

CAPTION SHEET

USE MANAGEMENT SYSTEM

- 1. REPORT DATE: 00/00/00
- 2. BUREAU: OSA
- 3. SECTION(S):
- 5. APPROVED BY: DIRECTOR: SUPERVISOR:
- 6. PERSON IN CHARGE:
- 8. DOCKET NO: R-00072155
- 4. PUBLIC MEETING DATE: 00/00/00
- 7. DATE FILED: 02/26/07
- 9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT: PUC

RESPONDENT/APPLICANT: PPL ELECTRIC UTILITIES CORP

COMP/APP COUNTY:

UTILITY CODE: 110500

ALLEGATION OR SUBJECT

2/26/07 - PPL ELECTRIC UTILITIES FILED NOTICE OF FILING.....

DOCUMENT
FOLDER

DOCKETED

FEB 26 2007

1. REPORT DATE: 00/00/00	:	
2. BUREAU: OTS	:	
3. SECTION(S):	:	
5. APPROVED BY:	:	4. PUBLIC MEETING DATE:
DIRECTOR:	:	00/00/00
SUPERVISOR:	:	
6. PERSON IN CHARGE:	:	7. DATE FILED: 03/29/07
8. DOCKET NO: R-00072155	:	9. EFFECTIVE DATE: 06/01/07

PARTY/COMPLAINANT: PUC

RESPONDENT/APPLICANT: PPL ELECTRIC UTILITIES CORP

COMP/APP COUNTY: UTILITY CODE: 110500

ALLEGATION OR SUBJECT

2/26/07 - PPL ELECTRIC UTILITIES FILED NOTICE OF FILING.....

.....03/30/07 PPL ELECTRIC UTILITIES CORPORATION FILED SUPPLEMENT NO. 54 TO
TARIFF-ELECTRIC PA P.U.C. NO. 201 PROPOSING A DISTRIBUTION ONLY RATE INCREASE
IN THE AMOUNT OF \$83,521,261 OR 2.67%. NUMBER OF CUSTOMERS: 1,382,796. AREA
SERVED; PORTIONS OF BERKS, BUCKS, CARBON, CHESTER, CLINTON, COLUMBIA, CUMBER-
LAND, DAUPHIN, JUNIATA, LACKAWANNA, LANCASTER, LEBANON, LEHIGH, LUZERNE,
LYCOMING, MONROE, MONTGOMERY, MONTOUR, NORTHAMPTON, NORTHUMBERLAND, PERRY,
PIKE, SCHUYLKILL, SNYDER, SUSQUEHANNA, UNION, WAYNE, WYOMING & YORK COUNTIES.
ADDRESS OF UTILITY: 2 N. NINTH STREET, ALLENTOWN, PA 18101.

DOCUMENT
FOLDER

DOCKETED
MAR 30 2007

DATE: March 1, 2007

SUBJECT: R-00072155

TO: Office of Special Assistants

FROM: James J. McNulty, Secretary *ddt*

DOCUMENT
FOLDER

PPL Electric Utilities Corporation

Attached is a copy of a Confidential letter filed by PPL Electric Utilities Corporation advising of their intent to file a general rate increase filing in its distribution service rates on or about March 29, 2007.

Pursuant to 52 Pa Code, §53.45(a), this Notice "shall be deemed proprietary and confidential."

This matter is assigned to your Office for appropriate action.

Attachments

cc: Office of Trial Staff-memo only
Bureau of Fixed Utility Services
Office of Administrative Law Judge

ddt

DOCKETED

FEB 28 2007

ORIGINAL

Paul Russell
Associate General Counsel

PPL
Two North Ninth Street
Allentown, PA 18101-1179
Tel. 610.774.4254 Fax 610.774.6726
perussell@pplweb.com



HAND DELIVERED

March 29, 2007

DOCUMENT
FOLDER

James J. McNulty, Esquire
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120

Re: **PPL Electric Utilities Corporation
Supplement No. 54 to Tariff -
Electric Pa. P.U.C. No. 201
Docket No. R-00072155**

SECRETARY'S BUREAU
2007 MAR 29 PM 12:51

Dear Mr. McNulty:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric" or the "Company") are an original and eight (8) copies of Supplement No. 54 to PPL Electric's Tariff - Electric Pa. P.U.C. No. 201. Also enclosed are an original and eight (8) copies of a Statement of Reasons and supporting data, including data required by Sections 53.52 and 53.53 of the Commission's regulations, 52 Pa. Code §§ 53.52 and 53.53.

In this filing, PPL Electric is proposing to increase its retail distribution rates by approximately \$83.6 million. This increase is set forth in Supplement No. 54 to PPL Electric's Tariff - Electric Pa. P.U.C. No. 201. If granted by the Commission, this request will produce an average increase in distribution rates of approximately 13 percent, which equates to an average increase in total rates (distribution, transmission, generation and transition charges) of approximately 2.7 percent. PPL Electric is proposing that the new distribution rates become effective for service rendered on and after June 1, 2007.

PPL Electric will be represented in this proceeding by the following counsel and requests that they be included on the official service list:

41

David B. MacGregor, Esquire
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103

Michael W. Gang, Esquire
Michael W. Hassell, Esquire
John H. Isom, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

Paul E. Russell, Esquire
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101-1179

PPL Electric hereby advises the Commission that it has elected to use the alternative method of customer notification set forth in Section 53.45(b)(4) of the Commission's regulations, 52 Pa. Code § 53.45(b)(4).

As indicated on the attached Certificate of Service, I have served copies of this filing and all supporting data on the Office of Consumer Advocate, as required by Section 53.51(d) of the Commission's regulations, 52 Pa. Code § 53.51(d), on the Office of Small Business Advocate and on the PUC's Office of Trial Staff.

If you have any questions regarding the enclosed filing or supporting data, please call.

Very truly yours,



Paul E. Russell

Enclosures

cc: Certificate of Service

ORIGINAL

PPL ELECTRIC UTILITIES CORPORATION

Exhibit Regs. § 53.52

Exhibit Regs. § 53.53

Part I – Summary of Filing
Part II – Primary Statements
of Rate Base and Operating Income

Docket No. R-00072155

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2007 MAR 29 PM 12:55
SECRETARY'S BUREAU

This book contains responses to each of the pertinent items contained in § 53.52 (Information in Response to the Commission's Regulations), § 53.53, Part I (Summary of Filing), and § 53.53, Part II (Primary Statements of Rate Base and Operating Income) of the Commission's Regulations.

PPL ELECTRIC UTILITIES CORPORATION
SUPPLEMENT NO. 54 TO TARIFF-ELECTRIC PA P.U.C. NO. 201
SUPPLEMENTAL INFORMATION
REQUIRED BY 52 PA. CODE § 53.52(a), (b) AND (c)

PPL Electric Utilities Corporation ("PPL Electric") hereby submits the following information in support of Supplement No. 54 to Tariff-Electric Pa P.U.C. No. 201. This tariff supplement proposes a distribution-only rate increase for PPL Electric's retail customers. In response to each of the applicable subsections of 52 Pa. Code § 53.52(a) and (b), PPL Electric states the following:

52 Pa. Code § 53.52(a) (1)

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MAR 29 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Q. The specific reasons for each change.

A. See PPL Electric's Statement of Reasons in Exhibit Future 1, Section A.

52 Pa. Code § 53.52(a) (2)

Q. The total number of customers served by the utility.

A. As of December 31, 2006, PPL Electric served a total of 1,377,750 customers.

52 Pa. Code § 53.52(a) (3)

Q. A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

A. See PPL Electric's Exhibit Future 1, Schedule D-3.

52 Pa. Code § 53.52(a) (4)

Q. The effect of the change on the utility's customers.

A. See PPL: Electric's Electric Future 1, Schedule D-3.

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MAR 29 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

52 Pa. Code § 53.52(a) (5)

Q. The effect, whether direct or indirect, of the proposed change on the utility's revenues and expenses.

A. See PPL Electric's Exhibit Future 1, Schedule D-1.

52 Pa. Code § 53.52(a) (6)

Q. The effect of the change on the service rendered by the utility.

A. See PPL Electric's Exhibits OGK 1 and OGK 2.

52 Pa. Code § 53.52(a) (7)

Q. A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement as to why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308 (relating to voluntary changes in rates).

A. Not Applicable.

52 Pa. Code § 53.52(a) (8)

- Q. Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308.
- A. Not Applicable.

52 Pa. Code § 53.52(a) (9)

- Q. Customer polls taken and other documentation which indicates customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible opposition, an explanation of why the change is in the public interest shall be provided.
- A. PPL Electric did not take any customer polls or conduct any other research specifically addressing customer acceptance or desire for the proposed \$83.6 million increase in its distribution rates. However, the Company did undertake general customer research activities to gauge customer opinions on broad issues regarding the electric utility industry and PPL Electric. Topics included customer attitudes toward the Company, various social programs, different rate options, rate increase alternatives and communications.

52 Pa. Code § 53.52(a) (10)

- Q. Plans the utility has for introducing or implementing the changes with respect to its ratepayers.
- A. After the Commission acts on PPL Electric's filing, the Company will send a special bill insert to all customers. The bill insert will describe the rate changes approved by the Commission and indicate impact on customer bills. The Company also plans to inform customers about the rate changes in news release, newsletters and on PPL's Internet site.

52 Pa. Code § 53.52(a) (11)

Q. F.C.C., F.E.R.C. or Commission orders or rulings applicable to the filing.

A. None.

52 Pa. Code § 53.52(b) (1)

Q. The specific reasons for each increase or decrease.

A. See PPL Electric's Statement of Reasons in Exhibit Future 1, Section A.

52 Pa. Code § 53.52(b) (2)

Q. The operating income statement for the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing. Water and sewer utilities with annual revenues under \$100,000 and municipal corporations subject to Commission jurisdiction may provide operating income statements for a 12-month period, the end of which may not be more than 180 days prior to the filing.

A. See PPL Electric's Exhibit Historic 1, Schedule B-2.

52 Pa. Code § 53.52(b) (3)

Q. A calculation of the number of customers, by tariff subdivision, whose bills will be increased.

A. See PPL Electric's response to 52 Pa. Code § 53.52(a) (3).

52 Pa. Code § 53.52(b) (4)

Q. A calculation of total increases, in dollars, by tariff subdivision, projected to an annual basis.

A. See PPL Electric's Exhibit Future 1, Schedule D-3.

52 Pa. Code § 53.52(b) (5)

Q. A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.

A. See PPL Electric's Exhibit Future 1, Schedule D-3.

52 Pa. Code § 53.52(b) (6)

Q. A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

A. See PPL Electric's Exhibit Future 1, Schedule D-3.

52 Pa. Code § 53.52(c) (1)

Q. A statement showing the utility's calculation of the rate of return earned in the 12-month period referred to in subsection (b)(2), and the anticipated rate of return to be earned when the tariff revision, or supplement becomes effective. The rate base used in the calculation shall be supported by summaries of original costs.

A. See Schedule C-1 of PPL Electric's Exhibits Historic 1 and Future 1.

52 Pa. Code § 53.52(c) (2)

Q. A detailed balance sheet of the utility as of the close of the period referred to in subsection (b)(2).

A. See Schedule B-1 of PPL Electric's Exhibits Historic 1 and Future 1,

52 Pa. Code § 53.52(c) (3)

Q. A summary, by detailed plant accounts, of the book value of the property of the utility at the date of the balance sheet required by paragraph (2).

A. See Schedule C-2 of PPL Electric's Exhibit Historic 1 and Future 1, and the response to Question 3 of Exhibit Regs § 53.53, Part V, Section A.

52 Pa. Code § 53.52(c) (4)

Q. A statement showing the amount of the depreciation reserve, at the date of the balance sheet required by paragraph (2), applicable to the property, summarized as required by paragraph (3).

A. See Schedule C-2 of PPL Electric's Exhibit's Historic 1 and Future 1, and the response to Question 3 of Exhibit Regs § 53.53, Part V, Section A.

52 Pa. Code § 53.52(c) (5)

Q. A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the 12-month period ending on the date of the balance sheet required by paragraph (2).

A. See Schedules B-2, B-3, B-4, and B-5 of PPL Electric's Exhibits Historic 1 and Future 1.

52 Pa. Code § 53.52(c) (5)

- Q. A brief description of a major change in the operating or financial condition of the utility occurring between the date of the balance sheet required by paragraph (2) and the date of transmittal of the tariff, revision, or supplement. As used in this paragraph, a major change in one which materially alters the operating or financial condition of the utility from that reflected in paragraphs (1) – (5).
- A. There have been no major changes in the operating or financial condition of PPL Electric between the date of the balance sheet as of December 31, 2006, and the date of the filing of Supplement No. 54.

Q.1. Provide a summary discussion of the rate change request, including specific reasons for each increase or decrease. Also provide a breakdown which identifies the revenue requirement value of the major items generating the requested rate change.

A.1. See Section A of Exhibit Future 1.

Q.2. Identify the proposed witnesses for all statements and schedules of revenues, expenses, taxes, property, valuation and the like.

A.2. See Testimony Book 1 and Testimony Book II.

Q.3. Provide a single page summary table showing, at present and at proposed rates, together with references to the filing information, the following as claimed for the fully adjusted test year:

Revenues
Operating Expenses
Operating Income
Rate Base
Rate of Return (produced)

A.3. Attachment I-A-3 provides the requested information.

PPL ELECTRIC UTILITIES CORPORATION

PUC Jurisdictional
Year Ended December 31, 2007
(Thousands of Dollars)

AT PRESENT RATES

AT PROPOSED RATES

	<u>Amount</u>	<u>Exhibit Future 1 Reference</u>	<u>Amount</u>	<u>Exhibit Future 1 Reference</u>
Revenue	\$ 673,618	Sch. D-1, Col. (6), line 1	\$ 757,191	Sch. D-1, Col. (8), line 1
Operating Expenses	<u>549,985</u>	Sch. D-1, Col. (6), line 12	<u>588,071</u>	Sch. D-1, Col. (8), line 12
Operating Income	<u>\$ 123,633</u>	Sch. D-1, Col. (6), line 13	<u>\$ 169,120</u>	Sch. D-1, Col. (8), line 13
Rate Base	<u>\$2,022,969</u>	Sch. C-1, Col. (2), line 12	<u>\$2,022,969</u>	Sch. C-1, Col. (2), line 12
Rate of Return	<u>6.11%</u>	Sch. C-1, Col. (2), line 14	<u>8.36%</u>	Sch. C-1, Col. (2), line 16

- Q.4. Whenever a major generating plant is placed in operating service or removed from operating service the utility shall separately indicate the effect of the plant addition or removal from service upon rate base, revenue, expense, tax, income and revenue requirement as it affects the test year.
- A.4. This filing requirement is not applicable to PPL Electric's current rate filing.

- Q. 1. Provide a corporate history including the dates of original incorporation, subsequent mergers and acquisitions. Indicate all counties, cities and other governmental subdivisions to which service is provided, including service areas outside this Commonwealth, and the total number of customers or billed units in the areas served.
- A. 1. PPL Electric Utilities Corporation ("PPL Electric") was founded in 1920 through consolidation of eight electric companies.¹ It presently serves a 10,000 square mile territory in 29 counties of central-eastern Pennsylvania. This territory contains extensive agricultural and industrial sections, as well as over 800 major communities, including the cities of Allentown, Bethlehem, Harrisburg, Lancaster, Scranton, Wilkes-Barre and Williamsport. PPL Electric serves approximately 1.4 million customers.

The requested corporate history, together with a map of PPL Electric's service territory and a list of all governmental subdivisions in which service is rendered, is provided in Attachment I-B-1.

¹ These Companies are listed at Page 1 of Attachment I-B-1.

HIGHLIGHTS OF CORPORATE HISTORY

- 1920** Pennsylvania Power & Light Company (PP&L) founded through consolidation of eight electric companies,¹ as a direct subsidiary of Lehigh Power Securities Corporation and an indirect subsidiary of Electric Bond and Share Company.
- 1923** Wilkes-Barre Electric Company merges with PP&L.
- 1925** PP&L acquires ownership of United Electric Company.
- 1929** PP&L acquires ownership of Harrisburg Light & Power Company.
- 1930** PP&L acquires 28 electric and gas companies which serve substantially all of Lancaster County.
- 1938** Conestoga Transmission Company and Lehighon Electric Light & Power Company merge with PP&L.
- 1939** Lehigh Power Securities Corporation is dissolved. PP&L becomes a subsidiary of National Power & Light Company, and remains an indirect subsidiary of Electric Bond and Share Company.
- 1945-1947** PP&L becomes independent as a result of a multi-step process (carried out under the Public Utility Holding Company Act of 1935) during which National Power & Light Company and Electric Bond and Share Company divest themselves of PP&L ownership, and PP&L stock is sold to the public.
- 1948** PP&L acquires Palmerton Lighting Company.
- 1951** PP&L divests itself of all gas properties, in accordance with decision to confine operations to the electric business.²
- 1955** Pennsylvania Water & Power Company merges with PP&L. PP&L purchases one-third ownership of Safe Harbor Water Power Corporation.
- 1956** Scranton Electric Company merges with PP&L.
- 1980** Hershey Electric Company merges with PP&L.

¹ These companies were: Columbia and Montour Electric Company, The Harwood Electric Company, The Lehigh Valley Light & Power Company, Northern Central Gas Company, Northumberland County Gas & Electric Company, Pennsylvania Lighting Company, Pennsylvania Power & Light Company and the Schuylkill Gas & Electric Company.

² Except some listed steam service provided to the City of Harrisburg.

- 1985** PP&L divests itself of all steam service provided to the City of Harrisburg.
- 1994** PP&L Resources, Inc. is incorporated as an energy and utility holding company.
- 1995** PP&L Resources, Inc. becomes the parent company of PP&L.
- 1997** Name of the operating electric utility changed from PP&L (Pennsylvania Power & Light Company) to PP&L, Inc.
- 1998** PP&L Resources, Inc. acquired Penn Fuel Gas, Inc. which owns two gas utilities, PFG Gas, Inc. and North Penn Gas Company.
- 2000** Name of the operating electric utility changed from PP&L, Inc. to PPL Electric Utilities Corporation and name of utility holding company changed from PP&L Resources, Inc. to PPL Corporation.
- 2000** On July 1, PPL Corporation and PPL Electric completed a corporate realignment in order to effectively separate PPL Electric's regulated transmission and distribution operations from its deregulated generation operations.
- 2001** PPL Corporation completed a strategic initiative to confirm the structural separation of PPL Electric from PPL Corporation's and PPL Electric's other affiliated companies.

In addition to the communities indicated on the attached map, PPL Electric also serves certain other communities which border its chartered territory pursuant to its adjacency rights.

PP&L, Inc.**TERRITORY COVERED BY THIS TARIFF****BERKS COUNTY**

Boroughs of New Morgan, Robesonia, Shillington, Sinking Spring, Wernersville, West Lawn, Womelsdorf, Wyomissing, and Wyomissing Hills. Townships of Caernarvon, Cumru, Heidelberg, Lower Heidelberg, South Heidelberg, and Spring.

BUCKS COUNTY

Boroughs of Richlandtown, Sellersville, Silverdale, Telford, and Trumbauersville. Townships of East Rockhill, Haycock, Hilltown, Milford, Richland, Springfield, and West Rockhill.

CARBON COUNTY

Boroughs of Beaver Meadows, Bowmanstown, East Side, Jim Thorpe, Lansford, Nesquehoning, Palmerton, Parryville, Summit Hill, and Weissport. Townships of Banks, East Penn, Franklin, Kidder, Lausanne, Lehigh, Lower Towamensing, Mahoning, Packer, Penn Forest, and Towamensing.

CHESTER COUNTY

Boroughs of Atglen, Elverson, and Honey Brook. Townships of Honey Brook, West Nantmeal, and West Sadsbury.

CLINTON COUNTY

City of Lock Haven. Boroughs of Avis, Flemington, Loganton, Mill Hall, Renovo, and South Renovo. Townships of Allison, Bald Eagle, Castanea, Chapman, Colebrook, Crawford, Dunnstable, Gallagher, Greene, Grugan, Logan, Noyes, Pine Creek, Wayne, and Woodward.

COLUMBIA COUNTY

Town of Bloomsburg. Boroughs of Ashland, Benton, Berwick, Briar Creek, Centralia, Millville, Orangeville, and Stillwater. Townships of Beaver, Benton, Briar Creek, Catawissa, Cleveland, Conyngham, Fishing Creek, Franklin, Greenwood, Hemlock, Jackson, Locust, Madison, Main, Mifflin, Montour, Mount Pleasant, North Centre, Orange, Pine, Roaring Creek, Scott, South Centre, and Sugarloaf.

CUMBERLAND COUNTY

Boroughs of Camp Hill, Carlisle, Lemoyne, Mechanicsburg, New Cumberland, Newville, Shiremanstown, West Fairview, and Wormleysburg. Townships of Dickinson, East Pennsboro, Hampden, Lower Allen, Middlesex, Monroe, North Middleton, North Newton, Penn, Silver Spring, South Middleton, South Newton, Upper Allen, and West Pennsboro.

DAUPHIN COUNTY

City of Harrisburg. Boroughs of Berrysburg, Dauphin, Elizabethville, Gratz, Halifax, Highspire, Hummelstown, Lykens, Millersburg, Paxtang, Penbrook, Pillow, Steelton, and Williamstown. Townships of Derry, East Hanover, Halifax, Jackson, Jefferson, Lower Paxton, Lower Swatara, Lykens, Middle Paxton, Mifflin, Reed, Rush, South Hanover, Susquehanna, Swatara, Upper Paxton, Washington, Wayne, West Hanover, Wiconisco, and Williams.

JUNIATA COUNTY

Boroughs of Mifflin, Mifflintown, Port Royal, and Thompsontown. Townships of Delaware, Fayette, Fermanagh, Greenwood, Milford, Monroe, Susquehanna, Turbett, and Walker.

LACKAWANNA COUNTY

Cities of Carbondale and Scranton. Boroughs of Archbald, Blakely (part), Clarks Green, Clarks Summit, Dalton, Dickson City, Dunmore, Jermyn, Jessup, Mayfield, Moosic, Moscow, Old Forge, Olyphant (part), Taylor, Throop, and Vandling. Townships of Abington, Benton, Carbondale, Clifton, Covington, Elmhurst, Fell, Glenburn, Greenfield, Jefferson, La Plume, Lehigh, Madison, Newton, North Abington, Ransom, Roaring Brook, Scott, South Abington, Spring Brook, and West Abington.

LANCASTER COUNTY

City of Lancaster. Boroughs of Adamstown, (part), Akron, Christiana, Columbia, Denver, East Petersburg, Elizabethtown, Ephrata (part), Lititz, Manheim, Marietta, Millersville, Mount Joy, Mountville, New Holland, Quarryville, Strasburg, and Terre Hill. Townships of Bart, Brecknock, Caernarvon, Clay, Colerain, Conestoga, Conoy, Drumore, Earl, East Cocalico, East Donegal, East Drumore, East Earl, East Hempfield, East Lampeter, Eden, Elizabeth, Ephrata, Fulton, Lancaster, Leacock, Little Britain, Manheim, Manor, Martick, Mount Joy, Paradise, Penn, Pequea, Providence, Rapho, Sadsbury, Salisbury, Strasburg, Upper Leacock, Warwick, West Cocalico, West Donegal, West Earl, West Hempfield, and West Lampeter.

LEBANON COUNTY

Borough of Richland. Townships of Heidelberg and Millcreek.

LEHIGH COUNTY

Cities of Allentown and Bethlehem. Boroughs of Alburtis, Catasauqua, Coopersburg, Coplay, Emmaus, Fountain Hill, Macungie, and Slatington. Townships of Hanover, Heidelberg, Lower Macungie, Lower Milford, Lowhill, North Whitehall, Salisbury, South Whitehall, Upper Macungie, Upper Milford, Upper Saucon, Washington, and Whitehall.

LUZERNE COUNTY

Cities of Hazleton, Pittston, and Wilkes-Barre. Boroughs of Ashley, Avoca, Bear Creek Village, Conyngham, Dupont, Duryea, Exeter, Freeland, Hughestown, Jeddo, Laflin, Laurel Run, Nescopeck, Nuangola, Penn Lake Park, West Hazleton, West Pittston, White Haven, and Yatesville. Townships of Bear Creek, Black Creek, Buck, Butler, Dennison, Dorrance, Exeter, Fairview, Foster, Hanover, Hazle, Hollenbach, Jenkins, Nescopeck, Pittston, Plains, Rice, Salem, Slocum, Sugarloaf, Wilkes-Barre, and Wright.

PP&L, Inc.

TERRITORY COVERED BY THIS TARIFF (CONTINUED)

LYCOMING COUNTY

City of Williamsport.
 Boroughs of Duboistown, Hughesville, Jersey Shore, Montgomery, Montoursville, Muncy, Picture Rocks, Salladasburg, and South Williamsport.
 Townships of Anthony, Armstrong, Bastress, Brady, Clinton, Eldred, Fairfield, Franklin, Hepburn, Jordan, Limestone, Loyalsock, Lycoming, Mifflin, Mill Creek, Moreland, Muncy, Muncy Creek, Nippenose, Old Lycoming, Penn, Piatt, Porter, Shrewbury, Susquehanna, Upper Fairfield, Washington, Watson, Wolf, and Woodward.

MONROE COUNTY

Boroughs of East Stroudsburg (part), Mount Pocono, and Stroudsburg (part).
 Townships of Barrett, Chestnut Hill, Coolbaugh, Eldred, Jackson, Paradise, Pocono, Polk, Price, Smithfield, Stroud, Tobyhanna, and Tunkhannock.

MONTGOMERY COUNTY

Boroughs of East Greenville, Pennsburg, Red Hill, Souderton, and Telford.
 Townships of Franconia, Hatfield, and Upper Hanover.

MONTOUR COUNTY

Boroughs of Danville and Washingtonville.
 Townships of Anthony, Cooper, Derry, Liberty, Limestone, Mahoning, Mayberry, Valley and West Hemlock.

NORTHAMPTON COUNTY

City of Bethlehem.
 Boroughs of Freemansburg, Hellertown, Nazareth (part), North Catasauqua, Northampton, Pen Argyl (part), Stockerton, Tatamy, and Walnutport.
 Townships of Allen, Bethlehem, Bushkill, East Allen, Forks, Hanover, Lehigh, Lower Mount Bethel, Lower Nazareth, Lower Saucon, Moore, Palmer, Plainfield, Upper Nazareth, Washington, and Williams.

NORTHUMBERLAND COUNTY

Cities of Shamokin and Sunbury.
 Boroughs of Herndon, Kulpmont, Marion Heights, McEwensville, Milton, Mount Carmel, Northumberland, Riverside, Snydertown, and Turbotville.
 Townships of Coal, Delaware, East Cameron, East Chillisquaque, Jackson, Jordan, Lewis, Little Mahanoy, Lower Augusta, Lower Mahanoy, Mount Carmel, Point, Ralpho, Rockefeller, Rush, Shamokin, Turbot, Upper Augusta, Upper Mahanoy, Washington, West Cameron, West Chillisquaque, and Zerbe.

PERRY COUNTY

Boroughs of New Bloomfield, Landisburg, Liverpool, Marysville, Millerstown, New Buffalo, and Newport.
 Townships of Buffalo, Carroll, Centre, Greenwood, Howe, Juniata, Liverpool, Miller, Northeast Madison, Oliver, Penn, Rye, Saville, Southwest Madison, Spring, Tuscarora, Tyrone, Watts, and Wheatfield.

PIKE COUNTY

Townships of Blooming Grove, Greene, Lackawaxen, Palmyra, Porter, and Shohola.

SCHUYLKILL COUNTY

City of Pottsville.
 Boroughs of Ashland, Auburn, Coaldale, Cressona, Deer Lake, Frackville, Gilberton, Girardville, Gordon, Landingville, Mahanoy City, McAdoo, Mechanicsville, Middleport, Minersville, Mount Carbon, New Philadelphia, New Ringgold, Orwigsburg, Palo Alto, Pine Grove, Port Carbon, Port Clinton, Ringtown, Shenandoah, Tamaqua, Tower City, and Tremont.
 Townships of Barry, Blythe, Branch, Butler, Cass, Delano, East Brunswick, East Norwegian, East Union, Eldred, Foster, Frailey, Hegins, Hubley, Kline, Mahanoy, New Castle, North Manheim, North Union, Norwegian, Pine Grove, Porter, Reilly, Rush, Ryan, Schuylkill, South Manheim, Tremont, Union, Upper Mahantongo, Walker, Washington, Wayne, West Brunswick, West Mahanoy, and West Penn.

SNYDER COUNTY

Boroughs of Beavertown, Freeburg, McClure, Middleburg, Selinsgrove, and Shamokin Dam.
 Townships of Adams, Beaver, Centre, Chapman, Franklin, Jackson, Middlecreek, Monroe, Penn, Perry, Spring, Union, Washington, West Beaver, and West Perry.

PP&L, Inc.

TERRITORY COVERED BY THIS TARIFF (CONTINUED)

SUSQUEHANNA COUNTY

Boroughs of Forest City and Union Dale.
Townships of Clifford and Herrick.

UNION COUNTY

Boroughs of Hartleton and New Berlin.
Townships of Gregg, Hartley, Kelly, Lewis, Limestone,
Union, West Buffalo and White Deer.

WAYNE COUNTY

Boroughs of Bethany, Hawley, Honesdale, Prompton, and
Waymart.
Townships of Berlin, Canaan, Cherry Ridge, Clinton,
Damascus, Dreher, Dyberry, Lake, Lebanon, Lehigh,
Mount Pleasant, Oregon, Palmyra, Paupack, Salem,
South Canaan, Sterling, and Texas.

WYOMING COUNTY

Borough of Factoryville.
Townships of Clinton, Nicholson, Overfield, and
Tunkhannock.

YORK COUNTY

Boroughs of East Prospect and Wrightsville.
Townships of Fairview, Hellam and Lower Windsor.

- Q.2. Provide a description of the property of the utility and an explanation of the system's operation, and supply the following, using available projections if actual data is unavailable:
- a) Schedule of generating capability showing for the test year, and for the two consecutive 12-month periods prior to the test year, net dependable capacity in KW by unit, plant capacity factor by unit, and total fuel consumption by type and cost for each unit, if available, or for each station, and operation and maintenance expenses by station.
 - b) A schedule showing for the test year and for the 12-month period immediately prior to the test year the scheduled and unscheduled outages - in excess of 48 hours - for each station, the equipment or unit involved, the date the outage occurred, duration of the outage, maintenance expenses incurred for each outage, if available, and amounts reimbursable from suppliers or insurance companies.
 - c) A schedule for each unit retired during the test year or subsequent to the end of the test year, which shows the unit's KW capacity, hours of operation during the test year, net output generated, cents/KWH of maintenance and fuel expenses, and date of retirement.
 - d) A schedule showing latest projections of capacity additions and retirements - costs and KW - and reserve capacity at the time of peak for at least 10 years beyond the test year, including the inservice dates - actual or expected - and AFDC cutoff dates - if different from inservice dates - for all new generating units coming on line during or subsequent to the test year, if claimed.
- A.2. This filing requirement is not applicable to PPL Electric's current rate filing.

- Q.3. Provide an overall system map, including and labeling all generating plants, transmission substations - indicate voltage, transmission system lines - indicate voltage, and all interconnection points with other electric utilities, power pools, and other like systems.
- A.3. Attachment I-B-3 provides the overall electric map.

Q.1. Provide a schedule showing the test year rate base and rates of return at original cost less accrued depreciation under present rates and under proposed rates. Claims made on this schedule should be cross-referenced to appropriate supporting schedules.

A.1. Schedule C-1 of Exhibit Future 1 provides the requested information.

- Q.2. If the schedule provided in response to item 1, is based upon a future test year, provide a similar schedule which is based upon actual data for the 12-month period immediately prior to the test year.
- A.2. Schedule C-1 of Exhibit Historic 1 provides the requested information.

- Q.3. When a utility files a tariff stating a new rate based in whole or in part on the cost of construction, as defined in 66 Pa.C.S. § 1308(f) (relating to voluntary changes in rates), of an electric generating unit, the utility shall identify:
- a) The total cost of the generating unit.
 - b) The following specific costs:
 - (1) The cost and quantity of each category of major equipment, such as switchgear, pumps or diesel generators and the like.
 - (2) The cost and quantity of each category of bulk materials, such as concrete, cable and structural steel and the like.
 - (3) Manual labor.
 - (4) Direct and indirect costs of architect/engineering services.
 - (5) Direct and indirect costs of subcontracts or other contracts involving major components or systems such as turbines, generators, nuclear steam supply systems, major structures and the like.
 - (6) Distributed costs.
 - c) A cost increase of \$5 million or more, including AFUDC, over the original utility estimates provided under 66 Pa.C.S. § 515(a) (relating to construction cost of electric generating units) and its causes.
 - d) Compliance with subsections (a) and (b) will be identical in format and substance as that provided under 52 Pa. Code § 57.103 (relating to estimate of construction costs) for original cost estimates submitted under 66 Pa.C.S. § 515(a).
- A.3. This filing requirement is not applicable to PPL Electric's current rate filing.

- Q.1. If a claim is made for plant held for future use, supply the following:
- a) A description of the plant or land site and its cost and any accumulated depreciation.
 - b) The expected date of use for each item claimed.
 - c) An explanation as to why it is necessary to acquire each item in advance of its date of use.
 - d) The date when each item was acquired.
 - e) The date when each item was placed in plant held for future use.
- A.1.
- a) Attachment II-B-1 provides a description and the accumulated cost at December 31, 2006 by function. PPL Electric Utilities Corporation does not depreciate future use property.
 - b) Attachment II-B-1 provides the expected date of use for each claimed item.
 - c) PPL Electric's claim for plant or land held for future use is limited to distribution plant or land. PPL Electric acquires future use property in advance to accommodate the expected increase in load growth requirements and to allow construction projects to begin within the projected required construction period.
 - d) Attachment II-B-1 provides the date on which each item within the claim for future use plant was acquired.
 - e) Attachment II-B-1 provides the date that each item was placed in plant held for future use.

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Transmission Substations			
Site for Frackville Area 500-230 kv substation	\$ 126,552	1974	2015
Additional Site for Alburdis 500-230 kv substation	146,109	1987	2015
Rights of Way necessary for numerous existing transmission facilities on numerous property parcels associated with Theta Land Corp	373,348	2001	2007
Springfield 238/69 Sub Site Acq	9,649	2006	2011
Siting for Proposed N. Lancaster 500/230 KV Sub	32,754	2004	2011
Land in Vicinity Of Bossard's Corner, Northampton County	31,242	1968	2015
Millwood 230/69KV Sub-Design/Construct	(175,921)	2002	2007
Site for Berwick 230/69KV Substation	10,512	1983	2015
Site for Lock Haven Area 138/69KV substation	92,178	1973	2015
Land Situated in Borough of Archbald Adjacent to Peckville Substation, Lackawanna County	41,386	1960	2015
Siting for 69KV Morgantown Area	277,164	1960	2015
Land Associated with Former Frackville-Bern 500KV line	142,556	1972	2015
Retain Portion of Hauto property for 230/69KV substation	626	1975	2015
Sunbury 500KV sub site acquisition	2,409	2006	2013
E. Tansville 138/12KV Sub siting	1,519	2006	2012

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Site for Engleside Substation	28,148	1983	2015
Total Transmission Substations	<u>\$ 1,140,234</u>		
Transmission Lines			
Rights of Way and Engineering for the Sunbury-Hummelstown 230KV line, Northumberland and Dauphin Counties	\$ 141,759	1952	2015
Rights of Way and Engineering for Proposed Susquehanna-Frackville 500KV line	824,114	1970	2015
Rights of Way for Two Proposed Parallel 500KV line Get-A-Ways from Lackawanna Substation	405,464	1972	2015
Rights of Way for Lackawanna-Peckville 230KV line	191,656	1972	2015
Rights of Way for Proposed Stanton-Lackawanna 500KV line	503,192	1978	2015
Rights of Way for Conversion of Bushkill-Blooming Grove-Wallenpaupack 230KV line to 500KV Operation	194,228	1972	2015
Rights of Way for Frackville-Bossards 500 Kv Line	887,756	1972	2015
Rights of Way for Proposed Frackville-Hummelstown 500KV line	510,177	1968	2020
Rights of Way for Proposed Rebuilding Of The Frackville-Siegfried 230KV line for 500KV Operation	403,942	1975	2015
Rights of Way Between Frackville 500KV and 220KV switchyards	37,862	1974	2015
Rights of Way for Proposed Alburdis-Bossards 500 Kv Line	1,037,728	1969	2015

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Rights of Way for Proposed Bossards-Martins Creek 500 Kv Line	1,536,630	1969	2015
Rights of way for Proposed Steel City-Bossard 500KV line	1,368,536	1973	2015
Rights of Way for Proposed Steel City-Martins Creek 500 Kv Line	1,934,954	1973	2012
Rights of Way and Engineering for a Second 500KV line from Brunner Island to the Juniata-Peach Bottom 500KV line	157,652	1970	2015
Rights of Way and Engineering for the Proposed Conversion of Brunner Island-West Hempfield 230KV Line to 500KV Operation	589,318	1978	2015
Rights of Way and Engineering for Haldeman Is-Juniata 500KV line and Haldeman Is-North 500KV line	26,366	1964	2020
Rights of Way for Hummelstown-North Transmission Line	56,612	1969	2020
Rights of Way to tap the Juniata-Alburtis 500KV line to Dauphin Substation, Middle Paxton Township, Dauphin County	49,958	1974	2020
Rights of Way for Proposed Three Mile Island-Hummelstown 500KV line	355,903	1972	2020
Rights of Way for the Proposed Conversion of Manor-South Akron 230KV line to 500KV Operation	423,044	1978	2020
Additional Rights of Way to Install a 500KV line Parallel to the West Hempfield-Manor #2 230KV line	223,687	1968	2020
Additional Rights of Way to convert the West Hempfield-Manor #1 69KV line to 500KV Operation	7,070	1968	2020
Rights of Way for Future 500KV Operation of the Brunner Island-S. Akron 230KV line	16,218	1990	2015

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Sunbury-Milton Line North Star Steel Company 230KV Tap construction	209,445	1992	2007
Manor-Engleside #2 230KV line-Purchase Additional Right of Way for Future 500/230KV Operation	64,449	1994	2015
Rights of Way And Engineering for A 230Kv Circuit From The Manor-South Akron 230KV line to Engleside Substation	218,572	1970	2008
Copperstone 230/69-230KV line r/w	315	2005	2012
Cando/Adm 69KV tap siting	3,887	2006	2007
Copperstone 230/69-69KV line r/w & sub site acquisition	6,570	2005	2012
230KV line service to the Montour Scrubber Station	(4,877)	2005	2007
Rights of Way for rebuilding Dauphin-Hummelstown 230KV line	1,143	2004	2010
New 138/69 Ln WS-Whill Siting	725	2006	2013
Rights of Way for Lycoming-Kenmar 138KV line	8,333	1974	2010
Rights of Way for Proposed Milton-Muncy 69KV line	619,001	1972	2010
Rights of Way for 69Kv Line to the Turbotville Area 69/12KV Substation	66,675	1974	2010
Rights of Way for 69KV Line To the North Milton Area Substation	50,802	1974	2009
Rights of Way for 69Kv Line to the Millville Area 69/12KV Substation	246,728	1974	2015

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Rights of Way for Proposed 138Kv Line between Newfoundland and Lakeville 69/12KV Substations	473,933	1974	2010
Proposed South Akron-S. Reading 230KV line and S. Akron-S. Reading New 230KV Siting	89,590	2005	2008
Proposed S. Lebanon-Berks 230KV line and S. Lebanon-Berks Reb 230KV Siting	752,117	2005	2008
Proposed Berks-S. Akron #2 69 Rel-Siting	761,721	2005	2008
Proposed Carl & W. Carl-69/138KV Tie Siting	1,103	2005	2009
North Shamokin 138Kv Tap Siting and Right of Way	12,987	1991	2011
Rights of Way for Proposed Valmont-East Hazelton 69KV line	309,972	1972	2010
Rights of Way and Engineering for the Hunlock-Harwood 138KV tie	50,757	1970	2020
Rights of Way for Exchange-Danville, Sunbury-Danville Tie	4,670	1960	2012
Rights of Way for Second 69Kv line to the Lake Harmony Area 69/12KV substation	125,014	1969	2010
Rights of Way for the Allentown-Salisbury 138KV line	33,600	1988	2015
Rights of Way and Engineering for a Second Freemansburg-Holland Junction 110KV line	9,293	1944	2015
Siting & Right of Way for Proposed W. Shore-Hbg. 138/69KV line replacement	608,992	1996	2016

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Rights of Way for a 69KV tie between Siegfried-Sumner 69KV tap to the vicinity of Jordan Creek (Lehigh Valley Mall Taps)	117,549	1977	2015
Rights of Way for Proposed Seidersville-Richland 69KV line	103,240	1972	2012
Richland 69KV line	1,523,062	1991	2012
Rights of Way for Hosensack-Richland 138KV line	1,371	1975	2015
Rights of Way for Bellaire 69KV Connecting lines to Bellaire	60,934	1969	2010
Rights of Way for Proposed 138 Kv Line between Carlisle and West Carlisle Substations	422,567	1974	2010
Rights of Way for Proposed 69 Kv Tie Line between Mt. Rock and Newville Area 69/12KV substations	271,534	1975	2012
Rights of Way for The West Shore-White Hill 69 Kv Lines	152,653	1974	2010
Rights of Way for A Double Circuit Single Wood Pole line between Dauphin Substation and Rockville 66KV tap	32,549	1974	2010
Siting for Proposed 138/69KV supply line to proposed Litz/Neffsville area sub	20,230	2001	2009
Siting and Rights of Way for Proposed Sunbury-Frackville #1 69KV line and Mt. Carmel 69KV Tap rebuild section to 138KV	270,532	1993	2015
Rights of Way for 69KV line from the Dauphin-Capital Park #1 69KV line to Penbrook Area 69/12KV substation	190,163	1974	2010
Face Rock-Windsor #11 & #12 69KV line	216,459	1991	2015

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Right of Way for Connecting lines to the West Willow 500/230KV substation	61,291	1975	2015
Rights of Way for the Engleside-Kinzer 138KV line	7,475	1983	2015
Rights of Way for Conversion of Face Rock-Engleside #2 69KV line to 138KV	3,971	1986	2015
Rights of Way for Double Circuit 138/69KV line parallel to a portion of the South Akron-Morgantown #1 69KV line	35,649	1976	2015
Rights of Way for East Prospect-Letort 138KV line	23,624	1983	2015
Derry-Millville 138/69KV line-Stg. & R/W	22,305	1995	2010
Install fiber optic cable on Millwood 230KV line	6,215	2005	2007
Rights of Way for Proposed Steel City-Martins Creek 500KV line	12,879	2004	2007
Siting and Right of Way for Proposed Face Rock-Engleside 69KV line	6,479	2005	2007
Siting for Proposed Peckville-Jackson 69KV line	3,294	2004	2009
Total Transmission Lines	<u>\$ 20,175,365</u>		

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Distribution Plant - Area - Substations Site for Eagle Area 69/12KV substation	\$ 30,635	1977	2010
Site for Turbotville Area 69/12KV Substation, Lewis Twp., Northumberland County	17,196	1974	2015
Site for North Milton Area 69/12KV Substation	16,054	1974	2015
Site for Tobyhanna Area 69/12KV Substation	211	1955	2015
Site for Proposed Butler 69/12KV Substation	313,646	1996	2010
Site for Tulphehocken Substation	124,150	1996	2015
Site for Tanglewood Area 69-12KV Substation	50,147	1974	2015
Site for Henryville Area	25,553	1974	2015
Site for Central Wilkes-Barre Area 69/12KV Substation	49,927	1980	2015
Site for Forest Inn Area 69/12KV Substation	3,883	1983	2015
Site for Ringtown Area 69/12KV Substation	26,204	1976	2015
North Shamokin 69/12KV Substation Site Acquisition	3,697	1992	2011
Site for Chapman Area 69/12KV Substation, Lehigh County	7,429	1968	2015
Site for Fountain Hill Area 69/12KV Type "AA" Substation, Salisbury Twp., Lehigh County	12,894	1971	2015
Site for Elliott Heights Area 138/12KV Substation	29,518	1986	2015

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Site for Bellaire Area 69/12KV Substation, North Middleton Twp., Cumberland County	26,403	1971	2010
Site for Shermansdale Area 69/12KV Substation	20,129	1974	2009
Proposed Jefferson New 69/12KV Sub Siting	32,456	2004	2009
Longview Sub Site Acquisition	256,745	2006	2008
EPRO Sub and 12KV line siting	3,867	2006	2011
Site for Bethlehem Commerce Center 69/12KV Substation	39,599	2003	2008
Site for Penbrook Area 69/12KV Substation	28,685	1974	2015
Site for Christiana Area 69/12KV Substation	15,036	1973	2015
Dem.Rem. Trolley Barn Prince Substation.	94,010	1998	2015
Purchase Land for expansion of Prince 69/12KV Substation	310,304	1984	2015
Site for Allenwood Substation	99,133	2000	2015
Site for Stabler Park 69/12KV Substation	74,491	1994	2008
Total Distribution Plant - Area - Substations	<u>\$ 1,712,000</u>		

PPL ELECTRIC UTILITIES CORPORATION

As of December 31, 2006
Future Use Property

<u>DESCRIPTION</u>	<u>TOTAL AMOUNT</u>	<u>ORIGINAL DATE</u>	<u>EXPECTED UTILIZATION DATE</u>
Distribution Plant - Area - Lines			
Rights of Way for Nippenose 12KV Tap	\$ 30,075	1981	2010
Tie Stan-Prov2 Subu Prov1 Acquisition	1,684	2006	2011
Stan-Broo Extnd 138KV DC	1,884	2006	2011
Total Distribution Plant - Area - Lines	<u>\$ 33,643</u>		
Other Distribution			
Installation of manholes and conduit to provide supply to and from Central Wilkes-Barre Sub. For Electric Distribution System	\$ 262,366	1977	2015
Installation of conduit on Bridge Over Spring Creek, Harrisburg, Dauphin County	3,972	1977	2015
Total Other Distribution	<u>\$ 266,338</u>		
Total Future Use Property	<u>\$ 23,327,579</u>		

- Q.2. If a claim is made for construction work in progress, provide a supporting schedule which sets forth separately, revenue-producing and nonrevenue producing amounts, and include, for each category a summary of all work orders, amounts expended at the end of the test year and anticipated inservice dates. Indicate if the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion dates and estimated total amounts to be spent on each project.
- A.2. PPL Electric is not making a claim for construction work in progress in the future test year.

- Q.3. If a claim is made for materials and supplies or fuel inventory provide a supporting schedule for each claim showing the latest actual 13 monthly balances and showing in the case of fuel inventory claims, the type of fuel, and location, as in station, and the quantity and price claimed.
- A.3. The requested information for materials and supplies is provided in Schedule C-5 of Exhibits Historic 1 and Future 1. There is no claim being made for fuel inventory.

- Q.4. If a claim is made for cash working capital provide a supporting schedule setting forth the method and all detailed data utilized to determine the cash working capital requirement. If not provided in the support data provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing.
- A.4. Attachment II-B-4 provides a copy of the working capital lead-lag study. Schedule C-4 of Exhibits Historic 1 and Future 1 sets forth the method and detailed data utilized to determine the Company's claimed cash working capital requirements.

PPL ELECTRIC UTILITIES CORPORATION
Lag in Days in Payment of Operating Expenses
3 Months Ended September 30, 2006

	<u>Lag in Days</u>
<u>Payroll</u> Lag between the midpoint of the 14 day payroll period and pay day (payroll period ends on a Sunday and employees are paid on the following Friday).	12
<u>Benefits</u> Lag between the midpoint of the calendar month when services are provided through PPL Services Corporation and the payment on the 20th of the following month.	35
<u>Affiliate Support Costs</u> Lag between the midpoint of the calendar month when services are provided and the payment on the 20th of the following month.	35
<u>Other Operating Expenses</u> Lag between the receipt of services and materials and payment of invoices based on a review of selected invoices.	40

PPL Electric Utilities Corporation
Lag in Payment of Payroll & Benefits
3 Months Ended September 30, 2006

Payroll

	<u>Number of Days</u>
Midpoint of 14 day payroll period	7
Lag between the end of the payroll period and the pay day (payroll period ends on a Sunday and employees are paid on the following Friday)	<u>5</u>
	<u><u>12</u></u>

Benefits

	<u>Number of Days</u>
Lag between the midpoint of the calendar month when services are provided through PPL Services Corporation and the payment on the 20th of the following month	35

Affiliate Support Costs

	<u>Number of Days</u>
Lag between the midpoint of the calendar month when services are provided and the payment on the 20th of the following month	35

PPL Electric Utilities Corporation
Lag in Payment of Other Expenses
3 Months Ended September 30, 2006

Category	Amount	Days Lag	Weighted Amount
Employee Expenses*	\$ 562,871	12.00	\$ 6,754,452
Materials & Supplies	488,233	32.60	15,916,396
Printing & Office Supplies	161,382	35.96	5,803,297
Tree Trimming	7,282,572	45.02	327,861,391
Work by Outsiders	7,581,220	67.26	509,912,857
Services	1,537,331	20.91	32,145,591
Postage	1,319,124	(7.01)	(9,247,059)
Telephone & Leased Wires	908,779	35.12	31,916,318
Rents	3,438,660	17.74	61,001,828
Advertising	66,462	36.93	2,454,442
Miscellaneous	1,554,308	10.00	15,543,080
Total	<u>\$ 24,900,942</u>		<u>\$ 1,000,062,594</u>

Weighted Average Lag = Total Weighted Amount / Total Amount = 40.16

* The majority of employee expenses are processed on a pay period basis, accordingly, the 12-day payroll lag is deemed to be representative.

