)	(10,000)				
7.00%	(200,000)	(20,000)				
7.375%	(500,000)	(50,000)				
7.40%	(176,000)	(17,600)	(16,000)	\$(1,600)	(16,000)	\$(1,600)
7.82%	(500,000)	(50,000)				
7.927%	(30,000)	(3,000)	(30,000)	(3,000)	(30,000)	(3,000)
8.00%	(250,000)	(25,000)	(25,000)	(2,500)	(25,000)	(2,500)
8.60%	(222,370)	(22,237)				
8.75%	(300,000)	(30,000)	(60,000)	(6,000)	(60,000)	(6,000)
9.00%			(77,630)	(7,763)		
9.24%			(258,900)	(25,890)	(60,000)	(6,000)
Preference Stock						
\$8.00	(350,000)	(35,000)				
\$8.40	(400,000)	(40,000)				
\$8.70	(400,000)	(40,000)				

Decreases in Preferred and Preference Stocks represent: (i) the redemption of stock pursuant to sinking fund requirements, or (ii) shares redeemed pursuant to optional redemption provisions.

See accompanying Notes to Financial Statements.

1. Summary of Significant Accounting Policies

Accounting Records

Accounting records for utility operations are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the Pennsylvania Public Utility Commission (PUC).

Principles of Consolidation

All wholly owned subsidiaries (principally involved in holding coal reserves, oil pipeline operations and passive financial investments) have been consolidated in the accompanying financial statements and all significant intercompany transactions have been eliminated. Income and expenses of subsidiaries not related to utility operations have been classified under other income and deductions on the Consolidated Statement of Income.

The investment in Safe Harbor Water Power Corporation (Safe Harbor), of which the Company owns one-third of the outstanding capital stock representing one-half of the voting securities, is recorded using the equity method of accounting. The Company's principal transaction with Safe Harbor is the purchase of electricity amounting to (millions of dollars): 1993, \$9.9; 1992, \$9.4 and 1991, \$9.3. Under equity accounting, the operations of Safe Harbor resulted in additional income to the Company of (millions of dollars): 1993, \$2.1; 1992, \$2.1 and 1991, \$2.2.

Utility Plant and Depreciation

Additions to utility plant and replacement of units of property are capitalized at cost. The cost of units of property retired or replaced is removed from utility plant accounts and charged to accumulated depreciation. Expenditures for maintenance and repairs of property and the cost of replacing items determined to be less than units of property are charged to operating expense.

For financial statement purposes, depreciation is being provided over the estimated useful lives of property and is computed using a straight-line method for all property except for property placed in service prior to January 1, 1989 at the nuclear-fueled Susquehanna steam electric station. Current PUC and FERC rate orders provide for an increasing amount of annual depreciation for property placed in service prior to January 1, 1989 at the Susquehanna station through 1998, at which time depreciation will change to the straight-line method. Provisions for depreciation, as a percent of average depreciable property, approximated 3.3% in 1993, 3.2% in 1992 and 3.1% in 1991.

Utility Plant Carrying Charges

Carrying charge accruals on certain facilities for the Susquehanna and Martins Creek stations are recorded as deferred debits in accordance with a FERC order. These amounts are being amortized to expense over the remaining lives of the stations.

Nuclear Decommissioning and Fuel Disposal

An annual provision for the Company's share of the future decommissioning of the Susquehanna station, equal to the amount allowed for ratemaking purposes, is charged to operating expense. Such amounts are invested in a trust fund which can be used only for future decommissioning costs. (See Note 6.)

The U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. The Company currently pays DOE a fee for future disposal services and recovers such costs in customer rates.

Financial Investments

Marketable equity securities are carried at the lower of their aggregate cost or market value, determined at the balance sheet date. Noncurrent marketable debt securities are carried at amortized cost. Current marketable debt securities are carried at the lower of amortized cost or market value. Gains and losses on the sale of marketable securities are recognized upon realization utilizing the specific cost identification method. Investments in financial limited partnerships are accounted for using the equity method of accounting and venture capital investments are recorded at cost. (See Note 7.)

Premium on Recquired Long-Term Debt

As provided in the Uniform System of Accounts, the premium paid and expenses incurred to redeem long-term debt are deferred and amortized over the life of the new debt issue or the remaining life of the retired debt when the redemption is not financed by a new issue.

Allowance for Funds Used During Construction

As provided in the Uniform System of Accounts, the cost of funds used to finance construction projects is capitalized as part of construction cost. The components of allowance for funds used during construction (AFUDC) shown on the Consolidated Statement of Income under other income and deductions and interest charges are non-cash items equal to the cost of funds capitalized during the period.

AFUDC serves to offset on the Consolidated Statement of Income the interest charges on debt and dividends on preferred and preference stock incurred to finance construction. In addition, a return on common equity used to finance construction is imputed.

Capital Leases

Leased property capitalized on the Consolidated Balance Sheet is recorded at the present value of future lease payments and is amortized so that the total of interest on the lease obligation and amortization of the leased property equals the rental expense allowed for ratemaking purposes. (See Note 9.)

Revenues

Electric revenues are recorded based on the amounts of electricity delivered to customers through the end of each accounting period. This includes amounts customers will be billed for electricity delivered from the time meters were last read to the end of the respective period.

The Company's PUC tariffs contain an Energy Cost Rate (ECR) under which customers are billed an estimated amount for fuel and other energy costs. Any difference between the actual and estimated amount for such costs is collected from or refunded to customers in a subsequent period. Revenues applicable to ECR billings are recorded at the level of actual energy costs and the difference is recorded as payable to or receivable from customers.

The Company's PUC tariffs include a Special Base Rate Credit Adjustment (SBRCA) that currently credits retail customers' bills for three nonrecurring items related to: (i) the use of an inventory method of accounting for certain power plant spare parts; (ii) the sale of capacity and related energy from the Company's wholly owned coal-fired stations to Atlantic City Electric Company (Atlantic); and (iii) the proceeds from a settlement of outstanding contract claims arising from construction of the Susquehanna station. (See Note 3.)

In April 1993, the Company rolled into base rates the level of increased state taxes recovered since August 1991 through a State Tax Adjustment Surcharge (STAS) and revised the STAS to collect an under-collection of state taxes during the period April 1992 through March 1993. (See Note 3.)

Income Taxes

The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Income taxes are allocated to operating expenses and other income and deductions on the Consolidated Statement of Income.

In January 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes." SFAS 109 requires a change from the deferred method to the asset and liability method of accounting for income taxes. (See Note 5.)

The provision for deferred income taxes included on the Consolidated Statement of Income represents the amount of deferred tax expense reflected in rates established by the PUC and FERC. The difference in the provision for deferred income taxes determined under SFAS 109 and the amount recorded based on ratemaking procedures adopted by the PUC and FERC is deferred and included in taxes recoverable through future rates on the Consolidated Balance Sheet. (See Note 5.)

Investment tax credits were deferred when utilized and are amortized over the average lives of the related property. The investment tax credit was repealed effective December 31, 1985.

Pension Plan and Other Postretirement and Postemployment Benefits

The Company has a noncontributory pension plan covering substantially all employees, and subsidiary mining companies have a noncontributory pension plan for substantially all non-bargaining, full-time employees. Funding is based upon actuarially determined computations that take into account the amount deductible for

income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974. (See Note 13.)

In January 1993, the Company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 requires the Company to accrue, during the years that the employees render the necessary service, the expected cost of providing retiree health care and life insurance benefits. (See Note 13.)

In accordance with a PUC order, the Company is deferring the accrued cost of the PUC-jurisdictional portion of retiree health and life insurance benefits in excess of actual claims paid pending recovery of the increased costs in retail rates.

In December 1993, the Company adopted SFAS 112, "Employers' Accounting for Postemployment Benefits." SFAS 112 requires the accrual of the expected cost of providing benefits to former or inactive employees after employment but before retirement. (See Note 13.)

Accounting Statement Adopted After December 31, 1993

Effective January 1, 1994, the Company adopted SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. The adoption of SFAS 115 did not have a material effect on the Company's net income.

Unusual Items Recognized in the Fourth Quarter

In the fourth quarter of 1993, the Company recorded charges against income that, in the aggregate, adversely affected net income by about \$18 million or 12 cents per share of common stock. The charges related to: (i) credits to be included in the Company's ECR due to entering a settlement agreement with complainants against the Company's ECR; (ii) the write-off of certain deferred retiree benefits costs; and (iii) the recognition of certain employee benefit costs in connection with the adoption of a new accounting standard. (See Notes 3 and 13.)

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Reclassification

Certain amounts from prior years' financial statements have been reclassified to conform to the current year presentation.

2. Sources of Revenues

The Company is an operating electric utility serving about 1.2 million customers in a 10,000 square-mile territory of central eastern Pennsylvania with a population of approximately 2.6 million persons. Substantially all of the Company's operating revenues are derived from the sale of electric energy subject to PUC and FERC regulation. Customers are generally billed for electric service on a monthly basis after electricity is delivered.

During 1993, about 98% of total operating revenues was derived from electric energy sales with 34% coming from residential

customers, 27% from commercial customers, 20% from industrial customers, 4% from interchange power sales to members of the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM), 12% from contractual sales to other major utilities and 3% from others. The Company's largest industrial customer provided about 1.4% of revenues from energy sales during 1993. Twenty-nine industrial customers, whose billings exceeded \$3 million each, provided about 7.5% of such revenues. Industrial customers are broadly distributed among industrial classifications.

3. Rate Matters

Energy Cost Rate Issues

Several complaints have been filed with the PUC against the Company's ECR by the Pennsylvania Office of Consumer Advocate (OCA) and certain industrial customers. These complaints relate to the Company's ECRs beginning with the 1990-91 ECR through the 1993-94 ECR, which became effective in April 1993.

The complaints by industrial customers generally oppose the Company's recovery on a current basis through the ECR of the cost of output purchased from non-utility generating companies or question the manner in which the cost of such purchases is recovered through the ECR. The OCA and industrial customers complaints also request a PUC investigation into whether the revenues received from the Company's sales of installed capacity credits, reservation of output and transmission entitlements (capacity-related transactions) should be credited to customers through the ECR. These transactions are discussed in Note 4.

With respect to the 1993-94 ECR, certain of the complaints also oppose the Company's request to recover through the ECR the liability imposed on the Company or its coal-mining subsidiaries by the Energy Policy Act of 1992 (Energy Act) for the cost of health care for retired coal miners previously employed by those subsidiaries.

The Energy Act imposed a new liability on the Company or its coal-mining subsidiaries for the health care of retired coal miners previously employed by those subsidiaries. The estimated liability amounts to approximately \$68 million on a net present value basis. At the time coal-mining operations ceased, subsidiary mining companies had accrued \$32 million for anticipated payments to the miners' health care trust funds to provide for health care benefits for retired miners. Under the Energy Act, the Company or its coal-mining subsidiaries will be directly liable for these benefits and the \$32 million will not have to be paid to the trust funds. The Company intends to use the amount accrued by its subsidiary mining companies to partially offset the liability.

In December 1992, the Company recorded an additional liability of approximately \$36 million representing the balance of the liability imposed by the Energy Act for health care benefits for retired coal miners. The charge to expense was deferred. The net PUC-jurisdictional amount of this liability was \$30 million. The balance of the deferral pertains to FERC-jurisdictional service.

In addition, certain complaints challenge the Company's request for ECR recovery in the 1993-94 ECR of the additional costs associated with the 12-month extension of the Company's agreement to purchase coal from the operator of a mine formerly owned by the Company. The additional costs in question total approximately \$3 million.

With regard to the Company's 1991-92 ECR, the PUC ordered hearings regarding ECR treatment of capacity-related sales made possible by the purchase of output from non-utility generating companies. The PUC also ordered hearings on the Company's 1993-94 ECR. The Administrative Law Judge assigned to the case excluded from the scope of the hearings issues regarding the Company's recovery of the cost of output purchased from non-utility generating companies and also indicated that the scope of the other cases would be limited to the Company's capacity-related transactions and various coal-related issues.

As a result of discussions which began in late 1993, the Company and the complainants reached a settlement agreement which provides for crediting the 1994-95 ECR with a portion of the receipts from installed capacity credit sales from April 1990 through December 31, 1993; credits a portion of the receipts from future installed capacity credit sales to the ECR and excludes from recovery through the ECR a portion of the PUC-jurisdictional amount of deferred retired miners' health care benefits costs.

This agreement is subject to PUC approval. As a result of this agreement, in the fourth quarter of 1993 the Company recorded a charge to expense of \$17.1 million, which after income taxes, reduced net income by approximately \$9.7 million or 6.4 cents per share of common stock.

Postretirement Benefits Other Than Pensions

In March 1993, the PUC approved the Company's petition to defer the increase in retiree benefits costs arising from adoption of SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The increased costs applicable to PUC-jurisdictional customers will be deferred from January 1, 1993 until such costs are included in customer rates in the Company's next retail base rate proceeding. Accounting rules permit deferral of the costs for about five years.

In June 1993, the OCA appealed the PUC's decision permitting deferral and future recovery of the increased retiree benefits costs to the Commonwealth Court of Pennsylvania. The filing of the appeal does not operate as a stay of the PUC's order and the Company is continuing to defer such costs in accordance with the PUC's order.

The Company cannot predict the ultimate outcome of this matter before the Commonwealth Court.

The Company also began to defer the increased costs applicable to FERC-jurisdictional service pursuant to a FERC policy statement, but subsequently charged the increased costs of \$2.3 million to expense due to a settlement agreement reached with municipalities and other small utilities served under FERC tariffs. As a result of this agreement, the Company will be unable to file for recovery of the increased costs within the time period specified in the FERC policy statement. See "FERC Wholesale Rates" for more information.

Uranium Enrichment Decontamination and Decommissioning Fund

The Energy Act also provides for an assessment on utilities with nuclear power operations, including the Company, to establish a Uranium Enrichment Decontamination and Decommissioning Fund (Fund). Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the Energy Act and are expected to be paid to the Fund by such utilities over a 15-year period. Amounts paid to the Fund are to be used for the ultimate decontamination and decommissioning of the DOE's uranium enrichment facilities. The Energy Act states that the assessment shall be deemed a necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as the utility's other fuel costs.

As of December 31, 1993, the Company's recorded liability for its total assessment amounted to about \$34.5 million. The liability is

subject to adjustment for inflation. The corresponding charge to expense was deferred because the Company includes its annual payments to the Fund of approximately \$2.6 million, subject to adjustment for inflation, in the ECR which is in the Company's PUC tariffs and in the fuel adjustment clause which is in the Company's FERC tariffs. As a result, the Company does not expect the assessment to have an adverse effect on net income.

Special Base Rate Credit Adjustment

The SBRCA has been in effect since April 1, 1991 and currently reduces retail customers' bills for the effects of three nonrecurring items. The first item is the annual amortization of a credit to income associated with the Company's using an inventory method of accounting for spare parts beginning January 1, 1991. The amortization of the cost of spare parts on hand at January 1, 1991 is being included in the SBRCA over a five-year period.

The second relates to costs that are being recovered from Atlantic pursuant to the sale of 125,000 kilowatts of capacity (summer rating) and related energy from the Company's wholly owned coal-fired stations beginning October 1, 1991. The costs recovered from Atlantic are currently reflected in retail base rate tariffs. Accordingly, the Company included a credit in the SBRCA for the costs, except energy costs, recovered from the sale of coal-fired capacity and related energy to Atlantic. The change in energy costs associated with the sale is reflected in the ECR.

The third is the proceeds from the settlement of outstanding contract claims arising from construction of the nuclear-fueled Susquehanna steam generating station. In accordance with approval of the settlement by the PUC, the Company began on April 1, 1992 to return the settlement proceeds to retail customers through the SBRCA at the rate of \$11 million per year for five years. In addition, the proceeds from the settlement applicable to wholesale and bulk power customers are being credited to those customers.

The SBRCA reduced revenues from retail customers by about \$44.5 million in 1993, \$39.1 million in 1992 and \$16.7 million in 1991. The reductions in revenues due to the SBRCA do not adversely affect the Company's net income.

Recovery of State Tax Increase

In August 1991, Pennsylvania enacted legislation that increased the Company's state taxes by approximately \$38 million on an annual basis. Certain of these tax increases were effective as of January 1, 1991. The Company's retail rates include a provision for a STAS which provides for recovery of costs associated with new or increased state taxes, and the Company recovered the increased taxes applicable to retail customers through application of the STAS. In April 1993, the Company rolled into base rates the level of increased state taxes previously recovered in the STAS and the STAS was revised to collect an undercollection of state taxes during the period April 1992 through March 1993. The portion of the increased taxes applicable to the Company's contractual sales of capacity and related energy to other utilities is recovered as a cost of providing such service.

FERC Wholesale Rates

The Company has negotiated new five-year, lower-priced sales contracts with certain small utilities it currently serves. The contracts are subject to FERC approval and will reduce rates to these small utilities by about \$3.6 million in 1994 and 1995 and by about an additional \$4.1 million for the years 1996 through 1998. In connection with the agreement, in 1993, the Company wrote off the deferred portions of retired miners' health care benefits costs and postretirement benefits other than pensions applicable to FERC-jurisdictional services. The charge to expense amounted to \$8.9 million and, after income taxes, reduced net income by \$5.1 million or about 3.4 cents per share of common stock.

4. Sales to Other Major Electric Utilities

The Company provided Atlantic with 126,000 kilowatts of the Company's share of capacity and related energy from the Susquehanna station from 1983 through September 30, 1991. Another agreement provides Atlantic with 125,000 kilowatts of capacity (summer rating) and related energy from the Company's wholly owned coal-fired stations from October 1, 1991 through September 2000.

On October 1, 1991, immediately following the expiration of the agreement with Atlantic, the Company began providing Baltimore Gas & Electric (BG&E) with 126,000 kilowatts of the Company's share of capacity and related energy from the Susquehanna station. Sales to BG&E will continue through May 2001.

The Company provides Jersey Central Power and Light Company (JCP&L) with 945,000 kilowatts of capacity and related energy from all the Company's generating units. Sales to JCP&L began in 1985 and will continue at the 945,000 kilowatt level through 1995, with the amount then declining uniformly each year until the end of the agreement in 1999.

These agreements provide that sales are to be made at a price equal to the Company's cost of providing service, which includes a return

on the Company's investment in generating capacity. Revenues from these sales totaled \$282.2 million in 1993, \$293.8 million in 1992 and \$284.2 million in 1991.

In addition to these bulk power contractual sales, the Company has entered into several agreements with other electric utilities in the PJM for the sale of capacity credits from the Company's system capacity. These capacity credits are used by the other utilities to meet their installed capacity obligation in the PJM. The price received for these sales is based on a percentage of the rate the utilities would have paid to purchase installed capacity under the PJM agreement. The length of these agreements and the amount of capacity credits sold vary. The longest agreement currently in effect is scheduled to terminate in 1996.

The Company has entered into arrangements with several utilities both inside and outside the PJM for the reservation of output from either the oil-fired or coal-fired units at the Company's Martins Creek station during certain periods of time. Specific deliveries of energy are requested by the purchasing utility as needed during the reservation period. One utility has agreed to purchase a maximum of

10 megawatt hours per hour of the output the Company purchases from non-utility generating companies for the period June 1990 through May 1995. The Company includes as a credit to the ECR the revenue received for deliveries of energy from Martins Creek, the revenue received for deliveries of output from non-utility generating companies and the foregone PJM interchange savings that are not realized when interchange sales are reduced because of reservation agreements.

Arrangements also have been entered into whereby PJM utilities can purchase a portion of the Company's entitlement to use the PJM transmission system to import energy from utilities outside the PJM. These transactions are made through negotiated prices for various

periods of time. The Company includes, as a credit to the ECR, the foregone interchange savings that are not realized when the sale of transmission entitlements reduces the amount of energy the Company imports and sells to other utilities.

Revenues from the sale of capacity credits, the reservation of output from the Martins Creek units and the sale of transmission entitlements (net of foregone interchange savings included in the ECR) totaled \$35.0 million in 1993, \$35.0 million in 1992 and \$35.4 million in 1991. For information relating to proceedings pending before the PUC and a settlement agreement between the Company and complainants to the ECR with respect to capacity-related transactions, see Note 3.

5. Taxes

In January 1993, the Company adopted SFAS 109, "Accounting for Income Taxes." SFAS 109 requires a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amount and the tax bases of existing assets and liabilities.

In adopting SFAS 109, the Company recorded in January 1993 an increase of approximately \$1.1 billion in its deferred tax liability for tax benefits previously flowed through to customers and for other temporary differences. The increased tax liability was offset by a corresponding asset representing the future revenue expected through the ratemaking process to pay for the taxes based on the established regulatory practices and legislative history in Pennsylvania permitting recovery of actual taxes payable. The adoption of SFAS 109 did not have a material effect on the Company's net income.

In August 1993, federal legislation was enacted that increased the corporate federal income tax rate to 35% from 34% retroactive to January 1, 1993. For 1993, the Company recorded additional income tax expense of \$5.9 million and an increase in deferred income tax liabilities and taxes recoverable through future rates of \$79.5 million to reflect the new tax rate.

The provision for deferred income taxes included on the Consolidated Statement of Income represents the amount of deferred tax expense reflected in rates established by the PUC and FERC. The difference in the provision for deferred income taxes for 1993 determined under SFAS 109 and the amount recorded based on ratemaking procedures adopted by the PUC and FERC is deferred and included in taxes recoverable through future rates on the Consolidated Balance Sheet.

The tax effects of significant temporary differences comprising the Company's net deferred income tax liability at December 31, 1993 were as follows (thousands of dollars):

Deferred tax assets	
Deferred investment tax credits	\$ 103,084
Accrued pension costs	38,821
Other	108,441
Valuation allowance	(8,694)
	<u>241,652</u>
Deferred tax liabilities	
Electric utility plant—net	1,892,366
Other property—net	26,629
Taxes recoverable through	
future rates	500,959
Reacquired debt costs	43,580
Other	35,120
	<u>2,498,654</u>
Net deferred tax liability	<u>\$2,257,002</u>

The valuation allowance related to deferred tax assets at December 31, 1993 amounted to \$8,694,000, a decrease of \$2,882,000 from the \$11,576,000 established upon the adoption of SFAS 109 at January 1, 1993.

In August 1991, Pennsylvania enacted legislation that increased the Company's state income and other taxes retroactive to January 1, 1991. See Note 3 for information concerning the recovery of these increased taxes.

During 1991, the Company utilized the remaining \$16 million of previously unused tax credits to reduce its federal income tax liability.

6. Nuclear Decommissioning Costs

The Company's most recent site specific decommissioning study, based on immediate dismantlement and decommissioning each unit following final shutdown, indicates that its share of the total estimated cost of decommissioning the Susquehanna station is approximately \$725 million in 1993 dollars. The operating licenses for Units 1 and 2 expire in 2022 and 2024, respectively.

Under current rates, the Company collects about \$6.9 million annually from customers for the cost of decommissioning the Susquehanna station. The amounts collected, less applicable taxes, are

deposited in an external trust fund for investment and can be used only for future decommissioning costs. The market value of securities held and accrued income in the trust fund at December 31, 1993 aggregated approximately \$82.9 million.

The most recent estimated cost of decommissioning Susquehanna is substantially higher than the estimate used to determine the amount currently collected in retail rates. As a result, the Company would expect to request recovery of a higher level of decommissioning expense in its next retail base rate proceeding.

7. Financial Instruments

The carrying amount and the estimated fair value of the Company's financial instruments are as follows (thousands of dollars):

	December 31, 1993		December 31, 1992	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Nuclear plant decommissioning trust fund (a)	\$ 76,913	\$ 82,860	\$ 65,159	\$ 69,104
Financial investments (b)	140,569	145,482	121,500	124,203
Other investments (a)	31,249	31,182	33,657	33,638
Cash and cash equivalents (c)	8,271	8,271	15,110	15,110
Marketable debt securities and other assets included in other current assets (a)	6,266	6,274	16,842	16,862
Liabilities				
Preferred stock with sinking fund requirements (d)	335,000	336,388	325,600	334,090
Long-term debt (d)	2,662,570	2,843,635	2,627,159	2,758,176
Commercial paper and bank loans (c)	202,260	202,260	159,348	159,348
Taxes and interest accrued, dividends payable and other liabilities included in other current liabilities (c)	219,505	219,505	222,338	222,338
Accrued nuclear assessment—noncurrent (c)	31,871	31,871	39,600	39,600

(a) The fair value generally is based on established market prices. For a minor portion, the fair value approximates the carrying amount.

(b) The fair value is based on established market prices. For venture capital investments included in financial investments, fair value is determined in good faith by management of the venture capital entity.

(c) The fair value approximates the carrying amount.

(d) The fair value is based on quoted market prices for the security or similar securities where available and estimates based on current rates offered to the Company where quoted market prices are not available.

Financial investments consist of the following (thousands of dollars):

	December 31	
	1993	1992
Marketable equity securities	\$ 10,854	\$ 11,320
Marketable debt securities	61,294	78,942
Financial limited partnerships	65,378	39,256
Venture capital investments	6,207	6,393
	<u>143,733</u>	<u>135,911</u>
Less marketable debt securities included in other current assets (at the lower of amortized cost or market value)	<u>3,164</u>	<u>14,411</u>
Total	<u>\$140,569</u>	<u>\$121,500</u>

Marketable equity securities at December 31, 1993 and 1992 are stated at the lower of aggregate cost or market. The market value of marketable equity securities was \$12,995,000 at December 31, 1993

and \$11,546,000 at December 31, 1992. The market value of marketable debt securities was \$65,562,000 at December 31, 1993 and \$80,588,000 at December 31, 1992.

8. Stock Held For Dividend Reinvestment Plan

At December 31, 1993, the Company temporarily held 585,506 shares of common stock which were acquired in the open market.

These shares were distributed to participants in the Dividend Reinvestment Plan in January 1994.

9. Leases

The Company and a subsidiary have entered into capital leases consisting of the following (thousands of dollars):

	December 31	
	1993	1992
Nuclear fuel, net of accumulated amortization (1993, \$191,812; 1992, \$191,002)	\$173,395	\$171,901
Vehicles, oil storage tanks and other property, net of accumulated amortization (1993, \$83,224; 1992, \$93,730)	75,630	79,157
Net property under capital leases	<u>\$249,025</u>	<u>\$251,058</u>

Capital lease obligations incurred for the acquisition of nuclear fuel and other property were (millions of dollars): 1993, \$84.0; 1992, \$64.8 and 1991, \$69.5.

Nuclear fuel lease payments, which are charged to expense as the fuel is used for the generation of electricity, were (millions of dollars): 1993, \$67.6; 1992, \$70.4 and 1991, \$95.5. Future nuclear fuel lease payments will be based on the quantity of electricity produced by the Susquehanna station. The maximum amount of unamortized nuclear fuel leasable under current arrangements is \$200 million.

Future minimum lease payments under capital leases in effect at December 31, 1993 (excluding nuclear fuel) would aggregate \$86.6

million, including \$10.9 million in imputed interest. During the five years ending 1998, such payments would decrease from \$22.3 million per year to \$6.5 million per year.

Interest on capital lease obligations was recorded as operating expenses on the Consolidated Statement of Income in the following amounts (millions of dollars): 1993, \$9.1; 1992, \$10.5 and 1991, \$20.5.