**PPL Electric Utilities Corporation
Lag in Payment of Materials - BI 25
3 Months Ended September 30, 2006**

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
NOVA ELECTRIC	02407015	014183	6/30/2006	7/31/2006	\$15,135.00	31	\$469,185
RFL ELECTRONICS INC	02402522	92499	6/29/2006	7/31/2006	13,690.00	32	438,080
TMC Industries Inc	02408720	061153 1RA	7/12/2006	8/11/2006	12,937.50	30	388,125
PENNSY SUPPLY INC	02382268	1511781	5/20/2006	7/17/2006	2,270.52	58	131,690
WESTGATE GLOBAL LOGISTICS	02396952	266607	6/22/2006	7/13/2006	1,050.00	21	22,050
SIGNALCRAFTERS TECH INC	02431449	3334	8/15/2006	9/14/2006	26,800.00	30	804,000
SIGNALCRAFTERS TECH INC	02432314	3324	7/20/2006	8/24/2006	26,800.00	35	938,000
GE Parts Super Center	02427683	884 165399	8/8/2006	9/7/2006	24,890.73	30	746,722
G&W ELECTRIC CO	02433901	G93607	8/18/2006	9/18/2006	12,360.00	31	383,160
DENT INSTRUMENTS	02395156	56585	6/14/2006	8/2/2006	8,388.00	49	411,012
WESTGATE GLOBAL LOGISTICS	02434371	267156	8/21/2006	9/5/2006	2,750.00	15	41,250
TRENWA INC	02420553	20184	7/31/2006	8/30/2006	2,000.00	30	60,000
GEORGE S COYNE CHEMICAL CO INC	02415660	700397	7/18/2006	8/17/2006	1,509.00	30	45,270
PENNSYLVANIA TRANSFORMER	02432137	21073	8/18/2006	9/25/2006	5,500.00	38	209,000
MESA TECHNICAL ASSOCIATES INC	02438314	1889	8/29/2006	9/28/2006	3,389.00	30	101,670
A TO S METALS INC	02451007	11812	8/18/2006	9/27/2006	1,251.00	40	50,040
					<u>\$160,721</u>		<u>\$5,239,254</u>

Weighted Average Lag (A x B) / A

32.60 days

PPL Electric Utilities Corporation
Lag in Payment of Printing and Office Supplies - BI 26
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice or Reference Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
Credit Card Purchase		0000254574	6/17/2006	7/29/2006	\$2,415.79	42	\$101,463
GRAYBAR ELECTRIC CO INC	02403100	918598037	6/29/2006	7/31/2006	1,975.63	32	63,220
Credit Card Purchase		0000252107	5/31/2006	7/18/2006	497.36	48	23,873
Credit Card Purchase		0000252107	5/31/2006	7/18/2006	432.21	48	20,746
Credit Card Purchase		0000255463	7/18/2006	8/8/2006	1,773.00	21	37,233
ALPHAGRAPHS	02410304	39159	7/13/2006	9/13/2006	450.00	62	27,900
Credit Card Purchase		0000256799	6/22/2006	8/23/2006	2,415.79	62	149,779
Credit Card Purchase		0000256774	7/17/2006	8/17/2006	1,424.51	31	44,160
Credit Card Purchase		0000257867	7/18/2006	8/29/2006	557.76	42	23,426
Credit Card Purchase		0000257646	8/9/2006	8/25/2006	1,259.42	16	20,151
Credit Card Purchase		0000260621	9/12/2006	9/26/2006	1,315.18	14	18,413
EDS Corporation	02432226	U2045563	8/15/2006	9/25/2006	840.02	41	34,441
Credit Card Purchase		0000261563	9/14/2006	9/30/2006	630.45	16	10,087
					<u>\$15,987</u>		<u>\$574,892</u>

Weighted Average Lag (A x B) / A

35.96 days

PPL Electric Utilities Corporation
Lag in Payment of Tree Trimming - BI 31
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
ASPLUNDH TREE EXPERT CO	02408597	175702	7/5/2006	8/14/2006	\$12,510.00	40	\$500,400
ASPLUNDH TREE EXPERT CO	02408522	175705	7/5/2006	8/14/2006	108,272.91	40	4,330,916
JAFLO INC	02419774	000931	6/21/2006	8/21/2006	46,000.50	61	2,806,031
JAFLO INC	02419774	000931	6/21/2006	8/21/2006	22,878.75	61	1,395,604
ASPLUNDH TREE EXPERT CO	02431283	27E052	8/9/2006	9/20/2006	10,135.18	42	425,678
JAFLO INC	02419774	000931	7/21/2006	8/21/2006	8,915.50	31	276,381
JAFLO INC	02420237	000934	7/5/2006	8/28/2006	5,883.62	54	317,715
ASPLUNDH TREE EXPERT CO	02431307	23E055	8/9/2006	9/20/2006	272,639.00	42	11,450,838
ASPLUNDH TREE EXPERT CO	02446817	195033	8/30/2006	10/10/2006	153,372.00	41	6,288,252
PNC Bank NA	02446427	31E056	7/29/2006	9/25/2006	83,228.12	58	4,827,231
JAFLO INC	02450680	000940	8/16/2006	10/6/2006	34,106.86	51	1,739,450
ASPLUNDH TREE EXPERT CO	02431313	195037	8/9/2006	9/20/2006	26,015.00	42	1,092,630
ASPLUNDH TREE EXPERT CO	02431314	29E056	8/9/2006	9/20/2006	18,951.48	42	795,962
ASPLUNDH TREE EXPERT CO	02431299	29E055	8/9/2006	9/20/2006	14,760.00	42	619,920
ASPLUNDH TREE EXPERT CO	02431327	27E056	8/9/2006	9/20/2006	7,973.88	42	334,903
ASPLUNDH TREE EXPERT CO	02431313	195037	8/9/2006	9/20/2006	6,743.00	42	283,206
ASPLUNDH TREE EXPERT CO	02431314	29E056	8/9/2006	9/20/2006	4,755.70	42	199,739
					<u>\$837,142</u>		<u>\$37,684,856</u>

Weighted Average Lag (A x B) / A

45.02 days

PPL Electric Utilities Corporation
Lag in Payment of Work By Outsiders - BI 32
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
UTILITIES INTERNATIONAL INC	02404750	PPLEUCBS2603	3/15/2006	7/13/2006	\$30,683.80	120	\$3,682,056
East Coast Drilling and Trenching LLC	02398583	062206PPL31	6/22/2006	7/24/2006	24,999.00	32	799,968
HENKELS & MCCOY INC	02391791	PPLA06 I1168	6/6/2006	7/7/2006	23,121.50	31	716,767
THE TREHAB CENTER	02412633	60106	6/15/2006	7/31/2006	20,097.00	46	924,462
HENKELS & MCCOY INC	02379235	PPLA06 I1120	5/16/2006	7/13/2006	17,268.01	58	1,001,545
DUGGAN & MARCON INC	02406727	6161AA	7/11/2006	8/10/2006	16,500.00	30	495,000
Osmose Utilities Services Inc	02355012	72 6300061	4/12/2006	7/26/2006	15,219.37	105	1,598,034
KT Power Inc	02407492	11485	5/18/2006	7/27/2006	12,482.74	70	873,792
HENKELS & MCCOY INC	02425895	PPLA06 I1341	7/26/2006	9/1/2006	25,729.38	37	951,987
WASTE MANAGEMENT OF PA, INC.	02428609	82530	7/5/2006	9/11/2006	13,594.11	68	924,399
AGROTORS INC	02429653	20062001 27	8/4/2006	9/11/2006	13,500.00	38	513,000
EVERHART & HOOVER POWER LINE	02425123	080706 3	7/29/2006	9/6/2006	11,648.71	39	454,300
LINEAL INDUSTRIES INC	02422657	248859	7/21/2006	9/1/2006	10,406.00	42	437,052
MILLER BROS	02331532	602 003	3/8/2006	9/14/2006	68,691.00	190	13,051,290
HENKELS & MCCOY INC	02448612	PPLA06 I1451	9/6/2006	10/6/2006	47,304.25	30	1,419,128
PAVEMASTERS	02446433	081506	8/15/2006	10/4/2006	35,793.00	50	1,789,650
AGROTORS INC	02449617	20062001 34	9/13/2006	10/16/2006	28,350.00	33	935,550
THE TREHAB CENTER	02439242	80106	8/15/2006	10/2/2006	21,791.00	48	1,045,968
AGROTORS INC	02433924	20062001 29	8/16/2006	9/20/2006	21,600.00	35	756,000
HENKELS & MCCOY INC	02448751	PPLA06 I1449	9/6/2006	10/6/2006	18,822.24	30	564,667
HENKELS & MCCOY INC	02449587	PPLA06 I1461	9/6/2006	10/6/2006	11,241.83	30	337,255
D L FRY INC.	02439841	I200658	9/1/2006	10/2/2006	10,779.36	31	334,160
					<u>\$499,622</u>		<u>\$33,606,029</u>

Weighted Average Lag (A x B) / A

67.26 days

PPL Electric Utilities Corporation
Lag in Payment of Services - BI 33
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
Accenture	02415632	1000086984	8/15/06	7/31/06	\$335,507.63	(15)	(\$5,032,614)
EPRI	02401544	EP00290751	8/15/06	7/31/06	26,447.00	(15)	(396,705)
DAVIES CONSULTING INC	02407259	06 698	4/15/06	7/31/06	18,332.12	107	1,961,537
ICR	02405483	008859	8/15/06	8/4/06	11,472.50	(11)	(126,198)
EXECUTIVE RELOCATION CORPORATION	02404190	6450 0946 06	5/15/06	7/14/06	5,357.76	60	321,466
DAVIES CONSULTING INC	02429905	06 707	7/1/06	8/30/06	27,901.72	60	1,674,103
PENNSYLVANIA ONE CALL SYSTEM INC	02421690	0000224455	7/31/06	8/30/06	3,115.80	30	93,474
Accenture	02448503	1000094209	7/1/06	9/26/06	150,000.00	87	13,050,000
Accenture	02450239	1000095484	9/1/06	9/26/06	117,250.00	25	2,931,250
J D Power and Associates	02438192	49390	8/22/06	9/21/06	74,200.00	30	2,226,000
Accenture	02450239	1000095484	9/1/06	9/26/06	57,750.00	25	1,443,750
SIEMENS POWER TRANSMISSION & DIST INC	02447028	50018350	9/1/06	10/2/06	57,650.00	31	1,787,150
J D Power and Associates	02430876	49134	7/31/06	9/14/06	47,700.00	45	2,146,500
EXECUTIVE RELOCATION CORPORATION	02420296	6450 0953 06	6/15/06	9/5/06	31,685.46	82	2,598,208
Electrocon International Inc	02438362	5863	3/1/07	9/25/06	12,637.32	(157)	(1,984,059)
General Electric International Inc	02449903	PSLF 0044 07	6/30/07	10/2/06	8,400.00	(271)	(2,276,400)
EXECUTIVE RELOCATION CORPORATION	02420296	6450 0953 06	6/15/06	9/5/06	2,755.01	82	225,911
PENNSYLVANIA ONE CALL SYSTEM INC	02441107	0000226360	8/31/06	10/2/2006	1,972.80	32	63,130
					\$990,135		\$20,706,502

Weighted Average Lag (A x B) / A

20.91 days

**PPL Electric Utilities Corporation
Lag in Payment of Postage - BI 34
3 Months Ended September 30, 2006**

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
DST OUTPUT *	02311990	PROCESS POSTAGE BILL	17-Jul-06	10-Jul-06	\$209,000.00	(7)	(\$1,463,000)
DST OUTPUT *	02312092	PROCESS POSTAGE BILL	1-Aug-06	25-Jul-06	209,000.00	(7)	(1,463,000)
DST OUTPUT *	02311991	PROCESS POSTAGE BILL	17-Aug-06	10-Aug-06	209,000.00	(7)	(1,463,000)
DST OUTPUT *	02312093	PROCESS POSTAGE BILL	1-Sep-06	25-Aug-06	209,000.00	(7)	(1,463,000)
DST OUTPUT *	02311992	PROCESS POSTAGE BILL	17-Sep-06	8-Sep-06	209,000.00	(9)	(1,881,000)
DST OUTPUT *	02312094	PROCESS POSTAGE BILL	2-Oct-06	25-Sep-06	209,000.00	(7)	(1,463,000)
UNITED STATES POSTAL SERVICE	02455349	35653955 POSTAGE SEP	15-Sep-06	2-Oct-06	12,000.00	17	204,000
DIRECT MAIL SERVICE & PRESS INC	02410614	AUGPOSTAGE	15-Aug-06	1-Sep-06	5,000.00	17	85,000

* Prepayments for postage

	\$1,271,000	(\$8,907,000)
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Weighted Average Lag (A x B) / A

(7.01) days

PPL Electric Utilities Corporation
 Lag in Payment of Phones & Wires - BI 35
 3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
VERIZON	02406892	71949560	6/15/06	7/14/06	\$34,450.21	29	\$999,056
VERIZON	02406892	71949560	6/15/06	7/14/06	15,071.97	29	437,087
GRAYBAR ELECTRIC CO INC	02403112	918582413	6/28/06	7/28/06	7,081.36	30	212,441
VERIZON	02408070	717193346599910Y	7/1/06	7/19/06	2,522.62	18	45,407
CINGULAR WIRELESS	02377747	2077164	4/21/06	7/5/06	2,079.13	75	155,935
VERIZON WIRELESS	02419451	52806000366	5/28/06	8/3/06	59,458.25	67	3,983,703
VERIZON WIRELESS	02419454	72806000366	7/28/06	8/4/06	50,884.49	7	356,191
VERIZON	02411589	215 190 6820 999 24 Y	7/1/06	8/16/06	47,550.00	46	2,187,300
MCI	02417792	07656622	7/10/06	8/2/06	37,019.67	23	851,452
VERIZON	02411589	215 190 6820 999 24 Y	7/1/06	8/16/06	30,120.00	46	1,385,520
VERIZON	02410964	215197856599902Y	7/1/06	8/8/06	21,622.15	38	821,642
VERIZON	02425404	215197856599902Y	8/1/06	8/24/06	21,616.67	23	497,183
MCI	02417792	07656622	7/10/06	8/12/06	16,196.10	33	534,471
EMBARQ	02416716	7171271000958	7/25/06	8/8/06	3,908.15	14	54,714
SCHUYLKILL MOBILE FONE INC	02421916	31757571	8/1/06	8/10/06	3,180.00	9	28,620
VERIZON	02427455	215190682099924Y	8/1/06	9/8/06	47,550.00	38	1,806,900
MCI	02438113	08297701	8/10/06	9/7/06	37,701.21	28	1,055,634
VERIZON	02427455	215190682099924Y	8/1/06	9/8/06	30,120.00	38	1,144,560
MCI	02438113	08297701	8/10/06	9/7/06	16,494.28	28	461,840
					<u>\$484,626</u>		<u>\$17,019,657</u>

Weighted Average Lag (A x B) / A

35.12 days

PPL Electric Utilities Corporation
Lag in Payment of Rents - BI 36
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
JEDDO-HIGHLAND COAL CO	02019535	LAND RENTS R/W-3	1/1/2007	7/3/2006	\$1,471.00	(182)	(\$267,722)
Freya Land Company	00404300	ATTACH R/W-9	1/1/2007	7/1/2006	897.00	(184)	(165,048)
MET-ED	02414311	90144632	8/15/2006	7/27/2006	806.00	(19)	(15,314)
HV DIAGNOSTICS		Monthly Lease JE 322	7/15/2006	8/1/2006	2,609.66	17	44,364
DOBLE ENGINEERING		Monthly Lease JE 322	7/15/2006	8/1/2006	1,400.53	17	23,809
DILO CO.		Monthly Lease JE 322	7/15/2006	8/1/2006	1,235.74	17	21,008
IPC INFORMATIONAL SYSTEM		Monthly Lease JE 322	7/15/2006	7/31/2006	1,164.38	16	18,630
IPC INFORMATION SYSTEMS		Monthly Lease JE 322	7/15/2006	7/31/2006	4,540.27	16	72,644
HV TECHNOLOGIES		Monthly Lease JE 322	7/15/2006	7/31/2006	2,082.54	16	33,321
DOBLE EQUIPMENT		Monthly Lease JE 322	7/15/2006	8/1/2006	1,495.30	17	25,420
CLEVELAND BROS.		Monthly Lease JE 322	7/15/2006	8/1/2006	1,411.90	17	24,002
CENTRAL PENN DIRECTIONAL DRILLING INC	02415641	865	7/19/2006	8/18/2006	5,778.00	30	173,340
D L FRY INC.	02416049	I 200653	7/25/2006	9/1/2006	1,372.28	38	52,147
D L FRY INC.	02413137	I 200650	7/19/2006	8/25/2006	7,847.00	37	290,339
DILO CO.		Monthly Lease JE 322	8/15/2006	9/1/2006	1,622.76	17	27,587
IPC INFORMATION SYSTEMS		Monthly Lease JE 322	8/15/2006	8/31/2006	4,531.84	16	72,509
HV TECHNOLOGIES		Monthly Lease JE 322	8/15/2006	8/31/2006	2,086.47	16	33,384
DOBLE EQUIPMENT		Monthly Lease JE 322	8/15/2006	9/1/2006	1,491.52	17	25,356
CLEVELAND BROS.		Monthly Lease JE 322	8/15/2006	9/1/2006	1,407.62	17	23,930
CITY OF HARRISBURG	02447582	06080008	8/1/2006	9/21/2006	3,969.00	51	202,419
CLEVELAND BROTHERS EQUIP CO INC	02450711	R5631904	9/12/2006	10/2/2006	3,705.00	20	74,100
United Rentals Inc.	02438466	58669902 001	8/17/2006	9/18/2006	2,508.24	32	80,264
HERTZ EQUIPMENT RENTAL	02448341	20941925 005	8/24/2006	10/10/2006	1,908.00	47	89,676
HERTZ EQUIPMENT RENTAL	02421834	8708541 017	7/15/2006	8/29/2006	1,200.00	45	54,000
AAT COMMUNICATIONS SYSTEMS CORPORATION	02445269	665836	8/22/2006	9/20/2006	2,146.44	29	62,247
					\$60,688		\$1,076,411

Weighted Average Lag (A x B) / A

17.74 days

PPL Electric Utilities Corporation
Lag in Payment of Advertising Expenses - BI 37
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
PENN'S NORTHEAST	02413473	071306	7/13/2006	7/26/2006	\$8,250.00	13	\$107,250
THE SCRANTON PLAN	02401496	JUNE 7 2006	6/7/2006	7/19/2006	5,000.00	42	210,000
PENNSYLVANIA ONE CALL SYSTEM INC	02415700	0000215811	4/27/2006	7/28/2006	2,855.80	92	262,734
Focus Central Pennsylvania	02413729	5579 084	7/14/2006	7/26/2006	2,343.00	12	28,116
HAZLETON STANDARD-SPEAKER INC	02413695	10070577	6/30/2006	7/31/2006	1,548.00	31	47,988
CHAMBER OF COMMERCE	02407204	QL07 31	7/3/2006	7/18/2006	1,400.00	15	21,000
Greater Hazleton Chamber of Commerce	02416338	632	7/20/2006	8/21/2006	975.00	32	31,200
Precision Design	02435877	2	8/16/2006	9/15/2006	2,100.00	30	63,000
VERIZON	02410568	0045716338	11/26/2005	9/1/2006	540.00	279	150,660
THE LAMAR COMPANIES	02454442	9740718	8/25/2006	10/2/2006	6,250.00	38	237,500
THE DUBBS CO	02442105	181758	8/9/2006	9/13/2006	2,520.09	35	88,203
					<u>\$33,782</u>		<u>\$1,247,651</u>

Weighted Average Lag (A x B) / A

36.93 days

PPL Electric Utilities Corporation
Lag in Payment of Miscellaneous Expenses - BI 49
3 Months Ended September 30, 2006

Vendor Name	Voucher Number	Invoice / Reference Number	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) x (B) Weighted Amount
ENCOMPASS INSURANCE	02411159	57580 23009 NEBHUT	04/24/06	07/21/06	\$4,791.70	88	\$421,670
POCONO RABBIT FARM	02411147	78165 14009	07/13/06	07/24/06	4,750.00	11	52,250
LIBERTY MUTUAL	02401611	005972083 01	06/21/06	07/06/06	3,906.34	15	58,595
ALLEN C HENCH	02402441	PD HAR 06 019	06/15/06	07/07/06	2,730.08	22	60,062
ROBERT R PALMER	02407521	PD HAR 06 026	05/23/06	07/18/06	2,728.10	56	152,774
MERCHANTS MUTUAL INSURANCE CO	02415671	H 0016793 01	02/07/06	07/28/06	2,676.13	171	457,618
CAN DO INC	02404681	7	06/23/06	07/13/06	2,500.00	20	50,000
CAN DO INC	02413501	8	07/12/06	07/26/06	2,500.00	14	35,000
COMMONWEALTH OF PENNSYLVANIA	02397462	080187	06/04/06	07/14/06	1,782.00	40	71,280
PJM Bill		JEF2981850	08/15/06	09/20/06	25,177.99	36	906,408
COMMONWEALTH OF PA	02433340	18 06 1 138	07/07/06	08/28/06	24,880.25	52	1,293,773
LORI PEARSON	02428951	91096 88001	08/08/06	08/21/06	4,292.00	13	55,796
ANGEL RIEPHOFF	02422862	89661 26150	07/25/06	08/10/06	3,889.11	16	62,226
BKK COMMUNICATIONS INC	02421920	6043	07/06/06	08/10/06	2,188.37	35	76,593
GLENN G HOLZMANN	02428948	37233 48000	08/10/06	08/21/06	2,166.67	11	23,833
RELIABILITY FIRST CORPORATION	02447158	0000260	11/15/06	10/02/06	71,069.14	(44)	(3,127,042)
PJM Bill		JEF2987390	09/15/06	10/20/06	47,867.50	35	1,675,363
RAYMOND PASSANTE	02448145	32545 19486	08/24/06	09/22/06	5,302.87	29	153,783
PREMIERE SPEAKERS BUREAU INC	02439908	12049	12/08/06	09/08/06	3,250.00	(91)	(295,750)
DALE ROTH	02454684	692 9002 028	09/25/06	09/29/06	3,200.00	4	12,800
WESTFIELD INSURANCE	02448148	NR HOP 1429874 122405 A	09/06/06	09/21/06	2,475.00	15	37,125
PAUL PANZERA	02442248	2006 016	08/31/06	09/13/06	2,455.83	13	31,926
					<u>\$226,579</u>		<u>\$2,266,081</u>

Weighted Average Lag (A x B) / A

10.00 days

- Q.5. If a claim is made for compensating bank balances, provide the following information:
- a) Name and address of each bank.
 - b) Types of accounts with each bank—checking, savings, escrow, other services, and the like.
 - c) Average daily balance in each account.
 - d) Amount and percentage requirements for compensating bank balance at each bank.
 - e) Average daily compensating bank balance at each bank.
 - f) Documents from each bank explaining compensating bank balance requirements.
 - g) Interest earned on each type of account.
 - h) A calculation showing the average daily float for each bank.
- A.5. PPL Electric has no requirements for compensating bank balances with its banks and has not made a claim for this item.

- Q.6. Explain in detail by statement or exhibit the appropriateness of additional claims or the use of a method not previously mentioned, in the claimed rate base.
- A.6. An explanation of PPL Electric's claim for any additional rate base items is set forth in Section C of Exhibit Future 1.

- Q.1. Prepare a Statement of Income including:
- a) The book, or budgeted, statement for the test year.
 - b) Adjustments to annualize and normalize under present rates, including an elimination of the effects on income of the energy cost rate and state tax adjustment surcharge.
 - c) The income statement under present rates after adjustment.
 - d) The adjustment for the revenue requested.
 - e) The income statement under requested rates after adjustment.

Each adjustment, including those relating to adjustment clauses, shall contain an explanation in sufficient clarifying detail to allow a reasonably informed person to understand the method and rationale of the adjustment.

- A.1. The information requested in items a. through e. is set forth in Section D of Exhibit Future 1.

- Q.2. If the schedule provided in item 1 is based upon budgeted data for a future test year, provide a similar schedule which is based upon actual data for the 12-month period immediately prior to the test year.
- A.2. The information requested is set forth in Section D of Exhibit Historic 1.

- Q.1. Provide a schedule showing all revenues and expenses for the test year and for the 12-month period immediately prior to the test year, together with an explanation for major variances between test year revenues and expenses and those for the previous 12-month period. Revenues and expenses shall be summarized by the major account categories listed below. If budgeted data for a future test year is not readily available by these categories, an analysis of the data for the 12-month period immediately prior to the future test year or for the most recent available calendar year may serve as the basis for ratably allocating the budgeted data into the account categories.
- A.1. Attachment II-D-1a provides the requested schedule of revenues and expenses by account categories. Attachment II-D-1b provides explanations for major variances.

PPL ELECTRIC UTILITIES CORPORATION
Operating Statements
For the Twelve Months Ended December 31
(Thousands of Dollars)

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	
<u>OPERATING REVENUES</u>				
400				
Electric Revenue:				
Residential	\$ 1,203,629	\$ 1,167,081	\$ 36,548	
Commercial	1,001,830	1,007,346	(5,516)	
Industrial	552,490	530,935	21,555	
Public Authorities	17,964	17,710	254	
Railroads	3,989	3,933	56	
Sales for Resale	145,734	157,719	(11,985)	
Provision for Rate Refunds	(1,124)	(1,124)	0	
Total Sales Revenue	2,924,512	2,883,600	40,912	
Other Electric Revenue:				
Forfeited Discounts	8,923	10,107	(1,184)	
Miscellaneous Service Revenue	0	369	(369)	
Rent from Electric Property	30,597	32,041	(1,444)	
Unbilled Revenues - Net	10,196	2,851	7,345	
Other Electric Revenue	151,692	134,370	17,322	
Total Other Electric Revenue	201,408	179,738	21,670	
Total Operating Revenue	3,125,920	3,063,338	62,582	
<u>OPERATING EXPENSE</u>				
401 - 402				
Operation and Maintenance Expense				
Power Production Expenses:				
Power Purchases	1,908,952	1,865,165	43,787	
Ancillary Expenses	43,273	46,564	(3,291)	
Other	0	381	(381)	
Transmission Expenses	177,811	143,888	33,923	
Regional Market Expenses	4,224	2,760	1,464	
Distribution Expenses	135,052	141,935	(6,883)	
Customer Accounts Expenses	50,625	52,553	(1,928)	
Customer Service & Informational Expenses	17,247	12,532	4,715	
Sales Expenses	3,043	3,440	(397)	
Administrative and General Expenses	143,895	107,835	36,060	
Total Operation & Maint. Expense	2,484,122	2,377,053	107,069	
403 - 405				
Depreciation Expense and Amortization of Electric Plant Acquisition Adjustments	132,062	118,078	13,984	
407	Regulatory Debits (Credits), net	1,502	11,724	(10,222)
408.1	Taxes Other Than Income Taxes	199,671	195,630	4,041
411.6/411.7	(Gain)/Loss From Disposition of Emission Allowances	0	(122)	122
	Total Operating Expenses Prior to Federal & State Income Taxes	2,817,357	2,702,363	114,994
	Operating Income Prior to Federal & State Income Taxes	\$ 308,563	\$ 360,975	\$ (52,412)

PPL ELECTRIC UTILITIES CORPORATION
Operating Statements
For the Twelve Months Ended December 31
(Thousands of Dollars)

	<u>2007</u>	<u>2006</u>	<u>Difference</u>
<u>FEDERAL AND STATE INCOME TAXES</u>			
409.1 Federal Income Taxes	\$ 62,732	\$ 72,604	\$ (9,872)
State Income Taxes	18,833	14,165	4,668
410.1 & 411.1			
Deferred Federal Income Taxes - Net	8,483	20,855	(12,372)
Deferred State Income Taxes - Net	(3,337)	1,005	(4,342)
Investment Tax Credit Adjustments			
Deferrals	0	0	0
411.4 Amortization - Credit	(2,392)	(2,446)	54
Total Federal & State Income Taxes	<u>84,319</u>	<u>106,183</u>	<u>(21,864)</u>
Operating Income After Federal & State Income Taxes	224,244	254,792	(30,548)
<u>OTHER INCOME AND DEDUCTIONS</u>			
Other Income		--	
415 Merchandising Income	0	618	(618)
416,417 Merchandising Expense	0	(487)	487
418.0 Non-Utility Operating Income (Loss)	0	(43)	43
418.1 Equity in Earnings of Subsidiary Companies	0	0	0
419.0 Interest & Dividend Income	9,185	10,773	(1,588)
419.1 Allowance for Other Funds Used During Construction	0	0	0
421.1 Gain on Disposition of Property	0	1,061	(1,061)
421 Other Misc. Non-Operating Income	0	505	(505)
Total Other Income	<u>9,185</u>	<u>12,427</u>	<u>(3,242)</u>
Other Income Deductions			
421.2 Loss on Disposition of Property	0	424	(424)
426 Miscellaneous	1,352	1,472	(120)
Total Other Income Deductions	<u>1,352</u>	<u>1,896</u>	<u>(544)</u>
Taxes Applicable to Other Income Deductions			
408.2 Taxes Other Than Income Taxes	0	0	0
409.2 Federal Income Tax	2,467	(618)	3,085
State Income Tax	782	(209)	991
410.2 & 411.2			
Deferred Federal Income Taxes - Net	0	(102)	102
Deferred State Income Taxes - Net	0	61	(61)
Total Taxes Applicable to Other Income Deduction	<u>3,249</u>	<u>(868)</u>	<u>4,117</u>
Income Before Interest Charges	\$ 228,828	\$ 266,191	\$ (37,363)

PPL ELECTRIC UTILITIES CORPORATION
Operating Statements
For the Twelve Months Ended December 31
(Thousands of Dollars)

	<u>2007</u>	<u>2006</u>	<u>Difference</u>
<u>INTEREST CHARGES</u>			
427 Interest on Long-term Debt	\$ 74,946	\$ 75,666	\$ (720)
428 Amortization of Debt Discount & Expense	2,806	3,713	(907)
428.1 Amortization of Loss on Reacquired Debt	3,362	3,393	(31)
429 Amortization of Premium on Debt-Credit	0	0	0
430 Interest on Debt to Associated Companies	15,495	16,664	(1,169)
431 Other Interest Expense	3,078	(3,405)	6,483
432 Allowance for Borrowed Funds Used During Construction	(3,377)	(1,299)	(2,078)
Net Interest Charges	96,310	94,732	1,578
Income Before Extraordinary Items	132,518	171,459	(38,941)
Extraordinary Items After Taxes	0	0	0
Net Income	\$ 132,518	\$ 171,459	\$ (38,941)

PPL Electric Utilities Corporation
Operating Statements
For the 12 Months Ended December 31, 2006 and 2007

Significant increases or decreases (in thousands of dollars) are attributed to the following:

Account 400 - Operating Revenues - \$62,582

Residential Sales - \$36,548 - The increase is weather related. Sales in 2006 were 2.4% less than budget due to weather. The 2007 revenue is based on weather-normalized sales and modest sales growth.

Commercial Sales - (\$5,516) - The decrease is weather related. Revenues in 2006 were greater than budget due to high demand charges during the hot summer weather. The 2007 revenue is based on a weather-normalized sales and includes modest sales growth.

Industrial Sales - \$21,555 - The increase is based on assumed improvements in the economy, which will bring industrial sales in line with the long-term trend.

Sales for Resale - (\$11,985) - The decrease is primarily the result of fewer NUG transactions in 2007 compared to 2006.

Unbilled Revenue - Net - \$7,345 - The increase is primarily due higher budgeted sales in December 2007 compared to actual sales in December 2006, which were under-budget as a result of mild weather.

Other Electric Revenue - \$17,322 - The increase is primarily due to the over/undercollection of the Transmission Service Charge (TSC). The 2006 revenue included the reversal of the 2005 TSC undercollection of \$13.4 million which was being collected through customer rates. The 2007 budget does not reflect the reversal of an accrual because the TSC overcollection in 2006 was less than \$10,000.

Accounts 401 & 402 - Operating and Maintenance Expenses - \$107,069

PPL Electric's budgeting process entails budgeting by category of expense, not by account. However, the Company is providing, for the purpose of this filing, an allocation of budgeted operation and maintenance expenses to accounts. This allocation is based primarily on the ratio of the actual charges by account for the historic test year.

Following is a comparison of these expenses by category of expense:

	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Power Purchases	\$ 2,108,038	\$ 2,031,151	\$ 76,887
Wages & Employee Benefits	117,957	121,387	(3,430)
Other Operating Costs	258,127	224,515	33,612
	<u>\$ 2,484,122</u>	<u>\$ 2,377,053</u>	<u>\$ 107,069</u>

Explanations of major changes in category of expense are:

Power Purchases - \$76,887 - The increase is due to increased provider of last resort load as a result of fewer customers shopping and higher customer usage. PPL Electric also incurred higher ancillary service costs which were partially offset by fewer NUG power purchases.

PPL Electric Utilities Corporation
Operating Statements
For the 12 Months Ended December 31, 2006 and 2007

Wages & Employee Benefits - (\$3,430) - The decrease is due to the capital versus expense work ratio. The 2007 payroll budget includes a higher ratio of capital to expense work than incurred in 2006.

Other Operating Costs - \$33,612 - Other Operating Costs are further segregated into the following categories of expense:

	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Employee Expenses	\$ 1,206	\$ 1,555	\$ (349)
Vehicles & Equipment Use	7,740	11,032	(3,292)
Materials & Supplies	6,714	5,390	1,324
Printing & Office Supplies	475	523	(48)
Tree Trimming	28,064	25,570	2,494
Work by Outsiders	44,669	55,163	(10,494)
Services	4,545	4,513	32
Postage	5,493	5,472	21
Telephone & Leased Wires	4,004	3,601	403
Rents	8,477	9,515	(1,038)
Advertising	200	583	(383)
Uncollectible Accounts	24,657	23,791	866
Miscellaneous	19,724	(30,029)	49,753
	<hr/>		
PPL Electric Other Operating Costs	155,968	116,679	39,289
Affiliate Support	102,159	107,836	(5,677)
	<hr/>		
Total Other Operating Costs	\$ 258,127	\$ 224,515	\$ 33,612

Vehicles & Equipment Use (\$3,292) - The decrease is primarily due to lower vehicle cost rates in 2007 compared to 2006 as a result of the 2006 buyout of leased equipment contracts.

Materials & Supplies \$1,324 - The increase is primarily due to the 2006 return of unused material to inventory, higher material and supplies budgeted in 2007 for the repair of non-capital equipment, and general price escalations.

Tree Trimming \$2,494 - The increase is due to increased work in 2007 as a result of a 2006 assessment of reliability-based maintenance programs that identified the need to revise the tree trimming cycle.

Work by Outsiders (\$10,494) - The decrease is due to a higher ratio of capital to expense work budgeted in 2007 as compared to 2006.

Rent - (\$1,038) - The decrease is primarily due to the buyout of various leased equipment contracts in 2006.

Miscellaneous \$49,753 - The increase is primarily due to the ability to use \$36 million of Black Lung Trust

PPL Electric Utilities Corporation
Operating Statements
For the 12 Months Ended December 31, 2006 and 2007

assets in 2006 to offset future benefit payments for retired miners medical costs. In addition, 2007 includes costs for enhanced consumer education programs and other work not explicitly identified during the budget process, such as unanticipated substation maintenance and increased vegetation management.

Affiliate Support (\$5,677) - See the response to Question II-D-8 of Exhibit Regs. §53.53, Part II-Primary Statements of Rate Base and Operating Income, for the requested data.

Accounts 403 - 405 - Depreciation Expense & Amortization of Electric Plant - \$13,984 - The increase is primarily due to a full year of depreciation on assets placed in service during 2006 and partial depreciation on assets budgeted to be placed in service during 2007.

Account 407 - Regulatory Debits (Credits), net - (\$10,222) - The decrease is due primarily to the write-off of the Hurricane Isabel deferred asset as a result of the Commonwealth Court of Pennsylvania order that reversed the December 2003 PUC decision allowing PPL Electric recovery of these costs over a 10-year period.

Account 408.1 - Taxes Other Than Income Taxes - \$4,041 - The increase is due primarily to higher gross receipts tax as a result of higher budgeted revenue in 2007.

Account 409.1 - Federal Income Taxes - (\$9,872) - The decrease is due primarily to a higher income tax expense recorded in 2006 related to tax reserves and prior year adjustments.

Account 409.1 - State Income Taxes - \$4,668 - The increase is due primarily to income tax benefits recorded in 2006 related to tax reserves, partially offset by higher income tax expense recorded in 2006 related to prior year adjustments and an intercompany tax gain.

Account 410.1 & 411.1 - Deferred Income Taxes - Federal & State - Net - (\$16,714) - The decrease is due primarily to deferred tax expense recorded on Schedule M adjustments in 2006 and not in 2007, partially offset by deferred tax credits recorded in 2006 related to tax reserves and prior year adjustments.

- Q.2. Provide a summary of test year adjustments which sets forth the effect of the adjustment upon the following: operating revenues, operating expenses, taxes other than income taxes, operating income before income taxes, State income tax, Federal income tax and income available for return. In addition, test year adjustments shall be presented on the basis of the major account categories set out at II-D-1.
- A.2. Schedule D-2 of Exhibit Future 1 provides a summary, by major account categories, of test year adjustments claimed by PPL Electric.

- Q.3. List and explain all nonrecurring or extraordinary expenses incurred in the test year and all expenses included in the test year which do not occur yearly but are of a nature that they do occur over an extended period of years, for example, nonyearly maintenance programs, and the like.
- A.3. Test year expenses that are non-recurring, extraordinary or do not occur yearly, but over an extended period of years, are explained and adjusted in Section D of Exhibit Future 1.

- Q.4. As a separate item, list extraordinary property losses related to property previously included in cost of service when the gain or loss on this property has occurred or is likely to occur in the future test year. The proposed ratemaking treatment of extraordinary gains and losses must also be disclosed. Sufficient supporting data must be provided.
- A.4. PPL Electric does not expect to incur any extraordinary gains or losses in the future test year which are related to property previously included in its allowed cost of service.

Q.5. Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued and amounts written off in each of the last 3 calendar years.

A.5. The provision for uncollectible accounts for any year is determined by reviewing the projected annual revenue, current reserve balance, current receivable status, receivable trends, write-off trends and the projected impact of future collection initiatives on the quality of receivables.

Attachment II-D-5 presents the accumulated provision for uncollectible accounts and the amounts written off for the years ended December 31, 2004, 2005 and 2006.

PPL ELECTRIC UTILITIES CORPORATION
Accumulated Provision for Uncollectible Accounts
(Thousands of dollars)

	<u>Customers</u>	<u>Other</u>	<u>Property Damage</u>	<u>Total</u>
Balance December 31, 2003	\$ 22,105	\$ 389	\$ 1,031	\$ 23,525
Provision	21,200	343	650	22,193
Amounts Written Off	<u>(26,669)</u>	<u>(537)</u>	<u>(200)</u>	<u>(27,406)</u>
Balance December 31, 2004	16,636	195	1,481	18,312
Provision	22,403	224	1,272	23,899
Amounts Written Off	<u>(21,140)</u>	<u>(192)</u>	<u>(759)</u>	<u>(22,091)</u>
Balance December 31, 2005	17,899	227	1,994	20,120
Provision	23,729	18	1,075	24,822
Amounts Written Off	<u>(24,611)</u>	<u>104</u>	<u>(1,350)</u>	<u>(25,857)</u>
Balance December 31, 2006	<u>\$ 17,017</u>	<u>\$ 349</u>	<u>\$ 1,719</u>	<u>\$ 19,085</u>

- Q.6. Supply detailed calculations to support the total claim for rate case expense, including supporting data for outside service rendered. Provide the items comprising the estimated rate case expense claim for the current rate case.
- A.6. Schedule D-6 of Exhibit Future 1 sets forth PPL Electric's claim for rate case expense.

Q.7. Submit schedules for the test year and for the 12-month period immediately prior to the test year showing by major components, if included in claimed test year expenses, the expenses incurred in each of the following expense categories.

- a) Miscellaneous general expenses, including account 930.
- b) Outside service expenses.
- c) Regulatory commission expenses.
- d) Advertising expenses, including advertising engaged in by trade associations whenever the utility has claimed a contribution to the trade association as a ratemaking claim - provide explanation of types and purposes of such advertising.
- e) Research and development expenses - provide a listing of major projects.
- f) Charitable and civic contributions, by recipient and amount.

Explain major variances between the test year expenses and those expenses for the prior 12-month period.

A.7. See the following attachments for the requested data and an explanation of the major variances:

- a) Attachment II-D-7a - Miscellaneous general expenses, including Account 930
- b) Attachment II-D-7b - Outside service expenses
- c) Attachment II-D-7c - Regulatory commission expenses
- d) Attachment II-D-7d - Advertising expenses
- e) Attachment II-D-7e - Research and development expenses
- f) Attachment II-D-7f - Charitable and civic contributions

PPL ELECTRIC UTILITIES CORPORATION

Miscellaneous General Expenses - Account 930.2
Years ended December 31,
(Thousands of Dollars)

Line No.	Expense	2007	2006	Increase (Decrease)
1	Sustainable energy funding mandated in the PPUC order in PPL Electric's stranded cost filing	\$ 0	\$ 2,782	\$ (2,782)
2	Environmental remediation expense	0	45	(45)
3	Environmental insurance settlements	0	(464)	464
4	Miscellaneous	437	227	210
5	TOTAL	<u>\$ 437</u>	<u>\$ 2,590</u>	<u>\$ (2,153)</u>

PPL ELECTRIC UTILITIES CORPORATION

Outside Service Expenses
Years Ended December 31,
(Thousands of Dollars)

Line No.	Service	2007	2006	Increase (Decrease)
1	Legal services	\$ 163	\$ 170	\$ (7)
2	Surety bond	55	57	(2)
3	Miscellaneous - less than \$5,000	5	5	0
4	TOTAL	<u>\$ 223</u>	<u>\$ 232</u>	<u>\$ (9)</u>

PPL Electric budgets by expense type (payroll, materials, rents, etc.) and activity, not by FERC account. Therefore, the test year projection in Account 923 - Outside Services Employed, is based on an allocation. Each line item of detail is allocated based on the various charges to Account 923 during the 12 months ended December 31, 2006.

See Filing Requirement II-D-8 Charges by Affiliates for a listing of services provided by PPL Services Corporation.

PPL ELECTRIC UTILITIES CORPORATION

Regulatory Commission Expenses - Account 928
Years Ended December 31,
(Thousands of Dollars)

<u>Line No.</u>	<u>Expense</u>	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
1	PUC Annual Assessment	\$ 4,494	\$ 4,777	\$ (283)
2	FERC Annual Charges	61	65	(4)
3	TOTAL	<u>\$ 4,555</u>	<u>\$ 4,842</u>	<u>\$ (287)</u>

PPL ELECTRIC UTILITIES CORPORATION

Advertising Expenses
Years Ended December 31,
(Thousands of Dollars)

Line No.	Description/Purpose	2007	2006	Increase (Decrease)
1	Goodwill or institutional advertising	\$ 200	\$ 476	\$ (276)
2	Weather Relief Assistance Program (WRAP)	0	8	(8)
3	Operation Help	0	18	(18)
4	Line and cable safety program	0	9	(9)
5	Economic Development - Demonstrations and selling and miscellaneous	0	67	(67)
6	Miscellaneous	0	5	(5)
7	TOTAL	\$ 200	\$ 583	\$ (383)
Types of Advertising				
8	Television	\$ 200	\$ 0	\$ 200
9	Radio	0	49	(49)
10	Bill Inserts	0	18	(18)
11	Printed Media	0	516	(516)
12	TOTAL	\$ 200	\$ 583	\$ (383)

Note: This schedule reflects only the costs of outside advertising expenses.

The amounts included above for goodwill or institutional advertising are charged to Account 913, Advertising expenses. These amounts have been excluded from cost of service and are not reflected in customer rates.

PPL ELECTRIC UTILITIES CORPORATION

Research and Development Expenses
Years Ended December 31,
(Thousands of Dollars)

Line No.	Project	2007	2006	Increase (Decrease)
1	Annual membership to EPRI, an independent, nonprofit, R&D service organization	\$ 208	\$ 106	\$ 102
2	EPRI Solutions Maintenance Optimization & Industry Best Practices Workshop	0	24	(24)
3	TOTAL	<u>\$ 208</u>	<u>\$ 130</u>	<u>\$ 78</u>

PPL ELECTRIC UTILITIES CORPORATION

Charitable and Civic Contributions - Account 426.1
Years Ended December 31,
(Thousands of Dollars)

<u>Line No.</u>	<u>Recipient</u>	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
1	Operation Help	\$ 700	\$ 282	\$ 418
2	Other - each less than \$5,000	0	1	(1)
3	TOTAL	<u>\$ 700</u>	<u>\$ 283</u>	<u>\$ 417</u>

Note: Charitable and civic contributions are charged to 'Other income and (deductions),' Account 426.1, and not to operating expense. Therefore, contributions of this type are not reflected in customer rates.

- Q.8. Provide an analysis by function of charges by affiliates, for the test year and the 12-month period immediately prior to the test year, for services rendered included in the operating expenses of the filing company. Explain the nature of the service and the basis on which charges or allocations are made, including a copy of applicable contract. Also, explain major variances between the charges for the test year and the corresponding charges for the prior 12-month period.
- A.8. PPL Services Corporation ("PPL Services"), formed on July 1, 2000 as the result of a PPL Corporation realignment, provides various administrative and general services for PPL Electric Utilities and the other affiliates of PPL Corporation. Providing and charging for these services is based on an agreement dated April 27, 1995, by and between PPL Resources, Inc. (now PPL Corporation) including its subsidiaries, and Pennsylvania Power & Light Company (now PPL Electric). Attachment II-D-8a is a copy of that agreement. Services are provided in two basic forms - Direct Support and Indirect Support. Direct Support is defined as a distinct product or service, which can be readily identified as being incurred for a specific affiliate, or group of affiliates, accounted for, and monitored as direct support. Any allocation to a specific affiliate of Direct Support is based on product/service unit pricing, or specific and identifiable cost accumulation and transfer. Indirect Support represents general and administrative support that generally benefits all PPL Corporation subsidiaries and cannot be readily identified as being incurred for a specific affiliate. Allocation of indirect support is based on a multi-factor allocation guidelines recommended by the PUC and described in Attachment II-D-8b.

Listed below are departments/affiliates that provide services to PPL Electric.

- Information Services Department (ISD) – provides Information Technology, computer hardware and software, and telecommunications support. Direct Support fees are assessed based on the cost of the service provided.
- External Affairs – coordinates government relations activities and provides corporate communications functions such as media and public relations services, and strategic and employee communications. Also directs community and economic development activities and real estate support. Direct charges to clients are based on actual costs accumulated for specific services rendered.
- Human Resources (HR) – provides for the acquisition and departure of personnel, performance management, consulting, technical training, compensation and benefits programs, medical screening, and labor relations. In addition, safety training, safety program evaluation and inspections, accident/incident investigation, and regulatory compliance/consultation are provided.
- Environmental Management – provides technical support & waste management system training, corporate liability & remediation management, systems & program development, policy & direction and auditing &

compliance services.

- Financial Department – provides accounting services, corporate disbursements, pension plan services, insurance, credit and receipts.
- Supply Chain - provides material management services – acquisition and handling.
- Office of General Counsel – provides legal services. Direct charges to clients are based on actual cost accumulated for specific services rendered.
- Risk Management – provides support for energy acquisition and management.
- Auditing – provides assessments, consultative services, and investigations.
- Facilities Management – provides building management services.
- PPLSolutions – provides energy load scheduling, reconciliation services, and administrative services associated with alternative energy suppliers within PPL Electric's service territory.

**Support to PPL Electric
Operating Expense
(Millions of Dollars)**

Business Line	2006	2007
Information Services Department	\$ 32.5	\$ 26.7
External Affairs	1.6	1.8
Human Resources	8.0	7.0
Environmental Management	0.4	0.4
Financial Department	4.7	5.2
Supply Chain	1.9	1.1
Office of General Counsel	6.8	5.5
Risk Management	0.3	0.3
Auditing	0.2	0.3
Facilities Management	14.2	15.4
PPLSolutions	1.2	1.3
Total Direct Support	\$ 71.8	\$ 65.0
Total Indirect Support	36.0	37.0
Total Support	\$ 107.8	\$ 102.0

Major variances between the test year and the 12-month prior period are as follows.

- The Information Services Department (ISD) variance is due to an overall reduction of ISD O&M costs resulting from PPL Corporation's buy-out of the corporate master lease. Formerly leased computer and telephone equipment was capitalized, resulting in a reduction of leased equipment expense.
- The Human Resources (HR) variance is due to the distribution of charges (expense vs. capital) to PPL Electric's Field Services work group. Support group charges to Field Services are applied in a manner consistent with the work being performed by Field Services. Although total HR support charges are approximately the same in 2007 and 2006, the 2007 projection contains a higher percentage of charges applied to capital versus expense projects.
- The Office of General Counsel (OGC) variance is due to the anticipated workload in 2007. Support from OGC is a mix of internal and external support.
- The Facilities Management variance is due to: 1) a general inflationary increase in expenses, such as wages, benefits, materials and supplies; and 2) a minor adjustment in support costs allocations based on a 2006 review of all building occupancies.
- The indirect cost allocation variance is the result of the 2007 budget containing a full year premium for the new storm insurance policy, which began mid-year 2006, partially offset by overall lower indirect cost allocations to PPL Electric Utilities.

Services Agreement

This Agreement is made as of April 27, 1995, by and between PP&L Resources, Inc., a Pennsylvania corporation ("Resources"), and Pennsylvania Power & Light Company, a Pennsylvania corporation ("PP&L").

WHEREAS, Resources, under its Articles of Incorporation, may engage in any lawful act concerning any lawful business for which corporations may be incorporated under the Pennsylvania Business Corporation Law and was formed for the purpose of separating PP&L's regulated and unregulated business activities; and

WHEREAS, PP&L is a subsidiary of Resources and is engaged in providing electric utility service to customers in portions of central eastern Pennsylvania subject to regulation by the Pennsylvania Public Utility Commission; and

WHEREAS, Resources and PP&L each possess knowledge and skill in various aspects of business operations; and

WHEREAS, the provision of certain services between Resources and PP&L will enable the parties to obtain these services effectively and efficiently; and

WHEREAS, Resources desires to procure services from PP&L on a non-exclusive basis, and PP&L is willing to provide these services; and

WHEREAS, PP&L desires to procure services from Resources on a non-exclusive basis, and Resources is willing to provide these services;

NOW, THEREFORE, in consideration of the agreements set forth herein and intending to be legally bound hereby, Resources and PP&L agree as follows:

A. Services

1. Resources agrees to provide, on an as-available basis, such services as may from time to time be requested by PP&L. These services may include any services necessary and appropriate to the safe, efficient and cost effective operation of PP&L's business, including but not limited to, executive management, administration, accounting, finance, legal, communications, purchasing, billing, information systems, corporate secretarial, human resources, insurance and other similar types of services.

2. PP&L agrees to provide, on an as-available basis, such services as may from time to time be requested by Resources. These services may include any services necessary and appropriate to the safe, efficient and cost effective operation of Resources' business, including but not limited to, executive management, administration, accounting, finance, legal, communications, purchasing, billing, information systems, corporate secretarial, human resources, insurance and other similar types of services.

3. Resources and PP&L may request services of this nature from time to time on an as-needed basis. Neither Resources nor PP&L is under any obligation to procure a set amount of services pursuant to this Agreement. In addition, neither Resources nor PP&L is obligated to procure these types of services solely from the other party to this Agreement. If they so desire, Resources and PP&L may procure these or similar services from third-party providers.

B. Costs and Accounting

1. Services provided pursuant to Section A of this Agreement are to be charged to the recipient at their full cost to the provider.

a. Direct Costs

If costs can be determined with reasonable certainty, these costs will be assumed to be the direct and full costs of providing the services at issue.

b. Indirect Costs

Costs shall include applicable indirect costs such as overhead, to the extent that such costs can be calculated with reasonable certainty and are readily ascertainable. For example, costs associated with an individual's time may include a component for additional, related costs, as appropriate (e.g., applicable employee benefit costs).

c. Allocation

If charges cannot be directly assigned to one party, they will be allocated between the parties based on a reasonable approximation of the costs attributable to each party.

2. All costs incurred by the providing party shall be determined in accordance with generally accepted accounting principles and shall include reasonable indirect costs, including overhead, as set forth in Section A of this Agreement.

C. Billing and Payment

1. The party providing services under Section A of this Agreement shall submit invoices on a monthly or more frequent basis to the party receiving such services. Such invoices shall reference the service provided and the associated costs, which shall be determined in accordance with Section B of this Agreement.

2. Invoices shall be due and payable within sixty (60) days after receipt.

D. General

1. **Subsidiary Participation**

"Resources" as used in this Agreement includes all subsidiary and affiliated companies of PP&L Resources, Inc. other than PP&L and its subsidiaries.

2. **Term**

The term of this Agreement shall commence on the date first set forth above or the date on which the Pennsylvania Public Utility Commission approves this Agreement, whichever is later. Thereafter, this Agreement shall continue in full force and effect until terminated by either of the parties upon 15 days' written notice to the other party of its election to do so.

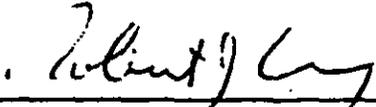
3. **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the parties have executed this Agreement as

set forth below.

PP&L RESOURCES, INC.

By: 
Robert J. Grey
Vice President, General Counsel
and Secretary

**PENNSYLVANIA POWER & LIGHT
COMPANY**

By: 
Robert J. Grey
Vice President, General Counsel
and Secretary

INDIRECT COST ALLOCATION
METHODOLOGY AND PROCEDURES FOR 2006 AND 2007

In May 2002, the PUC issued its Focused Management and Operations Audit Report on PPL Electric and PPL Gas Utilities Corporation's utility subsidiaries. As part of that report, the PUC recommended a change to the 2002 PPL Corporation method of allocating indirect costs from PPL Service Co. (Service Co.) and PPL Corp. (PPL). The allocation method used through December 31, 2002 was a single factor allocation method using Invested Capital to determine the portion of indirect costs to be allocated to subsidiaries of PPL. Additionally, this method also determined if any of the indirect costs should not be allocated to a particular subsidiary or subsidiaries if the subsidiary or subsidiaries did not receive a benefit from the processes incurring those costs. The PUC, however, indicated that a single factor indirect cost allocation method was not appropriate, although the PUC did agree that excluding certain subsidiaries from certain indirect cost allocations was appropriate.

In its audit, the PUC recommended that support costs be allocated using a three-factor methodology. The PUC recommended that the three-factor methodology should contain an employee or payroll factor, an asset or investment factor, and an operation and maintenance expense factor. Effective January 2003, PPL accepted the PUC's recommended three-factor method.

The three-factor allocation methodology results in a reasonable allocation of indirect costs to all subsidiaries of PPL. Because these subsidiaries are involved in several businesses, they may have disproportionate amounts of invested capital, operation and maintenance expenses and employees, when compared to other PPL subsidiaries. Through the three-factor allocation methodology, all subsidiaries that comprise a material proportion of PPL, as measured by either invested capital, operation and maintenance expenses, or employees, will receive an equitable proportion of the indirect cost allocation.

CALCULATION OF THE MULTI – FACTOR INDIRECT COST ALLOCATION

1. The first factor calculates each subsidiary's proportion of invested capital relative to its affiliates. For this calculation, invested capital includes all of the following components of invested capital for subsidiaries (Short Term Debt, Long Term Debt Due in One Year, Long Term Debt, Minority Interest, Company Obligated Preferred Stock, Preferred Stock and Preference Stock, and Common Equity) that are added together and allocated by each subsidiary's relative Invested Capital as compared to its affiliates.
2. The second and third factors calculate each subsidiary's proportion of operation and maintenance expenses and number of employees relative to its affiliates. For these factors, the methodology generally is the same as for Invested Capital. Each

subsidiary's data is summed and allocated by each subsidiary's relative operation and maintenance and employee data as compared to its affiliates.

3. PPL determined that each of the three factors was equal in importance and, therefore, the sum of the three was divided by three to obtain the average multi-factor allocation % for each subsidiary. For simplicity, and to reduce immaterial allocations, subsidiaries with a multi-factor average allocation rate of less than 1% are identified and do not receive an allocation. To be equitable to PPL's regulated businesses, excess %'s due to not allocating to subsidiaries with an average multi-factor rate of less than 1% will be charged to the unregulated affiliates.

EXCLUDING THE ALLOCATION OF CERTAIN INDIRECT COSTS TO AFFILIATES THAT DO NOT BENEFIT FROM THOSE COSTS

1. Each Support Group analyzed its indirect costs to determine which PPL subsidiaries receive a significant portion of its services. Those services and related costs are isolated from other indirect costs to ensure that the PPL subsidiaries that receive a benefit from the costs are allocated costs applicable to those services. Support Groups identified either specific costs to be included or identified an appropriate % of services that should be included based on the operation and the expenses incurred.
2. After the Service Groups determined which PPL subsidiaries benefit from their services, Financial Planning calculated the allocation rate for each Support Group.

- Q. II-D-9 Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for, the cost thereof, the accounting treatment and whether included in claimed test year expenses.
- A. II-D-9 PPL Electric does not include membership dues for social and service organizations in the test year expenses. These types of expenses are recorded in Account 426.

- Q.10. Provide the following payroll and employee benefit data—regular and overtime—separately for the test year and for the 12-month period immediately prior to the test year:
- a) The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with union personnel.
 - b) The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with nonunion personnel.
 - c) The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with management employees, if different than b.
 - d) A summary of the wage rate, salary and employee benefit changes granted or to be granted during the year.
 - e) The claimed test year payroll expense and employee benefit expense.
 - f) The percentage of payroll expense and employee benefit expense applicable to operation and maintenance expenses and the basis thereof.

A.10. The following is the requested data:

	Years Ended December	
	2007	2006
a. <u>Union Personnel</u>	(\$000)	(\$000)
Average Number of Employees	1,709	1,680
Year-end Number of Employees	1,697	1,653
Payroll Costs		
Normal	\$ 88,835	\$ 74,735
Overtime	\$ 14,099	\$ 16,230
Benefit Costs	\$ 38,809	\$ 33,896
b. <u>Non-Union Personnel</u>		
Average Number of Employees	438	468
Year-end Number of Employees	438	456
Payroll Costs		
Normal	\$ 33,347	\$ 31,336
Overtime	\$ 513	\$ 1,514
Benefit Costs	\$ 9,946	\$ 9,442

Note: Benefit costs allocated based on Average Number of Employees because costs are basically the same for both Union and Non-Union personnel.

c. Same as b.

	Years Ended December	
	2007	2006
	(\$000)	(\$000)
d. <u>Wage Rate</u>		
Union		
Rate	3.35%	3.35%
Annual Effect	\$ 3,337	\$ 2,949
Non-Union		
Rate	3.5%	3.5%
Annual Effect	\$ 1,145	\$ 1,111

Benefit Changes - Benefits basically remain unchanged, other than the cost of providing them to employees.

e. <u>Claimed for Test Year</u>		
Payroll Expense	\$ 86,524	\$ 89,415
Benefit Expense	\$ 31,433	\$ 31,972
f. <u>Percent Applicable to O&M</u>		
Payroll Expense	63.3%	72.2%
Benefit Expense	64.5%	73.8%

The charge to expense is based on activities performed or expected to be performed during the applicable years.

- Q.11. Describe costs relative to leasing equipment, including computer rentals, and office space, including terms and conditions of the leases. State method for calculating monthly or annual payments.
- A.11. As of December 31, 2006, PPL Electric had numerous short-term leases for rental of miscellaneous equipment from various vendors. For 2006, these payments were \$924,000.

- Q.12. Submit a statement of past and anticipated changes, since the previous rate case, in major accounting procedures, explain any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate cases, and list all internal and independent audit reports for the most recent 2 year period.
- A.12. Attachment II-D-12a provides a list of major accounting changes since PPL Electric's most recent base rate case. Attachment II-D-12b provides a list of internal audits performed for PPL Electric in 2005 and 2006. Attachment II-D-12c provides a list of third-party audits performed for PPL Electric in 2005 and 2006. No audits have been performed year-to-date 2007.

Accounting Changes Since PPL Electric Utilities Corporation's Last Base Rate Case

2004

- In March 2004, PPL Electric Utilities Corporation (PPL Electric) filed a proposed distribution rate increase of \$164 million (subsequently amended to \$160 million) and, at the same time, notified the Pennsylvania Public Utility Commission (PUC) of an estimated increase in transmission service charges of \$57 million. In December 2004, the PUC entered its order granting PPL Electric a distribution rate increase of \$137 million and approving PPL Electric's proposed mechanism for collecting all transmission service-related charges.
- PPL Electric deferred storm restoration costs associated with the September 2003 Hurricane Isabel in accordance with the PUC declaratory order of January 2004. Based on the December 2004 order mentioned above, the remaining costs were being recovered through customer distribution rates and were being amortized over ten years beginning on January 1, 2005. See the 2006 section of this attachment for the Commonwealth Court of Pennsylvania decision which overturned the PUC decision allowing for the recovery of these costs.
- In March 2004, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue 03-16, "Accounting for Investments in Limited Liability Companies." EITF Issue 03-16 provides that an investment in a limited liability company (LLC) that maintains a specific ownership account for each investor should be viewed similarly to an investment in a limited partnership for purposes of determining whether a non-controlling interest in the LLC should be accounted for using the cost or equity method. EITF Issue 03-16 is effective for reporting periods beginning after June 15, 2004, and is required to be applied as a change in accounting principle with a cumulative effect adjustment reflected in the period of adoption. PPL Electric adopted EITF Issue 03-16 effective July 1, 2004. The adoption did not have a material impact on the results of PPL Electric.
- In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare and also provides for a federal subsidy to sponsors of retiree health care benefit plans that provide an actuarially equivalent level of prescription drug benefits. The subsidy would be 28% of eligible drug costs for retirees that are over age 65 and covered under the other postretirement benefit plan.