Generally, capital leases contain renewal options and obligate the Company and a subsidiary to pay maintenance, insurance and other related costs. Various operating leases have also been entered into which are not material with respect to the Company's financial position.

10. Regulatory Assets

The Company has deferred certain costs in accordance with the rate actions of the PUC and FERC and is recovering or expects to

recover such costs in electric rates charged to customers. Regulatory assets consist of the following (thousands of dollars):

	December 31	
	1993	1992
Deferred depreciation	\$ 282,115	\$296,285
Deferred operating and carrying costs—Susquehanna	39,215	39,215
Utility plant carrying charges—net of amortization	24,097	24,965
Deferred refueling outage costs—Susquehanna	16,027	17,446
Reacquired debt costs	101,836	78,917
Taxes recoverable through future rates	1,166,118	
Postretirement benefits other than pensions	14,855	
Retired miners' health care benefits	24,096	36,600
Assessment for decommissioning uranium enrichment facilities	33,710	38,925
	<u>\$1,702,069</u>	<u>\$532,353</u>

Deferred depreciation is the difference between the straight-line depreciation of property placed in service at the Susquehanna station prior to January 1, 1989 and the amount of depreciation on such property provided for financial reporting purposes and included in rates, and is the result of a rate phase-in plan meeting the criteria of SFAS 92, "Regulated Enterprise—Accounting for Phase-in Plans." The annual difference is shown as amortized (deferred) depreciation on the Consolidated Statement of Income.

Deferred operating and carrying costs—Susquehanna consist of certain operating and capital costs, net of energy savings, associated with Units 1 and 2 at the Susquehanna station. The costs, deferred in accordance with orders from the PUC, were incurred from the date the units were placed in commercial operation until the effective dates of the rate increases reflecting operation of the units. The deferred costs include related deferred income taxes. Recovery of these costs will be subject to PUC approval. No return is being accrued on the deferred costs.

Utility plant carrying charges are carrying charge accruals that were reclassified from electric utility plant in service to a deferred debit in

accordance with a FERC order. Such charges are being amortized over the remaining depreciable life of the related property and are included in PUC electric service rates.

Deferred refueling outage costs—Susquehanna represent incremental maintenance costs incurred during refueling and inspection outages which are deferred and subsequently amortized over the period of time that begins upon the cessation of the outage and ends with the start of the next scheduled refueling and inspection outage. Such costs are included in electric service rates.

Reacquired debt costs represent premiums and expenses incurred in the redemption of long-term debt. In accordance with FERC regulations, reacquired debt costs are amortized over either the life of the refunding issue or the remaining life of the redeemed issue, as appropriate. Reacquired debt costs are included in electric service rates.

For a discussion of taxes recoverable through future rates, post-retirement benefits other than pensions, retired miners' health care benefits and assessment for decommissioning uranium enrichment facilities, see Notes 5, 13 and 3, respectively.

11. Termination of Coal-Mining Operations

The Company has ceased its subsidiary coal-mining operations. One of the three operating mines closed at the end of June 1991. A second operating mine closed at the end of March 1992, and a third mine was sold in September 1992. A coal processing and loading facility was sold in November 1993, completing the planned phase-out of coal-mining operations. The Company replaced the coal produced by its subsidiaries with coal acquired through new contracts with non-affiliated suppliers and open market purchases. A subsidiary continues to sell purchased coal to the Company.

The Company purchased coal from certain subsidiaries at prices equal to the cost incurred by those subsidiaries for mining, processing and purchasing coal. These purchases totaled approximately \$20 million in 1993, \$109 million in 1992 and \$188 million in 1991. The cost of coal purchased was included in energy costs collected from

customers.

All the coal produced at the now closed Greenwich mines was delivered to the Company's Montour generating station. The PUC adopted a standard based on the cost of coal purchased by other Pennsylvania electric utilities against which the cost of all coal delivered to Montour was measured. The standard covered the three-year period from April 1, 1990 through March 31, 1993. At the end of this period, the cost of coal delivered to Montour was less than the standard.

The Energy Act imposed a new liability on the Company or its coal-mining subsidiaries for the cost of health care for retired coal miners previously employed by those subsidiaries. See Note 3 for information concerning this liability.

12. Credit Arrangements

The Company issues commercial paper and, from time to time, borrows from banks to provide short-term funds required for general corporate purposes. In addition, certain subsidiaries also borrow from banks to obtain short-term funds. Bank borrowings generally bear interest at rates negotiated at the time of the borrowing.

A \$140 million revolving credit arrangement is maintained with a group of banks in return for the payment of commitment fees. The line of credit is maintained principally as a back-up for the Company's commercial paper. Any loans made under this credit arrangement would mature on June 30, 1996 and, at the option of the Company, interest rates would be based upon certificate of deposit rates, Eurodollar deposit rates or the prime rate. The Company has additional credit arrangements with another group of banks in return for the payment of commitment fees. The banks have committed to lend the Company up to \$60 million under these credit arrangements at in-

terest rates based upon Eurodollar deposit rates or the prime rate. These credit arrangements mature on May 1, 1994 with provisions to extend every six months. These arrangements produce a total of \$200 million of lines of credit to provide back-up for the Company's commercial paper and the short-term borrowings of certain subsidiaries. No borrowings were outstanding at December 31, 1993 under these credit arrangements.

The Company also maintains a \$5 million line of credit with a bank in return for the maintenance of a compensating balance. No borrowings were outstanding at December 31, 1993 under this line of credit.

The Company leases its nuclear fuel from a trust funded by sales of commercial paper. The maximum financing capacity of the trust under existing credit arrangements is \$200 million.

Commitment fees incurred were (millions of dollars): 1993, \$0.3; 1992, \$0.4 and 1991, \$0.4.

13. Pension Plan and Other Postretirement and Postemployment Benefits

Pension Plan

The Company has a funded noncontributory defined benefit pension plan (Plan) covering substantially all employees. Benefits are based upon a participant's earnings and length of participation in the Plan, subject to meeting certain minimum requirements.

The Company also has two supplemental retirement plans for cer-

tain management employees and directors that are not funded. Benefit payments pursuant to these supplemental plans are made directly by the Company. At December 31, 1993, the projected benefit obligation of these supplemental plans was approximately \$12.9 million.

The components of the Company's net periodic pension cost for the three plans were (thousands of dollars):

	1993	1992	1991
Service cost-benefits earned during the period . . .	\$ 31,381	\$ 29,967	\$ 28,188
Interest cost	48,266	44,203	40,605
Actual return on plan assets	(92,085)	(95,969)	(182,956)
Net amortization and deferral	29,696	40,251	134,268
Net periodic pension cost	<u>\$ 17,258</u>	<u>\$ 18,452</u>	<u>\$ 20,105</u>

The net periodic pension cost charged to operating expenses was \$10.1 million in 1993, \$11.6 million in 1992 and \$12.6 million in

1991. The balance was charged to construction and other accounts. The funded status of the Company's Plan was (thousands of dollars):

	December 31	
	1993	1992
Fair value of plan assets	\$ 943,889	\$ 877,887
Actuarial present value of benefit obligations:		
Vested benefits	490,567	407,164
Nonvested benefits	1,543	1,119
Accumulated benefit obligation	492,110	408,283
Effect of projected future compensation	191,302	201,594
Projected benefit obligation	<u>683,412</u>	<u>609,877</u>
Plan assets in excess of projected benefit obligation	260,477	268,010
Unrecognized transition assets (being amortized over 23 years)	(72,316)	(76,836)
Unrecognized prior service cost	34,240	36,731
Unrecognized net gain	<u>(305,577)</u>	<u>(295,543)</u>
Accrued expense	\$ (83,176)	\$ (67,638)

The weighted average discount rate used in determining the actuarial present value of projected benefit obligations was 7.0% and 7.5%, respectively, on December 31, 1993 and December 31, 1992. The rate of increase in future compensation used in determining the actuarial present value of projected benefit obligations was 5.7% and 6.2%, respectively, on December 31, 1993 and December 31, 1992. The assumed long-term rates of return on assets used in determining pension cost in 1993 and 1992 was 8.0%. Plan assets consist primarily of common stocks, government and corporate bonds and temporary cash investments.

Subsidiary mining companies have a noncontributory defined benefit pension plan covering substantially all non-bargaining, full-time employees which is fully funded primarily by group annuity

contracts with insurance companies. Substantially all union employees of these subsidiaries were covered by a pension plan administered by the Trustees of the United Mine Workers of America (UMWA) Health and Retirement Funds. The pension cost for non-bargaining employees together with retirement contributions to the UMWA Health and Retirement Funds for 1991, 1992 and 1993 aggregated \$5.4 million, \$2.0 million and \$0.0 million, respectively.

Subsidiary mining companies are liable under federal and state laws to pay black lung benefits to claimants and dependents, with respect to approved claims, and are members of a trust which was established to facilitate payment of such liabilities. The actuarially determined expense for black lung benefits was \$0.5 million in 1991 and \$0.2 million in 1992. There was no expense for black lung benefits in 1993.

Postretirement Benefits Other Than Pensions

Substantially all employees of the Company and its subsidiaries will become eligible for certain health care and life insurance benefits upon retirement. The Company sponsors four defined benefit health and welfare plans that cover substantially all management and bargaining unit employees upon retirement. One plan provides for retiree health care benefits to certain management employees, another plan provides retiree health care benefits to bargaining unit employees, a third plan provides retiree life insurance benefits to certain management employees up to a specified amount and a fourth plan provides retiree life insurance benefits to bargaining unit employees.

Life insurance benefits for certain management employees beyond a specified amount are not included in the plan for retiree life insurance benefits to management employees but are combined with the disclosures below for the health care and life insurance plans. The cost of retiree health care and life insurance benefits for officers of the Company are not material and are not combined with the disclosures below for health care and life insurance plans.

Dollar limits have been established for the amount the Company will contribute annually toward the cost of retiree health care for employees retiring on or after April 1, 1993. Through December 31,

1992, the Company recognized the cost of these benefits for retired employees when payments were made.

Effective January 1, 1993, the Company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the Company to accrue, during the years that the employees render the necessary service, the expected cost of providing retiree health care and life insurance benefits. The transition obligation at January 1, 1993, which is being amortized over a 20-year period, amounted to \$173.8 million. In accordance with a PUC order, the Company is deferring the PUC-jurisdictional accrued cost of retiree health and life insurance benefits in excess of actual claims paid pending recovery of the increased cost in retail rates. See Note 3 for additional information.

In December 1993, the Company established a separate Voluntary Employee Benefit Association trust (VEBA) for each of the four health and welfare benefit plans for retirees and adopted a funding policy that takes into account the maximum amount allowed as a deduction for federal income tax purposes.

The following table sets forth the plans' combined funded status reconciled with the amount shown on the Company's Consolidated Balance Sheet at December 31, 1993 (thousands of dollars):

Accumulated postretirement benefit obligation:	
Retirees	\$ 95,046
Fully eligible active plan participants	32,742
Other active plan participants	75,185
	<u>202,973</u>
Plan assets at fair value, primarily temporary cash investments	14,848
Accumulated postretirement benefit obligation in excess of plan assets	188,125
Unrecognized net loss	(20,573)
Unrecognized transition obligation	<u>(165,140)</u>
Accrued postretirement benefit cost	\$ 2,412

The plan that provides retiree health care benefits to certain management employees is currently unfunded; the amount included in the accumulated postretirement benefit obligation attributable to

that plan is (thousands of dollars) \$70,630.

The net periodic postretirement benefit cost for 1993 included the following components (thousands of dollars):

Service cost—benefits attributed to service during the period	\$ 3,699
Interest cost on accumulated postretirement benefit obligation	13,008
Net amortization and deferral	8,691
Net periodic postretirement benefit cost	<u>\$ 25,398</u>

Through December 31, 1993, the Company deferred \$14.9 million of retiree benefits costs. See Note 3 for additional information concerning the recovery of the deferred costs. The benefit cost charged to operating expenses was \$6.9 million in 1993. The balance was charged to construction and other accounts. The cost of retiree health and life insurance benefits recognized as expense by the Company and its subsidiaries was approximately (millions of dollars): 1992, \$5.5 and 1991, \$7.2.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1994; the rate was assumed to decrease gradually to 6% by 2006 and remain at that level thereafter. Increasing the assumed health care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by about \$11.2 million and the aggregate of the service and interest cost

components of net periodic postretirement benefit cost for the year then ended by about \$1.1 million.

In determining the accumulated postretirement benefit obligation, the weighted average discount rate used was 7%. The three trusts holding plan assets are tax-exempt. The unfunded trust will be subject to federal income taxes at a 35% tax rate. The expected long-term rate of return on plan assets for the tax-exempt trusts was 6.5%.

Subsidiary coal-mining companies had accrued \$32 million for an estimated payment they expected to make to the UMW health trust funds for future retiree health care. However, the Energy Act imposed a new liability, estimated to about \$68 million on a net present value basis, on the Company or its subsidiary coal-mining companies for the cost of health care of retired miners previously employed by those subsidiaries. See Note 3 for information concerning this liability.

Postemployment Benefits

The Company provides health and life insurance benefits to disabled employees and income benefits to eligible spouses of deceased employees. In December 1993, the Company adopted SFAS 112, "Employers' Accounting for Postemployment Benefits," which requires the Company to accrue, during the years that the employees render the necessary service, the expected cost of providing benefits to former or inactive employees after employment but before retirement. In connection with the adoption of SFAS 112, the Company recorded an obligation for postemployment benefits of \$7.5 million and a charge to operating expense of \$5.5 million. The balance of the postemployment benefit obligation was charged to construction and other accounts. The one-time charge to operating expense, which after income taxes, reduced net income by \$3.1 million or about 2.1 cents per share of common stock.

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (ESOP) for all full-time employees having more than one year of service. Contributions to the ESOP had been funded with investment and payroll-based tax credits previously available to the Company under federal law to acquire shares of the Company's common stock. Contributions funded with these tax credits were completed in 1991. Since 1990, all dividends on shares credited to participants' accounts have been paid in cash. The Company deducts the amount of those dividends for income tax purposes and contributes to the ESOP shares having a cost equal to the tax savings resulting from that deduction and contribution.

14. Jointly Owned Facilities

At December 31, 1993, the Company or a subsidiary owned undivided interests in the following facilities (millions of dollars):

	Generating Stations			Merrill Creek Reservoir
	Susquehanna	Keystone	Conemaugh	
Ownership interest	90.00%	12.34%	11.39%	8.37%
Electric utility plant in service	\$3,984	\$55	\$57	
Other property				\$22
Accumulated depreciation	592	27	24	5
Construction work in progress	64	2	26	

Each participant in these facilities provides its own financing. The Company receives a portion of the total output of the generating stations equal to its percentage ownership. The Company's share of fuel and other operating costs associated with the stations is reflected on

the Consolidated Statement of Income. The Merrill Creek Reservoir provides water during periods of low river flow to replace water from the Delaware River used by the Company and other utilities in the production of electricity.

15. Commitments and Contingent Liabilities

The Company's construction expenditures are estimated to aggregate \$471 million in 1994, \$398 million in 1995 and \$422 million in 1996, including AFUDC. For discussion pertaining to construction expenditures, see Review of the Company's Financial Condition and Results of Operations under the caption "Financial Condition—Capital Expenditure Requirements" on page 16.

The Company is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to \$2.7 billion under these programs. The Company is also a member of an insurance program which provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, the Company could be assessed retrospective premiums in the event

the insurers' losses exceed their reserves. The maximum amount the Company could be assessed under these programs at December 31, 1993 was about \$20.1 million.

Nuclear Regulatory Commission regulations, as amended, require that in the event of an accident, where the estimated cost of stabilization and decontamination exceeds \$100 million, proceeds of property damage insurance be segregated and used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete required decontamination operations before any insurance proceeds would be made available to the Company or the trustee under the Mortgage. The Company's on-site property damage insurance policies for the Susquehanna station conform to these regulations.

The Company's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about \$9.4 billion under provisions of The Price Anderson Amendments Act of 1988

(the Act). The Company is protected against this liability by a combination of commercial insurance and an industry assessment program. A utility's liability under the assessment program will be indexed not less than once during each five-year period for inflation and will be subject to an additional surcharge of 5% in the event the total amount of public claims and costs exceeds the basic assessment. In the event of a nuclear incident at any of the reactors covered by the Act, the Company could be assessed up to \$151 million per incident, payable at a rate of \$20 million per year, plus the additional 5% surcharge, if applicable.

In August 1991, a group of 21 fuel oil dealers in the Company's service area filed a complaint against the Company in United States District Court for the Eastern District of Pennsylvania (Court) alleging that the Company's promotion of electric heat pumps and off-peak thermal storage systems had violated and continues to violate the federal antitrust laws. The complaint also alleged that the Company's use of a cash grant program to developers and contractors for the installation of high efficiency heat pumps violated and continues to violate the Racketeer Influenced and Corrupt Organizations Act (RICO).

The complaint requested judgment against the Company for a sum in excess of \$10 million for the alleged antitrust violations, treble the damages alleged to have been sustained by the plaintiffs. Separately, the complaint requested judgment for a sum in excess of \$10 million for the alleged RICO violations, treble the damages alleged to have been sustained by the plaintiffs. Finally, the complaint requested a permanent injunction against all activities found to be illegal, including the cash grant program.

In April 1992, a fuel oil dealer in the Company's service area filed a class action complaint against the Company in the Court alleging, as did the August 1991 complaint, that the Company's promotion of electric heat pumps and off-peak thermal storage systems had violated and continues to violate the federal antitrust laws. The complaint did not allege any violation of RICO, but did allege that the Company engaged in a civil conspiracy and unfair competition in violation of Pennsylvania law.

The plaintiff sought to represent as a class all fuel oil dealers in the Company's service area. The complaint requested a permanent injunction against all activities found to be illegal and treble the damages alleged to have been sustained by the class. No specific damage amount was set forth in the complaint. This second antitrust complaint was consolidated with the August 1991 complaint for pre-trial purposes.

In September 1992, the Court granted the Company's motion for summary judgment and dismissed both suits filed against the Company. The plaintiffs have appealed the decision to the United States Court of Appeals for the Third Circuit. The Company cannot predict the ultimate outcome of these proceedings.

The Federal Clean Air Act Amendments of 1990 deal, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. The acid rain provisions, which are contained in Title IV of the legislation, specify Phase I sulfur dioxide emission limits on about 55% of the Company's coal-fired generating capacity by January 1, 1995, and more stringent Phase II sulfur dioxide emission limits for all of the Company's fossil-fueled generating units by January 1, 2000.

The Company expects to meet the 1995 Phase I sulfur dioxide standards by the use of lower sulfur coal, additional processing of coal through cleaning plants, and the installation of scrubbers at the Conemaugh station, in which the Company has an 11.39% ownership interest. The Company may also choose to limit the generation of certain units and to bank or trade emission allowances among its generating units or with other utilities to the extent permitted by the legislation.

The acid rain provisions also require installation of low nitrogen

oxide burners on each unit by the same date that sulfur dioxide limits apply to that unit. In addition, the ambient ozone attainment provisions contained in Title I of the legislation specify other nitrogen oxide emission reductions. In this regard, the legislation defines a Northeast Ozone Transport Region that includes all of Pennsylvania in addition to all states in the Northeast from northern Virginia to Maine. All major stationary sources within the region must install reasonably available control technology (RACT) for nitrogen oxide emissions by May 1995.

The Company expects to meet this RACT requirement by installing low nitrogen oxide burners on the Phase I units as required by the acid rain title and by advancing the installation of low nitrogen oxide burners on certain Phase II units, where technically feasible, that would have been required in 2000 by the acid rain title.

The Company currently estimates that the cost of compliance with the Phase I sulfur dioxide standards and installation of the low nitrogen oxide burners will require capital expenditures of about \$200 million (in estimated 1994 dollars) and additional operating expenses which will result in an increase in customer rates of about 1.5% (based on 1993 revenue levels).

To meet the Phase II acid rain sulfur dioxide emission standards, the Company expects to install flue gas desulfurization (FGD) on up to 60% of its coal-fired generating capacity, to continue to purchase lower sulfur coal for its remaining generating capacity and to bank or trade emission allowances among its generating units or with other utilities to the extent permitted by the legislation. The exact mix of lower sulfur fuel, emission allowance purchases, sales or trades, and the amount and timing of FGD will be determined based on FGD installation costs, fuel cost and availability, and emission allowance prices.

The Company currently estimates that the cost of compliance with the Phase II sulfur dioxide standards will require additional capital expenditures in the later half of the 1990s of \$400 million to \$500 million (in estimated 1994 dollars) and additional operating expenses which will result in an increase in customer rates (based on 1993 revenue levels) of about 3% above the increase expected to result from Phase I compliance with the sulfur dioxide standards of the legislation and installation of low nitrogen oxide burners.

The ambient ozone attainment provisions also require modeling of nitrogen oxide and volatile organic compound emissions in the Northeast Ozone Transport Region to determine what further reductions are needed beyond the RACT requirements to achieve ambient ozone attainment. If the results indicate further reductions are needed in power plant nitrogen oxide emissions, the Company may be required to install additional nitrogen oxide reduction equipment, such as selective catalytic reduction, on some or all of the fossil units around 2000. The Company's preliminary estimates indicate that the cost of compliance could require additional capital expenditures of up to \$600 million (in estimated 1994 dollars) and additional operating expenses which will result in a further increase in customer rates of as much as 4% (based on 1993 revenue levels).

In addition to acid rain and ambient ozone attainment provisions, the legislation requires the Environmental Protection Agency (EPA) to conduct a study of hazardous air emissions from power plants. Adverse findings from this study could cause the EPA to mandate additional ultra high efficiency particulate removal baghouses or specialized flue gas scrubbing to remove certain vaporous trace metals and certain gaseous emissions. If it is determined that the installation of such additional equipment is required, the Company's preliminary estimates indicate that the cost of compliance could require additional capital expenditures of up to \$400 million (in estimated 1994 dollars) and additional operating expenses which will result in a further increase in customer rates of as much as 2% (based on 1993 revenue levels).

Under current Pennsylvania law, construction work in progress for non-revenue producing assets, such as capital expenditures for pollution control equipment, can be claimed in rate base.

In February 1993, the PUC adopted a policy statement regarding the handling and usage of, and the ratemaking treatment for, emission allowances by Pennsylvania electric utilities. The policy statement determines, among other things, that the PUC will not require approval of specific transactions and the cost of allowances will be recognized as energy-related power production expenses and recoverable through the ECR.

The Pennsylvania Air Pollution Control Act, as amended, implements the 1990 federal clean air legislation. The state legislation essentially requires that new state air emission standards be no more stringent than federal standards. This legislation has no effect on the Company's plans for compliance with the Federal Clean Air Act Amendments of 1990.

Until action has been taken by the appropriate regulatory bodies, the Company will not be able to determine the exact method of compliance with the acid rain, ambient ozone and hazardous air emission provisions of the legislation, or the cost thereof and its impact on customer rates.

The Pennsylvania Department of Environmental Resources (DER) regulations governing the handling and disposal of industrial (or residual) solid waste require the Company to submit detailed information on waste generation, minimization and disposal practices. They also require the Company to upgrade and repermit existing ash basins at all of its coal-fired generating stations by applying updated standards for waste disposal. Ash basins that cannot be repermited are required to close by July 1997. Any groundwater contamination caused by the basins must also be addressed. Any new ash basin must meet the rigid site and design standards set forth in the regulations. In addition, the siting of future facilities at Company facilities could be affected.

The fly ash basin at the Martins Creek station and the dry fly ash disposal area at the Montour station are expected to comply with the DER regulations. However, the fly ash basins at other fossil-fueled generating stations, bottom ash basins at all fossil-fueled generating stations and the coal refuse basin at the Brunner Island station do not meet the new requirements and must be retired by July 1997. The Company, in addressing the requirements of these regulations, plans to install dry fly ash handling systems at the Brunner Island, Sunbury and Holtwood stations. The Company, with siting assistance from a public advisory group, plans to use the dry fly ash from the Sunbury and Holtwood stations to reclaim strip mines in the anthracite coal region. The Company is exploring opportunities to beneficially use coal ash from Brunner Island in various roadway construction projects in the vicinity of the plant that may delay or preclude the need for a new disposal facility.

Groundwater degradation related to fuel oil leakage from underground facilities and to seepage from coal refuse disposal areas and coal storage piles has been identified at several generating stations. Many requirements of the DER regulations address these groundwater degradation issues. The Company has reviewed its remedial action plans with the DER. Remedial work has begun at one generating station, and remedial work may be required at others.

The DER has adopted, and recently revised, regulations to implement the toxic control provisions of the Federal Water Quality Act of 1987 and to advance Pennsylvania's toxic control program. These regulations authorize the DER to use both biomonitoring and a water quality based chemical-specific approach in National Pollutant Discharge Elimination System (NPDES) permits to control toxics. In the third quarter of 1993, the Company received a new NPDES permit for the Montour and Holtwood stations. The Montour permit contains

very stringent limits for certain toxic metals and increased monitoring requirements. More toxic reduction studies will be conducted at Montour before the permit limits become effective. Additional water treatment facilities may be needed at Montour, depending on the results of the studies. At Holtwood, toxics are required to be monitored at the fly ash basin until its closure in 1997. No limits have been set at this point. The Company will therefore comply with an implementation schedule for such closure and for construction of a new dry ash handling system at Holtwood.

The Company currently estimates that about \$238 million of capital expenditures could be required to comply with the residual waste regulations, correct groundwater degradation at fossil-fueled generating stations and address waste water control at Company facilities. Such expenditures during the years 1994-1996 could total about \$137 million, of which about \$68 million is included in the Company's estimate of 1994-1996 construction expenditures shown on page 16. Actions taken to correct groundwater degradation, to comply with the DER's regulations and to address waste water control are also expected to result in increased operating costs in amounts which are not now determinable but could be material.

The issue of potential polychlorinated biphenyl (PCB) contamination at certain of the Company's substations and pole sites is currently being pursued by the DER. In this regard, the DER sent the Company a proposed Consent Order under which the Company would assess and, if necessary, remediate sites where PCB contamination may exist. The Company is continuing to negotiate with the DER. The costs of addressing these PCB issues are not now determinable but could be material.

At December 31, 1993, the Company had accrued \$5.2 million, representing the minimum amount the Company at this time can reasonably estimate it will have to spend to remediate sites involving the removal of hazardous or toxic substances. The Company is involved in several other sites where it may be required, along with other parties, to contribute to such remediation. Some of these sites have been listed by the EPA under the federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (Superfund), and others may be candidates for listing at a future date. Future clean-up or remediation work at sites currently under review, or at sites currently unknown, may result in material additional operating costs which the Company cannot estimate at this time.

Concerns have been expressed by some members of the scientific community and others regarding the potential health effects of electric and magnetic fields (EMF). These fields are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Federal, state and local officials are focusing increased attention on this issue. The Company is actively participating in the current research effort to determine whether or not EMF causes any human health problems and is taking steps to reduce EMF, where practical, in the design of new transmission and distribution facilities. The Company is unable to predict what effect the EMF issue might have on Company operations and facilities.