In May 2004, the FASB issued FASB Staff Position (FSP) FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which provides the final accounting guidance related to the Act. The adoption of FSP FAS 106-2 in 2004 did not have a material impact on the financial statements of PPL Electric.

2005

- In January 2005, severe ice storms hit PPL Electric's service territory. The total cost of restoring service, excluding capitalized cost and regular payroll expenses, was \$16 million. In August 2005, the PUC issued an order granting PPL Electric's petition for authority to defer and amortize for regulatory accounting and reporting purposes a portion of these storm costs subject to certain conditions. As a result of the PUC Order and in accordance with SFAS 71, PPL Electric deferred \$12 million of its previously expensed storm costs. The ratemaking treatment of these costs will be addressed in this distribution base rate case.
- In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143." FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement

obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also clarifies when an entity would be expected to have sufficient information to reasonably estimate the fair value of an asset retirement obligation. PPL Electric adopted FIN 47 effective December 31, 2005. The adoption of the standard had no impact on PPL Electric.

2006

- In August 2006, the Commonwealth Court of Pennsylvania overturned the PUC's decision of December 2004 that previously allowed PPL Electric to recover, over a 10-year period, restoration costs incurred in connection with Hurricane Isabel, which occurred in September 2003. As a result of the PUC's 2004 decision and in accordance with SFAS 71, PPL Electric had established a regulatory asset for the restoration costs. Effective January 1, 2005, PPL Electric began billing these costs to customers and amortizing the regulatory asset. The Commonwealth Court denied recovery of these costs because they were incurred when PPL Electric was subject to capped rates for transmission and distribution services, which extended through December 31, 2004. As a result of the Court's decision, PPL Electric recorded a charge to income, reversed the remaining unamortized regulatory asset and recorded a regulatory liability for restoration costs previously billed to customers from January 1, 2005 through December 1, 2006.
- In April 2006, the FASB issued FSP No. FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)." FSP No. FIN 46(R)-6 provides that the variability to be considered in applying FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB 51," (FIN 46(R)) should be based on the design of the entity involved. PPL Electric adopted FSP No. FIN 46(R)-6 effective July 1, 2006. PPL Electric did not elect to apply retrospective application to any period prior to the date of adoption. The initial adoption of FSP No. FIN 46(R)-6 did not have an impact on PPL Electric. However, the impact in periods subsequent to adoption could be material.
- In September 2006, the SEC staff issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 addresses the observed diversity in the quantification of financial statement misstatements and the potential, under current practice, for the build-up of improper amounts on the balance sheet.

The two most commonly used methods cited by the SEC for quantifying the effect of financial statement misstatements are the "roll-over" and "iron-curtain" methods. The roll-over method quantifies a misstatement based on the amount of the error originating in the current-year income statement. This method ignores the effects of correcting the portion of the current-year balance sheet misstatement that originated in prior years. Conversely, the iron-curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, regardless of the misstatement's year(s) of origin.

In SAB 108, the SEC requires a dual approach combining the roll-over method and the iron-curtain method. The dual approach requires quantification of financial statement errors based on the effects of the error on each of the company's financial statements and the related financial statement disclosures.

SAB 108 permits registrants to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006, with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the cumulative effect transition method requires

detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

PPL Electric adopted SAB 108 effective December 31, 2006. PPL Electric previously utilized the dual approach when quantifying the impact of identified errors. Therefore, the adoption of SAB 108 did not have a material impact on PPL Electric.

- In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment," which is known as SFAS 123(R) and replaces SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Among other things, SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting for stock-based compensation. SFAS 123(R) requires public entities to recognize compensation expense for awards of equity instruments to employees based on the grant-date fair value of the awards. PPL Corporation (PPL) and its subsidiaries adopted SFAS 123(R) effective January 1, 2006. PPL and its subsidiaries applied the modified prospective application transition method of adoption. Under this application, entities must recognize compensation expense based on the grant-date fair value for new awards granted or modified after the effective date and for unvested awards outstanding on the effective date. The adoption of SFAS 123(R) did not have a material impact on PPL and its subsidiaries, since PPL and its subsidiaries adopted the fair value method of accounting for stock-based compensation, as described by SFAS 123, effective January 1, 2003.
- Although PPL Electric does not directly sponsor any pension or other postretirement benefit plans, it is allocated a portion of the liabilities and costs of plans sponsored by PPL Services Corporation (PPL Services) based on participation in those plans. PPL Electric adopted the recognition and measurement date provisions of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," effective December 31, 2006.

SFAS 158 requires an SEC registrant that sponsors a defined benefit plan(s) to: (i) record an asset or liability to recognize the funded status of the plan(s) in its consolidated balance sheet using a measurement date that corresponds with its fiscal year end, and for a registrant's consolidated subsidiary, the date that is used to consolidate the subsidiary, (ii) recognize in other comprehensive income, net of tax, gains and losses and prior service costs and credits, that arise during the period, but currently are not recognized as a component of net periodic benefit cost, (iii) amortize gains and losses, prior service costs and credits, and transition assets or obligations recorded in accumulated other comprehensive income to net periodic benefit cost, and (iv) provide additional disclosures of, among other things, items deferred in accumulated other comprehensive income. In accordance with SFAS 158, accounting and related disclosures for 2005 were not affected by the adoption of the new standard. SFAS 158 did not change how pensions and other postretirement benefits are accounted for and reported in the Statement of Income.

To record its allocated share of PPL Services' pension and other postretirement benefit plans, PPL Electric increased its liabilities associated with these plans by \$61 million and established a regulatory asset of \$61 million. This regulatory asset does not represent a cash expenditure already incurred; consequently, this asset is not earning a current return. This regulatory asset represents the costs that would have otherwise been recorded to other comprehensive income in accordance with SFAS 158. In accordance with SFAS 87 and SFAS 106, these costs will be recognized in future periods as part of net periodic pension and other postretirement benefit costs.

- In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." Among other things, SFAS 155 addresses certain accounting issues surrounding securitized financial assets and hybrid financial instruments with embedded derivatives that require bifurcation. PPL Electric

adopted SFAS 155 effective January 1, 2007. The initial adoption did not have an impact on PPL Electric.

- In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 requires an entity to evaluate its tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50 percent chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The measurement of the benefit equals the largest amount of benefit that has a likelihood of realization, upon ultimate settlement, that exceeds 50 percent. If the more-likely-than-not threshold is unmet, it is inappropriate to recognize the tax benefits associated with the tax position. FIN 48 also provides guidance on derecognition of previously recognized tax benefits, classification, interest and penalties, accounting in interim periods, disclosure and transition.

PPL Electric adopted FIN 48 effective January 1, 2007. The adoption will result in the recognition of a cumulative effect adjustment to the opening balance of retained earnings for that fiscal year.

The primary impact of the adoption of FIN 48 is expected to be a reclassification between current liabilities and noncurrent liabilities. PPL Electric currently estimates that current liabilities will decrease and noncurrent liabilities will increase between \$10-25 million.

The cumulative effect adjustment, as well as the remaining impact of the adoption, is not expected to be material.

In addition to the Balance Sheet impacts, PPL Electric expects that the adoption of FIN 48 will result in greater volatility in its effective tax rate. PPL Electric does not expect that the adoption of FIN 48 will result in an inability to comply with financial covenants under its debt agreements.

- In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 provides a definition of fair value, as well as a framework for measuring fair value. In addition, SFAS 157 expands the fair value measurement disclosure requirements of other accounting pronouncements to require, among other things, disclosure of the methods and assumptions used to measure fair value, as well as the earnings impact of certain fair value measurement techniques. SFAS 157 does not expand the use of fair value in existing accounting pronouncements. PPL Electric will adopt the provisions of SFAS 157 prospectively, except for financial instruments that were previously measured at fair value in accordance with footnote 3 of EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," which require retrospective application. PPL Electric must adopt SFAS 157 no later than January 1, 2008. PPL Electric is in the process of evaluating the impact of adopting SFAS 157. The potential impact of adoption is not yet determinable, but it could be material.
- In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115." SFAS 159 provides entities with an option to measure, upon adoption of this pronouncement and at specified election dates, certain financial assets and liabilities at fair value, including available-for-sale and held-to-maturity securities, as well as other eligible items. The fair value option (i) may be applied on an instrument by instrument basis, with a few exceptions, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied to an entire

instrument not to only specified risks, cash flows, or portions of that instrument. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in its earnings at each subsequent reporting date.

SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between similar assets and liabilities measured using different attributes. Upon adoption of SFAS 159, an entity may elect the fair value option for eligible items that exist at that date, and shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings.

PPL Electric must adopt SFAS 159 no later than January 1, 2008. Early adoption is permitted as of January 1, 2007 for PPL Electric provided that it (i) has not issued interim financial statements for 2007 and chooses to early adopt SFAS 159 on or before April 30, 2007, and (ii) also elects to apply the provisions of Statement 157.

PPL Electric is in the process of evaluating the impact of adopting SFAS 159. The potential impact of adoption is not yet determinable, but it could be material.

Listing of Internal Audits
Performed for PPL Electric Utilities Corporation
January 1, 2005 through December 31, 2006

PPL
Corporate Audit Services
INTERNAL AUDITING REPORTS ISSUED

<u>Audit Reference Number</u>	<u>Date Issued</u>	<u>Title</u>
2005		
130-05	3-14-05	Customer Service System (CSS) Billing Controls
138-05	4-6-05	Transportation Services Department – Local Purchases
139-05	6-8-05	Assessment of Work Management System (WMS) Accounting
127-05	6-27-05	FERC Order 2004
137-05	6-27-05	Provider of Last Resort (POLR) Load Forecasting Process
146-05	8-18-05	Assessment of PPL Electric Utilities' Implementation of PUC Chapter 14 - Winter Service Terminations
146-05	9-13-05	Addendum to Report - Assessment of PPL Electric Utilities' Implementation of PUC Chapter 14 - Winter Service Terminations
145-05	9-29-05	Assessment of Drug and Alcohol Testing Program
132-05	12-27-05	PPL Electric Utilities (PPLEU) Distribution Tree Trimming Process
142-05	12-28-05	Review of PPL Electric Utilities' Pole Attachment Fees
147-05	12-29-05	Automated Meter Reading (MAR) Data Processing Review

2006

148-06	6-7-06	PPL Electric Utilities-Field Services' Performance Metrics
150-06	6-22-06	Assessment of PPL Electric Utilities' (PPLEU) Electronic Facilities Database (EFD)
160-06	9-27-06	PPLEU Universal Service Programs
157-06	10-4-06	PPL Electric Utilities' (PPLEU) Winter Service Termination Process
163-06	10-4-06	Department of Transportation (DOT) Drug and Alcohol Testing Process

Listing of Third-Party Audits
Performed for PPL Electric Utilities Corporation
January 1, 2005 through December 31, 2006

PPL
Corporate Audit Services
THIRD-PARTY AUDITS

2005

FINANCIAL AUDITS

Performed By
Description

PricewaterhouseCoopers LLP

- Audit of the Financial Statements of Operation Help for the year ended December 31, 2003
- Audit of the Financial Statements of PPL Electric Utilities Corporation for the year ended December 31, 2004
- Audit of the Financial Statements of PPL Electric Utilities Corporation's FERC Form 1 filing for year ended December 31, 2004
- Audit of the Financial Statements of PPL Transition Bond Company, LLC for the year ended December 31, 2004
- Audit of the Financial Statements of Operation Help for the year ended December 31, 2004

REGULATORY COMPLIANCE AUDITS

Performed By
Description

Federal Energy Regulatory Commission

- Audit of PPL Electric Utilities Corporation 2002 FERC Form No. 1

PaPUC

- Audit of the Competitive Transition Charge (CTC) for year ended December 31, 2003
- Follow-up of 2002 PaPUC Focus Management and Operations Audit

Pennsylvania Department of Revenue

- Audit of PPL Electric Utilities Corporation 2001 and 2002 Corporate Income Tax/Capital Stock Tax Reports
- Audit of PPL Electric Utilities Corporation's Sales and Use Tax for the period 6/1/1995 through 12/31/1998
- Audit of PPL Electric Utilities Corporation's Sales and Use Tax Return for the period 1/1/99 through 6/30/2000
- Audit of the Competitive Transition Charge (CTC) for year ended December 31, 2003
- Follow-up of 2002 PaPUC Management Audit of PPL Electric

2006

FINANCIAL AUDITS

Performed By
Description

PricewaterhouseCoopers LLP

- Audit of the Financial Statements of Operation Help for the year ended December 31, 2004
- Audit of the Financial Statements of PPL Electric Utilities Corporation for the year ended December 31, 2005
- Audit of the Financial Statements of PPL Transition Bond Company, LLC for the year ended December 31, 2005
- Audit of the Financial Statements of Operation Help for the year ended December 31, 2005
- Audit of the Financial Statements of PPL Electric Utilities Corporation FERC Form 1 filing for the year ended December 31, 2005
- Re-issue of an audit report on the Financial Statements included in PPL Electric Utilities Corporation's 2005 FERC Form 1 filing
- Re-issue of an audit report on the Financial Statements included in PPL Electric Utilities Corporation's 2002-2004 FERC Form 1 filing

REGULATORY COMPLIANCE AUDITS

Performed By
Description

Federal Energy Regulatory Commission (FERC)

- A review of PPL Electric Utilities Corporation's 2002 FERC Form No. 1

PaPUC

- Audit of the Competitive Transition Charge for year ended December 31, 2003
- Follow-up of 2002 PaPUC Management Audit of PPL Electric
- Audit of the Competitive Transition Charge for year ended December 31, 2003
- Audit of the Competitive Transition Charge for years ended December 31, 2002 and December 31, 2004

Securities and Exchange Commission (SEC)

- Audit of PPL Corporation and PPL Electric Utilities Corporation Form 10-K for year ending December 31, 2005

Pennsylvania Department of Revenue

- Audit of PPL Electric Utilities Corporation's Sales and Use Tax Return for the period 1/1/1999 through 6/30/2000

- Q.13. Regardless of whether a claim for negative or positive net salvage is made, attach an exhibit showing gross salvage, cost of removal, third party reimbursements, if any, and net salvage for the test year and 4 previous years.
- A.13. Attachment II-D-13 provides PPL Electric's claimed provision for negative net salvage. This claim follows principles previously proposed and accepted by the Commission at Docket No. R-842651 for the accounting of the Company's net salvage.

PPL ELECTRIC UTILITIES CORPORATION

Negative Net Salvage
(Thousands of Dollars)

<u>12 Months Ending</u>	<u>Cost of Removal</u>	<u>Gross Salvage</u>	<u>Negative Net Salvage</u>
December 31, 2003	\$ 11,860	\$ (1,802)	\$ 10,058
December 31, 2004	13,097	(1,453)	11,644
December 31, 2005	11,076	(5,906)	5,170
December 31, 2006	13,710	(2,564)	11,146
December 31, 2007	<u>12,435</u>	<u>(2,932)</u>	<u>9,503</u>
Total for 5-year period ending December 31, 2007	<u>\$ 62,178</u>	<u>\$ (14,657)</u>	<u>\$ 47,521</u>
	Five-year average		\$ 9,504
	Less: Amount charged to clearing		<u>0</u>
	Negative Net Salvage Claim		<u>\$ 9,504</u>

- Q.14. State the amount of debt interest utilized for test year income tax calculations, including the amount so utilized which has been allocated from the debt interest of an affiliate, and provide details of debt interest and allocation computations.
- A.14. PPL Electric does not utilize any debt interest, which has been allocated from the debt interest of an affiliate, in the computation of taxable income. The debt interest utilized for test year income tax calculations is provided in Schedule D-13 of Exhibit Future 1.

- Q.15. Provide a schedule for the test year of Federal and Pennsylvania taxes other than income taxes, per books, pro forma at present rates, and pro forma at proposed rates, including the following tax categories:
- a) Social security.
 - b) Unemployment.
 - c) Capital stock.
 - d) Public utility.
 - e) P.U.C. assessment.
 - f) Other property taxes.
 - g) Any other appropriate categories.
- A.15. Attachment II-D-15 provides a schedule of taxes other than income.

Schedule of Taxes Other Than Income
Year Ended December 31, 2007
(Thousands of Dollars)

<u>Description</u>	<u>Total Amount Per Budget</u>	<u>T&D Operations Per Budget</u>	<u>T&D Pro forma at Present Rates</u>	<u>D Only Pro forma at Present Rates</u>	<u>D Only Pro forma at Proposed Rates</u>
a. Social Security	\$ 6,399	\$ 6,399	\$ 6,220	\$ 5,570	\$ 5,570
b. Unemployment	423	423	411	368	368
c. Capital Stock	3,021	3,021	2,912	2,295	2,521
d. Public Utility	4,549	4,549	4,039	3,182	3,182
e. Other Property Taxes	677	677	677	535	535
f. Gross Receipts	184,602	50,425	50,177	37,899	42,830
	<u>\$ 199,671</u>	<u>\$ 65,494</u>	<u>\$ 64,436</u>	<u>\$ 49,849</u>	<u>\$ 55,006</u>

- Q. 16. Submit a schedule showing the adjustments from taxable net income per books to taxable net income pro forma under existing rates and pro forma under proposed rates, together with an explanation of all normalizing adjustments. Submit detailed calculations supporting taxable income before State and Federal income taxes where the income tax is subject to allocation due to operations in another state or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.
- A. 16. Detailed calculations supporting PPL Electric's taxable income are shown in Schedule D-13 of Exhibit Future 1.

Q.17. Submit a schedule showing for the last 5 years the income tax refunds, plus interest - net of taxes, received from the Federal government due to prior years' claims.

A.17. A schedule of US income tax refunds received for the last 5 years from the federal government follows:

<u>Year Received</u>	<u>Tax Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	1991	\$277,608	\$266,416	\$544,024
2004	1992	380,614	317,616	698,230
2004	1993	9,435,390	6,865,756	16,301,146
2004	1994	1,297,773	798,364	2,096,137
2006	1991	77,371	80,256	157,627
2006	1992	227,216	206,332	433,548

Q.18. Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits, reserves and associated reversals on liberalized depreciation.

A.18. Attachment II-D-18 provides a breakdown of the major items comprising prepaid and deferred income tax charges and other deferred income tax credits as reflected on the Company's future test year Balance Sheet shown in Exhibit Future 1, Schedule B-1.

Prepaid and Deferred Taxes
Year Ended December 31, 2007
(Thousands of Dollars)

	<u>Current</u>	<u>Non-Current</u>
Accumulated Deferred Income Taxes (Account 190)		
Contribution in Aid of Construction	\$ 0	\$ 88,764
Pension and Post-Retirement Benefits	188	60,204
Mark to Market	5,961	0
SFAS 109	(373)	9,076
Taxes	7,769	558
Retired Miners' Health Care Costs	0	(1,094)
Bad Debt Provision	11,798	0
Vacation Pay	6,853	0
Post Employment Benefits	0	2,680
Litigation Contingencies	4,884	0
Rate Refund	0	1,866
Miscellaneous	0	(51)
	<hr/>	<hr/>
Total Account 190	\$ 37,080	\$ 162,003
	<hr/>	<hr/>
Accumulated Deferred Income Taxes (Accounts 282 and 283)		
Other Property (Account 282)		
Accelerated Cost Recovery System	\$ 0	\$ 463,747
SFAS 109	0	154,008
Repair Allowance & Other Basis Differences	0	46,865
Miscellaneous	0	(140)
	<hr/>	<hr/>
	0	664,480
	<hr/>	<hr/>
Other (Account 283)		
Competitive Transition Costs	0	145,220
SFAS 109	0	109,490
Loss on Reacquired Debt	0	12,254
Pension and Post Retirement Benefits	0	26,721
Ice Storm Deferral	0	5,116
Miscellaneous	3,938	1,437
	<hr/>	<hr/>
	3,938	300,238
	<hr/>	<hr/>
Total Account 282 and 283	\$ 3,938	\$ 964,718
	<hr/>	<hr/>

Q.19. Explain how the Federal corporate graduated tax rates have been reflected for rate case purposes. If the Pennsylvania jurisdictional utility is part of a multi-corporate system, explain how the tax savings are allocated to each member of the system.

A.19. The Federal corporate graduated tax rates do not apply to the consolidated group because taxable income exceeds the graduated income limitations.

Tax savings are computed and allocated between the parent corporation and affiliates. PPL Corporation, the parent of the affiliated group, allocates federal income tax based upon the taxable income of each member included in the consolidated return. PPL Corporation allocates Foreign tax credits to those members that generated the credits in proportion to the amount of credits they could have used on an unconsolidated basis. PPL Corporation allocates other credits to the members that generated the credits in proportion to the amount of credits such members generated on a separate return basis.

Q.20. Explain the treatment given to costs of removal in the income tax calculation and the basis for such treatment.

A.20. Section 1.167(a)-11(d)(3) of the IRS regulations related to ADR provides: "The cost of dismantling, demolishing, or removing an asset in the process of a retirement from the vintage account shall be treated as an expense deductible in the year paid or incurred, and such costs shall not be subtracted from the depreciation reserve for the account." This applies to ADR property acquired after December 31, 1970.

In 1972, PPL Electric requested, and was granted, permission from the IRS national office in Washington, D.C. to deduct as expense all removal costs applicable to property retired after December 31, 1971. This accounting change applied to all property retired after December 31, 1971, regardless of when it was acquired or the method of depreciation used to recover the expenditure. The Company consistently has followed this method of accounting on all income tax returns filed since 1972.

PPL Electric provided deferred income taxes on these expense deductions through December 31, 1980. In accordance with the Commission's order dated January 31, 1981, at Docket No. R-80031114, the Company terminated provisions for deferred income taxes. The Company fully amortized the December 31, 1980 balance of deferred income taxes through December 31, 2006.

- Q.21. Show income tax loss/gain carryovers from previous years. Show loss/gain carryovers by years of origin and amounts remaining by years at the beginning of the test year.
- A.21. For federal income tax purposes, PPL Electric experienced net operating losses in 1982, 1983 and 1984. The Company carried back and utilized the 1982 loss to tax years 1979, 1980 and 1981. The Company carried forward and utilized the 1983 and 1984 losses to tax year 1985. No additional net operating losses have been experienced since 1985 and there were no net operating loss carryovers remaining at the beginning of the test year.

For Pennsylvania income tax purposes, PPL Electric experienced a net operating loss in 2004 in the amount of \$14,593,188. The amount of the net operating loss carryforward remaining at December 31, 2006 is \$10,593,188.

Q.22. State whether the company eliminates tax savings by the payment of actual interest on construction work in progress not in rate base claim.

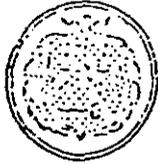
If response is affirmative:

- a) Set forth amount of construction claimed in this tax savings reduction, and explain the basis for this amount.
- b) Explain the manner in which the debt portion of this construction is determined for purposes of the deferral calculations.
- c) State the interest rate used to calculate interest on this construction debt portion, and the manner in which it is derived.
- d) Provide details of calculation to determine tax savings reduction, and state whether State taxes are increased to reflect the construction interest elimination.

A.22. The adjustment necessary to reflect the pro forma interest charges on measures of value for the test year is provided in Schedule D-13 of Exhibit Future 1.

- Q.23. Under section 1552 of the Internal Revenue Code (26 U.S.C.A. § 1552) and 26 CFR 1.1552-1 (1983), if applicable, a parent company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member's tax liability to the Federal government (if this interrogatory is not applicable, so state):
- a) State what option has been chosen by the group.
 - b) Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return for the test year and the most recent 3 years for which data is available.
 - c) Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members.
 - d) Provide the most recent annual income tax return for the group.
 - e) Provide details of the amount of the net operating losses of any member allocated to the income tax returns of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.
 - f) Provide details of the amount of net negative income taxes, after all tax credits are accounted for, of any member allocated to the income tax return of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.
- A.23. a) PPL Electric Utilities Corporation is owned by PPL Corporation (PPL). Internal Revenue Code Section 1552 provides for an allocation of consolidated income tax for "earnings and profits" purposes only. PPL elected option (a) (1), i.e., ratio of taxable income of each company having income to total consolidated taxable income as modified by Commissioner of Internal Revenue for consolidated income tax return purposes only. A copy of the IRS authorization is included as Attachment II-D-23a. PPL has chosen, for book purposes and all other purposes, to allocate consolidated Federal income tax among all companies based on net taxable income or loss and credits on a separate return basis. PPL Corporation became the common parent of the affiliated group in 1995 and elected to continue this allocation

- methodology in its 1995 Federal income tax return.
- b) Attachment II-D-23b details the tax liability allocated to each of the participating members in the consolidated federal income tax return for the 2004, 2005 and 2006.
 - c) PPL Corporation is the parent company of the PPL consolidated group that includes PPL Electric and makes all necessary income tax payments to the Internal Revenue Service for the net tax liability that is due for the consolidated group. PPL Corporation bills member companies that have a positive federal income tax allocation and pays member companies that have a negative federal income tax allocation. The amounts PPL Corporation receives from, or to, pays each member company are the same amounts as detailed in Attachment II-D-23b.
 - d) The most recent Federal income tax return filed by the consolidated group is tax year 2005; the complete tax return is voluminous. Attachment II-D-23c includes pages 1 through 4 of the Federal Form 1120 and a summary of taxable income by member company. Additional schedules will be furnished upon request.
 - e) Attachment II-D-23b includes details of the actual payments made to members of the consolidated group with net operating losses.
 - f) Attachment II-D-23b includes details of the actual payments made to members of the consolidated group with a net negative income tax allocation after credits.



U. S. TREASURY DEPARTMENT
WASHINGTON 25

OCT 13 1955

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
WASHINGTON 25, D. C.

AND REFER TO
T-R:C
TFG

Pennsylvania Power & Light Co.
Ninth and Hamilton Streets
Allentown, Pennsylvania

Attention: F. H. Markley, Treasurer

Gentlemen:

This is in further reply to your letter dated September 6, 1955, in which you requested approval of a proposed method of allocating the tax liability of the group of which your company is the common parent.

You have proposed to allocate the consolidated tax of your affiliated group under the provisions of section 1552(a)(1) of the 1954 Code, but with the limitations provided under Securities and Exchange Commission Rule U-45(b)(6) as follows:

- (1) That the tax allocated to each subsidiary company shall not exceed the amount of tax of such company based upon a separate return computed as if such company had always filed its tax returns on a separate return basis; and
- (2) That any excess of liability over a separate return tax which would be allocated to a subsidiary company but for clause (1) above shall be apportioned among the other members of the group, including the holding company (or other parent company), in direct proportion to the reduction in tax liability to such members as measured by the difference between their tax liabilities computed on a separate return basis and their allocated portion of the consolidated tax liability.

Your proposed method was approved by telegram on September 13, 1955, subject to the condition that the limitation with respect to the tax allocated to your subsidiaries shall be based upon the tax of such members for the taxable year computed as if separate returns had been filed by each for such taxable year without regard to net operating losses sustained by such members in prior or subsequent taxable years.

2 - Pennsylvania Power & Light Co.

This letter and our telegram of September 13, 1955, are evidences of your authority for the adoption of such method.

Very truly yours,

O. Gordon Kelly
Acting Commissioner.

Enclosure:
Copy of this letter

PPL CORPORATION AND SUBSIDIARY COMPANIES
ALLOCATION OF 2006 FEDERAL INCOME TAX

	<u>Taxable</u> <u>Income</u>	<u>Tax</u> <u>35%</u>	<u>Less</u> <u>Credits</u>	<u>Tax</u> <u>35%</u>
PPL Electric Utilities Corporation	\$ 63,693,239	\$ 22,292,634	\$ 0	\$ 22,292,634
Burns Mechanical, Inc.	700,474	245,166		245,166
CEP Lending, Inc.	20,523,202	7,183,121		7,183,121
CEP Reserves, Inc.	281,815,281	98,635,348		98,635,348
G.O.P. Inc. of Delaware	7,282	2,549		2,549
H.T. Lyons, Inc.	1,201,507	420,527		420,527
Lady Jane Collieries, Inc.	100,000	35,000		35,000
McCarl's Inc.	2,941,744	1,029,610		1,029,610
McClure Company	2,096,416	733,746		733,746
Ninth Street and Hamilton Corporation	(3,649)	(1,277)		(1,277)
Penobscot Hyrdro Co., Inc.	1,985,668	694,984		694,984
PPL Capital Funding, Inc.	21	7		7
PPL Coal Holdings Corporation	3,591,049	1,256,867		1,256,867
PPL Corporation	(19,971,266)	(6,989,943)		(6,989,943)
PPL Deposit Corporation	63,326,969	22,164,439		22,164,439
PPL Energy Funding Corporation	6,732,772	2,356,470	158,181,329	(155,824,859)
PPL Energy Services Northeast, Inc.	2,823,737	988,308		988,308
PPL Fuels Asset Management, Inc.	43,872,305	15,355,307		15,355,307
PPL Gas Utilities Corporation	17,067,671	5,973,685		5,973,685
PPL Interstate Energy Company	1,069,602	374,361		374,361
PPL Investment Corporation	237,791,352	83,226,973		83,226,973
PPL Montana Holdings, LLC	106,347,497	37,221,624		37,221,624
PPL Power Insurance, Ltd.	953,233	333,632		333,632
PPL Principal Corporation	5,737,795	2,008,228		2,008,228
PPL Properties, Inc.	35,937,074	12,577,976		12,577,976
PPL Receivables Corporation	133,254,944	46,639,230		46,639,230
PPL Services Corporation	23,200,359	8,120,126		8,120,126
PPL Spectrum, Inc.	(855,756)	(299,515)		(299,515)
Realty Company of Pennsylvania	154,608	54,113		54,113
	<hr/>	<hr/>	<hr/>	<hr/>
Total Consolidated	\$ 1,036,095,130	\$ 362,633,296	\$ 158,181,329	\$ 204,451,967

PPL CORPORATION AND SUBSIDIARY COMPANIES
ALLOCATION OF 2005 FEDERAL INCOME TAX

	<u>Taxable</u> <u>Income</u>	<u>Tax</u> <u>35%</u>	<u>Less</u> <u>Credits</u>	<u>Tax</u> <u>35%</u>
PPL Electric Utilities Corporation	\$ 94,983,865	\$ 33,244,353	\$ 0	\$ 33,244,353
Burns Mechanical, Inc.	(4,185)	(1,465)		(1,465)
CEP Lending, Inc.	13,910,843	4,868,795		4,868,795
CEP Reserves, Inc.	338,220,568	118,377,199		118,377,199
G.O.P. Inc. of Delaware	3,839	1,344		1,344
H.T. Lyons, Inc.	(847,862)	(296,752)		(296,752)
Lady Jane Collieries, Inc.	90,383	31,634		31,634
McCarl's Inc.	3,607,470	1,262,615		1,262,615
McClure Company	1,009,507	353,327		353,327
Ninth Street and Hamilton Corporation	61,675	21,586		21,586
Penobscot Hyrdro Co., Inc.	1,806,227	632,179		632,179
PPL Capital Funding, Inc.	(2,523,697)	(883,294)		(883,294)
PPL Coal Holdings Corporation	3,717,985	1,301,295		1,301,295
PPL Corporation	2,413,531	844,737		844,737
PPL Deposit Corporation	5,529,395	1,935,288		1,935,288
PPL Energy Funding Corporation	(339,923,078)	(118,973,077)	99,576,880	(218,549,957)
PPL Energy Services Northeast, Inc.	4,083,980	1,429,393		1,429,393
PPL Fuels Asset Management, Inc.	36,015,121	12,605,292		12,605,292
PPL Gas Utilities Corporation	(5,592,326)	(1,957,314)		(1,957,314)
PPL Interstate Energy Company	2,209,555	773,344		773,344
PPL Investment Corporation	265,050,239	92,767,584		92,767,584
PPL Montana Holdings, LLC	70,079,240	24,527,734		24,527,734
PPL Power Insurance, Ltd.	4,470,662	1,564,732		1,564,732
PPL Principal Corporation	463,408	162,193		162,193
PPL Properties, Inc.	31,333,489	10,966,721		10,966,721
PPL Receivables Corporation	80,176,627	28,061,819		28,061,819
PPL Services Corporation	15,298,060	5,354,321		5,354,321
PPL Spectrum, Inc.	654,667	229,133		229,133
Realty Company of Pennsylvania	208,069	72,824		72,824
Total Consolidated	\$ 626,507,257	\$ 219,277,540	\$ 99,576,880	\$ 119,700,660

PPL CORPORATION AND SUBSIDIARY COMPANIES
ALLOCATION OF 2004 FEDERAL INCOME TAX

	<u>Taxable</u> <u>Income</u>	<u>Tax</u> <u>35%</u>	<u>Less</u> <u>Credits</u>	<u>Tax</u> <u>35%</u>
PPL Electric Utilities Corporation	\$ (87,504,892)	\$ (30,626,712)	\$ 0	\$ (30,626,712)
Burns Mechanical, Inc.	996,463	348,762		348,762
CEP Lending, Inc.	3,234,640	1,132,124		1,132,124
CEP Reserves, Inc.	314,403,672	110,041,285		110,041,285
G.O.P. Inc. of Delaware	(74,110)	(25,939)		(25,939)
H.T. Lyons, Inc.	474,145	165,951		165,951
Lady Jane Collieries, Inc.	(358,921)	(125,622)		(125,622)
McCarl's Inc.	2,211,303	773,956		773,956
McClure Company	813,434	284,702		284,702
Ninth Street and Hamilton Corporation	(4,467)	(1,563)		(1,563)
Penobscot Hydro Co., Inc.	1,433,489	501,721		501,721
PPL Capital Funding, Inc.	(2,366,757)	(828,365)		(828,365)
PPL Coal Holdings Corporation	87,082	30,479		30,479
PPL Corporation	21,555,861	7,544,551		7,544,551
PPL Energy Funding Corporation	(368,923,221)	(129,123,127)	42,879,242	(172,002,369)
PPL Energy Services Northeast, Inc.	2,976,141	1,041,649		1,041,649
PPL Gas Utilities Corporation	1,623,459	568,211		568,211
PPL Interstate Energy Company	1,871,187	654,915		654,915
PPL Investment Corporation	241,507,469	84,527,614		84,527,614
PPL Montana Holdings, LLC	60,461,592	21,161,557		21,161,557
PPL Power Insurance, Ltd.	4,144,768	1,450,669		1,450,669
PPL Properties, Inc.	33,548,887	11,742,110		11,742,110
PPL Receivables Corporation	28,273,962	9,895,887		9,895,887
PPL Services Corporation	9,321,795	3,262,628		3,262,628
PPL Spectrum, Inc.	98,656	34,530		34,530
Realty Company of Pennsylvania	25,613	8,965		8,965
	<u>\$ 269,831,250</u>	<u>\$ 94,440,938</u>	<u>\$ 42,879,242</u>	<u>\$ 51,561,696</u>
Total Consolidated	<u>\$ 269,831,250</u>	<u>\$ 94,440,938</u>	<u>\$ 42,879,242</u>	<u>\$ 51,561,696</u>

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2005 or tax year beginning _____ ending _____
▶ See separate instructions.

2005

A Check if: 1 Consolidated return (attach Form 851) <input checked="" type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 required (attach Sch. M-3) <input checked="" type="checkbox"/>	Use IRS label, Other-wise, print or type.	Name PPL Corporation and Subsidiaries Number, street, and room or suite no. if a P.O. box, see instructions. Two North Ninth Street City or town, state, and ZIP code Allentown, PA 18101	B Employer identification number 23-2758192
			C Date incorporated 03/15/1995
			D Total assets (see instructions) \$ 15,337,137,531.

E Check if: (1) Initial return (2) Final return (3) Less returns and allowances (4) Name change (5) Address change

	(1)	(2)	(3)	(4)	(5)
1 a Gross receipts or sales	4,754,087,591.				
b Less returns and allowances					
c Bal					4,754,087,591.
2 Cost of goods sold (Schedule A, line 8)					349,346,190.
3 Gross profit. Subtract line 2 from line 1c					4,404,741,401.
4 Dividends (Schedule C, line 19)					1,420,535,814.
5 Interest					19,618,795.
6 Gross rents					20,012,427.
7 Gross royalties					187,428.
8 Capital gain net income (attach Schedule D (Form 1120))					46,642,530.
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)					-92,768,401.
10 Other income (see instructions - attach schedule)				See Statement 9.	1,101,972,881.
11 Total income. Add lines 3 through 10					6,920,942,875.
12 Compensation of officers (Schedule E, line 4)					37,801,288.
13 Salaries and wages (less employment credits)					303,076,222.
14 Repairs and maintenance					288,479,192.
15 Bad debts					19,814,023.
16 Rents					88,335,530.
17 Taxes and licenses					236,993,179.
18 Interest					389,932,632.
19 Charitable contributions (see instructions for 10% limitation)				See Statement 17	3,926,995.
20 a Depreciation (attach Form 4562)			20a	446,114,884.	
b Less depreciation claimed on Schedule A and elsewhere on return			20b	281,470.	
20 c					445,833,414.
21 Depletion					28,114.
22 Advertising					195,891.
23 Pension, profit-sharing, etc., plans					69,502,975.
24 Employee benefit programs					46,524,125.
25 Domestic production activities deduction (attach Form 8903)					2,265,862.
26 Other deductions (attach schedule)				See Statement 19	3,087,742,762.
27 Total deductions. Add lines 12 through 26					5,020,452,204.
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11					1,900,490,671.
29 Less: a Net operating loss deduction (see instructions)			29a		
b Special deductions (Schedule C, line 20)			29b	1,273,983,414.	
29 c					1,273,983,414.
30 Taxable income. Subtract line 29c from line 28 (see instructions if Schedule C, line 12, was completed)					626,507,257.
31 Total tax (Schedule J, line 11)					119,700,660.
32 Payments: a 2004 overpayment credited to 2005	32a	41,306,738.			
b 2005 estimated tax payments	32b	80,000,000.			
c Less 2005 refund applied for on Form 4466	32c	()			
d Bal			32d	121,306,738.	
e Tax deposited with Form 7004			32e		
f Credit from (1) Form 2438 (2) Form 4138			32f		
32 g					121,306,738.
33 Estimated tax penalty (see instructions). Check if Form 2220 is attached					372,898.
34 Tax due. If line 32g is smaller than the total of lines 31 and 33, enter amount owed					
35 Overpayment. If line 32g is larger than the total of lines 31 and 33, enter amount overpaid					1,233,180.
36 Enter amount of line 35 you want: Credited to 2006 estimated tax					1,233,180. Refunded

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer: Paul A. Farr Date: 2/30/06 Title: Sr.V.P - Financial

May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Preparer's signature	Date	Check if self-employed	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code		EIN	Phone no.

PPL Corporation and Subsidiaries

Form 1120 (2005)

Page 2

Schedule A Cost of Goods Sold (see instructions)

Table with 8 rows for Schedule A: Inventory at beginning of year, Purchases, Cost of labor, Additional section 263A costs, Other costs, Total, Inventory at end of year, Cost of goods sold.

9 a Check all methods used for valuing closing inventory:

- (i) Cost
(ii) Lower of cost or market
(iii) Other (Specify method used and attach explanation.)

b Check if there was a writedown of subnormal goods

c Check if the LIFO inventory method was adopted this tax year for any goods

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation?

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation

Schedule C Dividends and Special Deductions (see instructions)

Table with 20 rows for Schedule C: Dividends from less-than-20%-owned domestic corporations, Dividends from 20%-or-more-owned domestic corporations, Dividends on debt-financed stock, etc.

Schedule E Compensation of Officers (see instructions for page 1, line 12)

Note: Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are \$500,000 or more.

Table with 6 columns: (a) Name of officer, (b) Social security number, (c) Percent of time devoted to business, (d) Common, (e) Preferred, (f) Amount of compensation.

Form 1120 (2005)

Schedule J Tax Computation (see instructions)

1	Check if the corporation is a member of a controlled group. <input type="checkbox"/> Important: Members of a controlled group, see instructions.		
2 a	If the box on line 1 is checked, enter the corporation's share of the \$50,000, \$25,000, and \$9,925,000 taxable income brackets (in that order): (1) _____ (2) _____ (3) _____		
b	Enter the corporation's share of: (1) Additional 5% tax (not more than \$11,750) _____ (2) Additional 3% tax (not more than \$100,000) _____		Stmt 45
3	Income tax. Check if a qualified personal service corporation (see instructions) <input type="checkbox"/>	3	219,277,540.
4	Alternative minimum tax (attach Form 4626) _____	4	NONE
5	Add lines 3 and 4 _____	5	219,277,540.
6 a	Foreign tax credit (attach Form 1118) _____	6 a	22,451,854.
b	Possessions tax credit (attach Form 5735) _____	6 b	
c	Credits from: <input type="checkbox"/> Form 8834 <input checked="" type="checkbox"/> Form 8907, line 23 _____	6 c	77,072,504.
d	General business credit. Check box(es) and indicate which forms are attached: <input checked="" type="checkbox"/> Form 3800 <input checked="" type="checkbox"/> Form(s) (specify) ▶ 8835 _____	6 d	52,522.
e	Credit for prior year minimum tax (attach Form 8827) _____	6 e	
f	Bond credits from: <input type="checkbox"/> Form 8860 <input type="checkbox"/> Form 8912 _____	6 f	
7	Total credits. Add lines 6a through 6f _____	7	99,576,880.
8	Subtract line 7 from line 5 _____	8	119,700,660.
9	Personal holding company tax (attach Schedule PH (Form 1120)) _____	9	
10	Other taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/> Form 8697 <input type="checkbox"/> Form 8868 <input type="checkbox"/> Form 8902 <input type="checkbox"/> Other (attach schedule) _____	10	
11	Total tax. Add lines 8 through 10. Enter here and on page 1, line 31 _____	11	119,700,660.

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶ _____	Yes No	7	At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of stock of the corporation entitled to vote or (b) the total value of all classes of stock of the corporation? _____ If "Yes," enter: (a) Percentage owned ▶ _____ and (b) Owner's country ▶ _____	Yes No
2	See the instructions and enter the: a Business activity code no. ▶ 551112 b Business activity ▶ Holding Company c Product or service ▶ _____		c	The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter number of Forms 5472 attached ▶ _____	
3	At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) See Form 851. _____ If "Yes," attach a schedule showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.	X	8	Check this box if the corporation issued publicly offered debt instruments with original issue discount. <input type="checkbox"/> If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.	
4	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? _____ If "Yes," enter name and EIN of the parent corporation ▶ _____	X	9	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ 1,575,982.	
5	At the end of the tax year, did any individual, partnership, corporation, estate, or trust own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) _____ If "Yes," attach a schedule showing name and identifying number. (Do not include any information already entered in 4 above.) Enter percentage owned ▶ _____	X	10	Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ _____	
6	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) _____ If "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.	X	11	If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here <input type="checkbox"/> If the corporation is filing a consolidated return, the statement required by Temporary Regulations section 1.1502-21T(b)(3) must be attached or the election will not be valid.	
			12	Enter the available NOL carryover from prior tax years (Do not reduce it by any deduction on line 29a.) ▶ \$ _____	
			13	Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000? _____ If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 4. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ \$ _____	X

Note: If the corporation, at any time during the tax year, had assets or operated a business in a foreign country or U.S. possession, it may be required to attach Schedule N (Form 1120), Foreign Operations of U.S. Corporations, to this return. See Schedule N for details.

PPL Corporation and Subsidiaries

23-2758192

Form 1120 (2005)

Page 4

Note: The corporation is not required to complete Schedules L, M-1, and M-2 if Question 13 on Schedule K is answered "Yes."

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		605,509,578.		572,271,385.
	Trade notes and accounts receivable	-49,707,926.	Stmt 62	5,080,555,286.	
b	Less allowance for bad debts	(73,625,525.)	-123,333,451.	(76,452,096.)	5,004,103,190.
3	Inventories		265,655,739.		310,290,317.
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule)	Stmt 68	1,097,959,906.		1,382,044,421.
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)	Stmt 82	-665,665,819.		-1,564,830,714.
10a	Buildings and other depreciable assets	14,293,306,656.		14,252,587,770.	
b	Less accumulated depreciation	(6,997,306,019.)	7,296,000,637.	(7,145,940,356.)	7,106,647,414.
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)		308,260.		668,260.
13a	Intangible assets (amortizable only)	12,256,975.		164,772,504.	
b	Less accumulated amortization	(7,000,544.)	5,256,431.	(7,397,702.)	157,374,802.
14	Other assets (attach schedule)	Stmt 96	2,397,202,146.		2,368,568,456.
15	Total assets		10,878,893,427.		15,337,137,531.
Liabilities and Shareholders' Equity					
16	Accounts payable		283,086,933.		614,517,992.
17	Mortgages, notes, bonds payable in less than 1 year		814,138,442.		5,261,581,760.
18	Other current liabilities (attach schedule)	Stmt 110	604,821,302.		1,290,207,501.
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more		4,404,515,261.		4,357,560,432.
21	Other liabilities (attach schedule)	Stmt 124	2,906,179,795.		3,213,093,507.
	Capital stock: a Preferred stock	50,518,900.		50,518,900.	
	b Common stock	-1,470,974,915.	-1,420,456,015.	-1,473,781,755.	-1,423,262,855.
23	Additional paid-in capital		4,256,545,873.		3,104,850,897.
24	Retained earnings-Appropriated (attach schedule)				-252,293.
25	Retained earnings - Unappropriated		-1,095,455,073.		-634,375,474.
26	Adjustments to shareholders' equity (attach schedule)	Stmt 138	51,051,122.		-520,670,365.
27	Less cost of treasury stock		(-74,465,787.)		(-73,886,429.)
28	Total liabilities and shareholders' equity		10,878,893,427.		15,337,137,531.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (see instructions)

1	Net income (loss) per books	438,488,998.	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books	7,213,836.		Tax-exempt interest \$	1,575,982.
3	Excess of capital losses over capital gains			See Statement 176	-97,659,011.
4	Income subject to tax not recorded on books this year (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
	See Statement 160	1,550,746,327.	a	Depreciation \$	445,923,944.
5	Expenses recorded on books this year not deducted on this return (itemize):		b	Charitable contributions \$	
a	Depreciation \$	268,402,463.		See Statement 184	306,701,391.
b	Charitable contributions \$		9	Add lines 7 and 8	656,542,306.
c	Travel and entertainment \$	1,682,093.	10	Income (page 1, line 28) - line 6 less line 9	1,900,490,671.
	See Statement 168	290,499,260.			
6	Add lines 1 through 5	2,557,032,977.			

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	-1,095,455,073.	5	Distributions: a Cash	1,623,767,071.
2	Net income (loss) per books	438,488,998.		b Stock	
3	Other increases (itemize):			c Property	
	See Statement 192	1,933,661,776.	6	Other decreases (itemize): Stmt 200	287,304,104.
4	Add lines 1, 2, and 3	1,276,695,701.	7	Add lines 5 and 6	1,911,071,175.
			8	Balance at end of year (line 4 less line 7)	-634,375,474.

Form 1120 (2005)

Combined	PPL Corporation and Subsidiaries Eliminations	Adjustments	PPL Corporation and Subsidiaries
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Consolidated Schedules

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1 a	Gross receipts or sales	6,587,007,452.	-1,832,919,861.	4,754,087,591.
1 b	Less returns and allowances			
1 c	Balance	6,587,007,452.	-1,832,919,861.	4,754,087,591.
2	Cost of goods sold	349,346,190.		349,346,190.
3	Gross profit	6,237,661,262.	-1,832,919,861.	4,404,741,401.
4	Dividends	1,420,535,814.		1,420,535,814.
5	Interest	478,627,638.	-459,008,843.	19,618,795.
6	Gross rents	20,347,405.	-334,978.	20,012,427.
7	Gross royalties	31,857,559.	-31,670,131.	187,428.
8	Capital gain net income	346,153,320.	-299,510,790.	46,642,530.
9	Net gain or (loss) from Form 4797	-92,768,401.		-92,768,401.
10	Other income	1,120,501,413.	-18,528,532.	1,101,972,881.
11	Total income	9,562,916,010.	-2,641,973,135.	6,920,942,875.
12	Compensation of officers	37,801,288.		37,801,288.
13	Salaries and wages	303,076,222.		303,076,222.
14	Repairs and maintenance	288,479,192.		288,479,192.
15	Bad debts	19,814,023.		19,814,023.
16	Rents	88,335,530.		88,335,530.
17	Taxes and licenses	236,993,179.		236,993,179.
18	Interest	848,941,475.	-459,008,843.	389,932,632.
19	Charitable contributions	3,926,995.		3,926,995.
20 a	Depreciation	446,114,884.		446,114,884.
20 b	Less depreciation claimed elsewhere	281,470.		281,470.
20 c	Net depreciation	445,833,414.		445,833,414.
21	Depletion	28,114.		28,114.
22	Advertising	195,891.		195,891.
23	Pension, profit-sharing, etc. plans	69,502,975.		69,502,975.
24	Employee benefit programs	46,524,125.		46,524,125.
25	Domestic production activities deduction	2,265,862.		2,265,862.
26	Other deductions	5,270,707,054.	-2,182,964,292.	3,087,742,762.
27	Total deductions	7,662,425,339.	-2,641,973,135.	5,020,452,204.
28	Taxable income before NOL & Spec. Deductions	1,900,490,671.	NONE	1,900,490,671.
29 a	NOL deduction			
29 b	Special deductions	1,273,983,414.		1,273,983,414.
30	Taxable income	626,507,257.	NONE	626,507,257.

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	PPL Corporation	PPL Electric Utilities Corporation	B-G Mechanical Contractors, Inc	B-G Mechanical Services, Inc.	BDW Corp.	Burns Mechanical Inc.	CEP Lending, Inc	CEP Reserves, Inc.
Consolidated Schedules								
1120 Page 1	23-2758192	23-0959590	04-2535814	04-2982190	51-0116798	23-2968098	20-1467156	88-0415158
1 a Gross receipts or sales		3,254,715,896.				32,976,380.		
1 b Less returns and allowances								
1 c Balance		3,254,715,896.				32,976,380.		
2 Cost of goods sold						29,362,313.		
3 Gross profit		3,254,715,896.				3,614,067.		
4 Dividends	382,226,555.	13,000,000.						
5 Interest	181.	3,725,921.			13,527.		13,941,428.	67,056,748.
6 Gross rents		20,081,001.						
7 Gross royalties								
8 Capital gain net income		1,123,333.						
9 Net gain or (loss) from Form 4797		-22,218,821.				4,500.		
10 Other income	5,422,135.	34,975,885.						271,706,439.
11 Total income	387,648,871.	3,305,403,215.			13,527.	3,618,567.	13,941,428.	338,763,187.
12 Compensation of officers		3,429,888.				765,065.		
13 Salaries and wages		33,420,379.				1,584,169.	1,200.	3,000.
14 Repairs and maintenance		98,673,096.				52,905.		
15 Bad debts		17,679,350.				69,703.		
16 Rents		26,532,141.				179,588.	5,220.	7,531.
17 Taxes and licenses	60,417.	192,298,873.			60.	235,493.	197.	263.
18 Interest	2,907,327.	162,839,725.				293,450.		477,070.
19 Charitable contributions						7,087.		
20 a Depreciation		148,880,701.				118,945.	132.	380.
20 b Less depreciation claimed elsewhere						118,945.		
20 c Net depreciation		148,880,701.					132.	380.
21 Depletion								
22 Advertising		4,542.				6,489.		
23 Pension, profit-sharing, etc. plans		17,369,115.						
24 Employee benefit programs		17,546,867.				407,234.		
25 Domestic production activities deduction								
26 Other deductions	41,041.	2,478,334,899.			13,467.	21,569.	23,836.	54,375.
27 Total deductions	3,008,785.	3,197,009,576.			13,527.	3,622,752.	30,585.	542,619.
28 Taxable income before NOL & Spec. Deductions	384,640,086.	108,393,639.			NONE	-4,185.	13,910,843.	338,220,568.
29 a NOL deduction								
29 b Special deductions	382,226,555.	13,409,774.						
30 Taxable income	2,413,531.	94,983,865.			NONE	-4,185.	13,910,843.	338,220,568.

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Construction Safety Services, Inc.	Elmsford Sheet Metal Works, Inc.	Fred Williams, Inc.	Gas-Oil Products Inc. of Delaware	General Control Systems, Inc.	General Electrical Systems, Inc.	General Mechanical Group Inc.	General Mechanical Services, Inc.
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Consolidated Schedules

1120 Page 1	04-3310368	13-1705778	04-1974770	51-0056772	14-1795181	14-1809541	14-1809540	14-1827856
1 a	Gross receipts or sales							
1 b	Less returns and allowances							
1 c	Balance							
2	Cost of goods sold							
3	Gross profit							
4	Dividends							
5	Interest 16,869.							
6	Gross rents							
7	Gross royalties							
8	Capital gain net income							
9	Net gain or (loss)							
	from Form 4797							
10	Other income							
11	Total income 16,869.							
12	Compensation of officers							
13	Salaries and wages							
14	Repairs and maintenance							
15	Bad debts							
16	Rents							
17	Taxes and licenses -55,395.							
18	Interest							
19	Charitable contributions							
20 a	Depreciation							
20 b	Less depreciation claimed elsewhere							
20 c	Net depreciation							
21	Depletion							
22	Advertising							
23	Pension, profit-sharing, etc., plans							
24	Employee benefit programs							
25	Domestic production activities deduction							
26	Other deductions 68,425.							
27	Total deductions 13,030.							
28	Taxable income before							
	NOL & Spec. Deductions 3,839.							
29 a	NOL deduction							
29 b	Special deductions							
30	Taxable income 3,839.							

Attachment II-D-23c
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General Mechanical Systems, Inc.	H. T. Lyons Co.	H. T. Lyons, Inc	Lady Jane Collieries, Inc.	McCarl's, Inc.	McClure Company	Millenium Builders, Inc.	Ninth Street & Hamilton Corporation
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Consolidated Schedules

1120 Page 1

14-1642654	23-2677983	23-1900734	24-0856538	25-0955049	23-1420865	04-3450589	23-3091207
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1 a	Gross receipts or sales		58,177,616.		78,850,624.	56,482,576.	
1 b	Less returns and allowances						
1 c	Balance		58,177,616.		78,850,624.	56,482,576.	
2	Cost of goods sold		53,048,245.		70,957,471.	47,510,903.	
3	Gross profit		5,129,371.		7,893,153.	8,971,673.	
4	Dividends						
5	Interest			123,414.	362,489.	723,546.	81,358
6	Gross rents				14,917.		
7	Gross royalties						
8	Capital gain net income				7,564.		
9	Net gain or (loss)						
	from Form 4797		36,907.			-956.	
10	Other income		11,334.		53,542.	146,331.	
11	Total income		5,177,612.	123,414.	8,331,665.	9,840,594.	81,358
12	Compensation of officers		532,579.		704,822.	708,564.	
13	Salaries and wages		1,978,573.	11,298.	1,588,926.	3,390,027.	
14	Repairs and maintenance		18,526.		155,735.	260,907.	
15	Bad debts					34,747.	
16	Rents		290,087.		6,387.	115,715.	
17	Taxes and licenses		261,216.	3,234.	702,026.	660,818.	18,922
18	Interest		3,284.			7.	
19	Charitable contributions		18,510.		8,150.	27,279.	
20 a	Depreciation		389,707.		227,978.	207,814.	
20 b	Less depreciation claimed elsewhere				90,530.		
20 c	Net depreciation		389,707.		137,448.	207,814.	
21	Depletion						
22	Advertising		27,430.		15,926.	73,811.	
23	Pension, profit-sharing, etc., plans		188,917.			227,334.	
24	Employee benefit programs		585,017.		90,271.	547,886.	
25	Domestic production activities deduction						
26	Other deductions		1,731,628.	18,499.	1,314,504.	2,576,178.	761
27	Total deductions		6,025,474.	33,031.	4,724,195.	8,831,087.	19,683
28	Taxable income before NOL & Spec. Deductions		-847,862.	90,383.	3,607,470.	1,009,507.	61,675
29 a	NOL deduction						
29 b	Special deductions						
30	Taxable income		-847,862.	90,383.	3,607,470.	1,009,507.	61,675

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Penobscot Hydro Co., Inc.	PMDC Chile, Inc.	PMDC International Holdings, Inc.	PPL Capital Funding, Inc.	PPL Coal Holdings Corporation	PPL Deposit Corporation	PPL Energy Funding Corporation	PPL Energy Services Northeast, Inc.
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Consolidated Schedules

1120 Page 1	01-0418137	54-1834340	51-0368426	23-2926644	23-3079421	20-3586231	23-1677278	04-3125706
1 a Gross receipts of sales							2,383,574,644.	174,729,224
1 b Less returns and allowances								
1 c Balance							2,383,574,644.	174,729,224
2 Cost of goods sold								148,467,258
3 Gross profit							2,383,574,644.	26,261,966
4 Dividends	56,486.	2,524,486.	8,996,452.				891,430,978.	
5 Interest		9,756.	26,083.	61,857,827.	797,649.	5,534,475.	3,733,047.	13,850
6 Gross rents							69,650.	
7 Gross royalties							187,428.	
8 Capital gain net income							6,061,725.	
9 Net gain or (loss) from Form 4797							-68,894,237.	22,405
10 Other income	2,846,018.		1,846,492.	6,969,850.	3,333,046.		794,714,802.	1,247,911
11 Total income	2,902,504.	2,534,242.	10,869,027.	68,827,677.	4,130,695.	5,534,475.	4,010,878,037.	27,546,132
12 Compensation of officers							11,008,548.	
13 Salaries and wages						300.	93,571,448.	11,565,011
14 Repairs and maintenance							159,431,857.	508,003
15 Bad debts							98,780.	20,572
16 Rents						342.	8,764,625.	1,183,683
17 Taxes and licenses	180,582.			60.	412,710.	34.	16,302,555.	1,371,093
18 Interest	616,941.	1,064,471.	752,985.	61,857,827.			520,405,566.	1,569,819
19 Charitable contributions							7,212.	26,074
20 a Depreciation							253,437,514.	906,378
20 b Less depreciation claimed elsewhere								71,995
20 c Net depreciation							253,437,514.	834,383
21 Depletion							28,114.	
22 Advertising							-29.	52,524
23 Pension, profit-sharing, etc., plans							22,519,505.	122,108
24 Employee benefit programs							12,567,708.	207,288
25 Domestic production activities deduction	12,669.						1,788,248.	
26 Other deductions	246,545.	209,238.	174,754.	9,493,487.		4,404.	2,765,485,399.	6,001,594
27 Total deductions	1,056,737.	1,273,709.	927,739.	71,351,374.	412,710.	5,080.	3,865,417,050.	23,462,152
28 Taxable income before NOL & Spec. Deductions	1,845,767.	1,260,533.	9,941,288.	-2,523,697.	3,717,985.	5,529,395.	145,460,987.	4,083,980
29 a NOL deduction								
29 b Special deductions	39,540.		8,013,033.				856,292,845.	
30 Taxable income	1,806,227.	1,260,533.	1,928,255.	-2,523,697.	3,717,985.	5,529,395.	-710,831,858.	4,083,980

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Attachment I1-D-23c
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 23-2758192

PPL Fuels Asset Management, Inc.	PPL Gas Utilities Corporation	PPL Interstate Energy Company	PPL Investment Corporation	PPL Montana Holdings, LLC	PPL Power Insurance Ltd.	PPL Principal Corporation	PPL Properties, Inc.
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Consolidated Schedules

1120 Page 1	20-2048713	23-1278755	74-1720208	88-0491205	54-1929267	98-0389197	20-3586272	88-0498454
1 a Gross receipts or sales		188,768,879.	8,387,213.		339,261,916.	7,339,784.		
1 b Less returns and allowances								
1 c Balance		188,768,879.	8,387,213.		339,261,916.	7,339,784.		
2 Cost of goods sold								
3 Gross profit		188,768,879.	8,387,213.		339,261,916.	7,339,784.		
4 Dividends					14,000,000.			
5 Interest	36,048,316.	63,480.		264,669,062.	1,415,805.	938,578.	468,499.	94,422
6 Gross rents		10,779.			23,631.			
7 Gross royalties								31,670,131
8 Capital gain net income					191,247.			
9 Net gain or (loss)								
from Form 4797		232,973.			-1,928,655.			
10 Other income		7,138,047.	275,756.	482,551.	-10,517,645.			
11 Total income	36,048,316.	196,214,158.	8,662,969.	265,151,613.	342,446,299.	8,278,362.	468,499.	31,764,553
12 Compensation of officers		274,713.			269,470.			
13 Salaries and wages	1,200.	12,490,687.	1,569,920.	1,200.	5,734,769.		300.	1,200
14 Repairs and maintenance		3,605,281.	252,345.		21,062,805.			
15 Bad debts		1,756,004.						
16 Rents	2,547.	533,096.	8,836.	4,402.	41,214,945.		342.	3,129
17 Taxes and licenses	197.	-798,714.	916,244.	105.	21,915,916.		34.	137
18 Interest		6,569,216.			2,757,701.			
19 Charitable contributions		700.			892.			
20 a Depreciation		10,804,719.	820,616.	236.	25,962,551.			
20 b Less depreciation claimed elsewhere								
20 c Net depreciation		10,804,719.	820,616.	236.	25,962,551.			
21 Depletion								
22 Advertising		1,666.			2,572.			
23 Pension profit-sharing, etc. plans		2,877,991.	173,445.		13,061,583.			
24 Employee benefit programs		809,779.			668,301.			
25 Domestic production activities deduction					464,945.			
26 Other deductions	29,251.	162,881,346.	2,712,008.	95,431.	125,250,609.	3,807,700.	4,415.	426,598
27 Total deductions	33,195.	201,806,484.	6,453,414.	101,374.	258,367,059.	3,807,700.	5,091.	431,064
28 Taxable income before NOL & Spec. Deductions	36,015,121.	-5,592,326.	2,209,555.	265,050,239.	84,079,240.	4,470,662.	463,408.	31,333,489
29 a NOL deduction								
29 b Special deductions					14,000,000.			
30 Taxable income	36,015,121.	-5,592,326.	2,209,555.	265,050,239.	70,079,240.	4,470,662.	463,408.	31,333,489

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PPL Receivables Corporation	PPL Rights, Inc.	PPL SavageALERT, Inc.	PPL Services Corporation	PPL Spectrum, Inc.	PPL Synfuel Management Corporation	PPL UK Holdings, LLC	PPLG US Latin America, Inc.
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Consolidated Schedules

1120 Page 1	20-0897190	51-0391377	04-3546904	23-3041441	23-2816389	23-3049292	71-0874986	54-1817694
1 a Gross receipts or sales				53,121.	2,884,207.			
1 b Less returns and allowances								
1 c Balance				53,121.	2,884,207.			
2 Cost of goods sold								
3 Gross profit				53,121.	2,884,207.			
4 Dividends				2,381.			98,366,726.	9,931,750
5 Interest	601.	12,285,978.		1,883,316.			2,583,375.	158,037
6 Gross rents				4,186.				
7 Gross royalties								
8 Capital gain net income		338,760,998.						
9 Net gain or (loss) from Form 4797				-22,517.				
10 Other income				-176,576.	318,287.	-1.	-83,165.	-209,626
11 Total income	601.	351,046,976.		1,743,911.	3,202,494.	-1.	100,866,937.	9,880,161
12 Compensation of officers				20,107,639.				
13 Salaries and wages	1,200.	1,200.		136,011,753.	471.			
14 Repairs and maintenance				4,457,732.				
15 Bad debts					154,867.			
16 Rents	5,522.	3,129.		9,474,263.				
17 Taxes and licenses	197.	137.		2,008,334.	7,606.			38,165
18 Interest	1,722,601.			-2,295,624.	41,461.		87,357,559.	
19 Charitable contributions				3,831,091.				
20 a Depreciation	132.			4,241,509.				
20 b Less depreciation claimed elsewhere								
20 c Net depreciation	132.			4,241,509.				
21 Depletion								
22 Advertising				10,960.				
23 Pension, profit-sharing, etc. plans				12,962,977.				
24 Employee benefit programs				13,093,774.				
25 Domestic production activities deduction								
26 Other deductions	-81,905,678.	21,725.		-217,460,224.	2,343,422.		6,392,677.	259,489
27 Total deductions	-80,176,026.	26,191.		-13,555,816.	2,547,827.		93,750,236.	297,654
28 Taxable income before NOL & Spec. Deductions	80,176,627.	351,020,785.		15,299,727.	654,667.	-1.	7,116,701.	9,582,507
29 a NOL deduction								
29 b Special deductions				1,667.				
30 Taxable income	80,176,627.	351,020,785.		15,298,060.	654,667.	-1.	7,116,701.	9,582,507

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Realty Company of Pennsylvania Titan Mechanical Contractors, Inc Trystate Mechanical, Inc. Westech International, Inc.

Consolidated Schedules

1120 Page 1	23-1612742	06-1409341	13-2853805	13-3714912
1 a	Gross receipts or sales	805,372.		
1 b	Less returns and allowances			
1 c	Balance	805,372.		
2	Cost of goods sold			
3	Gross profit	805,372.		
4	Dividends			
5	Interest			
6	Gross rents	143,241.		
7	Gross royalties			
8	Capital gain net income	8,453.		
9	Net gain or (loss) from Form 4797			
10	Other income			
11	Total income	957,066.		
12	Compensation of officers			
13	Salaries and wages	147,991.		
14	Repairs and maintenance			
15	Bad debts			
16	Rents			
17	Taxes and licenses	451,663.		
18	Interest	89.		
19	Charitable contributions			
20 a	Depreciation	115,572.		
20 b	Less depreciation claimed elsewhere			
20 c	Net depreciation	115,572.		
21	Depletion			
22	Advertising			
23	Pension, profit-sharing, etc. plans			
24	Employee benefit programs			
25	Domestic production activities deduction			
26	Other deductions	33,682.		
27	Total deductions	748,997.		
28	Taxable income before NOL & Spec. Deductions	208,069.		
29 a	NOL deduction			
29 b	Special deductions			
30	Taxable income	208,069.		

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- Q.24. Provide detailed computations by vintage year showing State and Federal deferred income taxes resulting from the use of accelerated tax depreciation associated with post-1969 public utility property, ADR rates, and accelerated tax depreciation associated with post-1980 public utility property under the Accelerated Cost Recovery System (ACRS).
- a) Reconcile and explain any differences in the base used to calculate State and Federal deferred income taxes.
 - b) State whether tax depreciation is based on all rate base items claimed as of the end of the test year, and whether it is the annual tax depreciation at the end of the test year.
 - c) Reconcile differences between the deferred tax balance, as shown as a reduction to rate base, and the deferred tax balance as shown on the balance sheet.
- A.24. PPL Electric does not provide for deferred income taxes related to accelerated depreciation of assets acquired prior to January 1, 1981. However, through December 31, 1980, the Company did provide for deferred taxes related to the difference in tax depreciation resulting from using class lives under the ADR system of depreciation versus tax depreciation from the use of guideline lives in effect prior to the ADR system of depreciation. In accordance with the Commission's order adopted January 31, 1981, at Docket No. R-80031114, the Company terminated provisions for deferred taxes. The Company fully amortized the December 31, 1980 balance of deferred income taxes through December 31, 2005. The Company is deferring federal income taxes associated with the use of accelerated tax depreciation under the Accelerated Cost Recovery System (ACRS) of the Economic Recovery Tax Act of 1981 in compliance with the Commission's order adopted December 18, 1981, at Docket No. R-811636. See Attachment II-D-24 for detailed computations by vintage year.
- a) PPL Electric does not provide for any state deferred income taxes associated with the use of accelerated tax depreciation.
 - b) Tax depreciation is not based on all rate base items claimed as of the end of the test year. Certain assets that are included in rate base are fully depreciated for tax purposes. Additionally, there are basis differences between book cost and tax cost for which tax depreciation is not calculated. Tax depreciation claimed is the annual tax depreciation at the end of the future test year.
 - c) The total deferred tax balances shown on Schedule C-6 of Exhibit Future 1 agree with the rate base reduction shown on Schedule C-1 of Exhibit Future 1. Schedule C-6 of Exhibit Future 1 is cross-referenced to the deferred tax balances shown on the balance sheet provided in Schedule B-1 of Exhibit Future 1.

PPL ELECTRIC UTILITIES
Deferred Income Tax Calculation Due to Excess of Tax
Depreciation Over Depreciation Using Tax Basis and Book Rates
for Year Ended December 31, 2007
(Thousands of Dollars)

<u>Description</u>	<u>ACRS & MACRS Tax Depreciation</u>	<u>Depreciation Using Tax Basis & Book Rates</u>	<u>Excess Depreciation</u>	<u>(a) Rate</u>	<u>Deferred Federal Income Taxes</u>
<u>Vintage 1981:</u>					
General	\$ 0	\$ 25	\$ (25)	40.00%	\$ (10)
Transmission	53	922	(869)	42.23%	(367)
Distribution	77	989	(912)	42.43%	(387)
Subtotal-1981 Vintage	<u>130</u>	<u>1,936</u>	<u>(1,806)</u>		<u>(764)</u>
<u>Vintage 1982:</u>					
General	0	137	(137)	41.61%	(57)
Transmission	0	366	(366)	41.26%	(151)
Distribution	94	1,189	(1,095)	41.83%	(458)
Subtotal-1982 Vintage	<u>94</u>	<u>1,692</u>	<u>(1,598)</u>		<u>(666)</u>
<u>Vintage 1983:</u>					
General	0	149	(149)	40.27%	(60)
Transmission	0	33	(33)	36.36%	(12)
Distribution	45	1,049	(1,004)	40.84%	(410)
Subtotal-1983 Vintage	<u>45</u>	<u>1,231</u>	<u>(1,186)</u>		<u>(482)</u>
<u>Vintage 1984:</u>					
General	0	14	(14)	42.86%	(6)
Transmission	1	279	(278)	39.57%	(110)
Distribution	44	1,296	(1,252)	39.94%	(500)
Subtotal-1984 Vintage	<u>45</u>	<u>1,589</u>	<u>(1,544)</u>		<u>(616)</u>
<u>Vintage 1985:</u>					
General	0	115	(115)	39.13%	(45)
Transmission	0	207	(207)	37.68%	(78)
Distribution	106	1,623	(1,517)	38.89%	(590)
Subtotal-1985 Vintage	<u>106</u>	<u>1,945</u>	<u>(1,839)</u>		<u>(713)</u>
<u>Vintage 1986:</u>					
General	0	37	(37)	40.54%	(15)
Transmission	0	134	(134)	37.31%	(50)
Distribution	66	1,777	(1,711)	37.64%	(644)
Subtotal-1986 Vintage	<u>66</u>	<u>1,948</u>	<u>(1,882)</u>		<u>(709)</u>
<u>Vintage 1987:</u>					
General	88	249	(161)	36.65%	(59)
Transmission	48	76	(28)	35.71%	(10)
Distribution	2,020	2,442	(422)	36.73%	(155)
Subtotal-1987 Vintage	<u>2,156</u>	<u>2,767</u>	<u>(611)</u>		<u>(224)</u>
<u>Vintage 1988:</u>					
General	76	180	(104)	33.65%	(35)
Transmission	26	11	15	33.33%	5
Distribution	4,812	2,904	1,908	35.00%	669
Subtotal-1988 Vintage	<u>4,914</u>	<u>3,095</u>	<u>1,819</u>		<u>639</u>
<u>Vintage 1989:</u>					
General	78	180	(102)	34.31%	(35)
Transmission	17	6	11	36.36%	4
Distribution	4,629	2,764	1,865	35.00%	654
Subtotal-1989 Vintage	<u>4,724</u>	<u>2,950</u>	<u>1,774</u>		<u>623</u>
<u>Vintage 1990:</u>					
General	101	269	(168)	34.52%	(58)
Transmission	25	11	14	35.71%	5

PPL ELECTRIC UTILITIES
Deferred Income Tax Calculation Due to Excess of Tax
Depreciation Over Depreciation Using Tax Basis and Book Rates
for Year Ended December 31, 2007
(Thousands of Dollars)

<u>Description</u>	<u>ACRS & MACRS Tax Depreciation</u>	<u>Depreciation Using Tax Basis & Book Rates</u>	<u>Excess Depreciation</u>	<u>(a) Rate</u>	<u>Deferred Federal Income Taxes</u>
Distribution	5,693	3,292	2,401	35.00%	841
Subtotal-1990 Vintage	<u>5,819</u>	<u>3,572</u>	<u>2,247</u>		<u>788</u>
<u>Vintage 1991:</u>					
General	40	219	(179)	34.64%	(62)
Transmission	131	51	80	35.00%	28
Distribution	5,673	3,265	2,408	35.00%	844
Subtotal-1991 Vintage	<u>5,844</u>	<u>3,535</u>	<u>2,309</u>		<u>810</u>
<u>Vintage 1992:</u>					
General	653	872	(219)	34.70%	(76)
Transmission	208	91	117	35.00%	41
Distribution	7,442	4,216	3,226	35.00%	1,129
Subtotal-1992 Vintage	<u>8,303</u>	<u>5,179</u>	<u>3,124</u>		<u>1,094</u>
<u>Vintage 1993:</u>					
General	453	884	(431)	35.00%	(151)
Transmission	536	203	333	35.00%	116
Distribution	6,763	3,818	2,945	35.00%	1,031
Subtotal-1993 Vintage	<u>7,752</u>	<u>4,905</u>	<u>2,847</u>		<u>996</u>
<u>Vintage 1994:</u>					
General	103	473	(370)	35.00%	(130)
Transmission	146	61	85	35.00%	30
Distribution	7,209	4,062	3,147	35.00%	1,102
Subtotal-1994 Vintage	<u>7,458</u>	<u>4,596</u>	<u>2,862</u>		<u>1,002</u>
<u>Vintage 1995:</u>					
General	514	770	(256)	35.00%	(90)
Transmission	701	270	431	35.00%	151
Distribution	6,126	3,530	2,596	35.00%	908
Subtotal-1995 Vintage	<u>7,341</u>	<u>4,570</u>	<u>2,771</u>		<u>969</u>
<u>Vintage 1996:</u>					
General	78	180	(102)	35.00%	(36)
Transmission	585	227	358	35.00%	125
Distribution	5,867	3,358	2,509	35.00%	878
Subtotal-1996 Vintage	<u>6,530</u>	<u>3,765</u>	<u>2,765</u>		<u>967</u>
<u>Vintage 1997:</u>					
General	170	370	(200)	35.00%	(70)
Transmission	206	80	126	35.00%	44
Distribution	5,425	3,115	2,310	35.00%	809
Subtotal-1997 Vintage	<u>5,801</u>	<u>3,565</u>	<u>2,236</u>		<u>783</u>
<u>Vintage 1998:</u>					
General	208	698	(490)	35.00%	(171)
Transmission	79	30	49	35.00%	17
Distribution	4,514	2,619	1,895	35.00%	663
Subtotal-1998 Vintage	<u>4,801</u>	<u>3,347</u>	<u>1,454</u>		<u>509</u>
<u>Vintage 1999:</u>					
General	82	1,041	(959)	35.00%	(335)
Transmission	95	37	58	35.00%	20
Distribution	4,300	2,484	1,816	35.00%	636
Subtotal-1999 Vintage	<u>4,477</u>	<u>3,562</u>	<u>915</u>		<u>321</u>
<u>Vintage 2000:</u>					

PPL ELECTRIC UTILITIES
Deferred Income Tax Calculation Due to Excess of Tax
Depreciation Over Depreciation Using Tax Basis and Book Rates
for Year Ended December 31, 2007
(Thousands of Dollars)

<u>Description</u>	<u>ACRS & MACRS Tax Depreciation</u>	<u>Depreciation Using Tax Basis & Book Rates</u>	<u>Excess Depreciation</u>	<u>(a) Rate</u>	<u>Deferred Federal Income Taxes</u>
General	471	1,258	(787)	35.00%	(276)
Transmission	161	61	100	35.00%	35
Distribution	4,921	2,688	2,233	35.00%	782
Subtotal-2000 Vintage	<u>5,553</u>	<u>4,007</u>	<u>1,546</u>		<u>541</u>
<u>Vintage 2001:</u>					
General	633	1,237	(604)	35.00%	(212)
Transmission	534	190	344	35.00%	120
Distribution	4,053	2,048	2,005	35.00%	702
Subtotal-2001 Vintage	<u>5,220</u>	<u>3,475</u>	<u>1,745</u>		<u>610</u>
<u>Vintage 2002:</u>					
General	1,902	3,301	(1,399)	35.00%	(489)
Transmission	13,147	6,384	6,763	35.09%	2,373
Distribution	(5,449)	(2,788)	(2,661)	35.00%	(931)
Subtotal-2002 Vintage	<u>9,600</u>	<u>6,897</u>	<u>2,703</u>		<u>953</u>
<u>Vintage 2003:</u>					
General	1,771	2,926	(1,155)	35.00%	(404)
Transmission	1,793	738	1,055	35.00%	369
Distribution	5,802	4,582	1,220	35.00%	427
Subtotal-2003 Vintage	<u>9,366</u>	<u>8,246</u>	<u>1,120</u>		<u>392</u>
<u>Vintage 2004:</u>					
General	800	923	(123)	35.00%	(43)
Transmission	1,369	625	744	35.00%	260
Distribution	5,439	3,305	2,134	35.00%	747
Subtotal-2004 Vintage	<u>7,608</u>	<u>4,853</u>	<u>2,755</u>		<u>964</u>
<u>Vintage 2005:</u>					
General	1,672	841	831	35.00%	291
Transmission	2,086	494	1,592	35.00%	557
Distribution	8,596	3,035	5,561	35.00%	1,946
Subtotal-2005 Vintage	<u>12,354</u>	<u>4,370</u>	<u>7,984</u>		<u>2,794</u>
<u>Vintage 2006:</u>					
General	6,622	1,347	5,275	35.00%	1,846
Transmission	2,028	369	1,659	35.00%	581
Distribution	13,128	4,299	8,829	35.00%	3,090
Subtotal-2006 Vintage	<u>21,778</u>	<u>6,015</u>	<u>15,763</u>		<u>5,517</u>
<u>Vintage 2007:</u>					
General	5,183	1,517	3,666	35.00%	1,283
Transmission	2,120	372	1,748	35.00%	612
Distribution	6,767	1,998	4,769	35.00%	1,669
Subtotal-2007 Vintage	<u>14,070</u>	<u>3,887</u>	<u>10,183</u>		<u>3,564</u>
<u>Summary:</u>					
Total General	\$ 21,698	\$ 20,212	\$ 1,486		\$ 495
Total Transmission	26,095	12,328	13,767		4,715
Total Distribution	114,162	68,959	45,203		15,452
Grand Total	<u>\$ 161,955</u>	<u>\$ 101,499</u>	<u>\$ 60,456</u>		<u>\$ 20,662</u>

- Q.25. Submit a schedule showing a breakdown of accumulated and unamortized investment tax credits, by vintage year and percentage rate, together with calculations supporting the amortized amount claimed as a reduction to pro forma income taxes. Provide details of methods used to write-off the unamortized balances.
- A.25. Attachment II-D-25 provides the requested detail. PPL Electric is amortizing investment tax credits over the historic weighted average book service life.

Electric Operations
Schedule of Deferred Investment Tax Credit (ITC)
Year Ended December 31, 2007
(Thousands of Dollars)

<u>Vintage Year</u>	<u>Rate</u>	<u>Accumulated ITC @ 12/31/2006</u>	<u>Amortization for Year Ended 12/31/2007</u>	<u>Accumulated ITC @ 12/31/2007</u>
<u>Transmission Property:</u>				
1975	10%	\$ 24	\$ 24	\$ 0
1975	4%	37	37	0
1976	10%	179	89	90
1976	4%	39	19	20
1977	10%	98	33	65
1978	10%	104	26	78
1979	10%	164	33	131
1980	10%	706	118	588
1981	10%	1,480	211	1,269
1982	10%	490	61	429
1983	10%	16	2	14
1984	10%	236	24	212
1985	10%	189	17	172
1986	10%	150	13	137
1987	10%	122	9	113
1988	10%	23	2	21
sub total		4,057	718	3,339
<u>Distribution Property:</u>				
1975	10%	57	57	0
1975	4%	87	87	0
1976	10%	359	180	179
1976	4%	78	39	39
1977	10%	353	118	235
1978	10%	456	114	342
1979	10%	817	163	654
1980	10%	958	160	798
1981	10%	1,125	161	964
1982	10%	1,178	147	1,031
1983	10%	712	79	633
1984	10%	842	84	758
1985	10%	1,287	117	1,170
1986	10%	1,436	120	1,316
1987	10%	362	28	334
1988	10%	174	12	162
1989	10%	44	3	41
1990	10%	79	5	74
sub total		10,404	1,674	8,730
Total		\$ 14,461	\$ 2,392	\$ 12,069

- Q.26. Explain in detail by statement or exhibit the appropriateness of claiming any additional items, not otherwise specifically explained and supported in the statement of operating income.
- A.26. An explanation of PPL Electric's claim for any additional operating income items is set forth in Section D of Exhibit Future 1.

- Q.27. If the utility's operations include non-jurisdictional activities, provide a schedule which demonstrates the manner in which rate base and operating income date have been adjusted to develop the jurisdictional test year claim.
- A.27. The Commission's Order, at Docket No. R-8003114, provided that future retail rate filings by PPL Electric should be on a PUC jurisdictional basis only. This filing has been prepared in compliance with that order. Total system measures of value and components of operating income have been allocated between the FERC and PUC jurisdictions and the proposed revenue increase has been determined on a PUC jurisdictional basis only. See Exhibit JMK 2.

- Q.1. Supply a copy of any budget utilized as a basis for any test year claim, and explain the utility's budgeting process.
- A.1. Attachment II-E-1 is a summary of the operating budget utilized as the basis for PPL Electric's future test year claim. An explanation of the Company's budgeting process is contained in Statement No. 2, the Direct Testimony of J.R. Schadt.

PPL ELECTRIC UTILITIES CORPORATION

Budget-2007

(Thousands of Dollars)

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
Operating Revenues													
Electric Revenue	\$261,737	\$233,468	\$246,082	\$210,456	\$219,883	\$226,481	\$244,595	\$249,605	\$202,013	\$228,143	\$236,064	\$271,392	\$2,829,921
Gas Operations													
Wholesale & Energy Trading	250	250	250	250	250	100	100	100	100	100	100	100	1,950
Intercompany Sales	11,820	13,170	12,125	11,734	11,574	13,417	12,125	11,499	10,700	11,585	12,246	13,739	145,734
Total Operating Revenues	273,807	246,888	258,457	222,442	231,707	239,998	256,820	261,204	212,813	239,828	248,410	285,231	2,977,605
Operating Expenses													
Electric Fuel													
Cost of Natural Gas & Propane													
Energy Purchases - External	17,163	18,020	17,166	16,420	16,336	16,266	17,242	16,620	15,444	16,427	17,094	18,977	205,175
Energy Purchases - Internal	165,250	147,866	152,801	131,918	136,660	140,155	152,345	156,139	128,672	138,826	145,918	168,668	1,763,218
Other Indirect O&M													
Other Operating Expenses - Direct	21,723	20,716	27,998	23,601	22,814	27,806	24,239	23,537	27,552	24,200	21,388	28,099	293,673
Other Operating Expenses - Intercompany	7,293	6,831	7,111	6,788	6,174	6,586	6,642	6,538	6,253	7,173	6,065	7,109	80,563
O&M Expense	29,016	27,547	35,109	30,389	28,988	34,392	30,881	30,075	33,805	31,373	27,453	35,208	374,236
Amort. of Transition Costs/Def Credits	144	133	135	122	111	115	127	128	128	113	116	131	1,501
Depreciation	10,722	10,767	10,810	10,864	10,922	10,967	11,024	11,085	11,135	11,197	11,260	11,309	132,062
Taxes Other Than Income	18,157	16,864	17,122	15,801	14,608	14,970	16,030	16,357	16,227	14,710	15,196	16,806	192,848
Total Operating Expenses	240,452	221,197	233,143	205,514	207,625	218,865	227,649	230,404	203,409	212,646	217,037	251,099	2,669,040
Income from Operations	33,355	25,691	25,314	16,928	24,082	21,133	29,171	30,800	9,404	27,182	31,373	34,132	308,565
Other Income and (Deductions)	1,103	1,206	811	368	373	429	962	928	356	376	450	471	7,833
Interest Expense													
Long Term Debt	6,744	6,718	6,744	6,734	6,744	6,734	7,292	7,187	6,550	6,559	6,550	6,560	81,114
Short Term Debt & Other	259	213	221	254	232	260	289	243	272	300	254	281	3,078
Intercompany Interest	1,315	1,318	1,305	1,293	1,288	1,285	1,283	1,280	1,280	1,303	1,275	1,270	15,495
AFUDC & Capitalized Interest	(303)	(293)	(298)	(302)	(295)	(284)	(288)	(290)	(279)	(264)	(257)	(224)	(3,377)
Total Interest Expense	8,015	7,954	7,972	7,979	7,969	7,995	8,576	8,420	7,823	7,898	7,822	7,887	96,310
Income Before Income Taxes	26,443	18,943	18,153	9,317	16,486	13,567	21,557	23,308	1,937	19,660	24,001	26,716	220,088
Income Taxes													
Provision - Federal	7,529	5,946	4,176	2,806	5,196	2,687	6,893	7,508	(1,106)	6,330	7,751	7,094	62,808
-State	2,357	1,688	1,618	830	1,469	1,209	1,921	2,077	173	1,752	2,139	2,383	19,616
Deferred Income Taxes	481	511	481	483	454	441	431	391	404	368	373	348	5,148
Total Income Taxes	10,367	8,145	6,255	4,119	7,119	4,337	9,245	9,974	(529)	8,450	10,263	9,825	87,570
Minority Interest													
Income Before Extraordinary Item	16,076	10,798	11,898	5,198	9,367	9,230	12,312	13,334	2,466	11,210	13,738	16,891	132,518
Extraordinary Item, net of income taxes													
Net Income	16,076	10,798	11,898	5,198	9,367	9,230	12,312	13,334	2,466	11,210	13,738	16,891	132,518
Preferred Stock Dividend Requirements	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,504	18,070
Earnings Available for Common Stock	\$14,570	\$9,292	\$10,392	\$3,692	\$7,861	\$7,724	\$10,806	\$11,828	\$960	\$9,704	\$12,232	\$15,387	\$114,448

- Q.2. Supply summaries of the utility's projected operating and capital budgets for the 2 calendar years following the end of the test year.
- A.2. Attachment II-E-2a provides the Company's projected operating budget for 2008 and 2009. Attachment II-E-2b provides the Company's capital budget for 2008 and 2009.

PPL ELECTRIC UTILITIES CORPORATION

Projected Operating Budget ¹⁾
For the Years Ended December 31,
(Thousands of Dollars)

	<u>2008</u>	<u>2009</u>
Operating Revenues		
Electric Operations	\$ 2,887,462	\$ 3,289,320
Sales for Resale	96,607	64,217
	<hr/>	<hr/>
Total Electric Operating Revenue	2,984,069	3,353,537
	<hr/>	<hr/>
Operating Expenses		
Energy Purchases - External	155,159	122,934
Energy Purchases - Internal	1,809,418	1,873,423
O&M Expense	374,464	371,568
Regulatory Debits/Credits	0	351,103
Depreciation	134,391	139,630
Taxes Other Than Income	198,680	201,197
Income Taxes-Federal	67,521	172,129
Income Taxes-State	11,967	44,507
Deferred Income Taxes	(5,963)	(151,245)
	<hr/>	<hr/>
Total Operating Expenses	2,745,637	3,125,246
	<hr/>	<hr/>
Operating Income	\$ 238,432	\$ 228,291
	<hr/>	<hr/>

¹⁾ Does not include any effect of this rate filing and excludes Transition Bond Company

PPL ELECTRIC UTILITIES CORPORATION

Projected Capital Budget
For the Years Ended December 31,
(Thousands of Dollars)

<u>Budget Category</u>	<u>2008</u>	<u>2009</u>
Provide Electric Service	\$ 92,905	\$ 96,742
Upgrade System Facilities	50,421	72,482
Assure System Reliability	53,516	54,184
Formerly leased Vehicles	18,403	19,815
Respond To Customer	13,355	13,273
Revenue Cycle Service	4,956	5,073
Other ¹⁾	10,333	8,097
Buildings and Improvements	10,658	8,218
Total	<u>\$ 254,547</u>	<u>\$ 277,884</u>

¹⁾ Includes office furniture, technology projects, and site acquisitions

ORIGINAL

PPL ELECTRIC UTILITIES CORPORATION

Exhibit Regs. § 53.53

Part III – Rate of Return

Docket No. R-00072155

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PAUL
SECRETARY'S BUREAU

This book contains responses to each of the pertinent items contained in § 53.53, Part III (Rate of Return Statement) of the Commission's Regulations.

Q.1. Provide a schedule showing the major components of claimed capitalization, and the derivation of the weighted costs of capital for the rate case claim. This schedule shall include a descriptive statement concerning the major elements of changes in claimed capitalization, cost rates and overall return from comparable historical data.

A.1. See Schedules B-6, B-7, B-8 and B-9 of Exhibit Future 1 for major components of claimed capitalization and the derivation of the weighted cost of capital.

Major changes from historic capitalization and cost rates are as follows:

- The expected retirement of \$254.9 million in senior secured bonds, series 5.875% (August 2007).
- The expected issue of \$240.0 million in senior secured bonds, series 5.70% (July 2007).

- Q.2. Provide a schedule in the same format as Schedule 1, except for the omission of the descriptive statement, for the most immediate comparable annual historical period prior to the test year and the two calendar years most immediately preceding the rate of return claim period. Irrespective of whether the capitalization claimed on Schedule 1 includes short-term debt, Schedule 2 should reflect capital ratios with and without short-term debt.
- A.2. Attachment III-A-2 provides the capitalization data for the years 2005 and 2006.

PPL ELECTRIC UTILITIES CORPORATION

Capitalization & Capitalization Ratios - Year End
(Thousands of Dollars)

Line No.	2005			2006		
	Amount	Excluding Short-Term Debt	Including Short-Term Debt	Amount	Excluding Short-Term Debt	Including Short-Term Debt
1	\$ 1,484,249	52.3%	51.5%	\$ 1,341,643	46.9%	46.2%
2	49,127	1.7%	1.7%	299,535	10.5%	10.3%
3	1,304,284	46.0%	45.3%	1,219,146	42.6%	42.0%
4	Total Permanent Capital	<u>2,837,660</u>	<u>100.0%</u>	2,860,324	<u>100.0%</u>	98.5%
5	Short-Term Debt	42,034	1.5%	42,034		1.5%
6	Total Capitalization	<u>\$ 2,879,694</u>	<u>100.0%</u>	<u>\$ 2,902,358</u>		<u>100.0%</u>

(a) Long-term debt includes amount due within one year and the unamortized loss on reacquired debt.

(b) Preferred and preference stock include an adjustment for the unamortized premiums and unrecovered original issue costs on reacquired preferred and preference stock.

(c) Common equity includes an adjustment for the unamortized premiums and unrecovered original issue costs on reacquired preferred and preference stock and an adjustment for the regulatory treatment of ice storm costs (per PUC Order at Docket No. P-00052148).

- Q.1. Provide a schedule showing the calculation of embedded cost of long-term debt by issue, supporting the related rate case claim. The schedule shall contain the following information:
- a) Date of issue.
 - b) Date of maturity.
 - c) Amount issued.
 - d) Amount outstanding.
 - e) Amount retired.
 - f) Amount reacquired.
 - g) Gain or loss on reacquisition.
 - h) Coupon rate.
 - i) Discount or premium at issuance.
 - j) Issuance expense.
 - k) Net proceeds.
 - l) Sinking fund requirements.
 - m) Effective cost rate.
 - n) Total average weighted effective cost rate.

Projected new issues, retirements and other major changes from the comparable historic data should be clearly noted.

- A.1. Schedule B-6 of Exhibit Future 1 provides the requested information.

- Q.2. In the event that a claim made for a true or economic cost of debt exceeds that shown in the preceding nominal cost schedule because of convertible features, sale with warrants or for any other reason, a full statement of the basis for such a claim should be provided.
- A.2. No claim is being made for a true economic cost of debt that exceeds that shown in the preceding nominal cost schedule.

- Q.3. Provide the following information concerning bank notes payable for test year and for latest comparable annual historical period prior to the test year:
- a) Line of credit at each bank.
 - b) Average daily balances of notes to each bank, by name of bank.
 - c) Interest rate charged on each bank note (Prime rate, formula rate, or other).
 - d) Purpose of each bank note (for example, construction, fuel storage, working capital, debt retirement).
 - e) Prospective future need for this type of financing.
- A.3. a) & b) The requested information is provided in Attachments III-B-3a and III-B-3b.
- c) The applicable interest rate(effective June 2006) charged on borrowings is either a eurodollar rate or base rate. In all cases, a utilization fee is charged if borrowings (including outstanding letters of credit), in aggregate, exceed 50% of total commitments. The borrowing formulas based on the credit ratings in effect for PPL Electric as of December 31, 2006 are as follows:
- Eurodollar borrowings: LIBOR + .25%
Base Rate borrowings: The higher of: Prime or Fed Funds + .50%
Utilization Fee: .050%
- d) PPL Electric has established its credit facilities primarily as a means to provide liquidity support for its unsecured commercial paper program. There were no notes outstanding during the historic test year.
- e) PPL Electric expects to continue to utilize the credit facilities to support its unsecured commercial paper program and does not anticipate making borrowings under the program during the test year.

PPL ELECTRIC UTILITIES CORPORATION

Line of Credit and Average Daily Note Balances by Bank
At December 31, 2006

	<u>Total</u> <u>Commitment by</u> <u>Bank</u>	<u>Average Daily</u> <u>Balance</u>
Mellon Bank	\$ 5,300,000	\$ 0
Key Bank	6,000,000	0
JP Morgan Chase	9,300,000	0
Barclays Bank	16,800,000	0
Morgan Stanley	9,300,000	0
Merrill Lynch	9,300,000	0
Wachovia	16,800,000	0
BNP Paribas	9,300,000	0
UBS Warburg	9,300,000	0
Citibank	16,800,000	0
Bank of New York	18,100,000	0
Union Bank of California	9,500,000	0
Bank of Nova Scotia	9,300,000	0
ABN Amro	6,500,000	0
Credit Suisse First Boston	9,300,000	0
HSBC Bank USA	9,300,000	0
William Street Commitment Corp.(Goldman)	9,300,000	0
PNC Bank	3,400,000	0
UFJ Bank	5,700,000	0
US Bank	3,300,000	0
Societe General	5,000,000	0
KBC Bank N.V.	3,100,000	0
	<u>\$ 200,000,000</u>	<u>\$ 0</u>

The Company also maintains an overdraft collection line with Mellon Bank for \$2 million to cover unexpected overdrafts in its controlled disbursement bank account.

PPL ELECTRIC UTILITIES CORPORATION

Line of Credit and Average Daily Note Balances by Bank
At December 31, 2007

	<u>Total</u> <u>Commitment</u> <u>by Bank</u>	<u>Projected</u> <u>Average Daily</u> <u>Balance</u>
Mellon Bank	\$ 5,300,000	\$ 0
Key Bank	6,000,000	0
JP Morgan Chase	9,300,000	0
Barclays Bank	16,800,000	0
Morgan Stanley	9,300,000	0
Merrill Lynch	9,300,000	0
Wachovia	16,800,000	0
BNP Paribas	9,300,000	0
UBS Warburg	9,300,000	0
Citibank	16,800,000	0
Bank of New York	18,100,000	0
Union Bank of California	9,500,000	0
Bank of Nova Scotia	9,300,000	0
ABN Amro	6,500,000	0
Credit Suisse First Boston	9,300,000	0
HSBC Bank USA	9,300,000	0
William Street Commitment Corp.(Goldman)	9,300,000	0
PNC Bank	3,400,000	0
UFJ Bank	5,700,000	0
US Bank	3,300,000	0
Societe General	5,000,000	0
KBC Bank N.V.	3,100,000	0
	<u>\$ 200,000,000</u>	<u>\$ 0</u>

The Company also maintains an overdraft collection line with Mellon Bank for \$2 million to cover unexpected overdrafts in its controlled disbursement bank account.

Q.4. Provide detailed information concerning all other short-term debt outstanding.

A.4. PPL Electric's primary source of short-term financing is commercial paper. Schedules showing the month-end balances of commercial paper and weighted average interest rate for the historic year and the test year are shown on Attachment III-B-4a and III-B-4b, respectively. The Company had no other short-term debt outstanding.

PPL ELECTRIC UTILITIES CORPORATION

**Monthly Short Term Debt Outstanding
During Year Ended December 31, 2006**

	<u>Month-end Outstanding</u>	<u>Weighted Average Rate</u>
January	\$ 42,034,000	4.25%
February	42,034,000	4.41%
March	142,034,000	4.74%
April	42,034,000	4.64%
May	42,034,000	4.83%
June	42,034,000	4.99%
July	42,034,000	5.12%
August	42,034,000	5.31%
September	42,034,000	5.38%
October	42,034,000	5.36%
November	42,034,000	5.35%
December	42,034,000	5.34%

PPL ELECTRIC UTILITIES CORPORATION

Monthly Short Term Debt Outstanding
During Year Ended December 31, 2007

	<u>Month-end Outstanding</u>	<u>Weighted Average Rate</u>
January	\$ 42,034,000	5.25%
February	42,034,000	5.25%
March	62,034,000	5.25%
April	62,034,000	5.25%
May	42,034,000	5.25%
June	57,034,000	5.25%
July	42,034,000	5.25%
August	42,034,000	5.25%
September	82,034,000	5.25%
October	52,034,000	5.25%
November	42,034,000	5.25%
December	53,679,000	5.25%

- Q.5. Describe long-term debt reacquisition by issue by Company and Parent as follows:
- a) Reacquisition by issue by year.
 - b) Total gain or loss on reacquisitions by issue by year.
 - c) Accounting for gain or loss for income tax and book purposes.
 - d) Proposed treatment of gain or loss on such reacquisition for ratemaking purposes.
- A.5. Attachment III-B-5 provides the requested information.

PPL ELECTRIC UTILITIES CORPORATION
Long-term Debt Reacquisition by Issue

Line No.	Description	Amount	Total Loss on Reacquired Debt (2)	Unamortized Loss as of December 31, 2006	Unamortized Loss as of December 31, 2007
1986					
1	15-5/8% Series due 2010 (3)	\$ 100,000,000	\$ 14,022,896	\$ 1,434,461	\$ 1,275,175
1987					
2	13-1/4% Series due 2012 (3)	100,000,000	11,529,725	899,153	742,957
1988					
3	13-1/8% Series due 2013 (3)	125,000,000	13,759,884	1,275,006	1,088,545
1989					
4	13-1/2% Series due 1994 (3)	125,000,000	5,503,632	752,547	689,878
5	12-3/4% Series due 2014 (3)	125,000,000	13,787,793	1,997,458	1,840,871
1990					
6	12% Series due 2015 (3)	125,000,000	13,037,869	1,546,816	1,370,106
1992					
7	10-7/8% Series due 2016 (3)	125,000,000	10,585,931	1,844,430	1,724,234
1993					
8	7-7/8% - 8-1/8% PC Series C due 2000-2010 (3)	20,000,000	940,413	164,016	152,969
9	11-1/4%- 11-1/2% PC Series D due 2002-2012 (3)	70,000,000	3,410,648	594,817	554,753
10	9-1/4% Series due 2004 (3)	80,000,000	459,626	83,748	78,545
11	9-3/4% Series due 2005 (3)	125,000,000	773,476	140,999	132,239
12	9% Series due 2016 (3)	125,000,000	8,993,234	1,711,777	1,609,669
1994					
13	5-5/8% PC Series A due 1984-2003 (1), (3)	15,500,000	94,917	19,690	18,711
14	10-5/8% PC Series E due 2014 (3)	37,750,000	1,930,733	399,358	379,491
15	10% Series due 2019 (3)	125,000,000	10,533,430	2,048,938	1,929,624
16	10-5/8% PC Series F due 2014 (3)	115,500,000	4,325,015	951,772	909,810
1996					
17	9-3/8% PC Series G due 2015 (3)	55,000,000	2,511,825	566,918	541,830
18	9-1/4% Series due 2019 (3)	35,000,000	2,962,890	555,260	517,638
19	9-3/8% Series due 2021 (3)	50,250,000	5,289,859	1,016,282	946,227
2000					
20	9-1/4% Series FMB due 2019	27,584,000	71,688	46,869	43,195
2001					
21	9-3/8% Series due 2021	5,168,000	49,861	36,149	33,657
22	6-1/2% Series due 2005	15,000,000	619,354	154,606	80,594
2002					
23	8-1/2% Series due 2022	10,911,000	88,945	68,194	63,750
2003					
24	6-4/10% PC Series H due 2021	90,000,000	2,987,069	966,362	439,911
25	7-7/8% Series due 2023	48,213,000	520,056	423,469	397,160
26	6-3/4% Series due 2023	19,497,000	261,154	221,417	208,207
2004					
27	7.3% Series FMB due 2024	5,805,000	57,103	48,797	45,944
28	6-1/2% Series FMB due 2005	40,566,000	2,038,247	1,433,009	1,209,865
29	6.25% Senior Secured Bonds due 2009	45,134,000	1,963,529	1,396,325	1,178,894
30	5.875% Senior Secured Bonds due 2007	14,215,000	3,867,452	2,733,808	2,308,108
2005					
31	6.4% PC Series J due 2029	115,500,000	4,061,324	3,761,494	3,595,680
32	5.5% PC Series I due 2027	53,250,000	1,527,182	1,418,717	1,348,274
33	6.15% PC Series K due 2029	55,000,000	2,286,021	2,135,808	2,029,759
				<u>\$ 32,848,472</u>	<u>\$ 29,466,268</u>

PPL ELECTRIC UTILITIES CORPORATION
Long-term Debt Reacquisition by Issue

(1) These bonds were reacquired in the open market and were used to satisfy sinking fund requirements of this issue.

(2) The unamortized debt expense and discount/premium associated with bonds that are reacquired at a loss were added to the premium paid to reacquire the bonds. In accordance with General Instruction 17 of the Uniform System of Accounts, the loss is amortized over the remaining life of the bonds, or, if the bonds were refinanced, the life of the new issuance.

(3) *In June 1998, the generation portion of PPL Electric became deregulated. As a result, losses on reacquired debt attributable to the generation portion of PPL Electric's business are being expensed as incurred in accordance with SFAS 4 "Reporting Gains and Losses from Extinguishment of Debt."*

Accounting for losses for income tax purposes:

Loss on reacquired debt set forth above was deducted as incurred for income tax purposes.

Proposed treatment of losses for ratemaking purposes:

The Company proposes that the current practice of adhering to General Instruction 17 of the Uniform System of Accounts be continued.

- Q.1. Provide a schedule showing the calculation of the embedded cost of preferred stock equity by issue, supporting the related rate case claim. The schedule shall contain the following information:
- a) Date of issue.
 - b) Date of maturity.
 - c) Amount issued.
 - d) Amount outstanding.
 - e) Amount retired.
 - f) Amount reacquired.
 - g) Gain or loss on reacquisitions.
 - h) Dividend rate.
 - i) Discount or premium at issuance.
 - j) Issuance expenses.
 - k) Net proceeds.
 - l) Sinking fund requirements.
 - m) Effective cost rate.
 - n) Total average weighted effective cost rate.
 - o) Projected new issues, retirement and other major changes from the comparable historical data should be clearly noted.
- A.1. Schedule B-7 of Exhibit Future 1 provides the requested information.

Q.1. Provide complete support for claimed common equity rate of return.

A.1. See Statement No. 11, the Direct Testimony of Paul R. Moul.

- Q.2. Provide a summary statement of all stock dividends, splits or par value changes during the 2 calendar year period preceding the rate case filing.
- A.2. None.

- Q.3. Provide a schedule of all issuances of common stock, whether or not underwriters are used, for the most immediately available annual historical period and the 2 calendar years most immediately preceding the test year.
- A.3. The Company has issued no common stock in the most immediate annual historical period and in the two calendar years most immediately preceding the test year.

- Q.4. Submit details on the utility and parent company stock offerings - past 5 years to present - as follows:
- a) Date of prospectus.
 - b) Date of offering.
 - c) Record date.
 - d) Offering period - dates and numbers of days.
 - e) Amount and number of shares offered.
 - f) *Offering ratio, if rights offering.*
 - g) Percent subscribed.
 - h) Offering price.
 - i) Gross proceeds per share.
 - j) Expenses per share.
 - k) Net proceeds per share (i - j).
 - l) Market price per share.
 - (1) At record date.
 - (2) At offering date.
 - (3) One month after close of offering.
 - m) Average market price during offering.
 - (1) Price per share.
 - (2) Rights per share - average value of rights.
 - n) Latest reported earnings per share at time of offering.
 - o) Latest reported dividends at time of offering.

A.4. **PPL Electric Utilities Corporation**

There were no common stock offerings by PPL Electric Utilities Corporation during the last five years.

PPL Corporation

PPL Corporation completed publicly underwritten common stock issuances in September 2002 and May 2003. The details are noted below. In addition to these publicly underwritten offerings, PPL Corporation also issued common stock periodically during the last five years under an Employee Stock Ownership Plan, under a Dividend Reinvestment Program, under other stock-based compensations plans, under Structured Equity Shelf Programs and in connection with settling the conversion premium related to conversions of PPL Energy Supply's 2-5/8% Convertible Senior Notes due 2023.

September 2002 Offering

Note: Share and per share amounts have not been adjusted to reflect the 2-for-1 stock split completed in August 2005.

- a) Date of Prospectus – Prospectus supplement is dated September 12, 2002. It is a supplement to a prospectus dated July 22, 2002.
- b) Date of offering – The closing date of the offering was September 18, 2002.
- c) Record date – Not applicable
- d) Offering period—dates and number of days – Marketing of the offering was less than one week.
- e) Amount and number of shares offered - 16,675,000 shares for \$508,587,500
- f) Offering ratio, if rights offering – Not applicable
- g) Percent subscribed – 100% -- The underwriters were granted an option to purchase additional shares to cover over-allotments. The underwriters exercised the option in this offering.
- h) Offering price - \$30.50/share
- i) Gross proceeds per share - \$30.50
- j) Expenses per share - \$0.961
- k) Net proceeds per share (i-j) - \$29.539
- l) Market price per share
 - (1) At record date – Not applicable
 - (2) At offering date – Closing price on September 18, 2002 was \$31.50
 - (3) One month after close of offering – Closing price on October 18, 2002 was \$30.26.
- m) Average market price during offering – Not applicable
 - (1) Price per share
 - (2) Rights per share—average value of rights
- n) Latest reported earnings per share at time of offering – Diluted EPS was \$(0.18) and \$(0.20) for the three and six months ended June 30, 2002, respectively, and \$1.22 for the year ended December 31, 2001.
- o) Latest reported dividends at time of offering – Quarterly dividend of

\$0.36 per share for the quarter ended June 30, 2002.

May 2003 Offering

Note: Share and per share amounts have not been adjusted to reflect the 2-for-1 stock split completed in August 2005.

- a) Date of Prospectus – Prospectus supplement is dated May 15, 2003. It is a supplement to a prospectus dated July 22, 2002.
- b) Date of offering – The closing date of the offering was May 21, 2003.
- c) Record date – Not applicable
- d) Offering period—dates and number of days – Marketing of the offering was less than one week.
- e) Amount and number of shares offered – 7,058,800 shares for \$269,999,100
- f) Offering ratio, if rights offering – Not applicable
- g) Percent subscribed – 100% -- The underwriters were granted an option to purchase additional shares to cover over-allotments. The underwriters exercised the option in this offering.
- h) Offering price - \$38.25/share
- i) Gross proceeds per share - \$38.25
- j) Expenses per share - \$1.2431
- k) Net proceeds per share (i-j) - \$37.0069
- l) Market price per share
 - (1) At record date – Not applicable
 - (2) At offering date - Closing price on May 21, 2003 was \$38.94
 - (3) One month after close of offering - Closing price on June 20, 2003 was \$43.48
- m) Average market price during offering – Not applicable
 - (1) Price per share
 - (2) Rights per share—average value of rights
- n) Latest reported earnings per share at time of offering – Diluted EPS was \$1.43 for the three months ended March 31, 2003 and \$1.36 for

the year ended December 31, 2002.

- o) Latest reported dividends at time of offering – Quarterly dividend of \$0.385 per share for the quarter ended March 31, 2003.

- Q.1. If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and system - consolidated - the reasons for this claim must be fully stated and supported.
- A.1. PPL Electric's capital structure and capital costs claim in this filing are based on the Company's operations only.

- Q.2. Regardless of the claim made, provide the capitalization data requested at Item III.A.2. for the parent company and for the system - consolidated.
- A.2. Attachment III-E-2 provides the capitalization data for the years 2005 and 2006 for PPL Corporation.

PPL CORPORATION

Capitalization & Capitalization Ratios - Year End
(Thousands of Dollars)

Line No.		2005			2006		
		Amount	Excluding Short-Term Debt	Including Short-Term Debt	Amount	Excluding Short-Term Debt	Including Short-Term Debt
1	Long-Term Debt (a)	\$ 6,256,140	55.5%	54.4%	\$ 7,211,861	55.6%	55.4%
2	Preferred & Preference Stock (b)	49,127	0.4%	0.4%	299,535	2.3%	2.3%
3	Common Equity (b)	4,973,943	44.1%	43.3%	5,456,153	42.1%	42.0%
4	Total Permanent Capital	11,279,210	100.0%	98.1%	12,967,549	100.0%	99.7%
5	Short-Term Debt	213,472		1.9%	42,548		0.3%
6	Total Capitalization	\$ 11,492,682		100.0%	\$ 13,010,097		100.0%

(a) Long-term debt includes amount due within one year and the unamortized loss on reacquired debt, but excludes securitization debt issued by PPL Transition Bond Company.