In complying with statutes, regulations and actions by regulatory bodies involving environmental matters, including the areas of water and air quality, hazardous and solid waste handling and disposal and toxic substances, the Company may be required to modify, replace or cease operating certain of its facilities. The Company may also incur material capital expenditures and operating expenses in amounts which are not now determinable.

At December 31, 1993, the Company had guaranteed \$13.3 million of obligations of Safe Harbor. The Company does not expect to fund the guarantee and has concluded that it is impractical to determine the fair value of the guarantee.

SELECTED FINANCIAL AND OPERATING DATA

	1993	1992	1991	1990
CONSOLIDATED OPERATIONS				
Income Items—thousands				
Operating revenues	\$2,727,002	\$2,744,122	\$2,740,715	\$2,637,922
Operating income	562,808	573,431	582,331	590,366
Net income	348,126	346,724	348,414	343,906
Earnings applicable to common stock	314,241	306,229	303,727	297,781
Balance Sheet Items—thousands (a)				
Electric utility plant in service—net	\$6,507,621	\$6,391,857	\$6,296,496	\$6,240,608
Construction work in progress	238,600	211,534	183,242	143,084
Other property, plant and equipment—net	399,360	416,113	449,840	510,529
Total assets	9,454,113	8,191,768	7,934,595	7,735,442
Long-term debt	2,662,570	2,627,159	2,582,233	2,470,596
Preferred and preference stock				
With sinking fund requirements	335,000	325,600	364,590	383,690
Without sinking fund requirements	171,375	223,612	231,375	231,375
Common equity	2,425,835	2,366,939	2,298,010	2,221,759
Short-term debt	202,260	159,348	147,170	265,940
Total capital provided by investors	5,797,040	5,702,658	5,623,378	5,573,360
Capital lease obligations	249,025	251,058	271,976	302,754
Financial Ratios				
Return on average common equity—%	13.06	13.11	13.42	13.65
Embedded cost rates (a)				
Long-term debt—%	8.63	9.36	9.72	9.69
Preferred and preference stock—%	6.30	7.36	7.51	7.54
Times interest earned before income taxes	3.33	3.18	3.06	2.86
Ratio of earnings to fixed charges—total				
enterprise basis (b)	3.31	3.15	3.04	2.81
Depreciation as % of average depreciable property	3.3	3.2	3.1	2.9
Common Stock Data				
Number of shares outstanding—thousands				
Year-end	152,132	151,885	151,655	151,298
Average	151,904	151,676	151,382	150,924
Number of shareowners (a)	130,677	129,394	127,272	130,719
Earnings per share	\$ 2.07	\$ 2.02	\$ 2.01	\$ 1.97
Dividends declared per share	\$ 1.65	\$ 1.60	\$ 1.55	\$ 1.49
Book value per share (a)	\$15.95	\$15.58	\$15.15	\$14.68
Market price per share (a)	\$ 27	\$ 27 $\frac{1}{4}$	\$ 26 $\frac{3}{8}$	\$ 21 $\frac{1}{8}$
Dividend payout rate—%	80	79	77	76
Dividend yield—% (c)	5.64	6.07	6.69	7.15
Price earnings ratio (c)	14.14	13.05	11.55	10.56
ELECTRIC OPERATIONS				
Revenue Data				
By class of service—thousands				
Residential	\$ 905,650	\$ 876,531	\$ 842,771	\$ 800,587
Commercial	735,192	713,406	687,632	647,949
Industrial	524,160	523,367	506,038	503,806
Other energy sales	91,205	85,456	83,630	78,489
System sales	2,256,207	2,198,760	2,120,071	2,030,831
Contractual sales to other utilities	313,578	330,017	322,298	313,207
PJM interchange power sales	96,848	111,602	180,434	217,430
Total from energy sales billed	2,666,633	2,640,379	2,622,803	2,561,468
Unbilled revenues—net	(2,455)	36,567	47,022	5,043
Other operating revenues	61,561	64,670	68,868	69,725
Total electric operating revenues	\$2,725,739	\$2,741,616	\$2,738,693	\$2,636,236
Average price per kwh billed—cents				
Residential	8.20	8.27	8.12	7.92
Commercial	7.84	7.89	7.76	7.59
Industrial	5.76	5.98	5.98	5.78
Total for ultimate customers	7.37	7.48	7.39	7.17
Total for system sales	7.27	7.39	7.30	7.08

(a) At year-end.

1989	1988	1987	1986	1985	1984	1983	1983-1993 % Change
\$2,632,915	\$2,495,640	\$2,457,153	\$2,480,006	\$2,566,288	\$2,212,482	\$1,991,773	36.9
618,850	605,051	590,637	597,529	536,115	418,689	300,563	87.3
353,436	332,042	302,461	300,108	290,613	318,903	296,011	17.6
305,018	279,865	248,035	231,051	199,327	226,758	210,173	49.5
\$6,198,693	\$6,056,723	\$5,970,000	\$5,815,838	\$5,776,687	\$3,856,738	\$3,842,826	69.3
115,799	177,333	141,960	224,426	161,684	2,020,780	1,730,223	(86.2)
552,150	607,528	655,254	691,820	699,448	733,002	670,239	(40.4)
7,598,968	7,524,648	7,457,346	7,413,105	7,255,918	7,231,058	6,744,180	40.2
2,650,276	2,626,784	2,587,500	2,849,972	2,664,564	2,674,036	2,477,700	7.5
409,990	438,290	495,590	475,239	691,010	738,027	714,830	(53.1)
231,375	231,375	231,375	231,375	231,375	231,375	231,375	(25.9)
2,139,338	2,049,831	1,969,971	1,915,649	1,905,700	1,896,987	1,767,949	37.2
95,429	201,652	298,321	243,588	247,260	278,652	351,194	(42.4)
5,526,408	5,547,932	5,582,757	5,715,823	5,739,909	5,819,077	5,543,048	4.6
342,912	372,806	415,206	411,886	405,456	411,225	379,725	(34.4)
14.62	13.86	12.78	12.11	10.42	12.30	12.29	6.3
9.80	10.15	10.31	10.53	11.23	11.11	10.98	(21.4)
7.62	7.66	7.77	8.33	10.02	9.94	9.66	(34.8)
2.78	2.65	2.62	2.69	2.28	2.24	2.20	51.4
2.69	2.57	2.53	2.58	2.19	2.06	2.05	61.5
2.7	2.6	2.5	2.3	2.3	2.7	2.9	13.8
150,845	150,497	149,945	149,026	149,026	149,026	140,670	8.1
150,628	150,141	149,289	149,026	149,026	145,534	137,284	10.6
132,197	137,450	141,843	147,611	151,025	162,903	169,142	(22.7)
\$ 2.02	\$ 1.86	\$ 1.66	\$ 1.55	\$ 1.34	\$ 1.56	\$ 1.53	35.3
\$ 1.43	\$ 1.38	\$ 1.34	\$ 1.29	\$ 1.28	\$ 1.24	\$ 1.20	37.5
\$14.18	\$13.62	\$13.13	\$12.85	\$12.79	\$12.73	\$12.56	27.0
\$ 21½	\$ 18⅞	\$ 16½	\$ 18¼	\$ 14¾	\$ 12¾	\$ 10¾	160.2
71	74	81	83	96	80	79	1.3
7.33	7.70	7.37	7.30	9.81	11.00	10.48	(46.2)
9.63	9.61	10.95	11.39	9.76	7.24	7.48	89.0
\$ 776,673	\$ 768,051	\$ 737,066	\$ 714,753	\$ 634,669	\$ 591,922	\$ 529,911	70.9
612,762	592,023	572,623	557,216	492,686	441,651	386,617	90.2
488,691	495,968	492,491	473,488	438,427	411,533	367,950	42.5
80,144	75,507	74,228	74,047	64,223	59,526	47,275	92.9
1,958,270	1,931,549	1,876,408	1,819,504	1,630,005	1,504,632	1,331,753	69.4
316,508	277,971	282,799	299,663	255,875	52,724	39,012	703.8
255,245	268,526	359,449	282,259	556,926	623,328	720,462	(86.6)
2,530,023	2,478,046	2,518,656	2,401,426	2,442,806	2,180,684	2,091,227	27.5
39,628	(18,187)	(84,888)	52,344	78,545	(9,725)	(119,539)	97.9
61,588	34,073	21,900	25,033	38,163	33,657	13,694	349.5
<u>\$2,631,239</u>	<u>\$2,493,932</u>	<u>\$2,455,668</u>	<u>\$2,478,803</u>	<u>\$2,559,514</u>	<u>\$2,204,616</u>	<u>\$1,985,382</u>	37.3
7.72	7.79	8.05	8.15	7.60	7.00	6.51	26.0
7.40	7.46	7.68	7.78	7.32	6.77	6.32	24.1
5.60	5.64	5.84	5.93	5.55	5.07	4.83	19.3
6.97	7.02	7.23	7.34	6.85	6.30	5.91	24.7
6.89	6.91	7.12	7.25	6.77	6.23	5.83	24.7

(b) Computed using earnings and fixed charges of the Company and all of its affiliated companies. Fixed charges consist of interest on short- and long-term debt, other interest charges, interest on capital lease obligations and the estimated interest component of other rentals.

(c) Based on average of month-end market prices.

Selected Financial and Operating Data

	1993	1992	1991	1990
ELECTRIC OPERATIONS (Continued)				
Sales Data				
Customers (a)	1,203,139	1,186,682	1,173,680	1,161,232
Average annual residential kwh use	10,503	10,207	10,101	9,947
Electric energy sales billed—millions of kwh				
Residential	11,043	10,604	10,385	10,103
Commercial	9,373	9,039	8,861	8,538
Industrial	9,100	8,746	8,456	8,716
Other	1,534	1,366	1,334	1,315
System sales	31,050	29,755	29,036	28,672
Contractual sales to other utilities	7,142	7,327	7,183	7,028
PJM interchange power sales	4,142	5,160	7,553	8,971
Total electric energy sales billed	42,334	42,242	43,772	44,671
Sources of energy sold—millions of kwh				
Generated				
Coal-fired steam stations	24,960	25,153	24,805	26,409
Nuclear steam station (b)	12,181	12,216	14,271	13,254
Oil-fired steam station	1,452	1,057	1,939	1,442
Combustion turbines and diesels (oil)	16	10	15	33
Hydroelectric stations	637	750	521	804
Total generated	39,246	39,186	41,551	41,942
Power purchases	5,586	5,347	4,542	4,634
Company use, line losses and other	(2,498)	(2,291)	(2,321)	(1,905)
Total electric energy sales billed	42,334	42,242	43,772	44,671
Generation Data				
Net system capacity—thousands of kw (a) (c)	7,802	7,802	7,797	7,912
Winter peak demand—thousands of kw (d)	6,403	6,130	5,974	5,661
Generation by fuel source—%				
Coal	63.6	64.2	59.7	63.0
Nuclear (b)	31.0	31.2	34.3	31.6
Oil	3.8	2.7	4.7	3.5
Hydroelectric	1.6	1.9	1.3	1.9
Steam station availability—%				
Coal-fired	82.6	81.7	78.1	82.5
Nuclear (b)	73.8	73.7	86.3	80.2
Oil-fired	81.9	94.8	86.7	82.8
Steam station capacity factor—%				
Coal-fired	68.5	68.8	68.2	72.7
Nuclear (b)	73.0	73.0	85.8	80.1
Oil-fired	10.1	7.3	13.5	10.0
Fuel Cost Data				
Cost per kwh generated—cents				
Coal-fired steam stations	1.53	1.74	1.75	1.66
Nuclear steam station (b)	0.54	0.54	0.57	0.59
Oil-fired steam station	3.89	3.73	3.58	4.18
Combustion turbines and diesels (oil)	7.03	7.50	7.52	7.68
Average	1.31	1.42	1.43	1.41
Cost of fossil fuel received at steam stations				
Coal—per ton	\$36.23	\$41.44	\$42.87	\$40.64
Residual oil—per barrel	\$18.70	\$16.56	\$18.76	\$21.52
Capitalization Ratios—% (a)				
Long-term debt	46.5	46.7	46.3	44.5
Short-term debt	2.0	1.2	1.3	3.8
Preferred and preference stock	8.9	9.8	10.8	11.2
Common equity	42.6	42.3	41.6	40.5
Times Interest Earned Before Income Taxes	3.37	3.21	3.11	2.93
Employees (a)	7,765	7,981	8,144	8,149

(a) At year-end.

(b) The Company's first nuclear unit was placed in commercial operation on June 8, 1983 and the second unit on February 12, 1985.