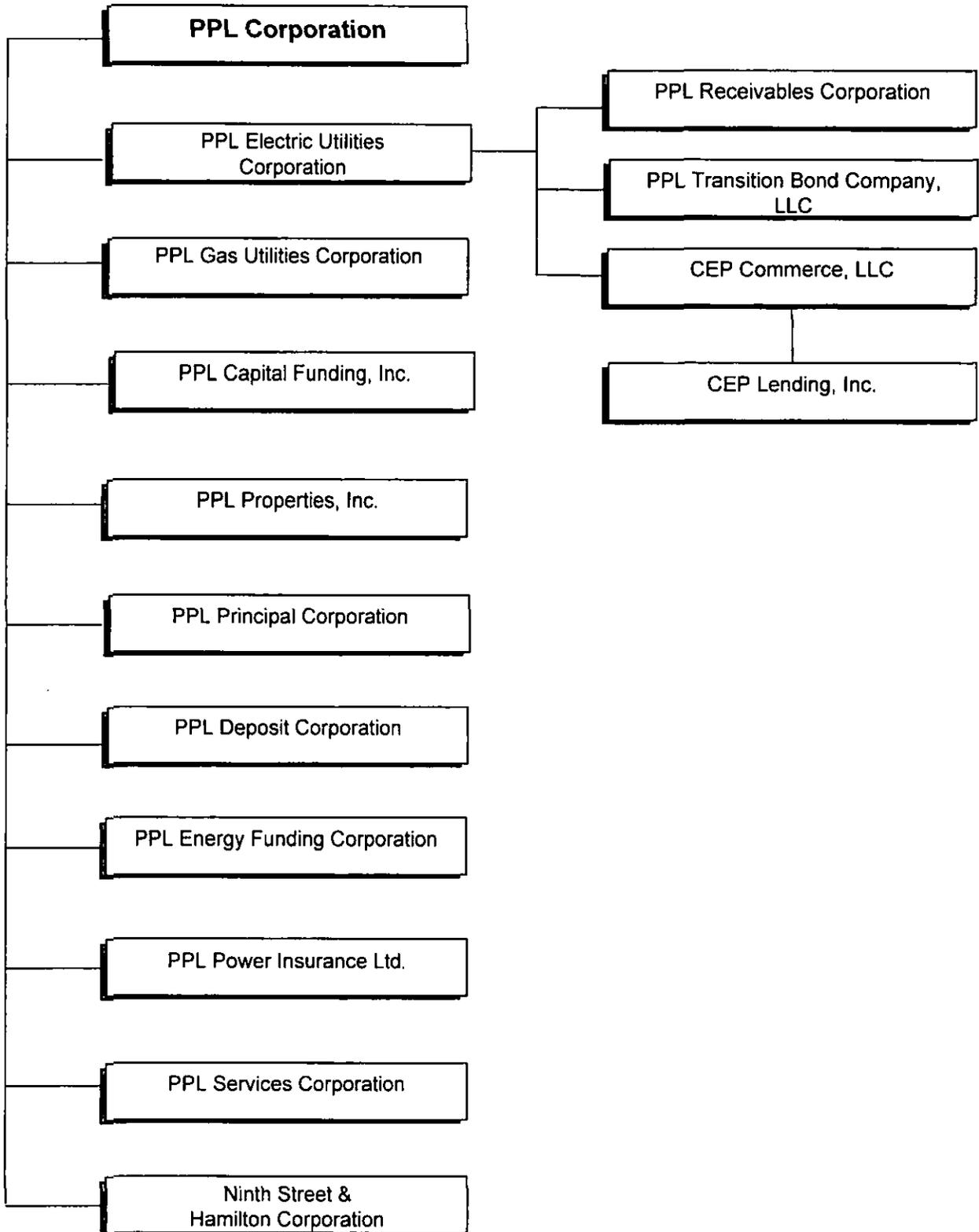
(b) Preferred and preference stock include an adjustment for the unamortized premiums and unrecovered original issue costs on reacquired preferred and preference stock.

(c) Common equity includes an adjustment for the unamortized premiums and unrecovered original issue costs on reacquired preferred and preference stock and an adjustment for the regulatory treatment of ice storm costs (per PUC Order at Docket No. P-00052148).

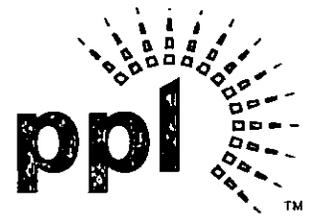
- Q.3. Provide the latest available balance sheet and income statement for the parent company and system - consolidated.
- A.3. See the response to Question III-F-1 of Exhibit Regs. §53.53, Part III - Rate of Return, for the requested data.

Q.4. Provide an organizational chart explaining the filing utility's corporate relationship to its affiliates - system structure.

A.4. See Attachment III-E-4.



- Q.1. The latest available quarterly operating and financial report, annual report to the stockholders and prospectus shall be supplied for the utility and for the utility's parent, if the relationship exists.
- A.1. Attachment III-F-1a provides the Quarterly Reports to the Securities and Exchange Commission (SEC) for the Quarter Ended September 30, 2006 (Form 10-Q) for PPL Corporation and its subsidiaries that are SEC registrants. Attachment III-F-1b provides the latest Prospectus for PPL Electric; and Attachment III-F-1c provides the Annual Reports to the SEC for the year ended December 31, 2006 (Form 10-K) for PPL Corporation and its subsidiaries that are SEC registrants.



Form 10-Q

**Quarterly Report to the
Securities and Exchange Commission**

**For the Quarter Ended
September 30, 2006**

**PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation**

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

Form 10-Q

- [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2006
- OR
- [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant: State of Incorporation: Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-74794	PPL Energy Supply, LLC (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u> </u>
PPL Energy Supply, LLC	Yes <u>X</u>	No <u> </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u> </u>

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, or non-accelerated filers. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

	Large accelerated filer	Accelerated filer	Non-accelerated filer
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

PPL Corporation	Common stock, \$.01 par value, 381,565,560 shares outstanding at October 31, 2006.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 31, 2006.

This document is available free of charge at the Investor Center on PPL's Web site at www.pplweb.com. However, information on this Web site does not constitute a part of this Form 10-Q.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION**

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

Elfec - Empresa de Luz y Fuerza Electrica Cochabamba S.A., a Bolivian electric distribution company in which PPL Global has a majority ownership interest.

Emel - Empresas Emel S.A., a Chilean electric distribution holding company in which PPL Global has a majority ownership interest.

Hyder - Hyder Limited, a subsidiary of WPDH that was the previous owner of South Wales Electricity plc. In March 2001, South Wales Electricity plc was acquired by WPDH Limited and renamed WPD (South Wales).

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL.

PPL Electric - PPL Electric Utilities Corporation, a regulated utility subsidiary of PPL that transmits and distributes electricity in its service territory and provides electric supply to retail customers in this territory as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent company of PPL Energy Supply.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity, and supplies energy and energy services in deregulated markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus, PPL Global and other subsidiaries.

PPL Gas Utilities - PPL Gas Utilities Corporation, a regulated utility subsidiary of PPL that specializes in natural gas distribution, transmission and storage services, and the competitive sale of propane.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Supply that owns and operates international energy businesses that are focused on the regulated distribution of electricity.

PPL Martins Creek - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides shared services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL Telcom - PPL Telcom, LLC, an indirect subsidiary of PPL and PPL Energy Supply that delivers high bandwidth telecommunication services from Washington, D.C. to New York City, and to six metropolitan areas in central and eastern Pennsylvania.

PPL Transition Bond Company - PPL Transition Bond Company, LLC, a subsidiary of PPL Electric that was formed to issue transition bonds under the Customer Choice Act.

SIUK Capital Trust I - a business trust created to issue preferred securities and whose common securities are held by WPD LLP.

WPD - refers collectively to WPDH Limited and WPDH.

WPD LLP - Western Power Distribution LLP, a wholly owned subsidiary of WPDH Limited, which owns WPD (South West) and WPD (South Wales).

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electric utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electric utility company.

WPDH Limited - Western Power Distribution Holdings Limited, an indirect, wholly owned subsidiary of PPL Global. WPDH Limited owns WPD LLP.

WPDH - WPD Investment Holdings Limited, an indirect wholly owned subsidiary of PPL Global. WPDH owns 100% of the common shares of Hyder.

Other terms and abbreviations

£ - British pounds sterling.

2005 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2005.

AFUDC (Allowance for Funds Used During Construction) - the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction cost.

ARO - asset retirement obligation.

Bcf - billion cubic feet.

Black Lung Trust - a trust account maintained under federal and state Black Lung legislation for the payment of claims related to disability or death due to pneumoconiosis.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

CTC - competitive transition charge on customer bills to recover allowable transition costs under the Customer Choice Act.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

DEP - Department of Environmental Protection, a state government agency.

DOE - Department of Energy, a U.S. government agency.

EITF - Emerging Issues Task Force, an organization that assists the FASB in improving financial reporting through the identification, discussion and resolution of financial accounting issues within the framework of existing authoritative literature.

EMF - electric and magnetic field.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

FASB - Financial Accounting Standards Board, a rulemaking organization that establishes financial accounting and reporting standards.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates interstate transmission and wholesale sales of electricity and related matters.

FIN - FASB Interpretation.

Fitch - Fitch, Inc.

FSP - FASB Staff Position.

GWh - gigawatt-hour, one million kilowatt-hours.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

ITC - intangible transition charge on customer bills to recover intangible transition costs associated with securitizing stranded costs under the Customer Choice Act.

LIBOR - London Interbank Offered Rate.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NorthWestern - NorthWestern Energy Division, a Delaware corporation and a subsidiary of NorthWestern Corporation and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NRC - Nuclear Regulatory Commission, the federal agency that regulates the operation of nuclear power facilities.

NUGs (Non-Utility Generators) - generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

NYMEX - New York Mercantile Exchange.

PCB - polychlorinated biphenyl, an oil additive used in certain electrical equipment up to the late-1970s. It is now classified as a hazardous chemical.

PJM (PJM Interconnection, L.L.C.) - operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR (Provider of Last Resort) - the role of PPL Electric in providing electricity to retail customers within its delivery territory who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

PUC Final Order - final order issued by the PUC on August 27, 1998, approving the settlement of PPL Electric's restructuring proceeding.

PUHCA - Public Utility Holding Company Act of 1935, legislation passed by the U.S. Congress. Repealed effective February 2006 by the Energy Policy Act of 2005.

PURPA - Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

SAB - Staff Accounting Bulletin.

SCR - selective catalytic reduction, a pollution control process.

SEC - Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

SFAS - Statement of Financial Accounting Standards, the accounting and financial reporting rules issued by the FASB.

S&P - Standard & Poor's Ratings Services.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

Synfuel projects - production facilities that manufacture synthetic fuel from coal or coal byproducts. Favorable federal tax credits may be available on qualified synthetic fuel products.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third party into electric energy for delivery back to the third party.

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply and PPL Electric believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in the companies' 2005 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- market demand and prices for energy, capacity and fuel;
- market prices for crude oil and the potential impact on synthetic fuel operations, synthetic fuel purchases from third parties and the phase-out of synthetic fuel tax credits;
- weather conditions affecting generation production, customer energy usage and operating costs;
- competition in retail and wholesale power markets;
- liquidity of wholesale power markets;
- the effect of any business or industry restructuring;
- the profitability and liquidity, including access to capital markets and credit facilities, of PPL and its subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- operation and availability of existing generation facilities and operating costs;
- transmission and distribution system conditions and operating costs;
- current and future environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures and emission allowance and other expenses;
- significant delays in the planned installation of pollution control equipment at certain coal-fired generating units in Pennsylvania due to weather conditions, contractor performance or other reasons;
- market prices of commodity inputs for ongoing capital expenditures;

- collective labor bargaining negotiations;
- development of new projects, markets and technologies;
- performance of new ventures;
- asset acquisitions and dispositions;
- political, regulatory or economic conditions in states, regions or countries where PPL or its subsidiaries conduct business;
- any impact of hurricanes or other severe weather on PPL and its subsidiaries, including any impact on fuel prices;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation, including new tax legislation;
- state, federal and foreign regulatory developments;
- any impact of state, federal or foreign investigations applicable to PPL and its subsidiaries and the energy industry;
- capital market conditions, including changes in interest rates, and decisions regarding capital structure;
- stock price performance of PPL;
- the market prices of equity securities and the impact on pension costs and resultant cash funding requirements for defined benefit pension plans;
- securities and credit ratings;
- foreign currency exchange rates;
- the outcome of litigation against PPL and its subsidiaries;
- potential effects of threatened or actual terrorism or war or other hostilities; and
- the commitments and liabilities of PPL and its subsidiaries.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL, PPL Energy Supply and PPL Electric on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PPL, PPL Energy Supply or PPL Electric to predict all of such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL, PPL Energy Supply and PPL Electric undertake no obligations to update the information contained in such statement to reflect subsequent developments or information.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating Revenues				
Utility	\$ 1,124	\$ 1,067	\$ 3,427	\$ 3,234
Unregulated retail electric	23	25	68	73
Wholesale energy marketing	446	336	1,164	865
Net energy trading margins	15	19	26	33
Energy-related businesses	144	173	490	480
Total	<u>1,752</u>	<u>1,620</u>	<u>5,175</u>	<u>4,685</u>
Operating Expenses				
Operation				
Fuel	249	270	702	679
Energy purchases	371	214	989	709
Other operation and maintenance (Note 10)	335	331	1,019	1,030
Amortization of recoverable transition costs	75	71	210	199
Depreciation	107	108	326	315
Taxes, other than income	74	73	214	214
Energy-related businesses	161	170	469	486
Total	<u>1,372</u>	<u>1,237</u>	<u>3,929</u>	<u>3,632</u>
Operating Income	380	383	1,246	1,053
Other Income - net	21	5	63	23
Interest Expense	<u>125</u>	<u>127</u>	<u>365</u>	<u>387</u>
Income from Continuing Operations Before Income Taxes, Minority Interest and Dividends on Preferred Securities of a Subsidiary	276	261	944	689
Income Taxes	41	64	219	138
Minority Interest	4	1	8	5
Dividends on Preferred Securities of a Subsidiary	5	1	10	2
Income from Continuing Operations	226	195	707	544
Loss (Income) from Discontinued Operations (net of income taxes)		(2)	20	51
Net Income	\$ 226	\$ 197	\$ 687	\$ 493
Earnings Per Share of Common Stock:				
Income from Continuing Operations:				
Basic	\$ 0.59	\$ 0.51	\$ 1.86	\$ 1.44
Diluted	0.58	0.50	1.83	1.42
Net income:				
Basic	\$ 0.59	\$ 0.52	\$ 1.81	\$ 1.30
Diluted	0.58	0.51	1.78	1.29
Dividends Declared per Share of Common Stock	\$ 0.275	\$ 0.25	\$ 0.825	\$ 0.71

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 687	\$ 493
Adjustments to reconcile net income to net cash provided by operating activities		
Pre-tax loss from the sale of the Sundance plant		72
Pre-tax loss from the sale of interest in the Griffith plant	40	
Depreciation	326	318
Amortization - recoverable transition costs and other	234	223
Deferred income tax benefits and investment tax credits	(81)	(42)
Pension and other postretirement benefits	(28)	(34)
Realization of benefits related to Black Lung Trust assets	(36)	
Stock compensation expense	21	30
Accrual for PJM billing dispute		47
Accrual for remediation of ash basin leak	(11)	33
Unrealized gain on derivatives and other hedging activities	(2)	(26)
Other	39	12
Change in current assets and current liabilities		
Accounts receivable	(2)	(85)
Accounts payable	(14)	95
Fuel, materials and supplies	(22)	33
Other	100	(38)
Other operating activities		
Other assets	5	11
Other liabilities	2	(19)
Net cash provided by operating activities	<u>1,258</u>	<u>1,123</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(859)	(538)
Proceeds from the sale of the Sundance plant		190
Proceeds from the sale of interest in the Griffith plant	115	
Purchases of emission allowances	(68)	(132)
Proceeds from the sale of emission allowances	42	57
Purchases of nuclear decommissioning trust investments	(178)	(166)
Proceeds from the sale of nuclear decommissioning trust investments	166	155
Purchases of other marketable securities	(331)	(19)
Proceeds from the sale of other marketable securities	271	83
Net decrease (increase) in restricted cash	8	(20)
Other investing activities	16	(9)
Net cash used in investing activities	<u>(818)</u>	<u>(399)</u>
Cash Flows from Financing Activities		
Issuance of common stock	13	36
Issuance of long-term debt	800	224
Issuance of preference stock, net of issuance costs	245	
Retirement of long-term debt	(757)	(1,177)
Payment of common stock dividends	(304)	(252)
Net (decrease) increase in short-term debt	(172)	80
Other financing activities	(21)	(20)
Net cash used in financing activities	<u>(196)</u>	<u>(1,109)</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>1</u>	<u>4</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>245</u>	<u>(381)</u>
Cash and Cash Equivalents at Beginning of Period	555	616
Cash and Cash Equivalents at End of Period	<u>\$ 800</u>	<u>\$ 235</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents.....	\$ 800	\$ 555
Restricted cash	88	93
Accounts receivable (less reserve: 2006, \$53; 2005, \$87)	559	544
Unbilled revenues.....	397	479
Fuel, materials and supplies	369	346
Prepayments	105	53
Deferred income taxes.....	175	192
Price risk management assets	526	488
Other acquired intangibles.....	138	50
Other.....	153	110
Total Current Assets.....	3,310	2,910
Investments		
Investment in unconsolidated affiliates - at equity	49	56
Nuclear plant decommissioning trust funds.....	483	444
Other.....	7	8
Total Investments	539	508
Property, Plant and Equipment		
Electric plant in service		
Transmission and distribution.....	8,552	7,984
Generation	8,693	8,761
General	748	646
	17,993	17,391
Construction work in progress.....	524	259
Nuclear fuel.....	316	327
Electric plant.....	18,833	17,977
Gas and oil plant.....	369	349
Other property	304	289
	19,506	18,615
Less: accumulated depreciation.....	7,960	7,699
Total Property, Plant and Equipment	11,546	10,916
Regulatory and Other Noncurrent Assets		
Recoverable transition costs.....	955	1,165
Goodwill.....	1,113	1,070
Other acquired intangibles.....	348	412
Price risk management assets	180	84
Other.....	866	861
Total Regulatory and Other Noncurrent Assets.....	3,462	3,592
Total Assets.....	\$ 18,857	\$ 17,926

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2006	December 31, 2005
Liabilities and Equity		
Current Liabilities		
Short-term debt.....	\$ 43	\$ 214
Long-term debt.....	1,174	1,126
Accounts payable.....	543	542
Above market NUG contracts.....	66	70
Taxes.....	211	168
Interest.....	125	112
Dividends.....	110	96
Price risk management liabilities.....	558	533
Other.....	469	479
Total Current Liabilities.....	<u>3,299</u>	<u>3,340</u>
Long-term Debt.....	<u>6,016</u>	<u>5,955</u>
Long-term Debt with Affiliate Trust.....	<u>89</u>	<u>89</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits.....	2,282	2,197
Price risk management liabilities.....	524	541
Accrued pension obligations.....	343	374
Asset retirement obligations.....	314	298
Above market NUG contracts.....	87	136
Other.....	454	471
Total Deferred Credits and Other Noncurrent Liabilities.....	<u>4,004</u>	<u>4,017</u>
Commitments and Contingent Liabilities (Note 11)		
Minority Interest.....	<u>58</u>	<u>56</u>
Preferred Securities of a Subsidiary.....	<u>301</u>	<u>51</u>
Shareowners' Common Equity		
Common stock - \$0.01 par value (a).....	4	4
Capital in excess of par value (b).....	2,798	3,602
Treasury stock (a) (b).....		(838)
Earnings reinvested.....	2,553	2,182
Accumulated other comprehensive loss.....	(265)	(532)
Total Shareowners' Common Equity.....	<u>5,090</u>	<u>4,418</u>
Total Liabilities and Equity.....	<u>\$ 18,857</u>	<u>\$ 17,926</u>

(a) 780 million shares authorized; 382 million shares issued and outstanding at September 30, 2006, and 380 million shares issued and outstanding, excluding 62 million shares held as treasury stock, at December 31, 2005.

(b) See Note 2 for additional information on the retirement of all treasury stock in 2006.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating Revenues				
Wholesale energy marketing	\$ 446	\$ 336	\$ 1,164	\$ 865
Wholesale energy marketing to affiliate	445	415	1,286	1,194
Utility	301	264	934	841
Unregulated retail electric	23	25	68	73
Net energy trading margins	15	19	26	33
Energy-related businesses	142	164	471	459
Total	<u>1,372</u>	<u>1,223</u>	<u>3,949</u>	<u>3,465</u>
Operating Expenses				
Operation				
Fuel	236	259	588	593
Energy purchases	317	152	834	509
Energy purchases from affiliate	41	41	119	111
Other operation and maintenance	254	254	753	756
Depreciation	73	76	224	220
Taxes, other than income	25	25	71	75
Energy-related businesses	160	162	453	463
Total	<u>1,106</u>	<u>969</u>	<u>3,042</u>	<u>2,727</u>
Operating Income	266	254	907	738
Other Income - net	24	9	69	28
Interest Expense	76	69	203	199
Interest Expense with Affiliates	3	5	9	18
Income from Continuing Operations Before Income Taxes and Minority Interest	211	189	764	549
Income Taxes	25	31	166	75
Minority Interest	4	1	8	5
Income from Continuing Operations	182	157	590	469
Loss (Income) from Discontinued Operations (net of income taxes) ..		(2)	20	51
Net Income	\$ 182	\$ 159	\$ 570	\$ 418

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 570	\$ 418
Adjustments to reconcile net income to net cash provided by operating activities		
Pre-tax loss from the sale of the Sundance plant		72
Pre-tax loss from the sale of interest in the Griffith plant	40	
Depreciation	225	223
Amortization - energy commitments and other	5	4
Deferred income taxes and investment tax credits	23	50
Pension and other postretirement benefits	(35)	(31)
Stock compensation expense	15	19
Unrealized gain on derivatives and other hedging activities	(6)	(25)
Accrual for remediation of ash basin leak	(11)	33
Other	19	21
Change in current assets and current liabilities		
Accounts receivable	(13)	(42)
Accounts payable	(2)	93
Fuel, materials and supplies	(22)	31
Other	112	(59)
Other operating activities		
Other assets		8
Other liabilities	(23)	(26)
Net cash provided by operating activities	<u>897</u>	<u>789</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(584)	(387)
Proceeds from the sale of the Sundance plant		190
Proceeds from the sale of interest in the Griffith plant	115	
Purchases of emission allowances	(68)	(132)
Proceeds from the sale of emission allowances	42	57
Purchases of nuclear decommissioning trust investments	(178)	(166)
Proceeds from the sale of nuclear decommissioning trust investments	166	155
Purchases of other marketable securities	(196)	(15)
Proceeds from the sale of other marketable securities	136	66
Net decrease (increase) in restricted cash	4	(11)
Other investing activities	13	(13)
Net cash used in investing activities	<u>(550)</u>	<u>(256)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	800	
Retirement of long-term debt	(144)	(209)
Distributions to Member	(651)	(206)
Contributions from Member	116	50
Net (decrease) increase in short-term debt	(172)	80
Net decrease in note payable to affiliate	(8)	(495)
Other financing activities	(20)	(4)
Net cash used in financing activities	<u>(79)</u>	<u>(784)</u>
Effect of Exchange Rates on Cash and Cash Equivalents	1	4
Net Increase (Decrease) in Cash and Cash Equivalents	269	(247)
Cash and Cash Equivalents at Beginning of Period	227	357
Cash and Cash Equivalents at End of Period	<u>\$ 496</u>	<u>\$ 110</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 496	\$ 227
Restricted cash	34	39
Accounts receivable (less reserve: 2006, \$31; 2005, \$65)	312	291
Unbilled revenues	263	300
Accounts receivable from affiliates	131	149
Collateral on PLR energy supply to affiliate	300	300
Fuel, materials and supplies	318	295
Prepayments	77	39
Deferred income taxes	129	166
Price risk management assets	525	487
Other acquired intangibles	138	50
Other	104	41
Total Current Assets	<u>2,827</u>	<u>2,384</u>
Investments		
Investment in unconsolidated affiliates - at equity	51	56
Nuclear plant decommissioning trust funds	483	444
Other	4	3
Total Investments	<u>538</u>	<u>503</u>
Property, Plant and Equipment		
Electric plant in service		
Transmission and distribution	4,411	3,950
Generation	8,693	8,761
General	290	272
	<u>13,394</u>	<u>12,983</u>
Construction work in progress	466	210
Nuclear fuel	316	327
Electric plant	14,176	13,520
Gas and oil plant	64	64
Other property	301	198
	<u>14,541</u>	<u>13,782</u>
Less: accumulated depreciation	6,082	5,871
Total Property, Plant and Equipment	<u>8,459</u>	<u>7,911</u>
Other Noncurrent Assets		
Goodwill	1,058	1,015
Other acquired intangibles	233	283
Price risk management assets	174	80
Other	512	488
Total Other Noncurrent Assets	<u>1,977</u>	<u>1,866</u>
Total Assets	<u>\$ 13,801</u>	<u>\$ 12,664</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt.....	\$ 1	\$ 172
Note payable to affiliate		8
Long-term debt	341	445
Accounts payable	467	445
Accounts payable to affiliates.....	30	27
Above market NUG contracts	66	70
Taxes	163	72
Interest.....	103	79
Deferred revenue on PLR energy supply to affiliate	12	12
Price risk management liabilities.....	545	519
Other.....	301	313
Total Current Liabilities	<u>2,029</u>	<u>2,162</u>
Long-term Debt	<u>4,324</u>	<u>3,506</u>
Long-term Debt with Affiliate Trust	<u>89</u>	<u>89</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits	1,328	1,157
Price risk management liabilities.....	500	523
Accrued pension obligations	210	232
Asset retirement obligations.....	314	298
Above market NUG contracts	87	136
Deferred revenue on PLR energy supply to affiliate	26	35
Other.....	329	321
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,794</u>	<u>2,702</u>
Commitments and Contingent Liabilities (Note 11)		
Minority Interest	<u>58</u>	<u>56</u>
Member's Equity	<u>4,507</u>	<u>4,149</u>
Total Liabilities and Equity	<u>\$ 13,801</u>	<u>\$ 12,664</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating Revenues				
Retail electric	\$ 800	\$ 782	\$ 2,331	\$ 2,258
Wholesale electric		1	2	3
Wholesale electric to affiliate.....	41	41	119	111
Total	<u>841</u>	<u>824</u>	<u>2,452</u>	<u>2,372</u>
Operating Expenses				
Operation				
Energy purchases.....	53	63	155	201
Energy purchases from affiliate.....	445	415	1,286	1,194
Other operation and maintenance (Note 10).....	81	77	266	268
Amortization of recoverable transition costs	75	71	210	199
Depreciation	29	28	86	83
Taxes, other than income.....	49	48	143	138
Total	<u>732</u>	<u>702</u>	<u>2,146</u>	<u>2,083</u>
Operating Income	109	122	306	289
Other Income - net	7	5	23	15
Interest Expense	34	39	108	132
Interest Expense with Affiliate.....	4	3	12	8
Income Before Income Taxes	78	85	209	164
Income Taxes	23	32	68	59
Net Income	55	53	141	105
Dividends on Preferred Securities.....	5	1	10	2
Income Available to PPL	<u>\$ 50</u>	<u>\$ 52</u>	<u>\$ 131</u>	<u>\$ 103</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 141	\$ 105
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	86	83
Stock compensation expense	4	7
Amortization - recoverable transition costs and other	226	216
Deferred income tax benefits and investment tax credits	(3)	(5)
Realization of benefits related to Black Lung Trust assets	(36)	
Pension and other postretirement benefits	7	
Accrual for PJM billing dispute		47
Deferral of ice storm related costs		(12)
Reversal of Hurricane Isabel costs deferral	11	
Change in current assets and current liabilities		
Accounts receivable	(4)	(16)
Accounts payable	(40)	(39)
Other	(33)	(40)
Other operating activities		
Other assets	2	(3)
Other liabilities	(1)	18
Net cash provided by operating activities	<u>360</u>	<u>361</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(200)	(125)
Purchases of marketable securities	(122)	
Proceeds from the sale of marketable securities	122	10
Net decrease (increase) in restricted cash	3	(3)
Other investing activities	3	2
Net cash used in investing activities	<u>(194)</u>	<u>(116)</u>
Cash Flows from Financing Activities		
Issuance of preference stock, net of issuance costs	245	
Issuance of long-term debt		224
Retirement of long-term debt	(365)	(497)
Contribution from PPL	75	
Repurchase of common stock from PPL	(200)	
Payment of common stock dividends to PPL	(84)	(59)
Other financing activities	(5)	(11)
Net cash used in financing activities	<u>(334)</u>	<u>(343)</u>
Net Decrease in Cash and Cash Equivalents	(168)	(98)
Cash and Cash Equivalents at Beginning of Period	298	151
Cash and Cash Equivalents at End of Period	<u>\$ 130</u>	<u>\$ 53</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents.....	\$ 130	\$ 298
Restricted cash	42	42
Accounts receivable (less reserve: 2006, \$20; 2005, \$20)	233	224
Unbilled revenues.....	130	174
Accounts receivable from affiliates.....	1	10
Note receivable from affiliate.....	300	300
Prepayments.....	20	4
Prepayment on PLR energy supply from affiliate.....	12	12
Other.....	100	87
Total Current Assets	968	1,151
Property, Plant and Equipment		
Electric plant in service		
Transmission and distribution.....	4,141	4,034
General	416	356
	4,557	4,390
Construction work in progress.....	52	43
Electric plant.....	4,609	4,433
Other property	2	3
	4,611	4,436
Less: accumulated depreciation.....	1,780	1,720
Total Property, Plant and Equipment	2,831	2,716
Regulatory and Other Noncurrent Assets		
Recoverable transition costs.....	955	1,165
Acquired intangibles.....	111	114
Prepayment on PLR energy supply from affiliate.....	26	35
Other.....	336	356
Total Regulatory and Other Noncurrent Assets.....	1,428	1,670
Total Assets.....	\$ 5,227	\$ 5,537

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

PL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	September 30, 2006	December 31, 2005
Liabilities and Equity		
Current Liabilities		
Short-term debt.....	\$ 42	\$ 42
Long-term debt.....	552	434
Accounts payable.....	41	42
Accounts payable to affiliates.....	146	183
Taxes.....	36	76
Collateral on PLR energy supply from affiliate.....	300	300
Other.....	133	147
Total Current Liabilities.....	<u>1,250</u>	<u>1,224</u>
Long-term Debt.....	<u>1,494</u>	<u>1,977</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits.....	778	771
Other.....	162	190
Total Deferred Credits and Other Noncurrent Liabilities.....	<u>940</u>	<u>961</u>
Commitments and Contingent Liabilities (Note 11)		
Shareowners' Equity		
Preferred securities.....	301	51
Common stock - no par value (a).....	364	1,476
Additional paid-in capital.....	424	354
Treasury stock (a).....		(912)
Earnings reinvested.....	454	406
Total Shareowners' Equity.....	<u>1,543</u>	<u>1,375</u>
Total Liabilities and Equity	<u>\$ 5,227</u>	<u>\$ 5,537</u>

(a) 170 million shares authorized; 66 million shares issued and outstanding at September 30, 2006, and 78 million shares issued and outstanding, excluding 79 million shares held as treasury stock, at December 31, 2005. See Note 2 for additional information on the retirement of all treasury stock in 2006.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Consolidated Financial Statements (Unaudited)

Terms and abbreviations appearing in Combined Notes to Condensed Consolidated Financial Statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

1. Interim Financial Statements

(PPL, PPL Energy Supply and PPL Electric)

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments (including normal, recurring accruals) considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed consolidated financial statements. The Balance Sheets as of December 31, 2005, are derived from each Registrant's 2005 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2005 Form 10-K. The results of operations for the three and nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the full year ending December 31, 2006, or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

(PPL and PPL Electric)

In January 2005, severe ice storms hit PPL Electric's service territory. The total cost of restoring service, excluding capitalized cost and regular payroll expenses, was \$16 million. In August 2005, the PUC issued an order granting PPL Electric's petition for authority to defer and amortize for regulatory accounting and reporting purposes a portion of these storm costs subject to certain conditions. As a result of the PUC Order and in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation," in the third quarter of 2005, PPL Electric deferred \$12 million of its previously expensed storm costs.

(PPL and PPL Energy Supply)

The classification of certain amounts in the September 30, 2005 and December 31, 2005 financial statements has been changed to conform to the presentation in the September 30, 2006 financial statements. On the Statements of Income, components of operating income and losses of the Sundance and Griffith plants were reclassified from certain line items to "Loss (Income) from Discontinued Operations." See Note 8 for further discussion.

In addition, based on clarifications of accounting guidance, the September 30, 2005 Statement of Cash Flows has been revised to reflect the purchases and sales of emission allowances, and the purchases and sales of investments in the nuclear decommissioning trust funds, on a gross basis within "Cash Flows from Investing Activities." Previously, these cash flows were presented on a net basis within "Cash Flows from Operating Activities." The net impact of this revised presentation was to increase "Cash Flows from Operating Activities" and to decrease "Cash Flows from Investing Activities" by \$86 million for the nine months ended September 30, 2005. This revision had no impact on "Cash and Cash Equivalents" for the periods reported. This revision is not considered by management to be material to the Financial Statements.

Also, see Note 3 for information on accounting adjustments recorded in the third quarter of 2006.

2. Summary of Significant Accounting Policies

The following accounting policy disclosures represent updates to the "Summary of Significant Accounting Policies" Note in each Registrant's 2005 Form 10-K.

Allowance for Doubtful Accounts *(PPL and PPL Energy Supply)*

At December 31, 2005, PPL's and PPL Energy Supply's significant specific reserves related to receivables from Enron Corporation (Enron), which filed for bankruptcy in 2001, and from the California ISO, which has withheld payment pending the outcome of regulatory proceedings arising from the California electricity supply situation that began in 2000. At December 31, 2005, the Enron and California ISO reserves accounted for 60% of PPL's total allowance for doubtful accounts and 80% of PPL Energy Supply's total allowance for doubtful accounts.

The reserves related to Enron were for claims against Enron North America and Enron Power Marketing (Enron Subsidiaries), and against Enron, which had guaranteed the Enron Subsidiaries' performance (Enron Corporation Guarantees).

In March 2006, the U.S. Bankruptcy Court approved agreements between Enron and PPL Energy Supply subsidiaries that settled the litigation between PPL Energy Supply and Enron regarding the validity and enforceability of the Enron Corporation Guarantees. As a result of the Bankruptcy Court's approval of the settlement of the Enron Corporation Guarantees litigation and an assessment of current market price quotes for the purchase of Enron claims, PPL Energy Supply reduced the associated allowance for doubtful accounts by \$15 million or \$9 million after tax (\$0.03 per share for PPL).

In July 2006, PPL Energy Supply executed an agreement to assign its Enron claims to an independent third party for \$17 million and further reduced the associated allowance for doubtful accounts in the second quarter of 2006 by \$4 million, or \$2 million after tax (\$0.01 per share for PPL). PPL Energy Supply received the payment in July 2006. See "Guarantees and Other Assurances" in Note 11 for more information on PPL Energy Supply's potential repayment obligations related to the assignment.

At September 30, 2006, the California ISO reserves accounted for 32% of PPL's total allowance for doubtful accounts and 55% of PPL Energy Supply's total allowance for doubtful accounts.

Treasury Stock

(PPL)

In the second quarter of 2006, PPL retired all treasury shares, which totaled 62,174,729 shares, and restored them to authorized but unissued shares of common stock. "Capital in excess of par value" was reduced by \$838 million as result of the retirement. Total "Shareowners' Common Equity" was not impacted. PPL expects that all shares of common stock acquired in the future will be restored to authorized but unissued shares of common stock upon acquisition.

(PPL Electric)

In the second quarter of 2006, PPL Electric retired all treasury shares, which totaled 90,932,326 shares, and restored them to authorized but unissued shares of common stock. "Common stock" was reduced by \$1.1 billion as result of the retirement. Total "Shareowners' Equity" was not impacted. PPL Electric expects that all shares of common stock acquired in the future will be restored to authorized but unissued shares of common stock upon acquisition.

Regulation (PPL and PPL Electric)

In August 2006, the Commonwealth Court of Pennsylvania overturned the PUC's decision of December 2004 that allowed PPL Electric to recover, over a 10-year period, restoration costs incurred in connection with Hurricane Isabel in September 2003. As a result of the PUC's 2004 decision and in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation," PPL Electric had established a regulatory asset for the restoration costs. Effective January 1, 2005, PPL Electric began billing these costs to customers and amortizing the regulatory asset. The Commonwealth Court denied recovery of these costs because they were incurred when PPL Electric was subject to capped rates for transmission and distribution services, through December 31, 2004. As a result of the Court's decision, in the third quarter of 2006, PPL Electric recorded a charge of \$11 million, or \$7 million after tax (\$0.02 per share for PPL), in "Other operation and maintenance" on the Statements of Income, reversed the remaining unamortized regulatory asset of \$9 million and

recorded a regulatory liability of \$2 million for restoration costs previously billed to customers from January 2005 through August 2006.

Leases (PPL, PPL Energy Supply and PPL Electric)

In September 2006, PPL's subsidiaries terminated the master lease agreements under which they leased equipment, such as vehicles, computers, and office equipment. In addition, PPL and its subsidiaries purchased the equipment from the lessors at a negotiated price. Prior to the buyout, PPL subsidiaries had been directly charged or allocated a portion of the rental expense related to the assets they utilized. In connection with the buyout, ownership of the purchased equipment was reviewed and attributed to the subsidiaries based on usage of the equipment. As a result, "Property, Plant and Equipment" increased on the Balance Sheet by \$107 million for PPL, \$27 million for PPL Energy Supply and \$52 million for PPL Electric.

At December 31, 2005, total future minimum rental payments included obligations of \$98 million for PPL, \$42 million for PPL Energy Supply and \$54 million for PPL Electric related to these leases. See Note 10 in each Registrant's 2005 Form 10-K for a discussion of total future minimum rental payments.

New Accounting Standards (PPL, PPL Energy Supply and PPL Electric)

See Note 18 for a discussion of new accounting standards recently adopted or pending adoption.

3. Segment and Related Information

(PPL and PPL Energy Supply)

See the "Segment and Related Information" note in each Registrant's 2005 Form 10-K for a discussion of reportable segments.

Financial data for the segments are:

PPL	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income Statement Data				
Revenues from external customers				
Supply	\$ 608	\$ 528	\$ 1,684	\$ 1,395
International Delivery	320	283	998	897
Pennsylvania Delivery	824	809	2,493	2,393
	1,752	1,620	5,175	4,685
Intersegment revenues				
Supply	445	415	1,286	1,194
Pennsylvania Delivery	41	41	121	113
Net Income				
Supply (a)	120	112	337	238
International Delivery	59	36	219	152
Pennsylvania Delivery	47	49	131	103
	\$ 226	\$ 197	\$ 687	\$ 493

PPL Balance Sheet Data	September 30,		December 31,	
	2006		2005	
Total assets				
Supply	\$	7,852	\$	7,118
International Delivery		5,586		5,089
Pennsylvania Delivery		5,419		5,719
	\$	<u>18,857</u>	\$	<u>17,926</u>

PPL Energy Supply Income Statement Data	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Revenues from external customers				
Supply	\$ 1,052	\$ 940	\$ 2,951	\$ 2,568
International Delivery	320	283	998	897
	<u>1,372</u>	<u>1,223</u>	<u>3,949</u>	<u>3,465</u>
Net Income				
Supply (a)	123	123	351	266
International Delivery	59	36	219	152
	<u>\$ 182</u>	<u>\$ 159</u>	<u>\$ 570</u>	<u>\$ 418</u>

PPL Energy Supply Balance Sheet Data	September 30,		December 31,	
	2006		2005	
Total assets				
Supply	\$	8,215	\$	7,575
International Delivery		5,586		5,089
	\$	<u>13,801</u>	\$	<u>12,664</u>

(a) 2006 and 2005 include the results of discontinued operations. See Note 8 for additional information.

The net income of the International Delivery segment for the three and nine months ended September 30, 2006, reflects accounting adjustments related to prior periods. During the three months ended September 30, 2006, management determined that it had incorrectly applied the impacts of Chilean inflation in calculating depreciation and deferred income taxes on certain Chilean assets from 1997 through 2006. As a result, net income was increased by \$5 million for the depreciation adjustment in the three months ended September 30, 2006, of which \$4 million related to periods prior to 2006 and less than \$1 million related to the first and second quarters of 2006. Net income was also increased by \$9 million for the deferred income tax adjustment in the three months ended September 30, 2006, of which \$8 million related to periods prior to 2006 and less than \$1 million related to the first and second quarters of 2006. These adjustments are not considered by management to be material to the financial statements of prior periods and are not expected to be material to the financial statements for the full year 2006.

4. Earnings Per Share

(PPL)

Basic EPS is calculated using the weighted-average shares of common stock outstanding during the period. Diluted EPS is calculated using the weighted-average shares of common stock outstanding that are increased for additional shares that would be outstanding if potentially dilutive securities were converted to common stock. Potentially dilutive securities consist of:

- stock options, restricted stock and restricted stock units granted under the incentive compensation plans;
- stock units representing common stock granted under the directors compensation programs; and
- convertible senior notes.

The basic and diluted EPS calculations, and the reconciliation of the shares (in thousands) used in the calculations, are:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Income (Numerator)				
Income from continuing operations	\$ 226	\$ 195	\$ 707	\$ 544
Loss (income) from discontinued operations (net of income taxes)		(2)	20	51
Net Income	<u>\$ 226</u>	<u>\$ 197</u>	<u>\$ 687</u>	<u>\$ 493</u>
Shares (Denominator)				
Shares for Basic EPS	380,806	379,660	380,269	378,955
Add incremental shares:				
Convertible Senior Notes	3,920	3,326	3,212	2,106
Stock options and other share-based awards	2,876	2,523	2,792	2,288
Shares for Diluted EPS	<u>387,602</u>	<u>385,509</u>	<u>386,273</u>	<u>383,349</u>
Basic EPS				
Income from continuing operations	\$ 0.59	\$ 0.51	\$ 1.86	\$ 1.44
Loss (income) from discontinued operations (net of income taxes)		(0.01)	0.05	0.14
Net Income	<u>\$ 0.59</u>	<u>\$ 0.52</u>	<u>\$ 1.81</u>	<u>\$ 1.30</u>
Diluted EPS				
Income from continuing operations	\$ 0.58	\$ 0.50	\$ 1.83	\$ 1.42
Loss (income) from discontinued operations (net of income taxes)		(0.01)	0.05	0.13
Net Income	<u>\$ 0.58</u>	<u>\$ 0.51</u>	<u>\$ 1.78</u>	<u>\$ 1.29</u>

If converted, PPL Energy Supply's 2.625% Convertible Senior Notes due 2023 require cash settlement of the principal amount and permit settlement of any conversion premium in cash or PPL common stock. Based upon the current conversion rate of 40.2212 shares per \$1,000 principal amount of notes, the Convertible Senior Notes have a dilutive impact when the average market price of PPL common stock exceeds the conversion price of \$24.87. See Note 7 for discussion of attainment of the market price trigger related to the Convertible Senior Notes in 2006.

The maximum number of shares of PPL common stock that could potentially be issued to settle the conversion premium, based upon the current conversion rate, is 14,517,199 shares. Based on PPL's common stock price at September 30, 2006, the conversion premium equated to 3,546,560 shares, or \$117 million.

During the nine months ended September 30, 2006, PPL issued 1,112,799 shares related to exercise of stock options and vesting of restricted stock and restricted stock units under its stock-based compensation plans. See Note 9 for a discussion of PPL's stock-based compensation plans.

The following stock options to purchase PPL common stock were excluded in the respective periods' computations of diluted EPS because the effect would have been antidilutive.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Thousands of Shares)	2006	2005	2006	2005
Antidilutive stock options			445	

5. Income Taxes

(PPL and PPL Energy Supply)

Reconciliations of effective income tax rates are:

PPL	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Reconciliation of Income Tax Expense				
Indicated federal income tax on Income from Continuing Operations Before Income Taxes, Minority Interest and Dividends on Preferred Securities of a Subsidiary at statutory tax rate - 35%	\$ 96	\$ 91	\$ 330	\$ 241
Increase (decrease) due to:				
State income taxes	3	8	13	10
Amortization of investment tax credit	(3)	(3)	(8)	(8)
Difference related to income recognition of foreign affiliates (net of foreign income taxes)	(14)	(7)	(36)	(27)
Chilean deferred tax adjustment (Note 3)	(9)		(9)	
Transfer of WPD tax items			(20)	
Stranded cost securitization	(2)		(5)	
Federal income tax credits	(24)	(27)	(38)	(81)
Change in tax reserves	(6)	2	(6)	2
Other			(2)	1
	(55)	(27)	(111)	(103)
Total income tax expense	\$ 41	\$ 64	\$ 219	\$ 138
Effective income tax rate	14.9%	24.5%	23.2%	20.0%

PPL Energy Supply	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Reconciliation of Income Tax Expense				
Indicated federal income tax on Income from Continuing Operations Before Income Taxes and Minority Interest at statutory tax rate - 35%	\$ 73	\$ 66	\$ 267	\$ 192
Increase (decrease) due to:				
State income taxes	4	1	16	(3)
Amortization of investment tax credit	(2)	(2)	(6)	(6)
Difference related to income recognition of foreign affiliates (net of foreign income taxes)	(14)	(7)	(36)	(27)
Chilean deferred tax adjustment (Note 3)	(9)		(9)	
Transfer of WPD tax items			(20)	
Federal income tax credits	(24)	(27)	(38)	(81)
Change in tax reserves	(4)	2	(4)	2
Other	1	(2)	(4)	(2)
	(48)	(35)	(101)	(117)
Total income tax expense	\$ 25	\$ 31	\$ 166	\$ 75
Effective income tax rate	11.8%	16.4%	21.7%	13.7%

In January 2006, WPD, Hyder's liquidator and a former Hyder affiliate signed an agreement to transfer to the affiliate a future tax liability from WPD and certain surplus tax losses from Hyder. The U.K. taxing authority subsequently confirmed this agreement. This transfer resulted in a net reduction of income tax expense of \$20 million for the nine months ended September 30, 2006, and a decrease to goodwill of \$12 million from the resolution of a pre-acquisition tax contingency pursuant to EITF Issue 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination."

(PPL Electric)

Reconciliations of effective income tax rates are:

PPL Electric	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Reconciliation of Income Tax Expense				
Indicated federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 27	\$ 30	\$ 73	\$ 57
Increase (decrease) due to:				
State income taxes	2	3	3	3
Amortization of investment tax credit	(1)	(1)	(2)	(2)
Stranded cost securitization	(2)		(5)	
Change in tax reserves	(3)		(2)	(1)
Other			1	2
	(4)	2	(5)	2
Total income tax expense	\$ 23	\$ 32	\$ 68	\$ 59
Effective income tax rate	29.5%	37.6%	32.5%	36.0%

6. Comprehensive Income

(PPL and PPL Energy Supply)

The after-tax components of comprehensive income are:

PPL	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Net Income	\$ 226	\$ 197	\$ 687	\$ 493
Other comprehensive income (loss):				
Foreign currency translation adjustments	17	9	99	(30)
Net unrealized gain (loss) on available-for-sale securities	7	5	(1)	5
Net unrealized gain (loss) on qualifying derivatives	43	(124)	169	(204)
Total other comprehensive income (loss)	67	(110)	267	(229)
Comprehensive Income	\$ 293	\$ 87	\$ 954	\$ 264

PPL Energy Supply

Net Income	\$ 182	\$ 159	\$ 570	\$ 418
Other comprehensive income (loss):				
Foreign currency translation adjustments	17	9	99	(30)
Net unrealized gain (loss) on available-for-sale securities	7	6	(1)	5
Net unrealized gain (loss) on qualifying derivatives	53	(134)	161	(213)
Total other comprehensive income (loss)	77	(119)	259	(238)
Comprehensive Income	\$ 259	\$ 40	\$ 829	\$ 180

(PPL Electric)

PPL Electric's comprehensive income approximates net income.

7. Credit Arrangements and Financing Activities

Credit Arrangements

(PPL and PPL Electric)

PPL Electric maintains credit facilities in order to enhance liquidity and provide credit support, and as a backstop to its commercial paper program.

In June 2006, PPL Electric amended and restated the credit agreement for its \$200 million five-year credit facility and extended the expiration date to June 2011. PPL Electric has the ability to cause the lenders under this facility to issue letters of credit. At September 30, 2006, PPL Electric had no cash borrowings or letters of credit outstanding under this credit facility. PPL Electric's \$100 million three-year credit facility expired in June 2006 and was not renewed.

PPL Electric maintains a commercial paper program for up to \$200 million to provide it with an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's \$200 million five-year credit facility. PPL Electric had no commercial paper outstanding at September 30, 2006.

At September 30, 2006, \$147 million of accounts receivable and \$115 million of unbilled revenue were pledged by a PPL Electric subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in an asset-backed commercial paper program. Also at this date, there was \$42 million of short-term debt outstanding under the credit agreement at an interest rate of 5.36%, all of which was being used to cash collateralize letters of credit issued on PPL Electric's behalf. At September 30, 2006, based on the accounts receivable and unbilled revenue pledged, an additional \$89 million was available for borrowing. PPL Electric's sale to its subsidiary of the pledged accounts receivable and unbilled revenue is an absolute sale of the assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. In July 2006, PPL Electric and the subsidiary extended the expiration date of the credit agreement to July 2007.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains credit facilities in order to enhance liquidity and provide credit support, and as a backstop to its commercial paper program.

In March 2006, PPL Energy Supply extended the expiration date of its 364-day reimbursement agreement to March 2007. Under the agreement, PPL Energy Supply can cause the bank to issue up to \$200 million of letters of credit. At September 30, 2006, there was \$60 million of letters of credit outstanding under this agreement.

In June 2006, PPL Energy Supply entered into a \$1.9 billion Amended and Restated Five-Year Credit Agreement, which expires in June 2011. This credit agreement amended, restated and combined into one credit facility the following three five-year credit facilities of PPL Energy Supply: the \$800 million facility expiring in June 2010, the \$600 million facility expiring in June 2010 and the \$500 million facility expiring in December 2010. PPL Energy Supply has the ability to cause the lenders under this facility to issue letters of credit. At September 30, 2006, PPL Energy Supply had an aggregate of \$49 million of letters of credit and no cash borrowings outstanding under this facility.

PPL Energy Supply also maintains a \$300 million five-year letter of credit and revolving credit facility expiring in March 2011. At September 30, 2006, there were no cash borrowings and \$232 million of letters of credit outstanding under this facility. PPL Energy Supply's obligations under this facility are supported by a \$300 million letter of credit issued on PPL

Energy Supply's behalf under a separate \$300 million five-year letter of credit and reimbursement agreement also expiring in March 2011.

PPL Energy Supply maintains a commercial paper program for up to \$500 million to provide it with an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's \$1.9 billion five-year credit facility. PPL Energy Supply had no commercial paper outstanding at September 30, 2006.

WPD (South West) maintains three committed credit facilities: a £100 million 364-day facility, a £150 million three-year facility and a £150 million five-year facility (approximately \$746 million in total). The WPD (South West) 364-day facility expired in October 2006 and is expected to be renewed in November 2006. The three-year facility expires in October 2008, and the five-year facility expires in October 2009. At September 30, 2006, WPD (South West) also has uncommitted credit facilities of £65 million (approximately \$121 million). At September 30, 2006, there were no cash borrowings outstanding under the WPD (South West) credit facilities.

(PPL, PPL Energy Supply and PPL Electric)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of the subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL absent a specific contractual undertaking by PPL to pay the creditors of its subsidiaries or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply and PPL Electric are separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply and PPL Electric. Accordingly, creditors of PPL Energy Supply and PPL Electric may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. In addition, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply and PPL Electric are not liable for the debts of their subsidiaries. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply or PPL Electric absent a specific contractual undertaking by that parent to pay the creditors of its subsidiaries or as required by applicable law or regulation.

Financing Activities

(PPL)

In May 2006, PPL Capital Funding retired all \$99 million of its Senior Floating Rate Notes and all \$148 million of its 7.29% Subordinated Notes upon maturity.

(PPL and PPL Electric)

In March 2006, PPL Electric retired all \$146 million of its 6.55% Series First Mortgage Bonds upon maturity.

During the nine months ended September 30, 2006, PPL Transition Bond Company made principal payments on transition bonds of \$219 million.

In April 2006, PPL Electric sold 10 million depositary shares, each representing a quarter interest in a share of PPL Electric's 6.25% Series Preference Stock (Preference Shares), totaling \$250 million. In connection with the sale of the depositary shares, PPL Electric issued 2.5 million Preference Shares, with a liquidation preference of \$100 per share, to the bank acting as a depositary. PPL Electric used the net proceeds of \$245 million from the offering to repurchase \$200 million of its common stock held by PPL, and for other general corporate purposes. PPL used the \$200 million received from PPL Electric to fund capital expenditures and for general corporate purposes.

Holders of the depositary shares are entitled to all proportional rights and preferences of the Preference Shares, including dividend, voting, redemption and liquidation rights, exercised through the depositary. The Preference Shares rank senior to PPL Electric's common stock and junior to its preferred stock, and they have no voting rights, except as provided by law.

Dividends on the Preference Shares will be paid when, as and if declared by the Board of Directors at a fixed annual rate of 6.25%, or \$1.5625 per depositary share per year, and are not cumulative. PPL Electric may not pay dividends on, or redeem, purchase or make a liquidation payment with respect to any of its common stock, except in certain circumstances, unless full dividends on the Preference Shares have been paid for the then-current dividend period.

The Preference Shares do not have a stated maturity, and are not subject to sinking fund requirements. However, PPL Electric may, at its option, redeem the Preference Shares in whole or in part from time to time for \$100 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, on or after April 6, 2011.

In May 2006, PPL Electric filed Amended and Restated Articles of Incorporation that, among other things, increased the authorized amount of preference stock from 5 million to 10 million shares, without nominal or par value.

"Preferred Securities" in the financial statements refers to both the Preference Shares and \$51 million of PPL Electric's preferred stock at September 30, 2006.

(PPL Electric)

During the nine months ended September 30, 2006, PPL Electric paid common dividends of \$84 million to PPL and received a capital contribution of \$75 million from PPL.

(PPL and PPL Energy Supply)

In December 2005, Elfec made a scheduled \$3 million principal payment on its \$23 million of Bolivian bonds, which was funded primarily with short-term debt. This transaction was recorded in January 2006 due to the one-month lag in foreign subsidiary reporting.

PPL Energy Supply issued \$300 million of 6.20% Senior Notes due 2016 (6.20% Notes) in May 2006 and issued an additional \$150 million of the 6.20% Notes in July 2006. The 6.20% Notes may be redeemed any time prior to maturity at PPL Energy Supply's option at make-whole redemption prices. In July 2006, PPL Energy Supply also issued \$250 million of 7% Senior Notes due 2046 (7% Notes). The 7% Notes are not subject to redemption prior to July 15, 2011. On or after July 15, 2011, PPL Energy Supply may, at its option, redeem the 7% Notes, in whole or in part, at par. Proceeds from the sale of both the 6.20% Notes and 7% Notes were used for capital expenditures, including expenditures relating to PPL Energy Supply's installation of pollution control equipment at two of its coal-fired power plants in Pennsylvania, and for general corporate purposes.

In July 2006, Emel issued 3 million UF (inflation-indexed Chilean Pesos) denominated bonds in two series (\$101 million at then-current exchange rates). The first series consists of 1 million UF denominated bonds that mature in 2011, are callable at par on or after June 1, 2009, and bear interest at 3.75%. The second series consists of 2 million UF denominated bonds with serial maturities from 2021 through 2027, which are callable on or after June 1, 2014, at a specified calculated value on the call date and bear interest at 4.50%. The proceeds were used to pay Emel's 3 million UF denominated bond maturity in August 2006.

The terms of PPL Energy Supply's 2.625% Convertible Senior Notes due 2023 include a market price trigger that permits holders to convert the notes during any fiscal quarter if the closing sale price of PPL's common stock exceeds \$29.83 for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. This market price trigger was met in the first, second and third quarters of 2006. Therefore, holders of the Convertible Senior Notes were entitled to convert their notes at any time during the second and third quarters of 2006 and are also entitled to convert their notes any time during the fourth quarter of 2006. As discussed in Note 4, when holders elect to convert the Convertible Senior Notes, PPL Energy Supply is required to

settle the principal amount in cash and any conversion premium in cash or PPL common stock.

During the nine months ended September 30, 2006, Convertible Senior Notes in an aggregate principal amount of \$39 million were presented for conversion. The total conversion premium related to these conversions was \$11 million, which was settled with 348,465 shares of PPL common stock, along with an insignificant amount of cash in lieu of fractional shares. After such conversions, PPL Energy Supply has approximately \$361 million of Convertible Senior Notes that can be presented for conversion in the fourth quarter of 2006.

(PPL Energy Supply)

During the nine months ended September 30, 2006, PPL Energy Supply distributed \$651 million to its parent company and received cash capital contributions of \$116 million.

On July 1, 2006, in connection with an internal reorganization, PPL Energy Supply received non-cash contributions from its parent, PPL Energy Funding, consisting of a note receivable and ownership interests in certain subsidiaries (including PPL Telecom). The contributions were recorded at the parent's historical carrying amounts, collectively totaling \$65 million. The businesses of these subsidiaries became a component of PPL Energy Supply's Supply segment. The impact on PPL Energy Supply's financial statements and to its Supply segment was not significant.

Dividends

(PPL)

In February 2006, PPL announced an increase to its quarterly common stock dividend, effective April 1, 2006, to 27.5 cents per share (equivalent to \$1.10 per annum). Future dividends, declared at the discretion of PPL's Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

(PPL and PPL Electric)

The quarterly dividend rate for PPL Electric's Preference Shares is \$1.5625 per share. PPL Electric has declared and paid dividends on its outstanding Preference Shares since issuance. Dividends on the Preference Shares are not cumulative and future dividends, declared at the discretion of PPL Electric's Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

8. Acquisitions, Development and Divestitures

From time to time, PPL and its subsidiaries are involved in negotiations with third parties regarding acquisitions and dispositions of businesses and assets, joint ventures and

development projects. Any such transactions may impact future financial results.

(PPL and PPL Energy Supply)

Discontinued Operations

See "Guarantees and Other Assurances" in Note 11 for more information on PPL Energy Supply's indemnifications related to the sales discussed below.

Sale of Interest in Griffith Plant

In June 2006, a subsidiary of PPL Energy Supply, which is included in the Supply segment, sold its 50% ownership interest in the 600 MW Griffith power plant located in Kingman, Arizona, for \$115 million in cash. Proceeds of the sale were used to fund a portion of PPL's capital expenditure requirements. The book value of PPL's interest in the plant was \$150 million on the sale date.

Following are the components of "Loss (Income) from Discontinued Operations" on the Statements of Income related to the sale of PPL's interest in the Griffith plant.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating revenues	\$	\$ 23	\$ 5	\$ 37
Operating expenses		19	10	37
Loss (income) from operations before income taxes		(4)	5	
Income tax expense (benefit)		2	(2)	
Loss (income) from operations after income taxes		(2)	3	
Loss on sale of interest (net of tax benefit of \$16 million)			24	
Acceleration of net unrealized gains on derivatives associated with the plant (net of tax expense of \$4 million)			(7)	
Loss (Income) from Discontinued Operations (net of income taxes)	\$	\$ (2)	\$ 20	\$

Sale of Sundance Plant

In May 2005, a subsidiary of PPL Energy Supply, which is included in the Supply segment, completed the sale of its 450 MW Sundance power plant located in Pinal County, Arizona, to Arizona Public Service Company for \$190 million in cash. The book value of the plant was \$260 million on the sale date.

Following are the components of "Loss (Income) from Discontinued Operations" on the Statements of Income related to the sale of the Sundance plant. There were no derivative contracts hedging the Sundance plant at the time of the sale.

	September 30, 2005	
	Three Months Ended	Nine Months Ended
Operating revenues	\$	\$ 4
Operating expenses		10
Loss from operations before income taxes		6
Income tax benefit		(2)
Loss from operations after income taxes		4
Loss on disposal (net of tax benefit of \$26 million)		47
Loss from Discontinued Operations (net of income taxes)	\$	\$ 51

International

In March 2006, PPL Global, which is included in the International segment, completed the sale of its minority interest in Aguaytia Energy, LLC, a combined generating and natural gas facility in Peru. PPL Global received \$15 million from the sale, and recorded a pre-tax gain of \$3 million, which is included in "Other Income - net" on the Statement of Income.

In February 2006, WPD received legal notification citing one of its real estate investments as an environmentally protected area, thus restricting planned development. Although WPD is taking legal action to have the restriction removed, an impairment assessment was performed based on a third-party appraisal. As a result, PPL Global recorded an impairment charge of \$8 million (\$6 million after tax) in the first quarter of 2006, which is included in "Other Income - net" on the Statement of Income.

In 2005, WPD effectively sold an equity investment by transferring all risks and rewards of ownership of the two subsidiaries which held the investment, receiving \$9 million. The gain was deferred until WPD's continuing involvement in the subsidiaries ceased. In the third quarter of 2006, WPD ceased involvement with one subsidiary. As a result, PPL Global recognized a pre-tax gain of \$5 million. The gain is included in "Other Income - net" on the Statement of Income.

In 2000, WPD acquired Hyder. Subsequently, WPD sold the majority of Hyder's non-electricity delivery businesses and placed the remaining companies in liquidation. In March 2006, WPD received \$24 million in proceeds as an initial distribution related to the planned ongoing liquidation of the remaining non-electricity delivery businesses. In August 2006, WPD received an additional distribution of \$4 million, of which \$3 million was credited to income. These distributions are included in "Other Income - net" on the Statement of Income. WPD continues to operate the Hyder electricity delivery business.

Domestic

In September 2006, PPL Susquehanna applied to the NRC for 20-year license renewals for Units 1 and 2 of the nuclear power plant. The license renewals for each of the Susquehanna units would extend their expiration dates from 2022 to 2042 for Unit 1 and from 2024 to 2044 for Unit 2.

PPL cannot predict whether or when NRC approval will be obtained.

In October 2006, PPL Susquehanna filed a request with the NRC to increase the amount of electricity the plant can generate. The total expected capacity increase is 205 MW, of which PPL Susquehanna's share would be 185 MW. PPL Susquehanna's share of the expected capital cost of this project is \$217 million. PPL cannot predict whether or when NRC approval will be obtained.

PPL also plans a construction project to expand the capacity of its Holtwood hydroelectric plant by 125 MW, at an expected capital cost of \$243 million. This planned expansion is subject to various regulatory approvals and other conditions, and PPL cannot predict whether or when these approvals will be obtained or the other conditions will be met.

Other

See Note 11 for a discussion of the impairment of PPL Energy Supply's synthetic fuel production facilities recorded in June 2006.

9. Stock-Based Compensation

(PPL, PPL Energy Supply and PPL Electric)

Effective January 1, 2006, PPL adopted SFAS 123 (revised 2004), "Share-Based Payment," which is known as SFAS 123(R), using the modified prospective application transition method. The adoption of SFAS 123(R) did not have a significant impact on PPL and its subsidiaries, since PPL and its subsidiaries adopted the fair value method of accounting for stock-based compensation, as described by SFAS 123, "Accounting for Stock-Based Compensation," effective January 1, 2003. See Note 18 for further discussion of SFAS 123(R).

(PPL)

For the nine months ended September 30, 2006, PPL recorded total compensation costs of \$21 million related to stock-based compensation awards, with \$9 million of related income tax benefits. For the nine months ended September 30, 2005, PPL recorded total compensation costs of \$30 million related to stock-based compensation awards, with \$12 million of related income tax benefits. The nine months ended September 30, 2005, included \$5 million after tax (or \$0.01 per share) related to periods prior to 2005 to record accelerated recognition of expense for employees at or near retirement age. The amounts related to periods prior to 2005 were not material to previously issued financial statements.

(PPL Energy Supply)

For the nine months ended September 30, 2006, PPL Energy Supply recorded total compensation costs of \$15 million related to stock-based compensation awards, with \$6 million of related income tax benefits. For the nine months ended

September 30, 2005, PPL Energy Supply recorded total compensation costs of \$19 million related to stock-based compensation awards, with \$8 million of related income tax benefits. The nine months ended September 30, 2005, included \$3 million after tax related to periods prior to 2005 to record accelerated recognition of expense for employees at or near retirement age. The amounts related to periods prior to 2005 were not material to previously issued financial statements.

(PPL Electric)

For the nine months ended September 30, 2006, PPL Electric recorded total compensation costs related to stock-based compensation awards of \$4 million, with \$2 million of related income tax benefits. For the nine months ended September 30, 2005, PPL Electric recorded total compensation costs related to stock-based compensation of \$7 million, with \$3 million of related income tax benefits. The nine months ended September 30, 2005, included \$2 million after tax related to periods prior to 2005 to record accelerated recognition of expense for employees at or near retirement age. The amounts related to periods prior to 2005 were not material to previously issued financial statements.

Restricted Stock and Restricted Stock Units *(PPL, PPL Energy Supply and PPL Electric)*

Restricted stock and restricted stock unit activity for the nine months ended September 30, 2006 was:

	Restricted Shares	Weighted- Average Grant Date Fair Value
<u>PPL</u>		
Nonvested at January 1, 2006	1,557,123	\$21.23
Granted	797,555	30.85
Vested	(339,266)	18.61
Forfeited	(96,392)	20.20
Nonvested at September 30, 2006	1,919,020	25.76
<u>PPL Energy Supply</u>		
Nonvested at January 1, 2006	671,901	\$19.67
Granted	305,600	31.14
Vested	(130,146)	17.75
Forfeited	(45,640)	25.33
Transferred	43,230	28.01
Nonvested at September 30, 2006	844,945	24.28
<u>PPL Electric</u>		
Nonvested at January 1, 2006	116,260	\$23.09
Granted	58,550	31.17
Vested	(33,340)	17.69
Nonvested at September 30, 2006	141,470	27.68

The weighted-average grant date fair value of restricted stock and restricted stock units granted during the nine months ended September 30, 2005, was \$27.03 for PPL, \$27.14 for PPL Energy Supply and \$27.07 for PPL Electric.

As of September 30, 2006, unrecognized compensation cost related to nonvested awards was:

	Unrecognized Compensation Cost	Weighted-Average Period for Recognition
PPL	\$ 13	2.6 years
PPL Energy Supply	7	2.7 years
PPL Electric	1	1.5 years

The total fair value of shares vesting during the nine months ended September 30, 2006 and 2005, was:

	September 30, 2006	September 30, 2005
PPL	\$ 11	\$ 10
PPL Energy Supply	4	4
PPL Electric	1	1

Stock Options (PPL, PPL Energy Supply and PPL Electric)

Stock option activity under the plans for the nine months ended September 30, 2006, was:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Total Intrinsic Value
PPL				
Outstanding at January 1, 2006	5,586,072	\$ 21.81		
Granted	1,335,420	30.14		
Exercised	(999,186)	18.50		
Forfeited	(64,540)	30.14		
Outstanding at September 30, 2006	5,857,766	24.18	7.3 years	\$ 52
Options exercisable at September 30, 2006	3,267,255	21.36	6.3 years	38
Weighted-average fair value of options granted	\$ 4.86			
PPL Energy Supply				
Outstanding at January 1, 2006	1,225,502	\$ 21.72		
Granted	494,660	30.14		
Exercised	(212,960)	18.56		
Transferred	194,360	23.93		
Outstanding at September 30, 2006	1,701,562	24.82	7.6 years	\$ 14
Options exercisable at September 30, 2006	782,487	20.85	6.3 years	10
Weighted-average fair value of options granted	\$ 4.86			
PPL Electric				
Outstanding at January 1, 2006	285,372	\$ 22.95		
Granted	88,540	30.14		
Outstanding at September 30, 2006	373,912	24.65	7.1 years	\$ 3
Options exercisable at September 30, 2006	215,796	22.30	5.9 years	2
Weighted-average fair value of options granted	\$ 4.86			

The total intrinsic value of stock options exercised was:

	Nine Months Ended September 30,	
	2006	2005
PPL	\$ 15	\$ 18
PPL Energy Supply	3	4
PPL Electric		3

As of September 30, 2006, unrecognized compensation cost related to stock options was:

	Unrecognized Compensation Cost	Weighted-Average Period for Recognition
PPL	\$ 2	2.0 years
PPL Energy Supply	2	2.0 years

PPL received cash from stock option exercises for the nine months ended September 30, 2006, of \$13 million. The

income tax benefit from share-based arrangements for the nine months ended September 30, 2006, was \$8 million, with \$5 million attributed to stock option exercises.

The estimated fair value of each option granted was calculated using a Black-Scholes option-pricing model. The weighted-average assumptions used in the model were:

	2006	2005
Risk-free interest rate	4.06%	4.09%
Expected option life	6.25 yrs.	7.00 yrs.
Expected stock volatility	19.86%	18.09%
Dividend yield	3.76%	3.88%

Based on the above assumptions, the weighted-average grant date fair value of options granted during the nine months ended September 30, 2006 and 2005, was \$4.86 and \$3.99.

PPL uses historical volatility to value its stock options using the Black-Scholes option pricing model. Volatility over the

expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption.

Directors Stock Units (PPL)

Under the Directors Deferred Compensation Plan, a mandatory amount of the cash retainers of the members of the Board of Directors who are not employees of PPL is deferred into stock units. Such deferred stock units represent shares of PPL's common stock to which the board members are entitled after they cease serving as a member of the Board of Directors. Board members also are entitled to defer any or all of their fees and cash retainers that are not part of the mandatory deferral into stock units. The stock unit accounts of each

board member are increased based on dividends paid or other distributions on PPL's common stock. There were 297,378 such stock units outstanding at September 30, 2006. Compensation expense related to directors' stock units was \$2 million for the nine months ended September 30, 2006 and 2005.

Stock Appreciation Rights (PPL and PPL Energy Supply)

WPD uses stock appreciation rights to compensate senior management employees. Stock appreciation rights are granted with a reference price to PPL's common stock at the date of grant. These awards vest over a three-year period and have a 10-year term, during which time employees are entitled to receive a cash payment of any appreciation in the price of PPL's common stock over the grant date value. At September 30, 2006, there were 372,138 stock appreciation rights outstanding. Compensation expense related to the stock appreciation rights was insignificant for the nine months ended September 30, 2006 and 2005.

10. Pension and Other Postretirement Benefits

(PPL and PPL Energy Supply)

Net periodic pension and other postretirement benefit costs were:

	Pension Benefits							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	Domestic		International		Domestic		International	
	2006	2005	2006	2005	2006	2005	2006	2005
PPL								
Service cost	\$ 15	\$ 14	\$ 6	\$ 4	\$ 46	\$ 42	\$ 16	\$ 13
Interest cost	31	29	36	37	93	86	104	113
Expected return on plan assets	(41)	(40)	(51)	(49)	(123)	(119)	(146)	(153)
Amortization of transition obligation	(1)	(1)			(3)	(3)		
Amortization of prior service cost	4	4	1	2	11	11	4	4
Amortization of loss	1		13	7	2	2	36	21
Net periodic pension costs (credits) prior to special termination benefits	9	6	5	1	26	19	14	(2)
Special termination benefits (a)								6
Net periodic pension costs	<u>\$ 9</u>	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 26</u>	<u>\$ 19</u>	<u>\$ 14</u>	<u>\$ 4</u>
PPL Energy Supply								
Service cost	\$ 1	\$ 1	\$ 6	\$ 4	\$ 3	\$ 3	\$ 16	\$ 13
Interest cost	1	1	36	37	3	3	104	113
Expected return on plan assets	(1)	(1)	(51)	(49)	(5)	(4)	(146)	(153)
Amortization of prior service cost			1	2			4	4
Amortization of loss			13	7	1		36	21
Net periodic pension costs (credits) prior to special termination benefits	1	1	5	1	2	2	14	(2)
Special termination benefits (a)								6
Net periodic pension costs	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 14</u>	<u>\$ 4</u>

(a) The 2005 amounts are related to a WPD-approved staff reduction plan as a result of the merger of its two control rooms, metering reorganization and other staff efficiencies. Additional pension costs were recognized due to early retirement and pension enhancement provisions granted to the employees.

	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
PPL				
Service cost	\$ 2	\$ 1	\$ 6	\$ 5
Interest cost	7	6	22	19
Expected return on plan assets	(5)	(5)	(15)	(15)
Amortization of transition obligation	2	2	6	7
Amortization of prior service cost	2	1	4	3
Amortization of loss	2		7	4
Net other postretirement benefits cost	<u>\$ 10</u>	<u>\$ 5</u>	<u>\$ 30</u>	<u>\$ 23</u>

Pension Protection Act of 2006

(PPL, PPL Energy Supply and PPL Electric)

On August 17, 2006, the Pension Protection Act of 2006 (the Act) was signed by President Bush. The Act changes current pension plan legislation and funding rules for defined benefit pension plans, which will become effective in 2008. Based on the current funded status of PPL's defined benefit pension plans, the Act is not expected to have a significant impact on the future funding of these plans or have a significant financial impact on PPL, PPL Energy Supply or PPL Electric in regard to these plans.

(PPL and PPL Electric)

The Act does contain a provision that provides for excess assets held exclusively in Black Lung Trust funds to be used to pay for health benefits other than black lung disease for retired coal miners. Prior to recognition of this provision of the Act, PPL Electric had a net liability of \$36 million for the medical costs of retirees of a PPL subsidiary represented by the United Mine Workers of America (UMWA). This subsidiary had a Black Lung Trust that was significantly overfunded. As a result of the Act and the ability to use the excess Black Lung Trust assets to make future benefit payments for the UMWA retiree medical costs, PPL Electric was able to fully offset the \$36 million UMWA retiree medical liability on its balance sheet and record a one-time credit to PPL's and PPL Electric's "Other operation and maintenance" expense.

Expected Cash Flows - Domestic Pension Plans *(PPL)*

PPL has increased its 2006 pension plan contributions from \$37 million, as estimated and disclosed in its 2005 Form 10-K, to \$46 million, all of which has been contributed as of September 30, 2006.

PPL also sponsors various unfunded non-qualified supplemental pension plans for which it makes benefit payments from corporate assets. Benefits payments for 2006 under these plans are expected to increase from \$2 million, as

disclosed in PPL's 2005 Form 10-K, to \$14 million. As of September 30, 2006, \$4 million of benefits had been paid. The remaining \$10 million was paid in the fourth quarter of 2006.

Expected Cash Flows – International Pension Plans *(PPL and PPL Energy Supply)*

WPD expects to increase its 2006 pension plan contributions from \$47 million, as disclosed in PPL's and PPL Energy Supply's 2005 Form 10-K, to approximately \$107 million. The increase is attributable to pre-funding of expected contributions for 2007. As of September 30, 2006, \$43 million had been contributed. Approximately \$64 million is expected to be contributed in the fourth quarter of 2006.

11. Commitments and Contingent Liabilities

Energy Purchases, Energy Sales and Other Commitments

Energy Purchase Commitments *(PPL, PPL Energy Supply and PPL Electric)*

PPL and PPL Energy Supply enter into long-term purchase contracts to supply the fuel requirements for generation facilities. These include contracts to purchase coal, emission allowances, natural gas, oil and nuclear fuel. These contracts extend for terms through 2019. PPL and PPL Energy Supply also enter into long-term contracts for the storage and transport of natural gas. These contracts extend through 2014 and 2032, respectively. Additionally, PPL and PPL Energy Supply have entered into long-term contracts to purchase power that extend for terms through 2010.

During the third quarter of 2006, PPL entered into a long-term coal purchase agreement with CONSOL Energy Inc. The contract will provide more than one-third of PPL's projected coal needs for the Pennsylvania power plants for 2008 through 2018.

PPL and PPL Energy Supply entered into long-term power purchase agreements with two wind project developers to purchase the full output of their facilities, including the associated renewable energy credits, when they begin commercial operation. These contracts extend for a term through 2026.

As part of the purchase of generation assets from Montana Power, PPL Montana assumed a power purchase agreement, which was still in effect at September 30, 2006. In accordance with purchase accounting guidelines, PPL Montana recorded a liability of \$58 million as the estimated fair value of the agreement at the acquisition date. The liability is being reduced over the term of the agreement, through 2010, as an adjustment to "Energy purchases" on the Statements of Income. The unamortized balance of the liability related to the agreement at September 30, 2006, was \$45 million and is

included in "Deferred Credits and Other Noncurrent Liabilities - Other" on the Balance Sheets.

In 1998, PPL Electric recorded a loss accrual for above-market contracts with NUGs of \$854 million, due to the deregulation of its generation business. Effective January 1999, PPL Electric began reducing this liability as an offset to "Energy purchases" on the Statements of Income. This reduction is based on the estimated timing of the purchases from the NUGs and projected market prices for this generation. The final NUG contract expires in 2014. In connection with the corporate realignment in 2000, the remaining balance of this liability was transferred to PPL EnergyPlus. At September 30, 2006, the remaining liability associated with the above-market NUG contracts was \$153 million.

Energy Sales Commitments *(PPL and PPL Energy Supply)*

PPL Energy Supply enters into long-term power sales contracts in connection with its load-serving activities or associated with certain of its power plants. These power sales contracts extend for terms through 2017. All long-term contracts were executed at pricing that approximated market rates, including profit margin, at the time of execution.

In July 2002, PPL Montana began to sell to NorthWestern an aggregate of 450 MW of energy. Under two five-year agreements for a term through June 30, 2007, PPL Montana is supplying 300 MW of around-the-clock electricity and 150 MW of unit-contingent on-peak electricity. PPL Montana also makes short-term energy sales to NorthWestern. In July 2006, PPL Montana entered into a new seven-year power purchase and sale agreement with NorthWestern pursuant to which PPL Montana will provide the following wholesale electricity supply to NorthWestern:

<u>Period</u>	<u>On-Peak Supply</u>	<u>Off-Peak Supply</u>
7/1/2007 - 6/30/2010	325 MW	175 MW
7/1/2010 - 6/30/2012	275 MW	150 MW
7/1/2012 - 6/30/2014	200 MW	125 MW

In 2002, PPL began commercial operations of its Edgewood natural gas-fired generating station and its Shoreham oil-fired generating station. Each of these New York plants has a capacity of 79.9 MW. Initially, the Long Island Power Authority contracted to purchase all of Edgewood's capacity and ancillary services as part of a three-year power purchase agreement with PPL EnergyPlus beginning at commercial operation, and all of Shoreham's capacity and ancillary services as part of a 15-year power purchase agreement with PPL EnergyPlus beginning at commercial operation. In 2005, PPL EnergyPlus extended the Edgewood power purchase agreement for an additional term that runs through October 2008. The Shoreham power purchase agreement remains in effect until 2017.

In January 2004, PPL EnergyPlus began supplying 12.5% of Connecticut Light & Power Company's (CL&P) Transitional Standard Offer load under a three-year fixed-price contract.

During peak hours, PPL EnergyPlus' obligation to supply the Transitional Standard Offer load may reach 625 MW. In January 2006, PPL EnergyPlus began to supply an additional 6.25% of CL&P's Transitional Standard Offer load under a one-year fixed-price contract. During peak hours, PPL EnergyPlus' obligation to supply the Transitional Standard Offer load may reach 313 MW. In September 2006, PPL EnergyPlus entered into an agreement to supply an additional 10% of CL&P's Transitional Standard Offer load under a two-year fixed-price contract, commencing January 1, 2007. During peak hours, PPL EnergyPlus' obligation to supply the Transitional Standard Offer load may reach 450 MW.

As a result of New Jersey's Electric Discount and Energy Competition Act, the New Jersey Board of Public Utilities authorized and made available to power suppliers, on a competitive basis, the opportunity to provide Basic Generation Service (BGS) to all non-shopping New Jersey customers. In February 2003, PPL EnergyPlus was awarded 34-month fixed-price BGS contracts for a fixed percentage of customer load (an aggregate of 1,000 MW) for Atlantic City Electric Company (ACE), Jersey Central Power & Light Company (JCPL) and Public Service Electric & Gas Company (PSEG). These contracts commenced in August 2003. In the first quarter of 2005, PPL EnergyPlus was awarded a portion of the Commercial Industrial Energy Pricing tranche, which amounts to 85 MW after expected shopping. These 12-month contracts ended in June 2006. In February 2006, PPL EnergyPlus was awarded 36-month fixed-price BGS contracts for fixed percentages of customer load (an aggregate of 600 MW) for ACE, JCPL and PSEG. These contracts commenced in June 2006.

In December 2005 and January 2006, PPL EnergyPlus entered into agreements with Delmarva Power and Light Company to provide a portion of its full requirements service from May 2006 through May 2008.

As a result of the Electric Service Customer Choice and Rate Relief Law of 1997, the Illinois General Assembly provided the opportunity for power suppliers to compete for the full requirements electric supply of all non-shopping Illinois customers. In September 2006, PPL EnergyPlus entered into three agreements with Commonwealth Edison Company to provide a portion of its full requirements service. These agreements commence in January 2007 and expire after 17, 29 and 41 months. During peak hours, PPL EnergyPlus' obligation to supply the load may reach 700 MW.

In September 2006, PPL EnergyPlus entered into agreements with Metropolitan Edison Company and Pennsylvania Electric Company to provide a portion of their full requirements service. These agreements commence in December 2006 and expire in December 2008. During peak hours, PPL EnergyPlus' obligation to supply the load may reach 250 MW.

PPL Montana Hydroelectric License Commitments (*PPL and PPL Energy Supply*)

PPL Montana has 11 hydroelectric facilities and one storage reservoir licensed by the FERC pursuant to the Federal Power Act under long-term licenses. Pursuant to Section 8(e) of the Federal Power Act, the FERC approved the transfer from Montana Power to PPL Montana of all pertinent licenses and any amendments in connection with the Montana Asset Purchase Agreement.

The Kerr Dam Project license was jointly issued by the FERC to Montana Power and the Confederated Salish and Kootenai Tribes of the Flathead Reservation in 1985, and required Montana Power to hold and operate the project for 30 years. The license required Montana Power, and subsequently PPL Montana as a result of the purchase of the Kerr Dam from Montana Power, to continue to implement a plan to mitigate the impact of the Kerr Dam on fish, wildlife and the habitat. Under this arrangement, PPL Montana has a remaining commitment to spend \$17 million between 2007 and 2015, at which point the tribes have the option to purchase, hold and operate the project.

PPL Montana entered into two Memoranda of Understanding (MOUs) with state, federal and private entities related to the issuance in 2000 of the FERC renewal license for the nine dams for the Missouri-Madison project. The MOUs require PPL Montana to implement plans to mitigate the impact of its projects on fish, wildlife and the habitat, and to increase recreational opportunities. The MOUs were created to maximize collaboration between the parties and enhance the possibility for matching funds from relevant federal agencies. Under this arrangement, PPL Montana has a remaining commitment to spend \$33 million between 2006 and 2040.

Legal Matters

(PPL, PPL Energy Supply and PPL Electric)

PPL and its subsidiaries are involved in numerous legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities.

Montana Power Shareholders' Litigation (*PPL and PPL Energy Supply*)

In August 2001, a purported class-action lawsuit was filed by a group of shareholders of Montana Power against Montana Power, the directors of Montana Power, certain advisors and consultants of Montana Power and PPL Montana. The plaintiffs allege, among other things, that Montana Power was required to, and did not, obtain shareholder approval of the sale of Montana Power's generation assets to PPL Montana in 1999, and thus that sale "was null and void ab initio." Among the remedies that the plaintiffs are seeking is the establishment of a "resulting and/or constructive trust" on both the

generation assets and all profits earned by PPL Montana from the generation assets, plus interest on the amounts subject to the trust. This lawsuit has been pending in the U.S. District Court of Montana, Butte Division, and the judge has placed this proceeding on hold pending the outcome of certain motions currently before the U.S. Bankruptcy Court for the District of Delaware, the resolution of which may impact this proceeding. PPL and PPL Energy Supply cannot predict the outcome of this matter.

Montana Hydroelectric Litigation (*PPL and PPL Energy Supply*)

In November 2004, PPL Montana, Avista Corporation and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydropower facilities' use and occupancy of streambeds in Montana can be collected by the State of Montana. This request for declaratory judgment from the Montana state court was brought following the dismissal of the State of Montana's federal lawsuit seeking such payments or compensation in the U.S. District Court of Montana, Missoula Division, due to lack of diversity jurisdiction. The State's federal lawsuit was founded on allegations that the bed of Montana's navigable rivers became state-owned property upon Montana's admission to statehood, and that the use of them for placement of dam structures, affiliated structures and reservoirs should, under an existing regulatory scheme, trigger lease payments for use of land underneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it is not seeking any lease payments or other compensation from PPL Montana for the period prior to PPL Montana's acquisition of the hydropower facilities in December 1999. The trial for this state court proceeding has been scheduled to commence in October 2007. PPL and PPL Energy Supply cannot predict the outcome of this matter.

Regulatory Issues

California ISO and Western Markets (*PPL and PPL Energy Supply*)

Through its subsidiaries, PPL made \$18 million of sales to the California ISO during the period from October 2000 through June 2001, of which \$17 million has not been paid to PPL subsidiaries. Given the myriad of electricity supply problems presently faced by the California electric utilities and the California ISO, PPL cannot predict whether or when it will receive payment. At September 30, 2006, PPL has fully reserved for underrecoveries of payments for these sales.

Regulatory proceedings arising out of the California electricity supply situation have been filed at the FERC. The FERC has determined that all sellers of energy into markets operated by the California ISO and the California Power Exchange, including PPL Montana, should be subject to refund liability for the period beginning October 2, 2000 through June 20, 2001, but the FERC has not yet ruled on the exact amounts

that the sellers, including PPL Montana, would be required to refund. In decisions in September 2004 and August 2006, the U.S. Court of Appeals for the Ninth Circuit held that the FERC had the additional legal authority to order refunds for periods prior to October 2, 2000, and ordered the FERC to determine whether or not it would be appropriate to grant such additional refunds. As part of its August 2006 decision, the Court stayed the time to petition for rehearing of the decision and its mandate to the FERC in order to allow the parties time to conduct settlement discussions.

In June 2003, the FERC took several actions as a result of a number of related investigations. The FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. The FERC also commenced additional investigations relating to "gaming" and bidding practices during 2000 and 2001, but, to their knowledge, neither PPL EnergyPlus nor PPL Montana is a subject of these investigations.

Litigation arising out of the California electricity supply situation has been filed in California courts against sellers of energy to the California ISO. The plaintiffs and intervenors in these legal proceedings allege, among other things, abuse of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws, and seek other relief, including treble damages and attorneys' fees. While PPL's subsidiaries have not been named by the plaintiffs in these legal proceedings, one defendant in a consolidated court proceeding named PPL Montana in its cross-complaint; this defendant denied any unlawful conduct but asserted that, if it is found liable, the other generators and power marketers, including PPL Montana, caused, contributed to and/or participated in the plaintiffs' alleged losses. In July 2006, the Court dismissed this case as the result of a settlement under which PPL Montana was not required to make any payments or provide any compensation.

In February 2004, the Montana Public Service Commission (PSC) initiated a limited investigation of the Montana retail electricity market for the years 2000 and 2001, focusing on how that market was affected by transactions involving the possible manipulation of the electricity grid in the western U.S. The investigation includes all public utilities and licensed electricity suppliers in Montana, including PPL Montana, as well as other entities that may possess relevant information. In June 2004, the Montana Attorney General served PPL Montana and more than 20 other companies with subpoenas requesting documents, and PPL Montana has provided responsive documents to the Montana Attorney General.

While PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the California and western markets, PPL cannot predict the outcome of the above-described investigations, lawsuits and proceedings or whether any PPL subsidiaries will

be the target of any additional governmental investigations or named in other lawsuits or refund proceedings.

PJM Capacity Litigation (*PPL, PPL Energy Supply and PPL Electric*)

In December 2002, PPL was served with a complaint against PPL, PPL EnergyPlus and PPL Electric filed in the U.S. District Court for the Eastern District of Pennsylvania by a group of 14 Pennsylvania boroughs that apparently alleged, among other things, violations of the federal antitrust laws in connection with the pricing of installed capacity in the PJM daily market during the first quarter of 2001 and certain breach of contract claims. These boroughs were wholesale customers of PPL Electric. In April 2006, the Court dismissed all of the federal antitrust claims and all of the breach of contract claims except for one breach of contract claim by one of the boroughs.

Each of the U.S. Department of Justice - Antitrust Division, the FERC and the Pennsylvania Attorney General conducted investigations regarding PPL's PJM capacity market transactions in early 2001 and did not find any reason to take action against PPL.

New England Investigation (*PPL and PPL Energy Supply*)

In January 2004, PPL became aware of an investigation by the Connecticut Attorney General and the FERC's Office of Market Oversight and Investigation (OMOI) regarding allegations that natural gas-fired generators located in New England illegally sold natural gas instead of generating electricity during the week of January 12, 2004. PPL has responded to a data request of OMOI that indicated that PPL was not under suspicion of a regulatory violation, but that OMOI was conducting an initial investigation. PPL also has responded to data requests of ISO New England and data requests served by subpoena from the Connecticut Attorney General. Both OMOI and ISO New England have issued preliminary reports finding no regulatory or other violations concerning these matters. While PPL does not believe that it committed any regulatory or other violations concerning the subject matter of these investigations, PPL cannot predict the outcome of these investigations.

PJM Billing (*PPL, PPL Energy Supply and PPL Electric*)

In December 2004, Exelon Corporation, on behalf of its subsidiary, PECO Energy, Inc. (PECO), filed a complaint against PJM and PPL Electric with the FERC alleging that PJM had overcharged PECO from April 1998 through May 2003 as a result of an error by PJM in the State Estimator Model used in connection with billing all PJM customers for certain transmission, spot market energy and ancillary services charges. Specifically, the complaint alleged that PJM mistakenly identified PPL Electric's Elroy substation transformer as belonging to PECO and that, as a consequence, during times of congestion, PECO's bills for transmission congestion from PJM erroneously reflected energy that PPL

Electric took from the Elroy substation and used to serve PPL Electric's load. The complaint requested the FERC, among other things, to direct PPL Electric to refund to PJM \$39 million, plus interest of \$8 million, and for PJM to refund these same amounts to PECO. In February 2005, PPL Electric filed its response with the FERC stating that neither PPL Electric nor any of its affiliates should be held financially responsible or liable to PJM or PECO as a result of PJM's error.

In April 2005, the FERC determined that PECO is entitled to reimbursement for the transmission congestion charges that PECO asserts PJM erroneously billed to it at the Elroy substation. The FERC set for additional proceedings before a judge the determination of the amount of the overcharge to PECO and which PJM market participants were undercharged and therefore are responsible for reimbursement to PECO.

PPL Electric recognized an after-tax charge of \$27 million (or \$0.07 per share for PPL) in the first quarter of 2005 for a loss contingency related to this matter. The pre-tax accrual was \$47 million, with \$39 million included in "Energy purchases" on the Statements of Income, and \$8 million in "Interest Expense."

In September 2005, PPL Electric and Exelon Corporation filed a proposed settlement agreement regarding this matter with the FERC. In March 2006, the FERC rejected the settlement agreement indicating that the agreement involves material issues of fact that it cannot decide without further information, and ordered the matter to be set for hearing.

Subsequently, in March 2006, PPL Electric and Exelon filed with the FERC a new proposed settlement agreement under which PPL Electric would pay approximately \$41 million over a five-year period to PJM through a new transmission charge that, under applicable law, would be recoverable from PPL Electric's retail customers. PJM would forward amounts collected under this new charge to PECO. The FERC has not yet acted on this new proposed settlement agreement.

PPL, PPL Electric and PPL Energy Supply cannot be certain of the outcome of this matter or the impact on PPL and its subsidiaries. Some or all of the first quarter 2005 charges for this matter may be reversed in a future period depending on the outcome of this matter, the potential for recovery of any amounts paid as a result of the additional FERC proceedings, the application of the relevant provisions of the energy supply agreements between PPL Electric and PPL EnergyPlus and other factors. Depending on these factors, PPL Energy Supply, the parent company of PPL EnergyPlus, may incur some or all of the costs associated with this matter in a future period.

FERC Market-Based Rate Authority (PPL and PPL Energy Supply)

In December 1998, the FERC issued an order authorizing PPL EnergyPlus to make wholesale sales of electric power and

related products at market-based rates. In that order, the FERC directed PPL EnergyPlus to file an updated market analysis within three years of the date of the order, and every three years thereafter. The most recent market-based rate filings with the FERC were made in November 2004 by PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Western market-based rate filing for PPL Montana and an Eastern market-based rate filing for most of the other PPL subsidiaries in the PJM region.

In September 2005, the FERC issued an order conditionally approving the Eastern market-based rate filing, subject to PPL subsidiaries making a compliance filing providing further support that they cannot erect other non-transmission barriers to entry into the generation market. The PPL subsidiaries made this compliance filing in October 2005, which the FERC accepted.

Also in September 2005, in an order on PPL's western market-based rate filing, the FERC found that PPL Montana did not pass one of the FERC's initial screening tests for market power in NorthWestern's control area, namely the wholesale market share screen. As a result, PPL Montana was required to make a more detailed filing with the FERC demonstrating that it meets the market power tests. Also, the FERC established a refund effective date of November 8, 2005 (for sales made in NorthWestern's control area pursuant to contracts entered into on and after that date), in the event that PPL Montana did not pass the FERC's market power tests. The FERC's order was not a definitive determination that PPL Montana has market power but rather the FERC's mechanism for analyzing market-based rate authority applications that require further scrutiny. In October 2005, PPL Montana made the more detailed filing with the FERC, which PPL Montana believes demonstrates that it cannot exercise generation market power in NorthWestern's control area and should be granted market-based rate authority in that area. The Montana PSC contended in this proceeding that PPL Montana possesses market power in NorthWestern's control area and that the FERC should deny PPL Montana authority to sell power at market-based rates. The Montana Consumer Counsel contended in this proceeding that PPL Montana has market power in NorthWestern's control area, that the FERC should deny PPL Montana authority to sell power in NorthWestern's control area at market-based rates and that PPL Montana cannot legally refuse to sell power to NorthWestern at cost-based rates if the FERC denies PPL Montana market-based rate authority in NorthWestern's control area. In May 2006, the FERC issued an order rejecting the claims of the opposing parties in this proceeding and granting PPL Montana market-based rate authority in NorthWestern's control area. There are two outstanding requests for rehearing of the FERC's order, and the FERC has issued a routine order allowing more time to consider these rehearing requests. While PPL Montana continues to believe that it does not have market power in NorthWestern's control area and that it has no obligations to make additional sales of power to NorthWestern regardless of the outcome of this

proceeding, it cannot predict the outcome of these proceedings.

Wallingford Cost-Based Rates (PPL and PPL Energy Supply)

In January 2003, PPL negotiated an agreement with ISO New England that would declare that four of the five units at PPL's Wallingford, Connecticut facility are "reliability must run" (RMR) units and put those units under cost-based rates. This RMR agreement and the cost-based rates are subject to approval by the FERC. In May 2003, the FERC denied PPL's request for approval of the RMR agreement and cost-based rates, but in August 2005, the U.S. Court of Appeals for the District of Columbia Circuit reversed the FERC's denial and remanded the case to the FERC for further consideration. In April 2006, the FERC conditionally approved the RMR agreement and the cost-based rates for the four Wallingford units, effective February 1, 2003, subject to refund, hearing and settlement procedures. The FERC ordered a hearing to determine whether the Wallingford units needed the RMR agreement, the proposed cost-based rates under the RMR agreement and the amounts to be recovered for past periods under the RMR agreement. Any rates collected under the RMR agreement prior to the completion of the hearing and/or settlement proceedings are subject to refund pending the outcome of the proceedings. The hearing has been held in abeyance pending the outcome of the settlement proceedings among the interested parties.

In September 2006, PPL and certain of the parties filed a written settlement with the FERC. The settlement is unopposed. If approved by the FERC, the settlement would resolve all issues in the pending proceeding, including payments to PPL for the past period and going forward. Under the terms of the settlement, PPL would receive a total of \$44 million in settlement of amounts due under the RMR agreement for the period February 1, 2003 through May 31, 2006. This amount (plus interest) would be paid to PPL in approximately equal monthly installments over a two-year period. In addition, PPL would enter into a revised RMR Agreement effective as of June 1, 2006, under which it would be entitled to receive approximately \$1.8 million per month for its recovery of fixed costs while the agreement remains in effect. The settling parties have requested that the FERC approve the settlement as soon as possible, but no later than December 31, 2006. In October 2006, the administrative law judge assigned to this matter certified the settlement to the FERC for its consideration as an uncontested settlement.

PPL and PPL Energy Supply currently expect that the four Wallingford RMR units will begin to participate in ISO New England's locational forward reserve market in June 2007, at which time the revised RMR Agreement would terminate in accordance with the settlement provided certain conditions are met. The ISO New England locational forward reserve market provides revenues to peaking generation that can quickly come on line from reserve status to meet reliability requirements.

PPL and PPL Energy Supply cannot predict whether or when the FERC will approve this settlement agreement or the ultimate outcome of this matter.

Montana Public Service Commissioner's Litigation (PPL and PPL Energy Supply)

In May 2006, one of the commissioners of the Montana PSC commenced an action in Montana First Judicial District Court against PPL Montana and the Montana PSC seeking to cause the Montana PSC to reverse its 1999 order consenting to "exempt wholesale generator" (EWG) status for PPL Montana's power plants. In 1999, the FERC had granted the plants EWG status and the authority to sell electricity produced at market-based rates, and the Montana PSC consented to this status for PPL Montana's plants under a provision of federal law. In September 2006, the Court granted PPL Montana's and the Montana PSC's motions to dismiss this action. The plaintiff has appealed the dismissal of the lawsuit to the Montana Supreme Court. PPL and PPL Energy Supply continue to believe that this lawsuit is groundless and beyond the statute of limitations period, but cannot predict the outcome of this matter.

IRS Synthetic Fuels Tax Credits (PPL and PPL Energy Supply)

PPL, through its subsidiaries, has interests in two synthetic fuel production facilities: the Somerset facility located in Pennsylvania and the Tyrone facility located in Kentucky. PPL receives tax credits pursuant to Section 29/45K of the Internal Revenue Code based on the sale of synthetic fuel from these facilities to unaffiliated third-party purchasers. Section 29/45K of the Internal Revenue Code provides tax credits for the production and sale of solid synthetic fuels produced from coal. Section 29/45K tax credits are currently scheduled to expire at the end of 2007.

To qualify for the Section 29/45K tax credits, the synthetic fuel must meet three primary conditions: (i) there must be a significant chemical change in the coal feedstock, (ii) the product must be sold to an unaffiliated entity, and (iii) the production facility must have been placed in service before July 1, 1998.

In addition, Section 29/45K provides for the synthetic fuel tax credit to begin to phase out when the relevant annual reference price for crude oil, which is the domestic first purchase price (DFPP), falls within a designated range and to be eliminated when the DFPP exceeds the range. The phase-out range is adjusted annually for inflation. Currently, the DFPP is published by the IRS annually in April for the prior year and is calculated based on the annual average wellhead price per barrel for all unregulated domestic crude oil. PPL experienced no phase-out of tax credits in 2005, based on the final DFPP reference price and the phase-out range applicable for 2005.

Accounting for inflation, PPL currently estimates the phase-out range for 2006 to begin at \$54 per barrel (DFPP) and the

tax credits to be totally eliminated at about \$68 per barrel (DFPP). Due to the volatility of crude oil prices, PPL cannot predict with any certainty the final DFPP reference price for crude oil for 2006 and 2007. However, if the price of crude oil remains at, or increases above, current price levels in 2006 or increases significantly above current price levels in 2007, under current phase-out provisions, PPL's synthetic fuel tax credits for either or both of those years would be significantly reduced or eliminated.

Since PPL began the synthetic fuel operations, the synthetic fuel produced at the Somerset and Tyrone facilities has resulted in an aggregate recognition of \$280 million and \$83 million of tax credits as of September 30, 2006. As of September 30, 2006, PPL is estimating the 2006 phase-out to be 38%, resulting in the recognition of \$13 million of tax credits for Somerset and \$23 million of tax credits for Tyrone for the nine months ending September 30, 2006.

In 2005, PPL entered into economic hedge transactions that serve to mitigate some of the earnings and cash flow impact of increases in DFPP crude oil prices for 2006 and 2007. In July 2006, PPL entered into additional economic hedge transactions for this purpose. The mark-to-market value of these hedges is reflected in "Energy-related businesses" revenues on the Statement of Income. Based on forecasted oil prices and other considerations, in early April 2006, PPL temporarily suspended operations at its Somerset facility. In August 2006, PPL resumed operations at its Somerset facility and expects to continue operations at this facility and the Tyrone facility throughout 2006. PPL has entered into additional economic hedge transactions for 2007; however, at this time, PPL cannot predict whether or the extent to which the facilities will operate in 2007.

PPL performed impairment reviews of both its synthetic fuel production facilities during the second quarter of 2006. The reviews were prompted by the Somerset suspension, the uncertainty surrounding the future operations of each of the facilities and continued observed and forecasted high crude oil prices. PPL determined that the net book value of the facilities exceeded the projected undiscounted cash flows. Therefore, in the second quarter of 2006, PPL recorded charges totaling \$10 million (\$6 million after tax, or \$0.01 per share for PPL) to fully impair its synfuel-related assets based on an internal model and other analysis. The impairment charges are reflected in "Energy-related businesses" expense on PPL's and PPL Energy Supply's Statements of Income. The assets of the facilities are a component of the Supply segment.

PPL also purchases synthetic fuel from unaffiliated third parties, at prices below the market price of coal, for use at its coal-fired power plants. In 2005, PPL's purchases from these third parties resulted in fuel cost savings of \$24 million. PPL estimates that if these third parties had discontinued their synthetic fuel operations and sales to PPL at the end of October 2006 due to the impact of projected DFPP oil prices, it would incur additional fuel costs of \$3 million for the remainder of 2006.

In October 2003, it was reported that the U.S. Senate Permanent Subcommittee on Investigations, of the Committee on Governmental Affairs, had begun an investigation of the synthetic fuel industry and its producers. That investigation is ongoing. PPL cannot predict when the investigation will be completed or the potential results of the investigation.

Energy Policy Act of 2005 (PPL, PPL Energy Supply and PPL Electric)

In August 2005, President Bush signed into law the Energy Policy Act of 2005 (the 2005 Energy Act). The 2005 Energy Act is comprehensive legislation that will substantially affect the regulation of energy companies. The Act amends federal energy laws and provides the FERC with new oversight responsibilities. Among the important changes that have been or will be implemented as a result of this legislation are:

- The Public Utility Holding Company Act of 1935 has been repealed. PUHCA significantly restricted mergers and acquisitions in the electric utility sector.
- The FERC has appointed the North American Electric Reliability Council as the electric reliability organization to establish and enforce mandatory reliability rules regarding the bulk power system, and the FERC will oversee this process and independently enforce the rules.
- The FERC will establish incentives for transmission companies, such as performance-based rates, recovery of the costs to comply with reliability rules and accelerated depreciation for investments in transmission infrastructure.
- The Price Anderson Amendments Act of 1988, which provides the framework for nuclear liability protection, was extended to 2025.
- Federal support will be available for certain clean coal power initiatives, nuclear power projects and renewable energy technologies.

The implementation of the 2005 Energy Act requires proceedings at the state level and the development of regulations by the FERC, the DOE and other federal agencies, some of which have not been finalized. PPL cannot predict when all of these proceedings and regulations will be finalized.

PPL cannot predict with certainty the impact of the 2005 Energy Act and any related regulations on PPL and its subsidiaries.

Environmental Matters - Domestic

(PPL, PPL Energy Supply and PPL Electric)

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, replace or cease operating certain facilities to comply with statutes, regulations and actions by regulatory bodies or courts. In this regard, PPL subsidiaries also may incur capital expenditures or operating expenses in amounts which are not now determinable, but could be significant.

Air (PPL and PPL Energy Supply)

The Clean Air Act deals, in part, with acid rain, attainment of federal ambient ozone standards, particulate matter standards and toxic air emissions and visibility in the U.S. Amendments to the Clean Air Act are likely to continue to be brought up for consideration in the U.S. Congress. Past proposed amendments would have required significant further reductions in emissions of nitrogen oxide and sulfur dioxide and reductions in emissions of mercury beyond the reductions discussed below and some would have required reductions in carbon dioxide.

Citing its authority under the Clean Air Act, the EPA has developed new standards for ambient levels of ozone and fine particulates in the U.S. These standards have been upheld following court challenges. To facilitate attainment of these standards, the EPA has promulgated the Clean Air Interstate Rule (CAIR) for 28 midwestern and eastern states, including Pennsylvania, to reduce sulfur dioxide emissions by about 50% by 2010 and to extend the current seasonal program for nitrogen oxide emission reductions to a year-round program starting in 2009. The CAIR requires further reductions, starting in 2015, in sulfur dioxide and nitrogen oxide of 30% and 20%, respectively, from 2010 levels. The CAIR allows these reductions to be achieved through cap-and-trade programs. Pennsylvania has not challenged the CAIR, but the rule has been challenged by several states and environmental groups as not being sufficiently strict, and by industry petitioners as being too strict. In addition, several Canadian environmental groups have petitioned the EPA under the Clean Air Act to revise the CAIR to require deeper reductions in sulfur dioxide and mercury emissions, and the Ozone Transport Commission (consisting of Pennsylvania and 11 other states and the District of Columbia) has passed a resolution calling for reductions in sulfur dioxide and nitrogen oxide that are more stringent than those under CAIR. The Pennsylvania DEP, which represents Pennsylvania on the Ozone Transport Commission, has indicated its support for developing regulations for reductions in sulfur dioxide and nitrogen oxide that are more stringent than those under CAIR.

In order to continue meeting existing sulfur dioxide reduction requirements of the Clean Air Act, including CAIR, PPL is proceeding with the installation of sulfur dioxide scrubbers at its Montour Units 1 and 2 and Brunner Island Unit 3, and also plans to install a scrubber at Brunner Island Units 1 and 2. The scrubbers for both Montour units and Unit 3 at Brunner Island are expected to be in-service during 2008 and the scrubber for Units 1 and 2 at Brunner Island is expected to be in-service during 2009. Based on expected levels of generation, emission allowance shortfalls that would otherwise occur without significant additional purchases of allowances and projected emission allowance prices, PPL has determined that it is more economic to install these scrubbers than to purchase significant additional emission allowances. PPL's current installation plan for the scrubbers and other pollution control equipment (primarily aimed at sulfur dioxide, particulate and nitrogen oxide emissions reduction) through

2010 reflects a cost of \$1.5 billion. PPL expects a 30 MW reduction in generation capability at each of the Brunner Island and Montour plants, due to the estimated increases in station service usage during the scrubber operation.

Also citing its authority under the Clean Air Act, the EPA has finalized Clean Air Mercury Regulations (CAMR) that affect coal-fired plants. These regulations establish a cap-and-trade program to take effect in two phases, with a first phase to begin in January 2010, and a second phase with more stringent caps to begin in January 2018. Under CAMR, each state is allocated a mercury emissions cap and is required to develop state implementing regulations that can follow the federal requirements or be more restrictive.

Pennsylvania is proceeding with adoption of its own, more stringent rules. Pennsylvania's rules will require that mercury controls be installed on each coal-fired generating unit; that the EPA's CAMR caps be met at each unit without the benefit of an emissions trading program; and that the second phase of CAMR be accelerated to begin in 2015.

PPL expects that it can achieve the 2010 requirements under Pennsylvania's more stringent mercury rules with only the addition of chemical injection systems. This expectation is based on the co-benefits of mercury removal from the scrubbers already in place or expected to be in place at its Pennsylvania plants as of 2010, and the SCRs already in place at Montour. PPL currently estimates that the capital cost of such chemical injection systems at its Pennsylvania plants will be approximately \$20 million.

Because an emissions trading program is not allowed under Pennsylvania's mercury rules, adsorption/absorption technology with fabric filters may be required at most of PPL's Pennsylvania coal-fired generating units to meet Pennsylvania's second-phase caps beginning in 2015. Based on current analysis and industry estimates, PPL estimates that if this technology were required at every one of its Pennsylvania units the aggregate capital cost of compliance would be approximately \$530 million.

Montana also has finalized its own, more stringent rules that would require every coal-fired generating plant in the state to achieve by 2010 reduction levels more stringent than CAMR's 2018 cap. Because enhanced chemical injection technologies may not be sufficiently developed to meet this level of reductions by 2010, there is a risk that adsorption/absorption technology with fabric filters at both Colstrip and Corette would be required. Based on current analysis and industry estimates, PPL estimates that its capital cost to achieve compliance at its Montana units would be approximately \$140 million.

PPL expects both Pennsylvania's and Montana's mercury rule to be challenged. If those rules are overturned and PPL is instead required to comply with CAMR, PPL expects that it could achieve the 2010 requirements under CAMR in both Pennsylvania and Montana with only the addition of chemical

injection systems and allowance purchases. In addition to the capital cost for the chemical injection systems in Pennsylvania noted above, PPL estimates that its share of the capital cost for such systems in Montana would be approximately \$5 million. With respect to the 2018 requirements under CAMR, PPL currently expects that it would be able to comply in Pennsylvania by installing adsorption/absorption technology with fabric filters on half of its generating capacity at a capital cost of approximately \$265 million. In Montana, PPL currently expects that it could achieve the 2018 CAMR requirements with enhanced chemical injection at modest cost.

In addition to the above rules, the Clean Air Visibility Rule was issued by the EPA on June 15, 2005, to address regional haze or regionally-impaired visibility caused by multiple sources over a wide area. The rule defines Best Available Retrofit Technology (BART) requirements for electric generating units, including presumptive limits for sulfur dioxide and nitrogen oxide controls for large units. By December 2006, PPL must submit to Pennsylvania and Montana its analyses of the visibility impacts of plants covered by the BART rule in each state. In Pennsylvania, this would include Martins Creek Units 3 and 4, Brunner Island Units 2 and 3 and Montour Units 1 and 2. In Montana, this would include Colstrip Units 1 and 2 and Corette.

The EPA has stated that the BART rule will not require states to make reductions in sulfur dioxide or nitrogen oxide beyond those required by CAIR, although states can establish more stringent rules. At this time, PPL cannot predict whether the Pennsylvania DEP will require additional reductions beyond the requirements established through CAIR. If the Pennsylvania DEP establishes regulations to require additional reductions, the additional costs to comply with such regulations, which are not now determinable, could be significant. In states like Montana that are not within the CAIR region, the need for and costs of additional controls as a result of this new rule are not now determinable, but could be significant.

In 1999, the EPA initiated enforcement actions against several utilities, asserting that older, coal-fired power plants operated by those utilities have, over the years, been modified in ways that subject them to more stringent "New Source" requirements under the Clean Air Act. The EPA subsequently issued notices of violation and commenced enforcement activities against other utilities. However, in the past several years, the EPA has shifted its position on New Source Review. In 2003, the EPA issued changes to its regulations that clarified what projects are exempt from "New Source" requirements as routine maintenance and repair. However, these regulations were stayed and subsequently struck down by the U.S. Court of Appeals for the District of Columbia Circuit. PPL is therefore continuing to operate under the "New Source" regulations as they existed prior to the EPA's 2003 clarifications.

In October 2005, the EPA proposed changing its rules on how to determine whether a project results in an emissions increase

and is therefore subject to review under the "New Source" regulations. The EPA's proposed tests are consistent with the position of energy companies and industry groups and, if adopted, would substantially reduce the uncertainties under the current regulations. PPL cannot predict whether these proposed new tests will be adopted. In addition to proposing these new tests, the EPA also announced in October 2005 that it will not bring new enforcement actions with respect to projects that would satisfy the proposed new tests or the EPA's 2003 clarifications referenced above. Accordingly, PPL believes that it is unlikely that the EPA will follow up on the information requests that had been issued to PPL Montana's Corette and Colstrip plants by EPA Region VIII in 2000 and 2003, respectively, and to PPL Generation's Martins Creek plant by EPA Region III in 2002. However, states and environmental groups also have been bringing enforcement actions alleging violations of "New Source" requirements by coal-fired plants, and PPL is unable to predict whether such state or citizens enforcement actions will be brought with respect to any of its affiliates' plants.