1989	1988	1987	1986	1985	1984	1983	1983-1993 % Change
1,143,593	1,122,633	1,097,522	1,073,151	1,055,550	1,039,385	1,026,149	17.2
10,064	10,059	9,565	9,344	9,034	9,282	9,051	16.0
10,061	9,856	9,157	8,771	8,354	8,454	8,138	35.7
8,285	7,932	7,457	7,159	6,728	6,527	6,119	53.2
8,723	8,799	8,438	7,986	7,907	8,117	7,623	19.4
1,333	1,360	1,285	1,170	1,082	1,043	968	58.5
28,402	27,947	26,337	25,086	24,071	24,141	22,848	35.9
6,956	6,268	6,201	5,602	4,850	1,002	845	745.2
9,234	10,855	12,682	11,018	15,433	14,732	15,769	(73.7)
44,592	45,070	45,220	41,706	44,354	39,875	39,462	7.3
27,104	26,607	26,465	25,151	26,237	26,695	26,885	(7.2)
11,916	12,867	13,285	10,151	11,534	6,295	4,509	170.1
3,817	4,186	4,095	5,453	4,316	4,121	5,581	(74.0)
107	57	28	17	18	32	45	(64.4)
714	573	689	739	612	747	700	(9.0)
43,658	44,290	44,562	41,511	42,717	37,890	37,720	4.0
3,586	3,027	2,707	2,032	3,716	3,765	3,880	44.0
(2,652)	(2,247)	(2,049)	(1,837)	(2,079)	(1,780)	(2,138)	(16.8)
44,592	45,070	45,220	41,706	44,354	39,875	39,462	7.3
7,864	7,479	7,499	7,519	7,513	7,484	7,494	4.1
6,000	5,566	5,591	5,154	4,981	5,519	4,869	31.5
62.1	60.1	59.4	60.6	61.4	70.4	71.3	(10.8)
27.3	29.0	29.8	24.4	27.0	16.6	11.9	160.5
9.0	9.6	9.3	13.2	10.2	11.0	14.9	(74.5)
1.6	1.3	1.5	1.8	1.4	2.0	1.9	(15.8)
81.1	81.3	83.3	78.8	78.6	75.2	78.8	4.8
72.1	77.7	80.4	61.7	70.7	66.7	67.7	9.0
76.3	90.1	84.7	84.7	87.2	68.0	75.8	8.0
74.6	73.1	72.9	69.3	72.3	73.3	74.0	(7.4)
72.0	77.7	80.5	61.3	70.5	65.7	67.5	8.1
26.6	29.1	28.5	38.0	30.0	28.6	38.8	(74.0)
1.61	1.64	1.63	1.67	1.78	1.75	1.68	(8.9)
0.58	0.56	0.56	0.58	0.61	0.54	0.66	(18.2)
3.03	2.76	3.23	2.96	5.02	5.31	5.23	(25.6)
5.95	5.89	6.51	7.81	9.31	9.82	10.21	(31.1)
1.46	1.44	1.46	1.57	1.81	1.98	2.15	(39.1)
\$39.04	\$39.52	\$39.30	\$40.17	\$42.00	\$42.75	\$39.37	(8.0)
\$17.71	\$15.95	\$18.51	\$16.83	\$28.42	\$31.32	\$29.79	(37.2)
48.3	47.9	46.9	50.4	47.1	46.7	45.1	3.1
0.2	1.7	3.1	2.1	1.7	1.9	3.6	(44.4)
11.9	12.4	13.5	12.8	16.7	17.4	17.9	(50.3)
39.6	38.0	36.5	34.7	34.5	34.0	33.4	27.5
2.88	2.73	2.71	2.80	2.37	2.35	2.29	47.2
8,108	8,306	8,301	8,339	8,433	8,386	8,160	(4.8)

(c) Total generating capacity plus firm capacity purchases less firm capacity sales.

(d) Except for 1989, the winter peaks shown were reached early in the subsequent year.

The following information is provided as a service to shareowners and other investors. **For any questions you may have or additional information you may require about PP&L or your investments in the company, please feel free to call the toll-free number listed below, or write to:**

*George I. Kline, Manager
Investor Services Department
Pennsylvania Power & Light Co.
Two North Ninth Street
Allentown, Pa. 18101-1179*

Toll-Free Phone Number: For information regarding your investor account, or other inquiries, call toll-free: 800-345-3085.

Annual Meeting: The annual meeting of shareowners is held each year on the fourth Wednesday of April. The 1994 annual meeting will be held at 1:30 p.m. on Wednesday, April 27, 1994, at the F. M. Kirby Center for the Performing Arts, Public Square, Wilkes-Barre, Pa. A reservation card for meeting attendance is included with shareowners' proxy material.

Proxy Material: A proxy statement, a proxy and a reservation card for the company's annual meeting are mailed in a package that includes this report. This material was mailed beginning March 15, 1994, to all shareowners of record as of March 10, 1994.

Dividends: For 1994, the dates the declaration of dividends is considered by the board or its executive committee are: Feb. 23, May 25, Aug. 24 and Nov. 23, for payment on April 1, July 1 and Oct. 1, 1994, and Jan. 1, 1995, respectively. Dividend checks are mailed ahead of those dates with the intention they arrive as close as possible to the payment dates.

Record Dates: The 1994 record dates for dividends are March 10, June 10, Sept. 9 and Dec. 9.

Direct Deposit of Dividends: Shareowners may choose to have their dividend checks deposited directly into their checking or savings account. Quarterly dividend payments are electronically credited on the dividend date, or the first business day thereafter.

Dividend Reinvestment Plan: Shareowners may choose to have dividends on their common or preferred stocks reinvested in PP&L common stock instead of receiving the dividend by check.

Certificate Safekeeping: Shareowners participating in the Dividend Reinvestment Plan may choose to have their common stock certificates forwarded to the company for safekeeping. These shares will be registered in the name of the company as agent for plan participants and will be credited to the participants' accounts.

Lost Dividend or Interest Checks: Dividend or interest checks lost by investors, or those that may be lost in the mail, will be replaced if the check has not been located by the 10th business day following the payment date.

Transfer of Stock or Bonds: Stock or bonds may be transferred from one name to another or to a new account in the name of another person. Please call or write regarding transfer instructions.

Bondholder Information: Much of the information and many of the procedures detailed here for shareowners also apply to bondholders. Questions related to bondholder accounts should be directed to Investor Services.

Lost Stock or Bond Certificates: Please call or write to Investor Services for an explanation of the procedure to replace lost stock or bond certificates.

Publications: Several publications are prepared each year and sent to all investors of record and to others who request their names be placed on our mailing lists. These publications are:

Annual Report—published and mailed to all shareowners of record in mid-March.

Shareowners' Newsletter—an easy-to-read newsletter containing current items of interest to shareowners — published and mailed at the beginning of each quarter. Additionally, a special year-end edition containing unaudited results of the year's operations is mailed in early February.

Quarterly Review—published in May, August and November to provide quarterly financial information to investors.

Periodic Mailings: Letters from the company regarding new investor programs, special items of interest, or other pertinent information are mailed on a non-scheduled basis as necessary.

Duplicate Mailings: Annual reports and other investor publications are mailed to each investor account. If you have more than one account, or if there is more than one investor in your household, you may call or write to request that only one publication be delivered to your address. Please provide account numbers for all duplicate mailings.

Form 10-K and PP&L Profile: The company's annual report, filed with the Securities and Exchange Commission on Form 10-K, is available about mid-March. The PP&L Profile, a 10-year statistical review containing in-depth information about the company, is available in May. Investors may obtain a copy of these publications, at no cost, by calling or writing to Investor Services.

Listed Securities:**New York Stock Exchange**

Common Stock (Code: PPL)
 4½% Preferred Stock
 (Code: PPLPRB)
 4.40% Series Preferred Stock
 (Code: PPLPRA)

Philadelphia Stock Exchange

Common Stock
 4½% Preferred Stock
 3.35% Series Preferred Stock
 4.40% Series Preferred Stock
 4.60% Series Preferred Stock

Fiscal Agents:**Stock Transfer Agents and Registrars**

First Chicago Trust Co. of New York
 P. O. Box 2506
 Suite 4659
 Jersey City, NJ 07303-2506

Pennsylvania Power & Light Co.
 Investor Services Department

Dividend Disbursing Office and Dividend Reinvestment Plan Agent

Pennsylvania Power & Light Co.
 Investor Services Department

Mortgage Bond Trustee

Morgan Guaranty Trust Co. of New York
 Corporate Trust Operations
 55 Exchange Place—Basement "A"
 New York, New York 10260-0023

Bond Interest Paying Agent

Pennsylvania Power & Light Co.
 Investor Services Department

Quarterly Financial, Common Stock Price and Dividend Data (Unaudited)

For the Quarters Ended (a)
March 31 June 30 Sept. 30 Dec. 31
(Thousands of Dollars, Except Per Share Amounts)

	1993			
	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	\$727,386	\$620,439	\$683,466	\$695,711
Operating income	171,476	123,849	134,129	133,354
Net income	115,749	69,867	81,775	80,735
Earnings applicable to common stock	106,206	60,231	74,826	72,978
Earnings per common share (b)	0.70	0.40	0.49	0.48
Dividends declared per common share (c)	0.4125	0.4125	0.4125	0.4125
Price per common share				
High	30½	30¼	31	30¼
Low	26¼	28⅞	29½	26⅞
	1992			
Operating revenues	\$756,834	\$645,093	\$655,912	\$686,283
Operating income	170,505	128,162	128,061	146,703
Net income	113,025	69,790	72,900	91,009
Earnings applicable to common stock	102,603	59,686	62,825	81,115
Earnings per common share (b)	0.68	0.39	0.41	0.53
Dividends declared per common share (c)	0.40	0.40	0.40	0.40
Price per common share				
High	26½	26⅞	28¼	27⅞
Low	23⅞	24⅞	25¾	25⅞

(a) The Company's electric utility business is seasonal in nature with peak sales periods generally occurring in the winter months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

(b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.

(c) The Company has paid quarterly cash dividends on its common stock in every year since 1946. The dividends paid per share in 1993 and 1992 were \$1.6375 and \$1.5875, respectively. The most recent regular quarterly dividend paid by the Company was 41.25 cents per share (equivalent to \$1.65 per annum) paid January 1, 1994. Future dividends will be dependent upon future earnings, financial requirements and other factors.

OFFICERS

WILLIAM F. HECHT 50 (29), *Chairman, President and Chief Executive Officer*
FRANCIS A. LONG 53 (30), *Executive Vice President and Chief Operating Officer*
ROBERT G. BYRAM 48 (17), *Senior Vice President-Nuclear*
GENNARO D. CALIENDO 53 (25), *Senior Vice President, General Counsel and Secretary*
RONALD E. HILL 51 (29), *Senior Vice President-Financial*
JOSEPH C. KRUM 56 (34), *Senior Vice President-Division Operations*

LINDA CURRY BARTHOLOMEW 45 (23), *Vice President-Public Affairs*
JOHN R. BIGGAR 49 (24), *Vice President-Finance*
STEVEN H. CANTONE 50 (14), *Vice President-Northeast Division*
JOHN M. CHAPPELEAR 55 (15), *Vice President-Investments and Pensions*
ROBERT M. GENEZKO 41 (19), *Vice President-Susquehanna Division*
ROBERT S. GOMBOS 50 (28), *Vice President-Human Resource & Development*
MICHAEL D. HILL 51 (28), *Vice President-Information Services*
GEORGE T. JONES 46 (2), *Vice President-Nuclear Engineering*
JOHN P. KIERZKOWSKI 54 (22), *Vice President and Treasurer*
GRAYSON E. McNAIR 53 (31), *Vice President-Lehigh Division*
JOHN R. MENICHINI 46 (25), *Vice President-Harrisburg Division*
JOHN H. SAEGER 55 (33), *Vice President-Lancaster Division*
ROBERT J. SHOVLIN 53 (31), *Vice President-Power Production & Engineering*
JEAN A. SMOLICK 59 (41), *Assistant Secretary*
HAROLD G. STANLEY 53 (14), *Vice President-Nuclear Operations*
RAYMOND F. SUHOCKI 48 (20), *Vice President-System Power*

Numbers indicate age and years of service () as of March 1, 1994.

CORPORATE MANAGEMENT COMMITTEE:

William F. Hecht, chairman; Francis A. Long, Robert G. Byram,
G. D. Caliendo, Ronald E. Hill and Joseph C. Krum.

BOARD COMMITTEES

Executive Committee: William F. Hecht, chairman; Jeffrey J. Burdge, John T. Kauffman, Norman Robertson, and David L. Tressler.

Audit Committee: David L. Tressler, chairman; Nance K. Dicciani, William J. Flood, Daniel G. Gambet, and Ruth Leventhal.

Corporate Responsibility Committee: Daniel G. Gambet, chairman; Richard S. Barton, Stuart Heydt, Clifford L. Jones, Robert Y. Kaufman, and Ruth Leventhal.

Management Development and Compensation Committee: Edward Donley, chairman; Richard S. Barton, E. Allen Deaver, Elmer D. Gates, and Norman Robertson.

Nominating Committee: Jeffrey J. Burdge, chairman; Edward Donley, William J. Flood, Stuart Heydt, and Clifford L. Jones.

Nuclear Oversight Committee: Elmer D. Gates, chairman; E. Allen Deaver, Nance K. Dicciani, John T. Kauffman, and Robert Y. Kaufman.

DIRECTORS

Pictured are outside Directors as of March 1, 1994



Barton



Burdge



Deaver



Diccianni



Donley



Flood



Gambet



Gates



Heydt



Jones



Kauffman



Kaufman



Leventhal



Robertson



Tressler

RICHARD S. BARTON 44 (*), Rochester, N.Y., President, U.S. Customer Operations and a Corporate Vice President, Xerox Corporation. Manufacturer and marketer of document processing products and systems

JEFFREY J. BURDGE 71 (11), Camp Hill, Former Chairman of the Board, Harsco Corporation. Manufacturer of processed and fabricated metals

E. ALLEN DEAVER 58 (3), Lancaster, Executive Vice President, Armstrong World Industries Inc. Manufacturer of interior furnishings and specialty products

NANCE K. DICCIANNI 46 (*), Philadelphia, Vice President and Business Director, Petroleum Chemicals Division, Rohm and Haas Company. Manufacturer of specialty chemicals and plastics

EDWARD DONLEY 72 (11), Allentown, Former Chairman, Air Products and Chemicals Inc. Manufacturer of industrial and commercial gases and chemicals

WILLIAM J. FLOOD 58 (4), Hazleton, Secretary-Treasurer, Highway Equipment & Supply Co. Supplier of heavy equipment for highway construction and industry

REV. DANIEL G. GAMBET, O.S.F.S. 64 (7), Center Valley, President, Allentown College of St. Francis de Sales

ELMER D. GATES 64 (4), Bethlehem, Vice Chairman, Fuller Company. Manufacturer of plants,

machinery and equipment for industry

WILLIAM F. HECHT 50 (3), Allentown, PP&L Chairman, President and Chief Executive Officer

STUART HEYDT 54 (3), Danville, President and Chief Executive Officer, Geisinger Health System

CLIFFORD L. JONES 66 (5), Mechanicsburg, Former President, Pennsylvania Chamber of Business

and Industry

JOHN T. KAUFFMAN 67 (15), Allentown, Former PP&L Chairman and Chief Executive Officer

ROBERT Y. KAUFMAN 69 (1), Potomac, Md., Chairman and President, Yogi, Inc. Consulting firm

RUTH LEVENTHAL 53 (5), Middletown, Provost and Dean, Penn State Harrisburg (The Capital College)

FRANCIS A. LONG 53 (1), Allentown, PP&L Executive Vice President and Chief Operating Officer

NORMAN ROBERTSON 66 (24), Pittsburgh, Former Senior Vice President and Chief Economist,

Mellon Bank, N.A.