The New Jersey DEP and some New Jersey residents raised environmental concerns with respect to the Martins Creek plant, particularly with respect to sulfur dioxide emissions and the opacity of the plant's plume. These issues were raised in the context of an appeal by the New Jersey DEP of the Air Quality Plan Approval issued by the Pennsylvania DEP to PPL's Lower Mt. Bethel generating plant. In October 2003, PPL finalized an agreement with the New Jersey DEP and the Pennsylvania DEP pursuant to which PPL will reduce sulfur dioxide emissions from its Martins Creek power plant. Under the agreement, PPL Martins Creek will shut down the plant's two 150 MW coal-fired generating units by September 2007 and may repower them any time after shutting them down so long as it follows all applicable state and federal requirements, including installing the best available pollution control technology. Pursuant to the agreement, PPL Martins Creek began reducing the fuel sulfur content for the coal units as well as the plant's two oil-fired units in June 2004. The agreement also calls for PPL to donate to a non-profit organization 70% of the excess emission allowances and emission reduction credits that result from shutting down or repowering the coal units. Some of these donations have already been made to the Pennsylvania Environmental Council. As a result of the agreement, the New Jersey DEP withdrew its challenge to the Air Quality Plan Approval for the Lower Mt. Bethel facility. The agreement will not result in material costs to PPL. The agreement does not address the issues raised by the New Jersey DEP regarding the visible opacity of emissions from the oil-fired units at the Martins Creek plant. Similar issues also are being raised by the Pennsylvania DEP. PPL is currently negotiating the matter with the Pennsylvania DEP. If it is determined that actions must be taken to address the visible opacity of these emissions, such actions could result in costs that are not now determinable, but could be significant.

In December 2003, PPL Montana, as operator of the Colstrip facility, received an Administrative Compliance Order (ACO) from the EPA pursuant to the Clean Air Act. The ACO alleges

that Units 3 and 4 of the facility have been in violation of the Clean Air Act permit at Colstrip since 1980. The permit required Colstrip to submit for review and approval by the EPA an analysis and proposal for reducing emissions of nitrogen oxide to address visibility concerns upon the occurrence of certain triggering events. The EPA is asserting that regulations it promulgated in 1980 triggered this requirement. PPL believes that the ACO is unfounded. PPL is engaged in settlement negotiations on these matters with the EPA, the Montana Department of Environmental Quality and the Northern Cheyenne Tribe.

In addition to the requirements related to emissions of sulfur dioxide, nitrogen oxide and mercury noted above, there is a growing concern nationally and internationally about carbon dioxide emissions. In June 2005, the U.S. Senate adopted a resolution declaring that mandatory reductions in carbon dioxide are needed. Various legislative proposals are being considered in Congress, and several states already have passed legislation capping carbon dioxide emissions. The Bush administration is promoting a voluntary carbon dioxide reduction program, called the Climate VISION program. In support of this program, the electric power industry has committed to reducing its greenhouse gas emission intensity levels (measured as tons of carbon dioxide equivalent against electric power production in MWh) by 3% to 5% by the 2010 to 2012 period. Separate from the national initiatives, in December 2005, seven northeastern states signed an MOU establishing a cap and trade program commencing in January 2009 for stabilization of carbon dioxide emissions, at base levels established in 2005, from electric power plants larger than 25 MW in capacity. The MOU also provides for a 10% reduction in carbon dioxide emissions from the base levels by the end of 2018. In August 2006, a Model Rule was adopted that will form the basis for participants to develop individual state regulatory and/or statutory proposals for program implementation. Increased pressure for carbon dioxide emissions reduction also is coming from investor organizations and the international community.

Pennsylvania and Montana have not, at this time, established any formal programs to address carbon dioxide and other greenhouse gases. PPL has conducted an inventory of its carbon dioxide emissions and is continuing to evaluate various options for reducing, avoiding, off-setting or sequestering its emissions. If Pennsylvania or Montana develops legislation or regulations imposing mandatory reductions of carbon dioxide and other greenhouse gases on generation facilities, the cost to PPL of such reductions could be significant.

Water/Waste (PPL and PPL Energy Supply)

In August 2005, there was a release of 100 million gallons of water containing fly ash from a disposal basin at the Martins Creek plant used in connection with the operation of the two 150 MW coal-fired generating units at the plant. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. The leak was stopped, and PPL has determined that the problem was caused

by a failure in the disposal basin's discharge structure. PPL has conducted extensive clean-up and is continuing to work with the Pennsylvania DEP and other appropriate agencies and consultants to assess whether the leak caused any environmental damage. PPL shut down the two coal-fired generating units in September 2005 and placed the units back in service in December 2005 after completing the repairs and upgrades to the basin and obtaining the Pennsylvania DEP's approval.

In September 2005, PPL Martins Creek and the Pennsylvania DEP were served with notice by the Delaware Riverside Conservancy and several citizens of their intention to file a citizens' suit on the basis that the release from the disposal basin at Martins Creek allegedly violated various state and federal laws. The Pennsylvania DEP subsequently filed a complaint in Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. The Delaware Riverside Conservancy and several citizens have been granted the right, without objection from PPL, to intervene in the Pennsylvania DEP's action. In March 2006, several citizens (including some that have intervened in the Pennsylvania DEP's lawsuit) and two businesses filed a lawsuit in the Superior Court of New Jersey, Warren County, alleging that the fly ash spill caused damage to property along a 40-mile stretch of the Delaware River and asserting that the named plaintiffs are representative of a class of citizens and businesses along the 40-mile stretch of the Delaware River. PPL has exercised its right to remove this lawsuit to federal court in New Jersey.

At this time, PPL has no reason to believe that the Martins Creek leak has caused any danger to human health or any adverse biological impact on the river aquatic life. However, a group of natural resource trustees, along with the Delaware River Basin Commission, has been conducting an assessment of any natural resource damages that could have been caused by the Martins Creek leak. PPL expects the trustees and the Delaware River Basin Commission to seek to recover their costs as well as any damages they determine were caused by the leak. PPL cannot predict when the assessment will be completed, but does not expect it to be completed before the Spring of 2007.

PPL Energy Supply recognized a \$33 million pre-tax charge in the third quarter of 2005 and an additional \$15 million pre-tax charge in the fourth quarter of 2005 in connection with the then-expected on-site and off-site costs relating to the Martins Creek leak remediation. Based on its ongoing assessment of the expected remediation costs, in the first quarter of 2006, PPL Energy Supply reduced the estimate in connection with the current expected costs of the leak by \$3 million, of which \$2 million relates to off-site costs and the remainder to on-site costs. In the second quarter of 2006, PPL Energy Supply further reduced the estimate of off-site costs by \$8 million, primarily due to an insurance claim settlement. These reductions were included in "Other operation and maintenance" on the Statements of Income. At September 30,

2006, \$31 million of the \$37 million total estimate relates to off-site costs, and the balance relates to on-site costs. As of September 30, 2006, the remaining contingency related to this remediation is \$10 million. PPL and PPL Energy Supply cannot predict the final cost of assessment and remediation of the release, the outcome of the action initiated by the Pennsylvania DEP, the outcome of the natural resource damage assessment, the outcome of the lawsuit brought by the citizens and businesses and the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin leak. PPL and PPL Energy Supply also cannot predict the extent of the fines or damages that may be sought in connection with any such actions or the ultimate financial impact on PPL or PPL Energy Supply.

Seepages have been detected at active and retired wastewater basins at various PPL plants, including the Montour, Brunner Island and Martins Creek generating facilities. PPL has completed an assessment of some of the seepages at the Montour and Brunner Island facilities and is working with the Pennsylvania DEP to implement abatement measures for those seepages. PPL is continuing to conduct assessments of other seepages at the Montour and Brunner Island facilities as well as seepages at the Martins Creek facility to determine the appropriate abatement actions. PPL plans to comprehensively address issues related to wastewater basins at all of its Pennsylvania plants, as part of the process to renew the residual waste permits for these basins that expire within the next three years. The cost of addressing seepages at PPL's Pennsylvania plants is not now determinable, but could be significant.

In May 2003, approximately 50 plaintiffs brought an action now pending at the Montana Sixteenth Judicial District Court, Rosebud County, against PPL Montana and the other owners of the Colstrip plant alleging property damage from seepage from the freshwater and wastewater ponds at Colstrip. PPL Montana has undertaken certain groundwater investigation and remediation measures at the Colstrip plant to address groundwater contamination alleged by the plaintiffs as well as other groundwater contamination at the plant. These measures include proceeding with extending city water to certain residents who live near the plant, some of whom are plaintiffs in the litigation. Beyond the original estimated reserve of \$1 million recorded by PPL Montana in 2004 (of which only an insignificant amount remains at September 30, 2006) for a proposed settlement of the property damage claims raised in the litigation, for extending city water and for a portion of the remedial investigation costs, PPL Montana may incur further costs based on its additional groundwater investigations and any related remedial measures, which costs are not now determinable, but could be significant.

PPL has reached a settlement with the Pennsylvania DEP concerning the thermal discharge from its Brunner Island plant into the Susquehanna River. The settlement commits PPL to install mechanical draft cooling towers at the plant. PPL expects construction of the cooling towers to begin by the end

of 2007 and for the towers to be in service in the spring of 2010. The expected capital cost of the installation of the towers is \$125 million.

The settlement with the Pennsylvania DEP regarding the Brunner Island discharge has been incorporated into a new National Pollutant Discharge Elimination System permit for the plant. PPL has filed an appeal to the permit on issues other than the settlement.

The EPA has significantly tightened the water quality standard for arsenic. The revised standard became effective in January 2006 and at this time applies only to drinking water. The revised standard may result in action by individual states that could require several PPL subsidiaries to either further treat wastewater or take abatement action at their power plants, or both. The cost of complying with any such requirements is not now determinable, but could be significant.

The EPA finalized requirements in 2004 for new or modified water intake structures. These requirements affect where generating facilities are built, establish intake design standards, and could lead to requirements for cooling towers at new and modified power plants. Another rule that was finalized in 2004 addresses existing structures. PPL does not believe that either of these rules will impose material costs on PPL subsidiaries. However, six northeastern states have challenged the new rules for existing structures as being inadequate. If this challenge is successful, it could result in the EPA establishing stricter standards for existing structures that could impose significant costs on PPL subsidiaries.

Superfund and Other Remediation

(PPL, PPL Energy Supply and PPL Electric)

PPL Electric is a potentially responsible party at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant Site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant. However, should the EPA require significantly different or additional measures in the future, the costs of such measures are not determinable but could be significant.

In 1995, PPL Electric and PPL Generation and, in 1996, PPL Gas Utilities entered into consent orders with the Pennsylvania DEP to address a number of sites that were not being addressed under another regulatory program such as Superfund, but for which PPL Electric, PPL Generation or PPL Gas Utilities may be liable for remediation. These agreements have now been combined into a single agreement for the companies. The Consent Order and Agreement (COA) includes potential PCB contamination at certain PPL Electric substations and pole sites; potential contamination at a number of coal gas manufacturing facilities formerly owned or operated by PPL Electric; oil or other contamination that may exist at some of PPL Electric's former generating facilities; and potential contamination at abandoned power plant sites owned

by PPL Generation. This may also include former coal gas manufacturing facilities and potential mercury contamination from gas meters and regulators at PPL Gas Utilities' sites.

As of September 30, 2006, PPL Electric and PPL Gas Utilities have 146 sites to address under the new combined COA, and currently no PPL Generation sites are included on the COA site list. Additional sites formerly owned or operated by PPL Electric, PPL Generation or PPL Gas Utilities are added to the COA on a case-by-case basis.

At September 30, 2006, PPL Electric and PPL Gas Utilities had accrued \$2 million and \$6 million, respectively, representing the estimated amounts each will have to spend for site remediation, including those sites covered by the COA noted above. Depending on the outcome of investigations at sites where investigations have not begun or have not been completed, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in the consent orders or other contaminated sites, the costs of which are not now determinable, but could be significant.

There continues to be an issue with natural gas observed in several drinking water wells in and around Tioga, Pennsylvania, that the Pennsylvania DEP has been working to address. The Pennsylvania DEP has raised concerns that potential leakage of natural gas from the Tioga gas storage field partially owned by PPL Gas Utilities could be contributing to this issue. PPL Gas Utilities continues to work with the Pennsylvania DEP and to discuss the matter with the co-owner and operator of the field. The costs to resolve this issue are not now determinable, but could be significant.

The EPA is evaluating the risks associated with naphthalene, a chemical by-product of coal gas manufacturing operations. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil clean-up. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities. The costs to PPL of complying with any such requirements are not now determinable, but could be significant.

(PPL and PPL Energy Supply)

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional measures to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping and treating mine water at two mine sites. Another PPL Generation subsidiary is installing passive wetlands treatment at a third site, and the Pennsylvania DEP has suggested that it may require that PPL Generation subsidiary to pump and treat the mine water at that third site. At September 30, 2006, PPL Energy Supply had accrued \$29 million to cover the costs of pumping and treating groundwater

at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site.

In 1999, the Montana Supreme Court held in favor of several citizens' groups that the right to a clean and healthful environment is a fundamental right guaranteed by the Montana Constitution. Currently pending before the Court are three cases relating to the manner in which this fundamental right may be exercised and the proper measurement of damages for environmental impacts to property. These cases were consolidated for purposes of arguments before the Court. The Court's ruling on this consolidated litigation could result in significantly more lawsuits under Montana's environmental laws. The effect on PPL Montana of any such increase in legal actions is not currently determinable, but could be significant.

(PPL, PPL Energy Supply and PPL Electric)

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs for PPL subsidiaries that cannot be estimated at this time.

Electric and Magnetic Fields *(PPL, PPL Energy Supply and PPL Electric)*

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence of EMFs causing adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that this evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. PPL and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or abroad, and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - International (PPL and PPL Energy Supply)

U.K.

WPD's distribution businesses are subject to numerous regulatory and statutory requirements with respect to environmental matters. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment. There are no material legal or administrative proceedings pending against WPD with respect to environmental matters. See "Environmental Matters - Domestic - Electric and Magnetic Fields" for a discussion of EMFs.

Latin America

Certain of PPL's affiliates have electric distribution operations in Latin America. PPL believes that these affiliates have taken and continue to take measures to comply with the applicable laws and governmental regulations for the protection of the environment. There are no material legal or administrative proceedings pending against PPL's affiliates in Latin America with respect to environmental matters.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to \$2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that 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, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At September 30, 2006, this maximum assessment was about \$38 million.

In the event of a nuclear incident at the Susquehanna station, PPL Susquehanna's public liability for claims resulting from such an incident would be limited to about \$10.8 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program. In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to \$201 million per incident, payable at \$30 million per year.

Guarantees and Other Assurances

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply and PPL Electric)

The table below provides an update to those guarantees that are within the scope of FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," and are specifically disclosed in Note 14 to the Financial Statements contained in each Registrant's 2005 Form 10-K.

PPL Energy Supply (b)

WPD LLP guarantee of obligations under SIUK Capital Trust I preferred securities
 Letters of credit issued on behalf of affiliates
 Support agreements to guarantee partnerships' obligations for the sale of coal
 Retroactive premiums under nuclear insurance programs
 Nuclear claims under The Price-Anderson Act Amendments under The Energy Policy Act of 2005
 Contingent purchase price payments to former owners of synfuel projects
 WPD guarantee of pension and other obligations of unconsolidated entities
 Tax indemnification related to unconsolidated WPD affiliates
 Indemnifications for entities in liquidation and sales of assets
 Assignment of Enron claims

	Recorded Liability at		Exposure at		Expiration Date
	September 30, 2006	December 31, 2005	September 30, 2006 (a)		
			\$	82 (c)	2027
				7 (d)	2007
				9	2007
				38	
				201 (e)	
				27 (f)	2007
	\$	4	\$	4	2017
				5	2012
		7		1	2008 to 2012 (h)
				11 (i)	(i)
				7 (c)	2008

PPL Electric (b)

Guarantee of a portion of an unconsolidated entity's debt

(b) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

Other than the exceptions noted in (d) below, all guarantees of PPL Energy Supply and PPL Electric also apply to PPL on a consolidated basis.

(c) Reflects principal payments only.

(d) Represents letters of credit issued at the direction of PPL Energy Supply for the benefit of third parties for assurance against nonperformance by PPL and PPL Gas Utilities. This is not a guarantee by PPL on a consolidated basis.

(e) Amount is per incident.

- (f) Actual payments are based upon production at the synfuel facilities. Future production levels are uncertain. See "IRS Synthetic Fuels Tax Credits" within this note for further discussion.
- (g) Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements and, therefore, has been estimated based on the types of obligations.
- (h) PPL Energy Supply's maximum exposure with respect to certain guarantees and the expiration of the guarantees cannot be estimated because, in the case of certain of the indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure noted is only for those cases in which the agreements provide for a specific limit on the amount of the indemnification.

In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

Certain of the indemnifications provided to the purchaser of the Sundance plant are triggered only if the purchaser's losses reach \$1 million in the aggregate, are capped at 50% of the purchase price (or \$95 million), and survive for a period of only 24 months after the May 13, 2005, transaction closing. The indemnification provision for unknown environmental and tort liabilities related to periods prior to the ownership by PPL Sundance Energy, LLC of the real property on which the Sundance plant is located are capped at \$4 million in the aggregate and survive for a maximum period of five years after the transaction closing.

Certain of the indemnifications provided to the purchaser of the interest of PPL Southwest Generation Holdings, LLC in the Griffith plant are triggered only if the purchaser's losses reach \$750,000 in the aggregate, are capped at 35% of the purchase price (or approximately \$41 million), and survive for a period of only 18 months after the June 30, 2006, transaction closing. In the case of most such indemnification obligations, the purchaser's existing 50% ownership of the Griffith plant prior to closing is taken into account for purposes of determining and calculating the purchaser's losses, and such indemnification obligations are therefore limited to 50% of any such purchaser losses.

PPL Energy Supply has also guaranteed the obligation of PPL Southwest Generation Holdings, LLC to indemnify the purchaser of its interest in the Griffith plant for one-half of the total cost of repairing a damaged steam turbine at the plant. The maximum exposure for this indemnification is equal to an insurance deductible of \$2 million. PPL Energy Supply also agreed to guarantee payment of a variable amount to the purchaser for each day until completion of repair of the turbine. The maximum amount of exposure associated with this guarantee cannot be estimated because the amount is not capped by the transaction documents and the expiration of the guarantee depends on a determination that the turbine has been repaired and is available for dispatch and scheduling. Although PPL Energy Supply believes that the turbine repair was complete and that the turbine was available for dispatch and scheduling on July 12, 2006, PPL Energy Supply is continuing to discuss this issue with the purchaser. At this time, PPL Energy Supply believes that it has adequately reserved its exposure under the contract.

- (i) In July 2006, two subsidiaries of PPL Energy Supply assigned their Enron claims to an independent third party (claims purchaser). In connection with the assignment, the subsidiaries agreed to repay a pro rata share of the purchase price paid by the claims purchaser, plus interest, in the event that any of the assigned claims are disallowed under certain circumstances. The bankruptcy court overseeing the Enron bankruptcy approved the assigned claims prior to their assignment to the claims purchaser. The subsidiaries' repayment obligations will remain in effect until the claims purchaser has received all distributions with respect to the assigned claims. See Note 2 for additional information regarding the assignment of the claims.

In September 2006, PPL's subsidiaries terminated master lease agreements under which they leased equipment. Therefore, the related residual value guarantees that had been previously disclosed for PPL, PPL Energy Supply and PPL Electric no longer exist. See Note 2 for additional information.

PPL, PPL Energy Supply and PPL Electric and their subsidiaries provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of various indemnifications or warranties related to services or equipment and vary in duration. The obligated amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, PPL, PPL Energy Supply and PPL Electric and their subsidiaries have not made any significant payments with respect to these types of guarantees. As of September 30, 2006, the aggregate fair value of these indemnifications related to arrangements entered into subsequent to December 31, 2002, was insignificant.

12. Related Party Transactions

Affiliate Trust (PPL and PPL Energy Supply)

At both September 30, 2006, and December 31, 2005, PPL's and PPL Energy Supply's Balance Sheets reflected \$89 million of "Long-term Debt with Affiliate Trust." This debt represents obligations of WPD LLP under 8.23% subordinated debentures maturing in February 2027 that are held by SIUK Capital Trust I, a variable interest entity whose common securities are owned by WPD LLP but which is not consolidated by WPD LLP. Interest expense on this obligation was \$3 million for both the three months ended September 30, 2006 and 2005, and \$9 million for both the nine months ended September 30, 2006 and 2005. This interest is reflected in "Interest Expense" for PPL and "Interest Expense with Affiliates" for PPL Energy Supply on the Statements of Income. See Note 22 in each Registrant's 2005 Form 10-K for additional information.

PLR Contracts (PPL Energy Supply and PPL Electric)

PPL Electric has power sales agreements with PPL EnergyPlus, effective July 2000 and January 2002, to supply all of PPL Electric's PLR load through December 31, 2009.

Under these contracts, PPL EnergyPlus provides electricity at the predetermined capped prices that PPL Electric is authorized to charge its PLR customers. For the three months ended September 30, 2006 and 2005, these purchases totaled \$445 million and \$415 million. For the nine months ended September 30, 2006 and 2005, these purchases totaled \$1.3 billion and \$1.2 billion. These purchases include nuclear decommissioning recovery and amortization of an up-front contract payment and are included in the Statements of Income as "Energy purchases from affiliate" by PPL Electric, and as "Wholesale energy marketing to affiliate" by PPL Energy Supply.

Under one of the PLR contracts, PPL Electric is required to make performance assurance deposits with PPL EnergyPlus when the market price of electricity is less than the contract price by more than its contract collateral threshold. Conversely, PPL EnergyPlus is required to make performance assurance deposits with PPL Electric when the market price of electricity is greater than the contract price by more than its contract collateral threshold. PPL Electric estimated that, at September 30, 2006, the market price of electricity would exceed the contract price by \$2.2 billion. Accordingly, at September 30, 2006, PPL Energy Supply was required to provide PPL Electric with performance assurance of \$300 million, the maximum amount required under the contract. PPL Energy Supply's deposit with PPL Electric was \$300 million at both September 30, 2006, and December 31, 2005. This deposit is shown on the Balance Sheets as "Collateral on PLR energy supply to/from affiliate," a current asset of PPL Energy Supply and a current liability of PPL Electric. PPL Electric pays interest equal to the one-month LIBOR plus 0.5% on this deposit, which is included in "Interest Expense with Affiliate" on the Statements of Income. PPL Energy Supply records this as affiliated interest income, which is included in "Other Income - net" on the Statements of Income.

In 2001, PPL Electric made a \$90 million up-front payment to PPL EnergyPlus in connection with the PLR contracts. The up-front payment is being amortized by both parties over the term of the PLR contracts. The unamortized balance of this payment, and other payments under the contract, was \$38 million at September 30, 2006, and \$47 million at December 31, 2005. These current and noncurrent balances are reported on the Balance Sheets as "Prepayment on PLR energy supply from affiliate" by PPL Electric and as "Deferred revenue on PLR energy supply to affiliate" by PPL Energy Supply.

NUG Purchases *(PPL Energy Supply and PPL Electric)*

PPL Electric has a reciprocal contract with PPL EnergyPlus to sell electricity purchased under contracts with NUGs. PPL Electric purchases electricity from the NUGs at contractual prices and then sells the electricity at the same price to PPL EnergyPlus. For both the three months ended September 30, 2006 and 2005, these NUG purchases totaled \$41 million. For the nine months ended September 30, 2006 and 2005, these NUG purchases totaled \$119 million and \$111 million. These

amounts are included in the Statements of Income as "Wholesale electric to affiliate" by PPL Electric, and as "Energy purchases from affiliate" by PPL Energy Supply.

Allocations of Corporate Service Costs *(PPL Energy Supply and PPL Electric)*

PPL Services provides corporate functions such as financial, legal, human resources and information services. PPL Services bills the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of these services that is not directly charged to PPL subsidiaries is allocated to certain of the subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses, and number of employees. PPL Services directly charged or allocated the following amounts to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital or expense.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
PPL Energy Supply	\$ 44	\$ 39	\$ 140	\$ 128
PPL Electric	32	27	93	90

Intercompany Borrowings

(PPL Energy Supply)

PPL Energy Supply had no notes receivable from affiliates at September 30, 2006, and December 31, 2005. Interest earned on cash collateral and loans to affiliates, included in "Other Income - net" on the Statements of Income, was \$5 million for both the three months ended September 30, 2006 and 2005, and \$16 million and \$10 million for the nine months ended September 30, 2006 and 2005.

In May 2006, PPL Energy Supply terminated a note payable to an affiliate which allowed borrowings up to \$650 million until May 2010. At December 31, 2005, there was no balance outstanding. Interest was payable monthly in arrears at LIBOR plus 1%. There was an insignificant amount of interest expense on this note for the nine months ended September 30, 2006. Interest expense on this note was \$2 million and \$9 million for the three and nine months ended September 30, 2005. Interest expense is reflected in "Interest Expense with Affiliates" on the Statements of Income.

In December 2005, PPL Energy Supply issued a \$30 million demand note payable to an affiliate. In June 2006, this demand note payable was terminated. At December 31, 2005, there was a balance of \$8 million, which is shown on the Balance Sheets as "Note Payable to Affiliate," a current liability. Interest was payable monthly at a rate equal to LIBOR plus 1.5%. Interest expense on this note for the nine months ended September 30, 2006, was insignificant and is reflected in "Interest Expense with Affiliates" on the Statements of Income.

(PPL Electric)

In August 2004, a PPL Electric subsidiary issued a \$300 million demand note to an affiliate. In February 2006, the demand note was amended to increase the maximum amount of the note to \$450 million. In April 2006, the loan was amended back to a maximum amount of \$300 million. There was a balance of \$300 million outstanding at both September 30, 2006, and December 31, 2005. Interest is due quarterly at a rate equal to the 3-month LIBOR plus 1.25%. This note is shown on the Balance Sheets as "Note receivable from affiliate." Interest earned on the note is included in "Other Income - net" on the Statements of Income, and was \$5 million and \$4 million for the three months ended September 30, 2006 and 2005. For the nine months ended September 30, 2006 and 2005, interest earned was \$15 million and \$10 million.

In May 2006, a PPL Electric subsidiary issued a \$150 million demand note to an affiliate. There was no outstanding balance at September 30, 2006. Interest is due monthly at a rate equal to the one-month LIBOR plus 1.25%.

Intercompany Derivatives (PPL Energy Supply)

PPL Energy Supply has entered into a combination of average rate forwards and average rate options with PPL. These hedging instruments have terms identical to average rate forwards and average rate options entered into by PPL with third parties to protect expected income denominated in British pounds sterling. At September 30, 2006, the total notional amount of these hedging instruments was £88 million (approximately \$164 million) and the market value of these positions, representing the amount PPL Energy Supply would pay to PPL upon their termination, was \$1 million and is reflected in "Other Income - net" on the Statements of Income and "Price risk management assets" on the Balance Sheets.

Trademark Royalties (PPL Energy Supply)

A PPL subsidiary owns PPL trademarks and bills certain affiliates for their use. PPL Energy Supply was allocated \$10 million and \$9 million of this license fee for the three months ended September 30, 2006 and 2005, and \$27 million and \$24 million for the nine months ended September 30, 2006 and 2005. These allocations of the license fee are primarily included in "Other operation and maintenance" on the Statements of Income.

13. Other Income - Net

(PPL, PPL Energy Supply and PPL Electric)

The breakdown of "Other Income - net" was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
PPL				
Other Income				
Hyder liquidation distributions (Note 8)	\$ 3		\$ 27	
Interest income	12	\$ 5	29	\$ 17
Equity earnings	1		3	2
Realized earnings on nuclear decommissioning trust	3		8	3
Gain on transfer of international equity investment (Note 8)	5		5	
Gain on sale of investment in an unconsolidated affiliate (Note 8)			3	
Miscellaneous - International	1	3	4	6
Miscellaneous - Domestic	1	2	7	6
Total	26	10	86	34
Other Deductions				
Impairment of investment in U.K. real estate (Note 8)			8	
Charitable contributions	2	1	4	3
Miscellaneous - International	1	1	3	3
Miscellaneous - Domestic	2	3	8	5
Other Income - net	\$ 21	\$ 5	\$ 63	\$ 23
PPL Energy Supply				
Other Income				
Hyder liquidation distributions (Note 8)	\$ 3		\$ 27	
Interest income	9	\$ 3	18	\$ 11
Affiliated interest income	5	5	16	10
Equity earnings	1	1	3	3
Realized earnings on nuclear decommissioning trust	3		8	3
Gain on transfer of international equity investment (Note 8)	5		5	
Gain on sale of investment in an unconsolidated affiliate (Note 8)			3	
Miscellaneous - International	1	3	4	6
Miscellaneous - Domestic		1	2	3
Total	27	13	86	36
Other Deductions				
Impairment of investment in U.K. real estate (Note 8)			8	
Miscellaneous - International	1	1	3	3
Miscellaneous - Domestic	2	3	6	5
Other Income - net	\$ 24	\$ 9	\$ 69	\$ 28
PPL Electric				
Other Income				
Affiliated interest income	\$ 5	\$ 4	\$ 15	\$ 10
Interest income	3	2	8	5
Miscellaneous			1	2
Total	8	6	24	17
Other Deductions	1	1	1	2
Other Income - net	\$ 7	\$ 5	\$ 23	\$ 15

14. Derivative Instruments and Hedging Activities

PPL and PPL Energy Supply

Sale of Interest in Griffith Plant

Hedge accounting treatment must be discontinued if it is probable that the original forecasted transaction will not occur by the end of the originally specified time period. Due to the sale of PPL's 50% ownership interest in the Griffith plant in the second quarter of 2006, PPL and PPL Energy Supply reclassified net gains of \$7 million, after tax, from accumulated other comprehensive loss to "Loss (Income) from Discontinued Operations" on the Statements of Income. Additionally, PPL and PPL Energy Supply recognized an insignificant amount of net gains resulting from hedges of firm commitments that no longer qualified as fair value hedges and an insignificant amount of net losses resulting from firm commitments that had received accrual accounting treatment under the normal purchase/sale election.

See Note 8 for additional information on the sale of PPL's interest in the Griffith plant.

Fair Value Hedges

PPL and PPL Energy Supply enter into financial or physical contracts to hedge a portion of the fair value of firm commitments of forward electricity sales and emissions allowance positions. As of September 30, 2006, these contracts range in maturity through 2007. Additionally, PPL and PPL Energy Supply enter into financial contracts to hedge fluctuations in the market value of existing debt issuances. As of September 30, 2006, these contracts range in maturity through 2046. PPL and PPL Energy Supply also enter into foreign currency forward contracts to hedge the exchange rates associated with firm commitments denominated in foreign currencies. As of September 30, 2006, these forward contracts range in maturity through 2008.

Other than transactions associated with the sale of PPL's 50% ownership interest in the Griffith plant, PPL and PPL Energy Supply did not recognize any gains or losses resulting from hedges of firm commitments that no longer qualified as fair value hedges for the three and nine months ended September 30, 2006 or 2005. PPL and PPL Energy Supply also did not recognize any gains or losses resulting from the ineffective portion of fair value hedges for the three and nine months ended September 30, 2006 or 2005.

Cash Flow Hedges

PPL and PPL Energy Supply enter into financial and physical contracts, including forwards, futures and swaps, to hedge the price risk associated with electricity, emission allowances, gas, oil and certain metals positions. As of September 30, 2006, these contracts range in maturity through 2012. Additionally, PPL and PPL Energy Supply enter into financial interest rate swap contracts to hedge interest expense associated with both

existing and anticipated debt issuances. As of September 30, 2006, these interest rate contracts range in maturity through 2028. PPL and PPL Energy Supply also enter into foreign currency forward contracts to hedge the cash flows associated with foreign currency-denominated debt, the exchange rates associated with firm commitments denominated in foreign currencies and the net investment of foreign operations. As of September 30, 2006, these forward contracts range in maturity through 2028.

Other than transactions associated with the sale of the 50% ownership interest in the Griffith plant, PPL and PPL Energy Supply discontinued an insignificant amount of hedges because it was probable that the anticipated forecasted transaction would not occur for the three and nine months ended September 30, 2006 or 2005. Due to hedge ineffectiveness, PPL and PPL Energy Supply reclassified \$2 million and \$4 million of gains, after tax, from accumulated other comprehensive loss into earnings (reported in "Wholesale energy marketing" and "Energy purchases" on the Statements of Income) for the three and nine months ended September 30, 2006. For the same periods in 2005, PPL and PPL Energy Supply reclassified an insignificant amount into earnings.

As of September 30, 2006, the deferred net loss, after tax, on derivative instruments in accumulated other comprehensive loss that is expected to be reclassified into earnings during the next 12 months was insignificant for PPL and was a deferred net gain, after tax, of \$3 million for PPL Energy Supply. Amounts are expected to be reclassified as the commodity contracts go to delivery and interest payments are made.

This table shows the after-tax change in accumulated unrealized gains or losses on derivatives in accumulated other comprehensive loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
PPL				
Beginning accumulated derivative loss	\$ (120)	\$ (143)	\$ (246)	\$ (63)
Net change associated with current period hedging activities and other	5	(131)	51	(179)
Net change from reclassification into earnings (a)	38	7	118	(25)
Ending accumulated derivative loss	<u>\$ (77)</u>	<u>\$ (267)</u>	<u>\$ (77)</u>	<u>\$ (267)</u>
PPL Energy Supply				
Beginning accumulated derivative loss	\$ (129)	\$ (124)	\$ (237)	\$ (45)
Net change associated with current period hedging activities and other	16	(140)	47	(184)
Net change from reclassification into earnings (a)	37	6	114	(29)
Ending accumulated derivative loss	<u>\$ (76)</u>	<u>\$ (258)</u>	<u>\$ (76)</u>	<u>\$ (258)</u>

- (a) The nine months ended September 30, 2006, include \$7 million for the acceleration of unrealized gains associated with the Griffith plant that have been recorded as a component of "Loss (Income) from Discontinued Operations."

Other Hedging Activities

In 2006, PPL and PPL Energy Supply entered into forward contracts to hedge their exposure to changes in market prices of certain metals necessary for the scrubbers PPL is installing at its Brunner Island and Montour generating plants. These contracts qualify for cash flow hedge treatment and will ultimately be recognized on the Statement of Income in "Depreciation."

Net investment hedge activity is reported in the foreign currency translation adjustments component of accumulated other comprehensive loss. PPL recorded net investment hedge losses, after tax, of \$6 million at September 30, 2006 and 2005. During the three and nine months ended September 30, 2006 and 2005, PPL and PPL Energy Supply recognized insignificant amounts in accumulated other comprehensive loss. Gains and losses associated with net investment hedges remain in accumulated other comprehensive loss until the investment is sold or substantially liquidated.

PPL and PPL Energy Supply have entered into energy derivative transactions that hedge a specific risk, but do not qualify for hedge accounting under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The unrealized gains and losses on these transactions are classified as non-trading and are reflected on the Statements of Income in "Wholesale energy marketing" or "Energy-related businesses" revenues, or "Fuel" or "Energy Purchases" expenses.

Credit Concentration

(PPL and PPL Energy Supply)

PPL and PPL Energy Supply enter into contracts with many entities for the purchase and sale of energy. Many of these contracts are considered a normal part of doing business and, as such, the mark-to-market value of these contracts is not reflected in the financial statements. However, the mark-to-market value of these contracts is considered when committing to new business from a credit perspective.

PPL and PPL Energy Supply have credit exposures to energy trading partners. The majority of these exposures is the mark-to-market value of multi-year contracts for energy sales and purchases. Therefore, if these counterparties fail to perform their obligations under such contracts, PPL and PPL Energy Supply would not experience an immediate financial loss but would experience lower revenues or higher costs in future years to the extent that replacement sales or purchases could not be made at the same prices as those under the defaulted contracts.

At September 30, 2006, PPL and PPL Energy Supply had credit exposures of \$443 million and \$442 million to energy trading partners. Ten counterparties accounted for 75% of the exposures. No other individual counterparty accounted for more than 3% of the exposures. Nine of these counterparties had an investment grade credit rating from S&P. One counterparty was not investment grade, but was current on its obligations and had posted collateral equal to PPL's and PPL Energy Supply's exposure.

PPL and PPL Energy Supply generally have the right to request collateral from their counterparties in the event that the counterparties' credit ratings fall below investment grade. It is also the policy of PPL and PPL Energy Supply to enter into netting agreements with all of their counterparties to limit credit exposure.

(PPL Electric)

PPL Electric has an exposure to PPL Energy Supply under the long-term contract for PPL EnergyPlus to supply PPL Electric's PLR load, as described in Note 12. This is the only credit exposure for PPL Electric that has a mark-to-market element. No other counterparty accounts for more than 1% of PPL Electric's total exposure.

15. Restricted Cash

(PPL, PPL Energy Supply and PPL Electric)

The following table details the components of restricted cash by reporting entity and by type.

	September 30, 2006		
	PPL	PPL Energy Supply	PPL Electric
Current:			
Collateral for letters of credit (a)	\$ 42		\$ 42
Deposits for trading purposes with NYMEX broker	32	\$ 32	
Client deposits	12		
Miscellaneous	2	2	
Restricted cash - current	<u>88</u>	<u>34</u>	<u>42</u>
Noncurrent:			
Required deposits of WPD (b)	19	19	
PPL Transition Bond Company Indenture reserves (c)	29		29
Restricted cash - noncurrent	<u>48</u>	<u>19</u>	<u>29</u>
Total restricted cash	<u>\$ 136</u>	<u>\$ 53</u>	<u>\$ 71</u>

	December 31, 2005		
	PPL		
	PPL	Energy Supply	PPL Electric
Current:			
Collateral for letters of credit (a)	\$ 42		\$ 42
Deposits for trading purposes with NYMEX broker	29	\$ 29	
Counterparty collateral	9	9	
Client deposits	12		
Miscellaneous	1	1	
Restricted cash - current	<u>93</u>	<u>39</u>	<u>42</u>
Noncurrent:			
Required deposits of WPD (b)	16	16	
PPL Transition Bond Company Indenture reserves (c)	32		32
Restricted cash - noncurrent	<u>48</u>	<u>16</u>	<u>32</u>
Total restricted cash	<u>\$ 141</u>	<u>\$ 55</u>	<u>\$ 74</u>

- (a) A deposit with a financial institution of funds from the asset-backed commercial paper program to fully collateralize \$42 million of letters of credit. See Note 7 for further discussion on the asset-backed commercial paper program.
- (b) Includes insurance reserves of \$18 million and \$15 million at September 30, 2006 and December 31, 2005.
- (c) Credit enhancement for PPL Transition Bond Company's \$2.4 billion Series 1999-1 Bonds to protect against losses or delays in scheduled payments.

16. Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amounts of goodwill by segment were:

	PPL Energy Supply			PPL	
	Supply	International Delivery	Total	Pennsylvania Delivery	Total
Balance at December 31, 2005	\$ 94	\$ 921	\$ 1,015	\$ 55	\$ 1,070
Effect of foreign currency exchange rates		68	68		68
Purchase accounting adjustments (a)		(25)	(25)		(25)
Balance at September 30, 2006	<u>\$ 94</u>	<u>\$ 964</u>	<u>\$ 1,058</u>	<u>\$ 55</u>	<u>\$ 1,113</u>

- (a) Adjustments pursuant to EITF Issue 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination." See Note 5 for a discussion of a \$12 million goodwill adjustment related to the transfer of WPD tax items. The adjustments also include an \$8 million decrease in the third quarter related to deferred income taxes associated with monetary indexation of assets at WPD.

17. Asset Retirement Obligations

(PPL and PPL Energy Supply)

The change in the carrying amounts of the AROs was:

AROs at December 31, 2005	\$ 298
Accretion expense	18
Obligations settled	(2)
AROs at September 30, 2006	<u>\$ 314</u>

Changes in ARO costs and settlement dates, which affect the carrying value of various AROs, are reviewed periodically to insure that any material changes are incorporated into the latest estimates of the obligation.

Funds in the nuclear decommissioning trust are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the Susquehanna station. PPL Electric collects authorized nuclear decommissioning costs through the CTC. These revenues are passed on to PPL EnergyPlus under the power supply agreements between PPL Electric and PPL EnergyPlus. Similarly, these revenues are passed on to PPL Susquehanna under a power supply agreement between PPL EnergyPlus and PPL Susquehanna. These revenues, less applicable taxes, are used to fund the nuclear plant decommissioning trust funds and can only be used for future decommissioning costs. The aggregate fair value of the nuclear plant decommissioning trust funds was \$483 million as of September 30, 2006, and \$444 million as of December 31, 2005.

18. New Accounting Standards

(PPL, PPL Energy Supply and PPL Electric)

FIN 48

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 requires an entity to evaluate its tax positions following a two-step process. The first step requires an entity to determine whether it is more-likely-than-not that a tax position will be sustained based on the technical merits of the position. The second step requires an entity to recognize in the financial statements each tax position that meets the more-likely-than-not criterion. Each recognized tax position should be measured at the largest amount of benefit that has a greater than 50 percent likelihood of being realized. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 is effective for fiscal years beginning after December 15, 2006. The impact of initially applying FIN 48 is required to be recognized as a cumulative effect adjustment to the opening balance of retained earnings for that fiscal year. PPL and its subsidiaries are continuing to analyze the impact

of applying this guidance. The potential impact is not yet determinable, but it could be material.

FSP No. FIN 46(R)-6

In April 2006, the FASB issued FSP No. FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)." FSP No. FIN 46(R)-6 provides that the variability to be considered in applying FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB 51," (FIN 46(R)) should be based on the design of the entity involved. PPL and its subsidiaries adopted FSP No. FIN 46(R)-6 effective July 1, 2006. PPL and its subsidiaries did not elect to apply retrospective application to any period prior to the date of adoption. The adoption of FSP No. FIN 46(R)-6 did not have a material impact on PPL and its subsidiaries. However, the impact in periods subsequent to adoption could be material.

SAB 108

In September 2006, the SEC staff issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 addresses the observed diversity in the quantification of financial statement misstatements and the potential, under current practice, for the build-up of improper amounts on the balance sheet.

The two most commonly used methods cited by the SEC for quantifying the effect of financial statement misstatements are the "roll-over" and "iron-curtain" methods. The roll-over method quantifies a misstatement based on the amount of the error originating in the current year income statement. This method ignores the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years. Conversely, the iron-curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, regardless of the misstatement's year(s) of origin.

In SAB 108, the SEC requires a dual approach combining the roll-over method and the iron-curtain method. The dual approach requires quantification of financial statement errors based on the effects of the error on each of the company's financial statements and the related financial statement disclosures.

SAB 108 permits registrants to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006, with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

Companies must apply SAB 108 no later than December 31, 2006. PPL and its subsidiaries currently use the dual approach when quantifying the impact of identified errors. Therefore, the application of SAB 108 is not expected to have a material impact on PPL and its subsidiaries.

SFAS 123(R)

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment," which is known as SFAS 123(R) and replaces SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Among other things, SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting for stock-based compensation. SFAS 123(R) requires public entities to recognize compensation expense for awards of equity instruments to employees based on the grant-date fair value of the awards. PPL and its subsidiaries adopted SFAS 123(R) effective January 1, 2006. PPL and its subsidiaries applied the modified prospective application transition method of adoption. Under this application, entities must recognize compensation expense based on the grant-date fair value for new awards granted or modified after the effective date and for unvested awards outstanding on the effective date. The adoption of SFAS 123(R) did not have a material impact on PPL and its subsidiaries, since PPL and its subsidiaries adopted the fair value method of accounting for stock-based compensation, as described by SFAS 123, effective January 1, 2003. See Note 9 for the disclosures required by SFAS 123(R).

SFAS 155

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." Among other items, SFAS 155 addresses certain accounting issues surrounding securitized financial assets and hybrid financial instruments with embedded derivatives that require bifurcation. PPL and its subsidiaries must adopt SFAS 155 no later than January 1, 2007. PPL and its subsidiaries do not have any interests in securitized financial assets or hybrid financial instruments with embedded derivatives that require bifurcation. However, PPL and its subsidiaries are currently in the process of performing a complete assessment of SFAS 155.

SFAS 157

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 provides a definition of fair value as well as a framework for measuring fair value. In addition, SFAS 157 expands the fair value measurement disclosure requirements of other accounting pronouncements to require, among other things, disclosure of the methods and assumptions used to measure fair value as well as the earnings impact of certain fair value measurement techniques. SFAS 157 does not expand the use of fair value in existing accounting pronouncements. PPL and its subsidiaries will adopt the

provisions of SFAS 157 prospectively, except for financial instruments that were previously measured at fair value in accordance with footnote 3 of EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," which require retrospective application. PPL and its subsidiaries must adopt SFAS 157 no later than January 1, 2008. PPL and its subsidiaries are in the process of evaluating the impact of adopting SFAS 157. The potential impact of adoption is not yet determinable, but it could be material.

SFAS 158

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 requires a registrant that sponsors a defined benefit plan(s) to: (i) recognize the funded status of the plan(s) in its consolidated balance sheet using a measurement date that corresponds with its fiscal year end, and for a registrant's consolidated subsidiary, the date that is used to consolidate the subsidiary, (ii) recognize in other comprehensive income, net of tax, gains and losses and prior service costs and credits, that arise during the period but are not currently recognized as a component of net periodic benefit cost, (iii) amortize gains and losses, prior service costs and credits, and transition assets or obligations recorded in accumulated other comprehensive income to net periodic benefit cost, and (iv) provide additional disclosures of, among

other things, items deferred in accumulated other comprehensive income. PPL and its subsidiaries will adopt the recognition provisions of SFAS 158 prospectively, as of December 31, 2006. PPL and its subsidiaries must adopt the measurement date provisions no later than December 31, 2008; however, management is considering early adoption.

If the recognition provisions of SFAS 158 had been effective December 31, 2005, the increases (decreases) to the Balance Sheets, net of tax, would have been as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
PPL	\$ 132	\$ 424	\$ (292)
PPL Energy Supply	63	250	(187)
PPL Electric	41	99	(58)

As a result of changes in actuarial assumptions and asset returns, the actual impact of adopting SFAS 158 could vary significantly from the impact disclosed above. At this time, however, PPL and its subsidiaries do not expect that the adoption of SFAS 158 will result in an inability to comply with financial covenants under their debt agreements.

(PPL and PPL Electric)

As a result of SFAS 158, PPL is in the process of evaluating the impact of SFAS 71, "Accounting for the Effects of Certain Types of Regulation," on amounts that would be charged to equity in accordance with SFAS 158 related to its regulated utility subsidiaries.

PPL CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

PPL is an energy and utility holding company with headquarters in Allentown, PA. In PPL's 2005 Form 10-K, descriptions of its domestic and international businesses are found in "Item 1. Business - Background." Through its subsidiaries, PPL is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and western U.S. - and in the delivery of electricity in Pennsylvania, the U.K. and Latin America. PPL's reportable segments are Supply, International Delivery and Pennsylvania Delivery. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in PPL's 2005 Form 10-K for an overview of PPL's strategy and the risks and the challenges that it faces in its business. See "Forward-Looking Information," Note 11 to the Financial Statements and the rest of this Item 2 in this Form 10-Q and "Item 1A. Risk Factors" and the rest of Item 7 in PPL's 2005 Form 10-K for more information concerning the material risks and uncertainties that PPL faces in its businesses and with respect to its future earnings.

The following information should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and in conjunction with PPL's 2005 Form 10-K.

Terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

Results of Operations

The following discussion begins with a summary of PPL's earnings. "Results of Operations" continues with a review of results by reportable segment and a description of key factors by segment that management expects may impact future earnings. This section ends with explanations of significant changes in principal items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2006, with the same periods in 2005.

Earnings

Net income and the related EPS were:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income	\$ 226	\$ 197	\$ 687	\$ 493
EPS - basic	\$ 0.59	\$ 0.52	\$ 1.81	\$ 1.30
EPS - diluted	\$ 0.58	\$ 0.51	\$ 1.78	\$ 1.29

The changes in net income from period to period were, in part, attributable to several significant items that management considers unusual. Details of these unusual items are provided within the review of each segment's earnings.

The period-to-period changes in significant earnings components, including domestic gross energy margins by region and significant income statement line items, are explained in the "Statement of Income Analysis."

The Statements of Income reflect the results of past operations and are not intended as any indication of future operating results. Future operating results will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods do not necessarily indicate results or trends for the year.

Segment Results

Net income by segment was:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Supply	\$ 120	\$ 112	\$ 337	\$ 238
International Delivery	59	36	219	152
Pennsylvania Delivery	47	49	131	103
Total	<u>\$ 226</u>	<u>\$ 197</u>	<u>\$ 687</u>	<u>\$ 493</u>

Supply Segment

The Supply segment primarily consists of the domestic energy marketing, domestic generation and domestic development operations of PPL Energy Supply.

The Supply segment results in 2006 and 2005 reflect the reclassification of the Griffith plant revenues and expenses from certain income statement line items to "Loss (Income) from Discontinued Operations." The Supply segment results in 2005 also reflect the reclassification of the Sundance plant revenues and expenses from certain income statement line items to "Loss (Income) from Discontinued Operations." See Note 8 to the Financial Statements for further discussion.

Supply segment net income was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Energy revenues				
External	\$ 483	\$ 374	\$ 1,258	\$ 971
Intersegment	445	415	1,286	1,194
Energy-related businesses	125	154	426	424
Total operating revenues	<u>1,053</u>	<u>943</u>	<u>2,970</u>	<u>2,589</u>
Fuel and energy purchases				
External	467	339	1,171	906
Intersegment	41	41	121	113
Other operation and maintenance	172	186	513	545
Depreciation	40	37	116	109
Taxes, other than income	10	10	29	32
Energy-related businesses	153	162	442	465
Total operating expenses	<u>883</u>	<u>775</u>	<u>2,392</u>	<u>2,170</u>
Other income - net	3	(3)	4	(2)
Interest Expense	31	32	87	89
Income Taxes	22	23	137	38
Minority Interest			1	1
Loss (Income) from Discontinued Operations		(2)	20	51
Total	<u>\$ 120</u>	<u>\$ 112</u>	<u>\$ 337</u>	<u>\$ 238</u>

The after-tax change in net income was due to the following factors, including discontinued operations.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Eastern U.S. non-trading margins	\$ 17	\$ 56
Northwestern U.S. non-trading margins	(6)	14
Southwestern U.S. non-trading margins	(4)	(3)
Net energy trading margins	(3)	(5)
Operation and maintenance expenses	(8)	(24)
Earnings from synfuel projects	(17)	(29)
Interest expense	3	4
Energy-related businesses	2	4
Taxes, other than income	1	3
Other	4	10
Unusual items	19	69
	<u>\$ 8</u>	<u>\$ 99</u>

The following after-tax items, which management considers unusual, had a significant impact on Supply segment earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Sale of Sundance plant (Note 8)				\$ (47)
Sale of interest in the Griffith plant (Note 8)			\$ (17)	
Reduction in Enron reserve (Note 2)			11	
Off-site remediation of ash basin leak (Note 11)	\$ (19)		6	(19)
Settlement of NorthWestern litigation				(6)
Impairment of synfuel-related assets (Note 11)			(6)	
Acceleration of stock-based compensation expense for periods prior to 2005 (Note 9)				(3)
Total	<u>\$ (19)</u>	<u>\$ (6)</u>	<u>\$ (75)</u>	<u>\$ (75)</u>

- See "Domestic Gross Energy Margins" for an explanation of non-trading margins by geographic region and for an explanation of net energy trading margins.
- Higher operation and maintenance expenses for the three months ended September 30, 2006, compared with the same period in 2005, were primarily due to the timing of outages at the Susquehanna nuclear station and other generating stations. Higher operation and maintenance expenses for the nine months ended September 30, 2006, compared with the same period in 2005, were primarily due to increased outage and non-outage expenses at the Susquehanna station, two forced outages at the Brunner Island plant and the timing of other planned outages.
- The decline in earnings contribution from synfuel projects for the three months ended September 30, 2006, compared with the same period in 2005, resulted primarily from unrealized losses on options purchased to hedge a portion of the risk associated with the phase-out of the synthetic fuel tax credits for 2006 and 2007, partially offset by lower operating losses due to lower production levels. The decline for the nine months ended September 30, 2006, compared with the same period in 2005, was primarily due to the anticipated phase-out of synthetic fuel tax credits starting in 2006 and lower production levels.
- In June 2006, based upon observed and forecasted higher crude oil prices and projected cash flows, PPL fully impaired its synfuel-related assets. This adjustment decreased earnings by \$6 million after tax (or \$0.01 per share).
- In May 2005, a subsidiary of PPL Energy Supply completed the sale of its 450 MW Sundance power plant located in Pinal County, Arizona to Arizona Public Service Company for \$190 million in cash. The subsidiary recorded a loss on the sale of \$47 million after tax (or \$0.12 per share).
- In June 2006, a subsidiary of PPL Energy Supply completed the sale of its 50% ownership interest in the 600 MW Griffith power plant located in Kingman, Arizona, for \$115 million in cash. The subsidiary recorded a loss on the sale of \$24 million after tax (or \$0.07 per share). Another subsidiary of PPL Energy Supply recorded the acceleration of net unrealized gains on derivatives associated with the plant of \$7 million after tax (or \$0.02 per share).
- In the third quarter of 2005, PPL recognized a charge of \$22 million after tax (or \$0.06 per share) in connection with the on-site and off-site costs related to the Martins Creek ash basin leak remediation. An additional charge of \$9 million after tax (or \$0.02 per share) was recorded in the fourth quarter of 2005. In 2006, PPL reduced its estimate of the costs for the Martins Creek ash basin leak remediation. This adjustment increased earnings by \$6 million after tax (or \$0.01 per share). Most of the reduction was related to an insurance claim settlement. PPL cannot predict the final costs to be incurred as a result of this matter.

- In the first and second quarters of 2006, PPL decreased its reserve on claims related to the Enron bankruptcy. These adjustments increased earnings by \$11 million after tax (or \$0.03 per share).
- In the first quarter of 2005, PPL recognized a charge of \$6 million after tax (or \$0.02 per share) for a loss contingency related to the litigation with NorthWestern. In September 2005, PPL and NorthWestern reached a final agreement to settle this litigation.

Outlook

PPL is projecting higher energy margins for its Supply segment in 2006 compared with 2005. This increase is primarily driven by an 8.4% increase in PLR sale prices as well as higher prices for wholesale electricity sales and higher hydroelectric generation output in the eastern and western U.S. These benefits are expected to be partially offset by increased fuel and fuel transportation expenses, higher operation and maintenance expenses and reduced earnings from synfuel projects. See "Regulatory Issues - IRS Synthetic Fuels Tax Credits" in Note 11 to the Financial Statements for a discussion of the tax credits that PPL has earned in connection with its synfuel projects and the impact of higher oil prices on future tax credits.

International Delivery Segment

The International Delivery segment includes operations of the international energy businesses of PPL Global that are primarily focused on the distribution of electricity. Substantially all of PPL Global's international businesses are located in the U.K., Chile, El Salvador and Bolivia.