DAVID L. TRESSLER 57 (12), Scranton, Executive Director of the Joseph M. McDade Center for Public Initiatives at the University of Scranton

Numbers indicate age and years of service () on PP&L board as of March 1, 1994. *Less than one year as a director.



Pennsylvania Power & Light Company

Two North Ninth Street • Allentown, PA 18101 • 610/774-5151

ELECTRIC VEHICLE-GM IMPACT

PP&L is part of a nationwide partnership with General Motors to put people in the driver's seat of electric vehicles. The test-drive partnership was announced by PP&L and GM officials and acting Pennsylvania Governor Mark Singel in Harrisburg in October. PP&L was chosen as one of 12 test sites in the nationwide program because of the company's long-standing support of electric vehicle initiatives.



Working Towards a Brighter Tomorrow®

Q. 2. Supply projected capital requirements and sources of the filing utility, its parent and system — consolidated — for the test year and each of three comparable future years.

A. 2. The following are the projected capital requirements and sources for the test year and each of three comparable future years. This projection excludes any effects of this rate filing.

	12 Months Ended Sept. 30			
	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
	(Millions of Dollars)			
Capital Requirements ^{1/}				
Construction	\$ 415	\$ 387	\$ 401	\$ 478
Nuclear Fuel Payments ^{2/}	52	52	77	47
Security Maturities and Sinking Funds	--	--	30	30
Prepayments	151	151	—	—
Other	66	43	25	25
Total Requirements	<u>\$ 684</u>	<u>\$ 633</u>	<u>\$ 533</u>	<u>\$ 580</u>
Sources ^{1/}				
Internal	\$ 274	\$ 274	\$ 326	\$ 297
Nuclear Fuel Sale	70	73	90	48
Outside Financing				
Long-Term Debt	255	55	—	—
Preferred/Preference Stock	--	--	--	--
Common Stock				
Public Offering	100	100	—	—
Empl. Stock Ownership Plan	7	7	8	8
Dividend Reinvestment Plan	78	80	80	80
Short-Term Debt Change	(100)	44	29	147
Total Outside	<u>340</u>	<u>286</u>	<u>117</u>	<u>235</u>
Total Fund Sources	<u>\$ 684</u>	<u>\$ 633</u>	<u>\$ 533</u>	<u>\$ 580</u>

^{1/} Excludes the effect of capitalizing lease obligations. If included, there would be no change in outside financing.

^{2/} Arrangements were established in February 1982 which currently permit the Company to lease its 90% share of nuclear fuel up to a maximum of \$250 million.

- Q. 3. State what coverage requirements or capital structure ratios are required in the most restrictive of applicable indentures/charter tests and how these measures have been computed.
- A. 3. A summary of PP&L's charter and mortgage indenture provisions which describes coverage requirements, limits on proportions of types of capital outstanding, and restrictions on dividend payouts and the method for computing these measures is set forth on pages 1 and 2 of Attachment III-F-3. Details from the Mortgage and Deed of Trust are provided on pages 3 through 7 of the attachment and details from the Restated Articles of Incorporation, as Amended, are provided on pages 8 through 12 of the attachment.

Pennsylvania Power & Light Company

Summary of Charter and Indenture Provisions

Mortgage restrictions on issuing bonds and paying dividends:

The Company's Mortgage and Deed of Trust, as amended, which is secured by a lien on substantially all the Company's property and under which all mortgage bonds are issued, includes in Article V, Section 27 (Attachment III-F-3, page 3) and Article I, Section 7 (Attachment III-F-3, pages 3-6) and Article VIII, Section 39 III (Attachment III-F-3, page 6-7) restrictions on issuing bonds and paying dividends as summarized below:

No bonds may be issued unless the adjusted net earnings before income taxes for twelve out of the preceding fifteen months is at least twice the annual interest requirements on all bonds at the time outstanding, including those being issued, and on all indebtedness of prior rank. In computing adjusted net earnings, an amount equal to the maintenance and replacement fund requirements must be used in lieu of actual expenditures for maintenance and repairs and provisions for property retirement.

Bonds may be issued on the basis of Bond retirements without any requirement for meeting the two times coverage test. See Section 29 of the Mortgage.

No cash dividends on common stock may be paid unless after such payments the amount remaining in earned surplus (herein described as earnings reinvested) plus the provisions made subsequent to September 30, 1945 for depreciation and retirement of property shall equal the maintenance and replacement fund requirements of the Mortgage for such period, less maintenance expenditures.

The Company's Restated Articles of Incorporation, as amended, include in Section 2(C)(3) of Division A of Article VI (Attachment III-F-3, page 8-9) and in Section 2(B)(3) of Division B of Article VI (Attachment III-F-3, pages 10-11) the restrictions on issuance of capital stock summarized below:

The Company may not issue additional shares of Preferred Stock ranking prior to or on a parity with the existing classes of Preferred Stock as to dividends or distributions unless the Company meets certain tests as to earnings which, in general, are that the Company shall have had during a specified 12 months' period preceding such issuance net earnings equal to twice its annual dividend requirements on all Preferred Stock to be

Pennsylvania Power & Light Company

Summary of Charter and Indenture Provisions

outstanding thereafter and gross income equal to one and one-half times such dividend requirements plus its annual interest charges.

The Company's Restated Articles of Incorporation, as amended, include in Section 1(C) of Division E of Article VI (Attachment III-F-3, page 12) the restrictions on the payment of Common Stock dividends summarized below:

No dividends (other than dividends payable by the issuance of Common Stock) on, or purchases or acquisitions of, or distributions on, the Common Stock shall be paid or made by the Company aggregating an amount in excess of (a) 75% of the current year's earnings otherwise available for Common Stock, if after such payment, purchase, acquisition or distribution the ratio of the aggregate of the stated value of Common Stock and earnings reinvested to total capitalization, including earnings reinvested, will be less than 25%; and (b) 50% of such earnings, if after such payment, purchase, acquisition or distribution, such ratio will be less than 20%.

The terms relating to certain series of the Company's Series Preferred Stock, which terms are part of the Company's Restated Articles of Incorporation, as amended, contain provisions to the effect that the Company will not declare or pay any dividends on, or make any other distribution of property with respect to, or purchase or otherwise acquire, Common Stock at any time when the Company shall have failed to discharge in full its obligation to redeem shares required to be redeemed pursuant to the sinking funds for those Series.

The Restated Articles of Incorporation, as amended, limit the issuance of unsecured debt to an amount equal to 20% of secured indebtedness and capital and surplus. See Article VI of the Charter, Division A, Section 2(C)(4) (Attachment III-F-3, page 9), and Division B, Section 2(B)(4) (Attachment III-F-3, pages 11).

Pennsylvania Power & Light Company

Details from Mortgage and Deed of Trust

Article V, Section 27

No bonds shall be authenticated and delivered upon the basis of Property Additions unless, as shown by a Net Earning Certificate, the Adjusted Net Earnings of the Company for the period therein referred to shall have been in the aggregate at least equivalent to twice the Annual Interest Requirements as shall be specified, pursuant to the provisions of subdivision (B) of Section 7 hereof, in such Net Earning Certificate.

Article I, Section 7

The term "Net Earning Certificate" shall mean a certificate signed by the President or a Vice-President of the Company and an accountant, who unless required to be independent, may be an officer or employee of the Company, stating

(A) the Adjusted Net Earnings of the Company for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the first day of the month in which the application for the authentication and delivery under this Indenture of bonds then applied for is made, specifying:

(1) its operating revenues, with the principal divisions thereof;

(2) its operating expenses, with the principal divisions thereof, including, but without limitation, all expenses and accruals for repairs and maintenance and all appropriations out of income for property retirement not only in respect of the Mortgaged and Pledged Property but also in respect of all other property owned by the Company; provided, however, that, in lieu of including in such operating expenses the amounts actually expended for and the amounts accrued for repairs and maintenance of and the amount actually appropriated out of income for depreciation and retirement of the Mortgaged and Pledged Property used primarily and principally in the electric, gas, steam and/or hot water utility business and of the automotive equipment of the Company used in the operation of such property, there shall be included in such operating expenses an amount equal to fifteen and one-half per centum (15-1/2%) of the Adjusted Gross Operating Revenues (as defined in Section 39 hereof) for such period of twelve (12) consecutive calendar months;

(3) the amount remaining after deducting the amount required to be stated in such certificate by clause (2) of this Section from the amount required to be stated therein by clause (1) of this Section;

Pennsylvania Power & Light Company

Details from Mortgage and Deed of Trust

(4) its rental expenses for plants or systems not otherwise deducted from revenues or from other income in such certificate;

(5) the balance remaining after deducting such rental expenses from the amount required to be stated in such certificate by clause (3) of this Section;

(6) its rental revenues from plants or systems not otherwise included in revenues, or in other income (net), in such certificate;

(7) the sum of the amounts required to be stated in such certificate by clauses (5) and (6) of this Section;

(8) its other income (net);

(9) the sum of the amounts required to be stated in such certificate by clauses (7) and (8) of this Section;

(10) the amount, if any, by which the aggregate of (a) such other income (net) and (b) that portion of the amount required to be stated in such certificate by clause (7) of this Section which, in the opinion of the signers, is directly derived from the operations of property (other than paving, grading and other improvements to, under or upon public highways, bridges, parks or other public properties of analogous character) not subject to the Lien of this Indenture at the date of such certificate, exceeds fifteen per centum (15%) of the sum required to be stated by clause (9) of this Section; provided, however, if the amount required to be stated in such certificate by clause (7) of this Section includes revenues from the operation of property not subject to the Lien of this Indenture, there shall be included in the calculation to be made pursuant to this clause (10) such reasonable interdepartmental or interproperty revenues and expenses between the Mortgaged and Pledged Property and the property not subject to the Lien hereof as shall be allocated to such respective properties by the Company, and

(11) the Adjusted Net Earnings of the Company for such period of twelve (12) consecutive calendar months (being the amount remaining after deducting in such certificate the amount required to be stated by clause (10) of this Section from the sum required to be stated by clause (9) of this Section);

(B) the Annual Interest Requirements, being the interest requirements for twelve (12) months upon:

Pennsylvania Power & Light Company

Details from Mortgage and Deed of Trust

(i) all bonds Outstanding hereunder at the date of such certificate, except any for the refunding of which the bonds applied for are to be issued;

(ii) all bonds then applied for in pending applications, including the application in connection with which such certificate is made;

(iii) all Qualified Lien Bonds which will be Outstanding immediately after the authentication of the bonds then applied for in pending applications, including the application in connection with which such certificate is made; and

(iv) the principal amount of all other indebtedness (except indebtedness for the payment of which the bonds applied for are to be issued and indebtedness for the purchase, payment or redemption of which moneys in the necessary amount shall have been deposited with or be held by the Trustee or the trustee or other holder of a Qualified Lien or lien prior to the Lien of this Indenture upon property subject to the lien of this Indenture with irrevocable direction so to apply the same; provided that, in the case of redemption, the notice required therefore shall have been given or have been provided for to the satisfaction of the Trustee), outstanding in the hands of the public on the date of such certificate and secured by lien prior to the Lien of this Indenture upon property subject to the Lien of this Indenture, if said indebtedness has been assumed by the Company or if the Company customarily pays the interest upon the principal thereof.

In calculating such Adjusted Net Earnings, all the Company's expenses for taxes (other than income, profits and other taxes measured by, or dependent on, net income), assessments, rentals and insurance shall be included in its operating expenses, or otherwise deducted from its revenues and income; provided, however, that no expenses or provisions for interest on any of its indebtedness or for the amortization of debt discount and expense or for other amortization or for any improvement or sinking fund or other device for the retirement of any indebtedness, shall be required to be included in operating expenses to be deducted from, or shall be otherwise required to be deducted from, its revenues or its other income. Rental expenses for tires not owned by the Company shall for all purposes of the Net Earnings Certificate be deemed to be maintenance expenses.

If any of the property of the Company owned by it at the time of the making of any Net Earning Certificate shall have been acquired during or after any period for which Adjusted

Pennsylvania Power & Light Company

Details from Mortgage and Deed of Trust

Net Earnings of the Company are to be computed, the Adjusted Net Earnings of such property (computed in the manner in this Section provided for the computation of the Adjusted Net Earnings of the Company) during such period or such part of such period as shall have preceded the acquisition thereof, to the extent that the same have not otherwise been included and unless such property shall have been acquired in exchange or substitution for property the earnings of which have been included, may, at the option of the Company, be included in the Adjusted Net Earnings of the Company for all purposes of this Indenture, and shall be included if such property has been operated as a separate unit or if the earnings therefrom are readily ascertainable.

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The phrase "appropriations out of income for property retirement", and other phrases of similar import shall be deemed to include not only charges made upon a retirement accounting theory but also charges made on any depreciation or other accounting theory intended to provide for retirement of property.

The accounting terms used in this Indenture shall be construed either in accordance with generally accepted accounting principles and practices in use at the time by companies operating like properties or, at the option of the Company, in accordance with generally accepted accounting principles and practices in use at the date of this Indenture.

Article VIII, Section 39

(III) So long as any of the bonds of the First Series remain Outstanding, the Company will not declare or pay dividends (other than dividends payable solely in shares of its common stock) on or make any other distributions on or acquire (unless acquired without cost to the Company) any shares of its common stock unless the provisions for depreciation and retirement of property (but excluding any provisions for amortization of any amounts included in utility plant acquisition adjustment accounts or utility plant adjustment accounts or in any accounts for similar purposes) during the period from October 1, 1945, to the date of the proposed payment of said dividends or making of such distribution or acquisition, plus earned surplus of the Company (including as earned surplus current net income available to be transferred to earned surplus) remaining:

(a) after payment of such dividends or making of such distribution
or acquisition; and

Pennsylvania Power & Light Company

Details from Mortgage and Deed of Trust

(b) after deducting any remainder of the amount of the earned surplus of the Company as of September 30, 1945, after deducting from such amount the charges to earned surplus subsequent to September 30, 1945, other than charges to earned surplus with corresponding credits to reserves for depreciation and retirement of property;

shall be at least equal to the aggregate amounts required to be stated for such period in the Officers' Certificates of Maintenance and Replacements by the provisions of subdivision (1) of subsection (I) of this Section less the aggregate amounts stated for such period in such Officers' Certificates of Maintenance and Replacements as permitted by the provisions of subdivision (2) of said subsection (I), including proportionate amounts calculated as provided in said subdivisions (1) and (2) for any portions of the period elapsed since September 30, 1945, not theretofore included in any Officers' Certificates of Maintenance and Replacements.

The provisions of Section 39 (III) set forth above have been made applicable to each subsequent series of First Mortgage Bonds issued by the Company.

Pennsylvania Power & Light Company

Details from Restated Articles of Incorporation, as Amended

Article VI, Division A, Section 2

(C) So long as any shares of the 4-1/2% Preferred Stock are outstanding, the Corporation shall not, without the consent (given by vote at a meeting held pursuant to notice containing a statement of such purpose) of the holders of a majority of the total number of shares of the 4-1/2% Preferred Stock then outstanding:

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(3) Issuance of Senior Stock in Absence of Satisfaction of Certain Earnings Requirements. Issue any share of Senior Stock (the term "Senior Stock" whenever used in this Article VI shall include the 4-1/2% Preferred Stock, the Series Preferred Stock and any other class of stock ranking prior to or on a parity with the 4-1/2% Preferred Stock and the Series Preferred Stock as to the payment of dividends or distribution of assets) in addition to the shares of Senior Stock then outstanding, even though such stock has been authorized pursuant to the provisions of Section 2(A) of this Division A and the provisions of Section 2(A) of Division B; provided, however, that such consent of the holders of the 4-1/2% Preferred Stock shall not be required for the issuance of such stock if the net income of the Corporation determined after provisions for depreciation and all taxes, and in accordance with generally accepted accounting practices, for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issuance, sale or disposition of such stock is at least equal to twice the annual dividend requirements on all outstanding shares of the Senior Stock, including the shares proposed to be issued, and if the gross income of the Corporation for said period, determined in accordance with generally accepted accounting practices (but in any event after deducting the amount for said period charged by the Corporation on its books to depreciation expense and all taxes) to be available for the payment of interest shall have been at least one and one-half times the sum of:

(a) the annual interest charges on all interest-bearing indebtedness of the Corporation; and

(b) the annual dividend requirements on all outstanding shares of the Senior Stock, including the shares proposed to be issued.

Pennsylvania Power & Light Company

Details from Restated Articles of Incorporation, as Amended

There shall be excluded from the foregoing computation, interest charges on all indebtedness and dividends on all stock which are to be retired in connection with the issue of such additional shares of Senior Stock.

Where such additional shares of Senior Stock are to be issued in connection with the acquisition of new property, the net earnings of the property to be so acquired may be included on a proforma basis in the foregoing computation, computed on the same basis as the net earnings of the Corporation.

(4) Issuance of Unsecured Indebtedness in Excess of Certain Limitations. Issue any unsecured notes, debentures or other securities representing unsecured indebtedness, or assume any such unsecured securities, for purposes other than:

(a) the refunding of outstanding unsecured securities, theretofore issued or assumed by the Corporation

(b) the reacquisition, redemption or other retirement of any indebtedness, if such reacquisition, redemption or other retirement has been authorized by the Securities and Exchange Commission under the provisions of the Public Utility Holding Company Act of 1935 or by any successor commission or other regulatory authority of the United States of America having jurisdiction over the reacquisition, redemption or other retirement of such indebtedness, or

(c) the reacquisition, redemption or other retirement of any or all of the outstanding shares of the 4-1/2% preferred stock:

if, immediately after such issuance or assumption, the total principal amount of all unsecured securities then outstanding would exceed twenty per centum (20%) of

(i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Corporation and then to be outstanding, and

(ii) the capital and surplus of the Corporation as then to be stated on the books of account of the Corporation.

Pennsylvania Power & Light Company

Details from Restated Articles of Incorporation, as Amended

Article VI, Division B, Section 2

(B) So long as any shares of the Series Preferred Stock are outstanding, the Corporation shall not, without the consent (given by vote at a meeting held pursuant to notice containing a statement of such purpose) of the holders of a majority of the total number of shares of the Series Preferred Stock and the 4-1/2% Preferred Stock then outstanding (voting as a single class separate from the holders of the Preference Stock and the Common Stock):

- .
- .
- .
- .
- .

(3) Issuance of Senior Stock in Absence of Satisfaction of Certain Earnings Requirements. Issue any share of Senior Stock (the term "Senior Stock" whenever used in this Article VI shall include the 4-1/2% Preferred Stock, the Series Preferred Stock and any other class of stock ranking prior to or on a parity with the 4-1/2% Preferred Stock and the Series Preferred Stock as to the payment of dividends or distribution of assets) in addition to the shares of Senior Stock then outstanding, even though such stock has been authorized pursuant to the provisions of Section 2(A) of this Division A and the provision of Section 2(A) of Division B; provided, however, that such consent of the holders of the 4-1/2% Preferred Stock shall not be required for the issuance of such stock if the net income of the Corporation determined after provisions for depreciation and all taxes, and in accordance with generally accepted accounting practices, for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issuance, sale or disposition of such stock is at least equal to twice the annual dividend requirements on all outstanding shares of the Senior Stock, including the shares proposed to be issued, and if the gross income of the Corporation for said period, determined in accordance with generally accepted accounting practices (but in any event after deducting the amount for said period charged by the Corporation on its books to depreciation expense and all taxes) to be available for the payment of interest shall have been at least one and one-half times the sum of:

(a) the annual interest charges on all interest-bearing indebtedness of the Corporation; and

(b) the annual dividend requirements on all outstanding shares of the Senior Stock, including the shares proposed to be issued.

Pennsylvania Power & Light Company

Details from Restated Articles of Incorporation, as Amended

There shall be excluded from the foregoing computation, interest charges on all indebtedness and dividends on all stock which are to be retired in connection with the issue of such additional shares of Senior Stock. Where such additional shares of Senior Stock are to be issued in connection with the acquisition of new property, the net earnings of the property to be so acquired may be included on a proforma basis in the foregoing computation, computed on the same basis as the net earnings of the Corporation; or

(4) Issuance of Unsecured Indebtedness in Excess of Certain Limitations. Issue any unsecured notes, debentures or other securities representing unsecured indebtedness or assume any such unsecured securities, for purposes other than:

(a) the refunding of outstanding unsecured securities, theretofore issued or assumed by the Corporation

(b) the reacquisition, redemption or other retirement of any indebtedness, if such reacquisition, redemption or other retirement has been authorized by the Securities and Exchange Commission under the provisions of the Public Utility Holding Company Act of 1935 or by any successor commission or other regulatory authority of the United States of America having jurisdiction over the reacquisition, redemption or other retirement of such indebtedness, or

(c) the reacquisition, redemption or other retirement of any or all of the outstanding shares of the Series Preferred Stock or the 4-1/2% Preferred Stock:

if, immediately after such issue or assumption, the total principal amount of all unsecured securities then outstanding would exceed twenty per centum (20%) of:

(i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Corporation and then to be outstanding, and

(ii) the capital and surplus of the Corporation as then to be stated on the books of account of the Corporation.

Pennsylvania Power & Light CompanyDetails from Restated Articles of Incorporation, as Amended

Article VI, Division E, Section 1

(C) So long as any shares of the 4-1/2% Preferred Stock and the Series Preferred Stock are outstanding and the aggregate of stated capital of Common Stock and surplus equals less than 25% of total capitalization, including surplus, the Corporation shall not pay any dividends on Common Stock (other than dividends on Common Stock payable by the issuance of Common Stock), or make any distribution on, or purchase or otherwise acquire for value, any of its Common Stock or other Stock, if any, subordinate to such 4-1/2% Preferred Stock and the Series Preferred Stock, if after giving effect to any such payment, distribution, purchase or acquisition, the aggregate amount of such dividends, distributions, purchases and acquisitions paid or made subsequent to December 31, 1945, exceeds 75% of the aggregate of the Corporation's net income available for Common Stock subsequent to December 31, 1945; and no such dividends, distributions, purchases or acquisitions may be made or paid by the Company, if after giving effect thereto, the ratio of the aggregate of stated capital of Common Stock and surplus to total capitalization, including surplus, is less than . . . 25%, provided that, when the aggregate of the stated value for Common Stock and surplus shall have reached 25% of total capitalization, including surplus, all restrictions on the payment of dividends on the Common Stock, or the purchase or acquisition of or distributions on the Common Stock, shall be, so long as such ratio remains at 25% or above, eliminated; provided further that, after once having reached such ratio of 25%, no dividends on or distributions, purchases or acquisitions of Common Stock shall be paid or made, aggregating an amount in excess of 75% of the current year's earnings otherwise available for Common Stock, if after such payment, distribution, purchase or acquisition, the ratio of the aggregate of capital for Common Stock and surplus to the total capitalization, including surplus will be less than 25% and no dividends on or distributions, purchases or acquisitions of Common Stock shall be paid or made, aggregating an amount in excess of 50% of the current year's earnings otherwise available for Common Stock, if after such payment, distribution, purchase or acquisition, the ratio of the aggregate of capital for Common Stock and surplus to the total capitalization, including surplus will be less than 20%.

- Q.4. A schedule of comparative financial data shall be supplied for the test year, the most immediately available annual historical period, prior to the test year, and the 2 calendar years most immediately preceding the test year. Changes in Moody's/S&P ratings, noted on this schedule, shall be accompanied by the Moody's/S&P writeup of such change, if available. The following financial data and ratios shall be supplied for the utility's parent, where applicable, if not available for the utility.
- a. Times interest earned ratio - pre-tax and post-tax basis.
 - b. Preferred stock dividend coverage ratio - post-tax basis.
 - c. Times fixed charges earned ratio - pre-tax basis.
 - d. Earnings per share.
 - e. Dividend per share.
 - f. Average dividend yield (52-week high/low common stock price).
 - g. Average book value per share.
 - h. Average market price per share.
 - i. Market price-book value ratio.
 - j. Earnings-book value ratio (per share basis, average book value).
 - k. Dividend payout ratio.
 - l. AFUDC as a % of earnings available for common equity.
 - m. Construction work in progress as a % of net utility plant.
 - n. Effective income tax rate.
 - o. Internal cash generations as a % of total capital requirements.
- A.4. Attachment III-F-4 provides the requested information.

PENNSYLVANIA POWER & LIGHT COMPANYComparative Financial Data

	1992	1993	12 Months Ended Sept. 30, 1994	12 Months Ended Sept. 30, 1995
a. Times interest earned ratio – pre-tax basis	3.21	3.37	3.34	(a)
Times interest earned ratio – post-tax basis	2.34	2.42	2.38	(a)
b. Preferred stock dividend coverage ratio – pre-tax basis	2.25	2.38	2.29	(a)
c. Times fixed charges earned ratio – pre-tax basis	3.13	3.30	3.25	(a)
d. Earnings per share	\$2.02	2.07	1.94	(a)
e. Dividend per share	\$1.600	1.650	1.665	(a)
f. Average dividend yield (52-week high/low common stock price)	6.27%	5.76	6.71	(a)
g. Average book value per share	\$15.42	15.88	16.13	(a)
h. Average market price per share	\$29.250	28.349	23.825	(a)
i. Market price-book value ratio	1.90	1.86	1.46	(a)
j. Earnings-book value ratio (per share basis, average book value)	0.131	0.131	0.120	(a)
k. Dividend payout ratio	0.792	0.798	0.859	(a)
l. AFUDC as a % of earnings available for common equity	4.51%	4.77	4.01	(a)
m. Construction work in progress as a % of net utility plant	3.09%	3.41	3.42	(a)
n. Effective income tax rate	39.7%	40.2	41.8	(a)
o. Internal cash generation as a % of total capital requirements *	91.8%	75.6	64.9	(a)

* Excludes nuclear fuel payments because the Company has a nuclear fuel trust that provides all the financing for nuclear fuel.

(a) Requested data for Future Test Year is confidential since it deals with a release of projected financial information. This information will be provided to the PUC upon the issuance of an appropriate protective order concerning the confidentiality of such information and will be provided to any party to the rate proceeding upon the execution of an agreement with the Company to hold such information in strict confidence and not to disclose it to any person, whether or not a party to the proceeding, who has not executed a similar confidentiality agreement with the Company.