International Delivery segment net income was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Utility revenues	\$ 301	\$ 264	\$ 934	\$ 841
Energy-related businesses	19	19	64	56
Total operating revenues	320	283	998	897
Energy purchases	86	69	250	197
Other operation and maintenance	70	56	204	180
Depreciation	36	41	118	117
Taxes, other than income	15	15	42	44
Energy-related businesses	8	7	27	20
Total operating expenses	215	188	641	558
Other Income - net	10	3	35	10
Interest Expense	54	50	153	152
Income Taxes	(2)	11	13	41
Minority Interest	4	1	7	4
Total	\$ 59	\$ 36	\$ 219	\$ 152

The after-tax change in net income was due to the following factors.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
U.K.		
Delivery margins	\$ 3	\$ 30
Operating expenses	(6)	(20)
Income taxes		22
Impact of changes in foreign currency exchange rates	2	(9)
Impairment of investment in U.K. real estate (Note 8)		(6)
Gain on transfer of equity investment (Note 8)	5	5
Hyder liquidation distribution (Note 8)	3	27
Other		3
Latin America		
Delivery margins	4	7
Operation and maintenance expenses	4	2
Income taxes	9	9
Impact of changes in foreign currency exchange rates		3
Other	(3)	1
U.S. income taxes	1	(9)
Other		1
Unusual item - collection of receivable from Enron		1
	\$ 23	\$ 67

- The U.K.'s earnings were positively impacted by higher margins, primarily due to price increases and 1% higher sales volumes for the nine months ended September 30, 2006, compared with the same period in 2005.
- In 2006, WPD has credited income for \$27 million after tax for distributions received from the planned ongoing liquidation of Hyder's non-electricity delivery businesses. PPL does not expect income from the sale or liquidation of Hyder's non-electricity delivery businesses to continue at the same level in 2007 as occurred in 2006.
- Higher operating expenses in the U.K. for the nine months ended September 30, 2006, compared with the same period in 2005, were attributable to higher depreciation, partially due to a reduction in meter lives in 2005, and higher pension costs at WPD.
- Changes in foreign exchange rates increased WPD's portion of revenue and expense line items by 4% during the three months ended September 30, 2006, and decreased them by 4% during the nine months ended September 30, 2006, compared with the same periods in 2005.
- Lower U.K. income taxes in 2006, compared with the same period in 2005, were primarily due to the transfer of a future tax liability from WPD and certain surplus tax losses from Hyder to a former Hyder affiliate. See Note 5 to the Financial Statements for additional information.

Latin America earnings were positively impacted in both periods, primarily due to higher margins due to a 7% increase in sales volumes and accounting adjustments related to Chilean deferred taxes and depreciation for prior periods. See Note 3 to the Financial Statements for additional information on the accounting adjustments.

Outlook

PPL projects that the International Delivery segment will have higher earnings in 2006 compared with 2005, reflecting the same factors that affected this segment's earnings in the first nine months of 2006.

Pennsylvania Delivery Segment

The Pennsylvania Delivery segment includes the regulated electric and gas delivery operations of PPL Electric and PPL Gas Utilities.

Pennsylvania Delivery segment net income was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating revenues				
External	\$ 824	\$ 809	\$ 2,493	\$ 2,393
Intersegment	41	41	121	113
Total operating revenues	865	850	2,614	2,506
Fuel and energy purchases				
External	67	76	270	285
Intersegment	445	415	1,286	1,194
Other operation and maintenance	93	89	302	305
Amortization of recoverable transition costs	75	71	210	199
Depreciation	31	30	92	89
Taxes, other than income	49	48	143	138
Energy-related business		1		1
Total operating expenses	760	730	2,303	2,211
Other income - net	8	5	24	15
Interest Expense	40	45	125	146
Income Taxes	21	30	69	59
Dividends on Preferred Securities	5	1	10	2
Total	\$ 47	\$ 49	\$ 131	\$ 103

The after-tax change in net income was due to the following factors.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Delivery revenues (net of CTC/ITC amortization, interest expense on transition bonds and ancillary charges)	\$ (2)	\$ (4)
Operation and maintenance expenses	(17)	(15)
Interest expense	(2)	(3)
Other	5	7
Unusual items	14	43
Total	\$ (2)	\$ 28

The following after-tax items, which management considers unusual, had a significant impact on the Pennsylvania Delivery segment earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Reversal of cost recovery - Hurricane Isabel (Note 2)	\$ (7)		\$ (7)	
Realization of benefits related to Black Lung Trust assets (Note 10)	21		21	
PJM billing dispute (Note 11)				\$ (27)
Acceleration of stock-based compensation expense for periods prior to 2005 (Note 9)				(2)
Total	\$ 14		\$ 14	\$ (29)

- As a result of a court's decision, in the third quarter of 2006, PPL Electric recognized an after-tax charge of \$7 million (or \$0.02 per share) for the reversal of a regulatory asset that was previously recorded to defer restoration costs associated with Hurricane Isabel in September 2003 and record a liability for amounts already billed to customers.
- In the third quarter of 2006, PPL Electric recognized an after-tax credit of \$21 million (or \$0.05 per share) in connection with the realization of benefits related to the ability to use excess Black Lung Trust assets to make future benefit payments for retired mine workers' medical costs.
- PPL Electric recognized an after-tax charge of \$27 million (or \$0.07 per share) in the first quarter of 2005 for a loss contingency related to the PJM billing dispute. PPL cannot be certain of the outcome or impact of this matter.
- Higher operation and maintenance expenses in both periods were primarily due to higher tree trimming costs, a union contract ratification bonus and storm costs. The three months ended September 30, 2005, includes the deferral of the January 2005 ice storm costs as discussed below.

In January 2005, severe ice storms hit PPL Electric's service territory. The total cost of restoring service to 238,000 customers, excluding capitalized costs and regular payroll expenses, was \$16 million.

In August 2005, the PUC issued an order granting PPL Electric's petition for authority to defer and amortize for regulatory accounting and reporting purposes a portion of the ice storm costs, subject to certain conditions. As a result of the PUC Order and in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation," in the third quarter of 2005, PPL Electric deferred \$12 million of its previously expensed storm costs. The deferral was based on its assessment of the timing and likelihood of recovering the deferred costs in PPL Electric's next distribution base rate case.

Outlook

PPL projects that the Pennsylvania Delivery segment will have lower delivery earnings in 2006 compared with 2005 due to favorable weather in 2005. In addition, operation and maintenance expenses are expected to be higher in 2006, based on the factors noted above.

Statement of Income Analysis --

Domestic Gross Energy Margins

The following table provides pre-tax changes in the income statement line items that comprise domestic gross energy margins.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Utility	\$ 57	\$ 193
Unregulated retail electric	(2)	(5)
Wholesale energy marketing	110	299
Net energy trading margins	(4)	(7)
Other revenue adjustments (a)	(20)	(94)
Total revenues	141	386
Fuel	(21)	23
Energy purchases	157	280
Other cost adjustments (a)	(1)	(34)
Total cost of sales	135	269
Domestic gross energy margins	\$ 6	\$ 117

- (a) Adjusted to exclude the impact of any revenues and costs not associated with domestic gross energy margins. This includes revenues and energy costs related to the international operations of PPL Global, the domestic delivery operations of PPL Electric and PPL Gas Utilities and an accrual for the loss contingency related to the PJM billing dispute in 2005 (see Note 11 to the Financial Statements for additional information). Also adjusted to include the margins of the Griffith and Sundance plants prior to their sales in June 2006 and May 2005, which are included in "Loss (Income) from Discontinued Operations," and gains or losses on sales of emission allowances, which are included in "Other operation and maintenance" expenses on the Statements of Income.

Changes in Domestic Gross Energy Margins By Region

Domestic gross energy margins are generated through PPL's hedging (non-trading) activities, as well as trading activities. PPL manages its non-trading energy business on a geographic basis that is aligned with its generation assets. Additionally, beginning in 2006, PPL further segregates non-trading activities into two categories: non-trading hedge activity and non-trading economic activity. Non-trading economic activity represents the net unrealized effect of derivative transactions that are entered into as economic hedges, but do not qualify for hedge accounting under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted.

Sept. 30, 2006 vs. Sept. 30, 2005

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Non-trading		
Eastern U.S.	\$ 28	\$ 96
Northwestern U.S.	(10)	24
Southwestern U.S.	(7)	(6)
Net energy trading	(5)	3
Domestic gross energy margins	\$ 6	\$ 117

Eastern U.S.

Eastern U.S. non-trading margins were higher in the three and nine months ended September 30, 2006, compared with the same periods in 2005, primarily because of an 8.4% increase in PLR sale prices in accordance with the schedule established by the PUC Final Order. Also contributing to the increase in third quarter margins were higher net wholesale prices. Partially offsetting these improvements was lower coal generation of 8%. Also contributing to the increase in year-to-date margins were higher net wholesale prices, partially offset by lower nuclear generation of 3% as well as higher coal prices, which were up 16%.

Additionally, non-trading margins included an unrealized loss of \$21 million and \$25 million for the three and nine months ended September 30, 2006, primarily due to commodity price movements on forward energy contracts used to economically hedge wholesale marketing activities. These forward contracts were not in place in 2005.

Northwestern U.S.

Northwestern U.S. non-trading margins were lower in the third quarter of 2006, compared with the same period in 2005, primarily due to lower hydroelectric and coal generation output. Hydroelectric generation output decreased 11%, while coal generation decreased 7%. Also contributing to the lower margins were higher wholesale power purchases.

Northwestern U.S. non-trading margins were higher for the nine months ended September 30, 2006, compared with the same period in 2005, primarily due to higher wholesale revenue prices. Also contributing was an 11% increase in hydroelectric generation output. Partially offsetting these improvements were higher coal prices, which were up 18%.

Southwestern U.S.

Southwestern U.S. non-trading margins were lower for the three and nine months ended September 30, 2006, compared with the same periods in 2005, due to the sale of the Griffith plant in June 2006. See Note 8 to the Financial Statements for additional information.

Net Energy Trading

PPL enters into certain energy contracts that meet the criteria of trading derivatives as defined by EITF Issue 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." These physical and financial contracts cover trading activity associated with electricity, gas and oil.

Net energy trading margins decreased by \$5 million in the third quarter of 2006, compared with the same period in 2005. This decrease was primarily due to unrealized losses associated with gas trading activity.

Net energy trading margins increased by \$3 million for the nine months ended September 30, 2006, compared with the same period in 2005. This increase was primarily due to unrealized gains associated with gas trading activity.

The amount of energy trading margins from unrealized transactions was a \$3 million loss in the third quarter of 2006, compared with a \$2 million gain in the same period in 2005. The amount of energy trading margins from unrealized transactions was a \$9 million gain for the nine months ended September 30, 2006, compared with a \$2 million gain in the same period in 2005.

The physical volumes for electricity and gas associated with energy trading for the three months ended September 30, 2006, were 1.730 GWh and 5.1 Bcf, compared with 1.457 GWh and 2.2 Bcf in the same period last year. The physical volumes for electricity and gas associated with energy trading for the nine months ended September 30, 2006, were 5,509 GWh and 14.5 Bcf, compared with 3,722 GWh and 9.7 Bcf in the same period last year.

Utility Revenues

The increases in utility revenues were attributable to:

	<u>Sept. 30, 2006 vs. Sept. 30, 2005</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
Domestic:		
Retail electric revenue (PPL Electric)		
PLR electric generation supply	\$ 33	\$ 100
Electric delivery	(14)	(28)
Gas revenue (PPL Gas Utilities)	2	27
Other	(1)	1
International:		
Retail electric delivery (PPL Global)		
U.K.	5	42
Chile	12	33
El Salvador	8	15
Bolivia	1	4
Foreign currency exchange rates	11	(1)
	<u>\$ 57</u>	<u>\$ 193</u>

The increases in utility revenues, excluding foreign currency exchange rate impacts, for both periods were primarily due to:

- higher PLR revenues attributable to an increase of 8.4% in prices and an increase in commercial and industrial sales volumes, due in part to the return of customers previously served by alternate suppliers, offset by a decrease in residential sales volumes, due in part to milder weather in 2006 compared with 2005;
- a decrease in domestic electric delivery revenues resulting primarily from the impact of milder weather on residential sales in 2006 compared with 2005;
- higher gas revenues primarily due to the increase in natural gas prices, which are passed through to customers;
- higher average prices overall and an increase of 1% in sales volumes in the U.K. for the nine months ended September 30, 2006, compared with the same period in 2005, partially offset by a 2% decrease in sales volumes for the three months ended September 30, 2006, compared with the same period in 2005;
- increases of 7% in Chilean electric delivery sales volumes and higher average prices overall; and
- increases of 8% in electric delivery sales volumes in El Salvador and higher average prices overall.

Energy-related Businesses

Energy-related businesses contributed \$20 million less to operating income for the three months ended September 30, 2006, compared with the same period in 2005. The decrease was primarily attributable to \$24 million of lower pre-tax contributions from synfuel projects. This reflects:

- a \$36 million net unrealized loss on options purchased to hedge a portion of the risk associated with the phase-out of the synthetic fuel tax credits for 2006 and 2007; partially offset by
- \$12 million of lower operating losses due to lower production levels.

Energy-related businesses contributed \$27 million more to operating income for the nine months ended September 30, 2006, compared with the same period in 2005. The increase was primarily attributable to:

- \$18 million of higher pre-tax contributions from synfuel projects. This reflects a \$6 million net unrealized gain on options purchased to hedge a portion of the risk associated with the phase-out of the synthetic fuel tax credits for 2006 and 2007 and \$22 million of lower operating losses due to lower production levels, partially offset by an impairment charge of \$10 million on the synfuel-related assets; and
- a \$7 million increase from PPL Telecom due to an increase in transport-related sales, as well as reduced spending on a product line. (The increase in net energy-related business income for PPL Telecom is before depreciation, interest expense and income taxes.)

See Note 11 to the Financial Statements for an overall assessment of synthetic fuel tax credits and a further discussion of the impairment of these facilities.

Other Operation and Maintenance

For the three months and nine months ended September 30, 2006, PPL's other operation and maintenance expense was reduced by a \$36 million one-time credit in connection with the realization of benefits related to the ability to use excess Black Lung Trust assets to make future benefit payments for retired mine workers' medical costs. See Note 10 for additional information.

Excluding this one-time credit, the increases in other operation and maintenance expenses were due to:

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Reduction in Enron reserve (Note 2)		\$ (19)
Costs associated with severe ice storms in January 2005		(16)
Subsequent deferral of a portion of 2005 ice storm costs	\$ 12	12
Martins Creek ash basin remediation adjustment (Note 11)	(33)	(22)
Reversal of cost recovery - Hurricane Isabel (Note 2)	11	11
NorthWestern litigation accrual in March 2005		(9)
Susquehanna plant refueling and inspection costs	4	16
Union contract ratification bonus	7	7
Increase in domestic and international pension and postretirement costs	11	21
Outage costs at Martins Creek and Brunner Island plants	3	11
PUC reportable storm costs in 2006	3	10
Tree trimming costs	2	4
Increase in international operation and maintenance expenses	7	13
Accelerated amortization of stock-based compensation in 2005 (Note 9)		(18)
Other	13	4
	<u>\$ 40</u>	<u>\$ 25</u>

Depreciation

The changes in depreciation expense were due to:

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Additions to PP&E	\$ 4	\$ 19
Reduction of useful lives of certain distribution assets		3
Changes in foreign currency exchange rates	2	(2)
Extension of useful lives of certain generation assets		(2)
Chilean depreciation accounting adjustment (Note 3)	(7)	(7)
	<u>\$ (1)</u>	<u>\$ 11</u>

Other Income - net

See Note 13 to the Financial Statements for details of other income.

Financing Costs

The changes in financing costs, which include "Interest Expense" and "Dividends on Preferred Securities of a Subsidiary" were due to:

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Increase in interest expense due to hedging activities	\$ 5	\$ 22
Dividends on 6.25% Series Preference Stock	4	8
Increase in capitalized interest	(5)	(10)
Interest accrued in 2005 for PJM billing dispute (Note 11)		(8)
Increase (decrease) in long-term debt interest expense	8	(6)
Write-off in 2005 of financing costs associated with PPL Energy Supply's 2.625% Convertible Senior Notes due to the market trigger price being met	(6)	(6)
Decrease in amortization of debt	(4)	(5)
Decrease in short-term debt interest expense	(1)	(4)
Change in foreign currency exchange rates	1	(3)
Other		(2)
	<u>\$ 2</u>	<u>\$ (14)</u>

Income Taxes

The changes in income taxes were due to:

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Higher (lower) pre-tax book income	\$ (1)	\$ 80
Reduction in tax benefits related to nonconventional fuel tax credits	2	42
Decrease in tax expense on foreign earnings	(8)	(8)
Chilean deferred tax accounting adjustment (Note 3)	(9)	(9)
Transfer of WPI tax items in 2006 (Note 5)		(20)
Decrease in tax expense related to tax reserves	(7)	(7)
Other		3
	<u>\$ (23)</u>	<u>\$ 81</u>

See Note 5 to the Financial Statements for details on effective income tax rates.

Discontinued Operations

In the second quarter of 2006, PPL recorded a \$24 million loss on the sale of its ownership interest in the Griffith plant, which is net of a tax benefit of \$16 million. The "Loss (Income) from Discontinued Operations" also includes the acceleration of net unrealized gains on derivatives associated with the Griffith plant of \$7 million after tax.

In the second quarter of 2005, PPL reported a \$47 million loss, which is net of a tax benefit of \$26 million, in connection with the sale of its Sundance power plant.

See "Discontinued Operations" in Note 8 to the Financial Statements for information on these sales, along with

information regarding operating income (losses) recorded in 2006 and 2005 for the Griffith plant prior to the sale and for operating losses recorded in 2005 prior to the Sundance sale.

Financial Condition

Liquidity and Capital Resources

At September 30, 2006, PPL had \$923 million of cash, cash equivalents and short-term investments and \$43 million of short-term debt. At December 31, 2005, PPL had \$618 million of cash, cash equivalents and short-term investments and \$214 million of short-term debt. The \$305 million increase in PPL's cash, cash equivalents and short-term investments position was primarily the net result of:

- \$1.3 billion of cash provided by operating activities;
- the issuance of \$800 million of long-term debt;
- \$245 million of net proceeds from the issuance of preference stock; and
- \$115 million of proceeds from the sale of PPL's interest in the Griffith plant; offset by
- \$859 million of capital expenditures (including \$103 million to purchase equipment previously leased);
- the retirement of \$757 million of long-term debt;
- a net decrease in short-term debt of \$172 million (excluding the impact of foreign currency translation adjustments);
- the payment of \$304 million of common stock dividends; and
- \$26 million of net purchases of emission allowances.

Leases

In September 2006, PPL's subsidiaries terminated the master lease agreements under which they leased equipment, such as vehicles, computers and office equipment. In addition, PPL and its subsidiaries purchased the equipment from the lessors at a negotiated price. Accordingly, these master lease agreements are no longer available as a source of financing. In connection with the purchase, "Property, Plant and Equipment" on the Balance Sheet increased by \$107 million. As of September 30, 2006, \$103 million had been paid, and the remaining \$4 million payable is expected to be settled during the fourth quarter of 2006.

The "Contractual Obligations" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2005 Form 10-K included \$98 million in obligations related to these leases.

Convertible Senior Notes

The terms of PPL Energy Supply's 2.625% Convertible Senior Notes due 2023 include a market price trigger that permits holders to convert the notes during any fiscal quarter if the closing sale price of PPL's common stock exceeds \$29.83 for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. This market price trigger was met in the first, second and third quarters of 2006. Therefore, holders of the Convertible Senior

Notes were entitled to convert their notes at any time during the second and third quarters of 2006 and are also entitled to convert their notes any time during the fourth quarter of 2006. When holders elect to convert the Convertible Senior Notes, PPL Energy Supply is required to settle the principal amount in cash and any conversion premium in cash or PPL common stock.

During the nine months ended September 30, 2006, Convertible Senior Notes in an aggregate principal amount of \$39 million were presented for conversion. The total conversion premium related to these conversions was \$11 million, which was settled with 348,465 shares of PPL common stock along with an insignificant amount of cash in lieu of fractional shares. After such conversions, PPL Energy Supply has approximately \$361 million of Convertible Senior Notes that can be presented for conversion in the fourth quarter of 2006. PPL and PPL Energy Supply have, and expect to continue to have, access to sufficient liquidity sources to fund any future conversions.

Preference Stock

In April 2006, PPL Electric sold 10 million depositary shares, each representing a quarter interest in a share of PPL Electric's 6.25% Series Preference Stock (Preference Shares), totaling \$250 million. In connection with the sale of the depositary shares, PPL Electric issued 2.5 million Preference Shares, with a liquidation preference of \$100 per share, to the bank acting as a depositary. PPL Electric used the net proceeds of \$245 million from the offering to repurchase \$200 million of its common stock held by PPL, and for other general corporate purposes. PPL used the \$200 million received from PPL Electric to fund capital expenditures and for general corporate purposes.

Holders of the depositary shares are entitled to all proportional rights and preferences of the Preference Shares, including dividend, voting, redemption and liquidation rights, exercised through the depositary. The Preference Shares rank senior to PPL Electric's common stock and junior to its preferred stock, and they have no voting rights, except as provided by law.

Dividends on the Preference Shares will be paid when, as and if declared by the Board of Directors at a fixed annual rate of 6.25%, or \$1.5625 per depositary share per year, and are not cumulative. PPL Electric may not pay dividends on, or redeem, purchase or make a liquidation payment with respect to any of its common stock, except in certain circumstances, unless full dividends on the Preference Shares have been paid for the then-current dividend period.

The Preference Shares do not have a stated maturity, and are not subject to sinking fund requirements. However, PPL Electric may, at its option, redeem the Preference Shares in whole or in part from time to time for \$100 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, on or after April 6, 2011. It is PPL Electric's intention to redeem or repurchase the Preference

Shares only from the proceeds of the sale of certain qualifying securities having equity characteristics similar to or greater than the applicable equity characteristics of the Preference Shares. PPL Electric may decide to affirm this intention in the future by making an enforceable covenant in favor of holders of a specific series of its outstanding long-term debt securities.

Credit Facilities

In March 2006, PPL Energy Supply extended the expiration date of its 364-day reimbursement agreement, under which it can cause the bank to issue up to \$200 million of letters of credit, to March 2007. In June 2006, PPL Energy Supply entered into a \$1.9 billion Amended and Restated Five-Year Credit Agreement, which expires in June 2011. This credit agreement amended, restated and combined into one credit facility the following three five-year credit facilities of PPL Energy Supply: the \$800 million facility expiring in June 2010, the \$600 million facility expiring in June 2010 and the \$500 million facility expiring in December 2010.

WPD (South West)'s £100 million 364-day credit facility expired in October 2006 and is expected to be renewed in November 2006.

In June 2006, PPL Electric amended and restated the credit agreement for its \$200 million five-year credit facility and extended the expiration date to June 2011. PPL Electric's \$100 million three-year credit facility expired in June 2006 and was not renewed. In July 2006, PPL Electric extended the expiration date of the credit agreement related to its participation in an asset-backed commercial paper program to July 2007.

Debt Financings

PPL Energy Supply issued \$300 million of 6.20% Senior Notes due 2016 (6.20% Notes) in May 2006 and issued an additional \$150 million of the 6.20% Notes in July 2006. The 6.20% Notes may be redeemed at any time prior to maturity at PPL Energy Supply's option at make-whole redemption prices. In July 2006, PPL Energy Supply also issued \$250 million of 7% Senior Notes due 2046 (7% Notes). The 7% Notes are not subject to redemption prior to July 15, 2011. On or after July 15, 2011, PPL Energy Supply may, at its option, redeem the 7% Notes, in whole or in part, at par. Proceeds from the sale of both the 6.20% Notes and 7% Notes were used for capital expenditures, including expenditures relating to PPL Energy Supply's installation of pollution control equipment at two of its coal-fired power plants in Pennsylvania, and for general corporate purposes.

In July 2006, Emel issued 3 million UF (inflation-indexed Chilean Pesos) denominated bonds in two series (\$101 million at then-current exchange rates). The first series consists of 1 million UF denominated bonds that mature in 2011, are callable at par on or after June 1, 2009, and bear interest at 3.75%. The second series consists of 2 million UF denominated bonds with serial maturities from 2021 through

2027, which are callable on or after June 1, 2014, at a specified calculated value on the call date and bear interest at 4.50%. The proceeds were used to pay Emel's 3 million UF denominated bond maturity in August 2006.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the credit-worthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by these agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

Moody's

In March 2006, Moody's took the following actions related to the credit ratings of PPL and its subsidiaries:

- PPL - assigned a Baa2 issuer rating;
- PPL Capital Funding - upgraded the ratings of its senior unsecured debt and Medium Term Notes to Baa2 from Baa3 and subordinated debt to Baa3 from Ba1; and
- PPL Electric - upgraded the issuer rating to Baa1 from Baa2 and upgraded the ratings of its First Mortgage Bonds and Senior Secured Bonds to A3 from Baa1 and preferred stock to Baa3 from Ba1.

In March 2006, Moody's also reviewed the credit ratings of PPL Energy Supply and concluded that its ratings remain unchanged.

S&P

In connection with PPL Electric's issuance of Preference Shares in April 2006, S&P affirmed all of PPL Electric's credit ratings.

Fitch

In February 2006, Fitch's Europe, Middle East and Africa group implemented issuer default ratings (IDRs) based on its new IDR methodology. This implementation led to Fitch's assignment of the following IDRs and Fitch's revision of its ratings on the following securities currently outstanding at WPD and its affiliates:

- WPDH Limited IDR of BBB- and senior unsecured rating to BBB from BBB-;
- WPD LLP IDR of BBB, senior unsecured rating to BBB+ from BBB and preferred stock rating to BBB from BBB-; and
- WPD (South Wales) and WPD (South West) IDR of BBB+ and senior unsecured debt rating to A- from BBB+.

Fitch's outlook for WPD and its affiliates remains stable.

Capital Expenditures

The schedule below shows PPL's capital expenditure projections as of September 30, 2006, for the years 2006 through 2010.

	Projected				
	2006	2007	2008	2009	2010
Construction expenditures (a)					
Generating facilities	\$ 296	\$ 241	\$ 186	\$ 296	\$ 295
Transmission and distribution facilities	551	550	533	575	639
Environmental	340	582	378	125	75
Other	98	86	48	41	41
Total Construction Expenditures	1,285	1,459	1,145	1,037	1,050
Nuclear fuel	79	92	97	97	99
Total Capital Expenditures	\$ 1,364	\$ 1,551	\$ 1,242	\$ 1,134	\$ 1,149

(a) Construction expenditures include AFUDC and capitalized interest, which are expected to be \$162 million for the 2006-2010 period.

PPL's capital expenditure projections for the years 2006-2010 total \$6.4 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The above schedule has been revised from that which was presented in PPL's 2005 Form 10-K, primarily to reflect the installation costs of cooling towers at the Brunner Island plant, the expansion of the Holtwood hydroelectric plant and the purchase of equipment previously leased under master lease agreements. See Notes 11, 8 and 2 to the Financial Statements for additional information.

PPL plans to fund all of its capital expenditures in 2006 with cash on hand, cash from operations and the issuance of debt securities.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2005 Form 10-K.

Risk Management - Energy Marketing & Trading and Other

Market Risk

Commodity Price Risk (Non-trading)

PPL's non-trading commodity derivative contracts mature at various times through 2012. PPL segregates its non-trading activities as either hedge or economic. Transactions that are accounted for as hedge activity qualify for special hedge accounting treatment under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The non-trading economic category includes transactions that address a specific risk, but are not eligible for hedge accounting or hedge accounting is not elected. Included in the non-trading economic category are certain load-following energy obligations and related supply contracts, financial transmission rights, crude oil swaps to hedge rail transportation charges and hedges of synthetic fuel tax credits. The fair value of these non-trading economic contracts as of September 30, 2006, including net premiums on related options, was \$10 million. The following chart sets forth PPL's net fair value of the non-trading contracts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Fair value of contracts outstanding at the beginning of the period	\$ (99)	\$ (129)	\$ (284)	\$ (11)
Contracts realized or otherwise settled during the period	(1)	(8)	11	(31)
Fair value of new contracts at inception	(27)	9	(27)	22
Other changes in fair values	20	(147)	193	(255)
Fair value of contracts outstanding at the end of the period	\$ (107)	\$ (275)	\$ (107)	\$ (275)

Beginning in January 2006, PPL implemented a program to hedge its exposures to changes in market prices of certain metals necessary for the scrubbers PPL is installing at the Brunner Island and Montour generating plants. These contracts, which qualify for cash flow hedge treatment, were designated as hedges in March 2006 and their fair values are included in the table above.

The following chart segregates estimated fair values of PPL's non-trading commodity derivative contracts at September 30, 2006, based on whether the fair values are determined by quoted market prices or other more subjective means.

Source of Fair Value	Fair Value of Contracts at Period-End Gains (Losses)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices actively quoted	\$ (3)	\$ 2	\$ 4	\$ 1	\$ 4
Prices provided by other external sources	(39)	(174)	(6)	3	(216)
Prices based on models and other valuation methods	43	62			105
Fair value of contracts outstanding at the end of the period	<u>\$ 1</u>	<u>\$ (110)</u>	<u>\$ (2)</u>	<u>\$ 4</u>	<u>\$ (107)</u>

The "Prices actively quoted" category includes the fair value of exchange-traded natural gas futures contracts quoted on the NYMEX. The NYMEX has currently quoted prices through 2011.

The "Prices provided by other external sources" category includes PPL's forward positions and options in natural gas and power and natural gas basis swaps at points for which over-the-counter (OTC) broker quotes are available. The fair value of electricity positions recorded above use the midpoint of the bid/ask spreads obtained through OTC brokers. On average, OTC quotes for forwards and swaps of natural gas and power extend one and two years into the future.

The "Prices based on models and other valuation methods" category includes the value of transactions for which an internally developed price curve was constructed as a result of the long-dated nature of the transaction or the illiquidity of the market point, or the value of options not quoted by an exchange or OTC broker. This category reflects the fair value of transactions completed in auction markets, where contract prices represent the market value for load-following, bundled energy prices delivered at specific, illiquid delivery points. The transaction prices associated with the contracts did not equal the wholesale bilateral market prices at inception (Day 1). However, EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," does not generally permit Day 1 gains and losses to be recognized unless the fair value is derived principally from observable market inputs. Therefore, PPL recorded a reserve for the modeled Day 1 gain, which is netted against the above fair values.

As of September 30, 2006, PPL estimated that a 10% adverse movement in market prices across all geographic areas and time periods, excluding the effect of any commodity price correlations, would have decreased the value of the commodity contracts in its non-trading portfolio by \$332 million. For purposes of this calculation, an increase in the market price for electricity is considered an adverse movement because PPL's electricity portfolio is generally in a net sales position, and the decrease in the market price for fuel is considered an adverse movement because PPL's commodity fuels portfolio is

generally in a net purchase position. PPL enters into these commodity contracts to reduce the market risk inherent in the generation of electricity.

In accordance with its marketing strategy, PPL does not completely hedge its generation output or fuel requirements. PPL estimates that for its entire portfolio, including all generation, emissions and physical and financial energy positions, a 10% adverse change in power prices across all geographic zones and time periods would decrease expected 2006 gross margins by \$5 million. Similarly, a 10% adverse movement in all fossil fuel prices would decrease 2006 gross margins by \$45 million.

The data in the above tables includes the activity for PPL's synthetic fuel tax credit hedges. Additional information regarding these hedges can be found in the "Synthetic Fuel Tax Credit Risk" section below.

Commodity Price Risk (Trading)

PPL also executes energy contracts to take advantage of market opportunities. As a result, PPL may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The margins from these trading activities are shown in the Statements of Income as "Net energy trading margins."

PPL's trading contracts mature at various times through 2009. The following chart sets forth PPL's net fair value of trading contracts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Fair value of contracts outstanding at the beginning of the period	\$ 19	\$ 11	\$ 5	\$ 10
Contracts realized or otherwise settled during the period	20	(10)	2	(17)
Fair value of new contracts at inception	(16)	(2)	(13)	2
Other changes in fair values	6	11	35	15
Fair value of contracts outstanding at the end of the period	<u>\$ 29</u>	<u>\$ 10</u>	<u>\$ 29</u>	<u>\$ 10</u>

PPL will reverse \$18 million of the \$29 million unrealized trading gains over the next three months of 2006 as the transactions are realized.

The following chart segregates estimated fair values of PPL's trading portfolio at September 30, 2006, based on whether the fair values are determined by quoted market prices or other more subjective means.

**Fair Value of Contracts at Period-End
Gains (Losses)**

Source of Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices actively quoted	\$ (1)	\$ (1)	\$ 1		\$ (1)
Prices provided by other external sources	12	4			16
Prices based on models and other valuation methods	4	10			14
Fair value of contracts outstanding at the end of the period	<u>\$ 15</u>	<u>\$ 13</u>	<u>\$ 1</u>		<u>\$ 29</u>

See "Commodity Price Risk (Non-trading)" for information on the various sources of fair value.

As of September 30, 2006, PPL estimated that a 10% adverse movement in market prices across all geographic areas and time periods, excluding the effect of any commodity price correlations, would have decreased the value of the commodity contracts in its trading portfolio by \$25 million.

Interest Rate Risk

PPL and its subsidiaries have issued debt to finance their operations, which increases their interest expense risk. PPL utilizes various financial derivative products to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in treasury rates (and interest rate spreads over treasuries) in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2006, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was \$8 million.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. At September 30, 2006, PPL estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was \$237 million.

PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of these instruments are recorded in equity and then classified into earnings in the same period during which the item being hedged affects earnings. At September 30, 2006, the market value of these instruments, representing the amount PPL would receive upon their termination, was \$24 million. At September 30, 2006, PPL estimated that its potential

exposure to a change in the fair value of these instruments, through a 10% adverse movement in the hedged exposure, was \$44 million.

PPL also utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. While PPL is exposed to changes in the fair value of these instruments, any change in market value is recorded with an equal and offsetting change in the value of the debt being hedged. At September 30, 2006, PPL estimated that its potential additional exposure to a change in the fair value of these instruments, through a 10% adverse movement in interest rates, was \$18 million.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in affiliates in the U.K. and Latin America. In addition, PPL may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

To protect 2006 expected income in Chilean pesos, PPL entered into an average rate forward for 8 billion Chilean pesos. The settlement date of this forward is November 2006. At September 30, 2006, the market value of this position, representing the amount PPL would receive upon its termination, was insignificant. PPL estimated that its potential additional exposure to a change in the market value of this instrument, through a 10% adverse movement in foreign currency exchange rates, was insignificant at September 30, 2006.

To protect 2006 expected income denominated in British pounds sterling, PPL entered into a combination of average rate forwards and average rate options for £88 million. These forwards and options terminate in November 2006. At September 30, 2006, the market value of these positions, representing the amount PPL would pay upon their termination, was \$1 million. PPL estimated that its potential additional exposure to a change in the market value of these instruments, through a 10% adverse movement in foreign currency exchange rates, was \$1 million at September 30, 2006.

WPDH Limited holds a net position in cross-currency swaps totaling \$1.1 billion to hedge the interest payments and value of its U.S. dollar-denominated bonds with maturity dates ranging from December 2006 to December 2028. The estimated value of this position at September 30, 2006, being the amount PPL would pay to terminate it, including accrued interest, was \$260 million. PPL estimated that its potential additional exposure to a change in the market value of these

instruments, through a 10% adverse movement in foreign currency exchange rates, was \$146 million at September 30, 2006.

On the Statements of Income, gains and losses associated with hedges of interest payments denominated in foreign currencies are reflected in "Interest Expense." Gains and losses associated with the purchase of equipment are reflected in "Depreciation." Gains and losses associated with net investment hedges remain in "Accumulated other comprehensive loss" on the Balance Sheets until the investment is sold or substantially liquidated.

Nuclear Decommissioning Trust Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna station. As of September 30, 2006, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns to be used to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities in the trusts are exposed to changes in interest rates. PPL Susquehanna actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At September 30, 2006, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$34 million reduction in the fair value of the trust assets. See Note 21 in PPL's 2005 Form 10-K for more information regarding the nuclear decommissioning trust funds.

Synthetic Fuel Tax Credit Risk

At this time, PPL expects that the current high level and the volatility of crude oil prices will reduce the amount of synthetic fuel tax credits that PPL receives through its synthetic fuel production. The tax credits are reduced if the annual average wellhead price of domestic crude oil falls within a phase-out range. The tax credits are eliminated if this reference price exceeds the phase-out range. See "Regulatory Issues - IRS Synthetic Fuels Tax Credits" in Note 11 to the Financial Statements for more information regarding the phase-out of the tax credits and shutdown of synfuel projects.

PPL implemented a risk management strategy to hedge a portion of the variability of cash flows associated with its 2006 and 2007 synthetic fuel tax credits by hedging the risk that the 2006 and 2007 annual average wellhead price for domestic crude oil will be within the phase-out range.

PPL has options to mitigate some of the reductions in synthetic fuel tax credits if the annual average wellhead price for 2006 and 2007 falls within the applicable phase-out range. These

positions did not qualify for hedge accounting treatment. The mark-to-market value of these positions at September 30, 2006, was a gain of \$33 million. A loss of \$24 million was recorded during the three months ended September 30, 2006, and a gain of \$23 million was recorded during the nine months ended September 30, 2006. This compares to gains of \$17 million and \$22 million recorded during the same periods in 2005. These amounts are reflected in "Energy-related businesses" revenues on the Statements of Income.

As of September 30, 2006, PPL estimated that a 10% adverse movement in market prices of crude oil would have decreased the value of the synthetic fuel hedges by \$21 million. For purposes of this calculation, a decrease in the market price for crude oil is considered an adverse movement.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply or PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL.

For additional information on related party transactions, see Note 12 to the Financial Statements.

Acquisitions, Development and Divestitures

From time to time, PPL and its subsidiaries are involved in negotiations with third parties regarding acquisitions and dispositions of businesses and assets, joint ventures and development projects, which may or may not result in definitive agreements. Any such transactions may impact future financial results. See Note 8 to the Financial Statements for information regarding recent transactions.

PPL is currently planning incremental capacity increases of 395 MW at several existing domestic generating facilities. Offsetting this increase is an expected 30 MW reduction in generation capability at each of the Brunner Island and Montour plants, due to the estimated increases in station service usage during the scrubber operation. See Note 11 for additional information, as well as information regarding the shut down of two 150 MW generating units at PPL Martins Creek.

PPL is continuously reexamining development projects based on market conditions and other factors to determine whether to proceed with these projects, sell them, cancel them, expand them, execute tolling agreements or pursue other opportunities.

Environmental Matters

See Note 11 to the Financial Statements for a discussion of environmental matters.

New Accounting Standards

See Note 18 to the Financial Statements for a discussion of new accounting standards recently adopted or pending adoption.

Application of Critical Accounting Policies

PPL's financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations of PPL, and require estimates or other judgments of matters inherently uncertain: price risk management, pension and other postretirement benefits, asset impairment, leasing, loss accruals and asset retirement obligations.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2005 Form 10-K for a discussion of each critical accounting policy. PPL's senior management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with its Audit Committee. In addition, PPL's senior management reviewed the Form 10-K disclosures regarding the application of these critical accounting policies with the Audit Committee.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." PPL and its subsidiaries will adopt the recognition provisions of SFAS 158 prospectively, as of December 31, 2006. See Note 18 to the Financial Statements for a more detailed discussion of this new accounting standard.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

PPL Energy Supply is an energy company with headquarters in Allentown, PA. In PPL Energy Supply's 2005 Form 10-K, descriptions of its domestic and international businesses are found in "Item 1. Business - Background." Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and western U.S. - and in the delivery of electricity in the U.K. and Latin America. PPL Energy Supply's reportable segments are Supply and International Delivery. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in PPL Energy Supply's 2005 Form 10-K for an overview of PPL Energy Supply's strategy and the risks and the challenges that it faces in its business. See "Forward-Looking Information," Note 11 to the Financial Statements and the rest of this Item 2 in this Form 10-Q and "Item 1A. Risk Factors" and the rest of Item 7 in PPL Energy Supply's 2005 Form 10-K for more information concerning the material risks and uncertainties that PPL Energy Supply faces in its businesses and with respect to its future earnings.

The following information should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and in conjunction with PPL Energy Supply's 2005 Form 10-K.

Terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

Results of Operations

The following discussion begins with a summary of PPL Energy Supply's earnings. "Results of Operations" continues with a review of results by reportable segment and a description of key factors by segment that management expects may impact future earnings. This section ends with explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three and nine months ended September 30, 2006, with the same periods in 2005.

Earnings

Net income was as follows.

<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
<u>September 30,</u>		<u>September 30,</u>	
<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
\$ 182	\$ 159	\$ 570	\$ 418

The changes in net income from period to period were, in part, attributable to several significant items that management considers unusual. Details of these unusual items are provided within the review of each segment's earnings.

The period-to-period changes in significant earnings components, including domestic gross energy margins by region and significant income statement line items, are explained in the "Statement of Income Analysis."

The Statements of Income reflect the results of past operations and are not intended as any indication of future operating results. Future operating results will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods do not necessarily indicate results or trends for the year.

Segment Results

Net income by segment was:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Supply	\$ 123	\$ 123	\$ 351	\$ 266
International Delivery	59	36	219	152
Total	<u>\$ 182</u>	<u>\$ 159</u>	<u>\$ 570</u>	<u>\$ 418</u>

Supply Segment

The Supply segment primarily consists of the domestic energy marketing, domestic generation and domestic development operations of PPL Energy Supply.

The Supply segment results in 2006 and 2005 reflect the reclassification of the Griffith plant revenues and expenses from certain income statement line items to "Loss (Income) from Discontinued Operations." The Supply segment results in 2005 also reflect the reclassification of the Sundance plant revenues and expenses from certain income statement line items to "Loss (Income) from Discontinued Operations." See Note 8 to the Financial Statements for further discussion.

Supply segment net income was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Energy revenues	\$ 929	\$ 795	\$ 2,544	\$ 2,165
Energy-related businesses	123	145	407	403
Total operating revenues	<u>1,052</u>	<u>940</u>	<u>2,951</u>	<u>2,568</u>
Fuel and energy purchases	508	383	1,291	1,016
Other operation and maintenance	184	198	549	576
Depreciation	37	35	106	103
Taxes, other than income	10	10	29	31
Energy-related businesses	152	155	426	443
Total operating expenses	<u>891</u>	<u>781</u>	<u>2,401</u>	<u>2,169</u>
Other Income - net	14	6	34	18
Interest Expense	25	24	59	65
Income Taxes	27	20	153	34
Minority Interest			1	1
Loss (Income) from Discontinued Operations		(2)	20	51
Total	<u>\$ 123</u>	<u>\$ 123</u>	<u>\$ 351</u>	<u>\$ 266</u>

The after-tax change in net income was due to the following factors, including discontinued operations.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Eastern U.S. non-trading margins	\$ 17	\$ 56
Northwestern U.S. non-trading margins	(6)	14
Southwestern U.S. non-trading margins	(4)	(3)
Net energy trading margins	(3)	(5)
Operation and maintenance expenses	(7)	(24)
Interest expense	(1)	3
Earnings from synfuel projects	(17)	(29)
Other	2	4
Unusual items	19	69
	<u>\$</u>	<u>\$ 85</u>

The following after-tax items, which management considers unusual, had a significant impact on Supply segment earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Sale of Sundance plant (Note 8)				\$ (47)
Sale of interest in the Griffith plant (Note 8)			\$ (17)	
Reduction in Enron reserve (Note 2)			11	
Off-site remediation of ash basin leak (Note 11)	\$ (19)		6	(19)
Settlement of NorthWestern litigation				(6)
Impairment of synfuel- related assets (Note 11)			(6)	
Acceleration of stock-based compensation expense for periods prior to 2005 (Note 9)				(3)
Total	<u>\$ (19)</u>		<u>\$ (6)</u>	<u>\$ (75)</u>

- See "Domestic Gross Energy Margins" for an explanation of non-trading margins by geographic region and for an explanation of net energy trading margins.
 - Higher operation and maintenance expenses for the three months ended September 30, 2006, compared with the same period in 2005, were primarily due to the timing of outages at the Susquehanna nuclear station and other generating stations. Higher operation and maintenance expenses for the nine months ended September 30, 2006, compared with the same period in 2005, were primarily due to increased outage and non-outage expenses at the Susquehanna station, two forced outages at the Brunner Island plant and the timing of other planned outages.
 - The decline in earnings contribution from synfuel projects for the three months ended September 30, 2006, compared with the same period in 2005, resulted primarily from unrealized losses on options purchased to hedge a portion of the risk associated with the phase-out of the synthetic fuel tax credits for 2006 and 2007, partially offset by lower operating losses due to lower production levels. The decline for the nine months ended September 30, 2006, compared with the same period in 2005, was primarily due to the anticipated phase-out of synthetic fuel tax credits starting in 2006 and lower production levels.
- In June 2006, based upon observed and forecasted higher crude oil prices and projected cash flows, PPL Energy Supply fully impaired its synfuel-related assets. This adjustment decreased earnings by \$6 million after tax.
- In May 2005, a subsidiary of PPL Energy Supply completed the sale of its 450 MW Sundance power plant located in Pinal County, Arizona to Arizona Public Service Company for \$190 million in cash. The subsidiary recorded a loss on the sale of \$47 million after tax.
 - In June 2006, a subsidiary of PPL Energy Supply completed the sale of its 50% ownership interest in the 600 MW Griffith power plant located in Kingman, Arizona, for \$115 million in cash. The subsidiary recorded a loss on the sale of \$24 million after tax. Another subsidiary of PPL Energy Supply recorded the acceleration of net unrealized gains on derivatives associated with the plant of \$7 million after tax.
 - In the third quarter of 2005, PPL Energy Supply recognized a charge of \$22 million after tax in connection with the on-site and off-site costs related to the Martins Creek ash basin leak remediation. An additional charge of \$9 million after tax was recorded in the fourth quarter of 2005. In 2006, PPL Energy Supply reduced its estimate of the costs for the Martins Creek ash basin leak remediation. This adjustment increased earnings by \$6 million after tax. Most of the reduction was related to an insurance claim settlement. PPL Energy Supply cannot predict the final costs to be incurred as a result of this matter.

- In the first and second quarters of 2006, PPL Energy Supply decreased its reserve on claims related to the Enron bankruptcy. These adjustments increased earnings by \$11 million after tax.
- In the first quarter of 2005, PPL Energy Supply recognized a charge of \$6 million after tax for a loss contingency related to the litigation with NorthWestern. In September 2005, PPL Energy Supply and NorthWestern reached a final agreement to settle this litigation.

Outlook

PPL Energy Supply is projecting higher energy margins for its Supply segment in 2006 compared with 2005. This increase is primarily driven by an 8.4% increase in PLR sale prices as well as higher prices for wholesale electricity sales and higher hydroelectric generation output in the eastern and western U.S. These benefits are expected to be partially offset by increased fuel and fuel transportation expenses, higher operation and maintenance expenses and reduced earnings from synfuel projects. See "Regulatory Issues - IRS Synthetic Fuels Tax Credits" in Note 11 to the Financial Statements for a discussion of the tax credits that PPL Energy Supply has earned in connection with its synfuel projects and the impact of higher oil prices on future tax credits.

International Delivery Segment

The International Delivery segment includes operations of the international energy businesses of PPL Global that are primarily focused on the distribution of electricity. Substantially all of PPL Global's international businesses are located in the U.K., Chile, El Salvador and Bolivia.

International Delivery segment net income was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Utility revenues	\$ 301	\$ 264	\$ 934	\$ 841
Energy-related businesses	19	19	64	56
Total operating revenues	320	283	998	897
Energy purchases	86	69	250	197
Other operation and maintenance	70	56	204	180
Depreciation	36	41	118	117
Taxes, other than income	15	15	42	44
Energy-related businesses	8	7	27	20
Total operating expenses	215	188	641	558
Other Income - net	10	3	35	10
Interest Expense	54	50	153	152
Income Taxes	(2)	11	13	41
Minority Interest	4	1	7	4
Total	\$ 59	\$ 36	\$ 219	\$ 152

The after-tax change in net income was due to the following factors.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
U.K.		
Delivery margins	\$ 3	\$ 30
Operating expenses	(6)	(20)
Income taxes		22
Impact of changes in foreign currency exchange rates	2	(9)
Impairment of investment in U.K. real estate (Note 8)		(6)
Gain on transfer of equity investment (Note 8)	5	5
Hyder liquidation distribution (Note 8)	3	27
Other		3
Latin America		
Delivery margins	4	7
Operation and maintenance expenses	4	2
Income taxes	9	9
Impact of changes in foreign currency exchange rates	1	3
Other	(3)	1
U.S. income taxes	1	(9)
Other		1
Unusual item - collection of receivable from Enron		1
	\$ 23	\$ 67

- The U.K.'s earnings were positively impacted by higher margins, primarily due to price increases and 1% higher sales volumes for the nine months ended September 30, 2006, compared with the same period in 2005.
- In 2006, WPD has credited income for \$27 million after tax for distributions received from the planned ongoing liquidation of Hyder's non-electricity delivery businesses. PPL Energy Supply does not expect income from the sale or liquidation of Hyder's non-electricity delivery businesses to continue at the same level in 2007 as occurred in 2006.
- Higher operating expenses in the U.K. for the nine months ended September 30, 2006, compared with the same period in 2005, were attributable to higher depreciation, partially due to a reduction in meter lives in 2005, and higher pension costs at WPD.
- Changes in foreign exchange rates increased WPD's portion of revenue and expense line items by 4% during the three months ended September 30, 2006, and decreased them by 4% during the nine months ended September 30, 2006, compared with the same periods in 2005.
- Lower U.K. income taxes in 2006, compared with the same period in 2005, were primarily due to the transfer of a future tax liability from WPD and certain surplus tax losses from Hyder to a former Hyder affiliate. See Note 5 to the Financial Statements for additional information.

Latin America earnings were positively impacted in both periods, primarily due to higher margins due to a 7% increase in sales volumes and accounting adjustments related to Chilean deferred taxes and depreciation for prior periods. See Note 3 to the Financial Statements for additional information on the accounting adjustments.

Outlook

PPL Energy Supply projects that the International Delivery segment will have higher earnings in 2006 compared with 2005, reflecting the same factors that affected this segment's earnings in the first nine months of 2006.

Statement of Income Analysis --

Domestic Gross Energy Margins

The following table provides pre-tax changes in the income statement line items that comprise domestic gross energy margins.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Wholesale energy marketing	\$ 110	\$ 299
Wholesale energy marketing to affiliate	30	92
Unregulated retail electric	(2)	(5)
Net energy trading margins	(4)	(7)
Other revenue adjustments (a)	7	7
Total revenues	141	386
Fuel	(23)	(5)
Energy purchases	165	325
Energy purchases from affiliate		8
Other cost adjustments (a)	(7)	(59)
Total cost of sales	135	269
Domestic gross energy margins	\$ 6	\$ 117

(a) Adjusted to exclude the impact of any revenues and costs not associated with domestic gross energy margins. This includes revenues and energy costs related to the international operations of PPL Global. Also adjusted to include the margins of the Griffith and Sundance plants prior to their sales in June 2006 and May 2005, which are included in "Loss (Income) from Discontinued Operations," and gains or losses on sales of emission allowances, which are included in "Other operation and maintenance" expenses on the Statements of Income.

Changes in Domestic Gross Energy Margins By Region

Domestic gross energy margins are generated through PPL Energy Supply's hedging (non-trading) activities, as well as trading activities. PPL Energy Supply manages its non-trading energy business on a geographic basis that is aligned with its generation assets. Additionally, beginning in 2006, PPL Energy Supply further segregates non-trading activities into two categories: non-trading hedge activity and non-trading economic activity. Non-trading economic activity represents the net unrealized effect of derivative transactions that are entered into as economic hedges, but do not qualify for hedge accounting under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted.

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
Non-trading		
Eastern U.S.	\$ 28	\$ 96
Northwestern U.S.	(10)	24
Southwestern U.S.	(7)	(6)
Net energy trading	(5)	3
Domestic gross energy margins	\$ 6	\$ 117

Eastern U.S.

Eastern U.S. non-trading margins were higher in the three and nine months ended September 30, 2006, compared with the same periods in 2005, primarily because of an 8.4% increase in PLR sale prices in accordance with the schedule established by the PUC Final Order. Also contributing to the increase in third quarter margins were higher net wholesale prices. Partially offsetting these improvements was lower coal generation of 8%. Also contributing to the increase in year-to-date margins were higher net wholesale prices, partially offset by lower nuclear generation of 3% as well as higher coal prices, which were up 16%.

Additionally, non-trading margins included an unrealized loss of \$21 million and \$25 million for the three and nine months ended September 30, 2006, primarily due to commodity price movements on forward energy contracts used to economically hedge wholesale marketing activities. These forward contracts were not in place in 2005.

Northwestern U.S.

Northwestern U.S. non-trading margins were lower in the third quarter of 2006, compared with the same period in 2005, primarily due to lower hydroelectric and coal generation output. Hydroelectric generation output decreased 11%, while coal generation decreased 7%. Also contributing to the lower margins were higher wholesale power purchases.

Northwestern U.S. non-trading margins were higher for the nine months ended September 30, 2006, compared with the same period in 2005, primarily due to higher wholesale revenue prices. Also contributing was an 11% increase in hydroelectric generation output. Partially offsetting these improvements were higher coal prices, which were up 18%.

Southwestern U.S.

Southwestern U.S. non-trading margins were lower for the three and nine months ended September 30, 2006, compared with the same periods in 2005, due to the sale of the Griffith plant in June 2006. See Note 8 to the Financial Statements for additional information.

Net Energy Trading

PPL Energy Supply enters into certain energy contracts that meet the criteria of trading derivatives as defined by EITF Issue 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." These physical and financial contracts cover trading activity associated with electricity, gas and oil.

Net energy trading margins decreased by \$5 million in the third quarter of 2006, compared with the same period in 2005. This decrease was primarily due to unrealized losses associated with gas trading activity.

Net energy trading margins increased by \$3 million for the nine months ended September 30, 2006, compared with the same period in 2005. This increase was primarily due to unrealized gains associated with gas trading activity.

The amount of energy trading margins from unrealized transactions was a \$3 million loss in the third quarter of 2006, compared with a \$2 million gain in the same period in 2005. The amount of energy trading margins from unrealized transactions was a \$9 million gain for the nine months ended September 30, 2006, compared with a \$2 million gain in the same period in 2005.

The physical volumes for electricity and gas associated with energy trading for the three months ended September 30, 2006, were 1,730 GWh and 5.1 Bcf, compared with 1,457 GWh and 2.2 Bcf in the same period last year. The physical volumes for electricity and gas associated with energy trading for the nine months ended September 30, 2006, were 5,509 GWh and 14.5 Bcf, compared with 3,722 GWh and 9.7 Bcf in the same period last year.

Utility Revenues

The increases in utility revenues were attributable to:

	Sept. 30, 2006 vs. Sept. 30, 2005	
	Three Months Ended	Nine Months Ended
International:		
Retail electric delivery (PPL Global)		
U.K.	\$ 5	\$ 42
Chile	12	33
El Salvador	8	15
Bolivia	1	4
Foreign currency exchange rates	11	(1)
	<u>\$ 37</u>	<u>\$ 93</u>

The increases in utility revenues, excluding foreign currency exchange rates impacts, for both periods were primarily due to:

- higher average prices overall and an increase of 1% in sales volumes in the U.K. for the nine months ended September 30, 2006, compared with the same period in 2005, partially offset by a 2% decrease in sales volumes for the three months ended September 30, 2006, compared with the same period in 2005;
- increases of 7% in Chilean electric delivery sales volumes and higher average prices overall; and
- increases of 8% in electric delivery sales volumes in El Salvador and higher average prices overall.

Energy-related Businesses

Energy-related businesses contributed \$20 million less to operating income for the three months ended September 30, 2006, compared with the same period in 2005. The decrease was primarily attributable to \$24 million of lower pre-tax contributions from synfuel projects. This reflects:

- a \$36 million net unrealized loss on options purchased to hedge a portion of the risk associated with the phase-out of the synthetic fuel tax credits for 2006 and 2007; partially offset by
- \$12 million of lower operating losses due to lower production levels.

Energy-related businesses contributed \$22 million more to operating income for the nine months ended September 30, 2006, compared with the same period in 2005. The increase was primarily attributable to \$18 million of higher pre-tax contributions from synfuel projects. This reflects:

- a \$6 million net unrealized gain on options purchased to hedge a portion of the risk associated with the phase-out of the synthetic fuel tax credits for 2006 and 2007; and
- \$22 million of lower operating losses due to lower production levels; partially offset by
- an impairment charge of \$10 million on the synfuel-related assets.

See Note 11 to the Financial Statements for an overall assessment of synthetic fuel tax credits and a further discussion of the impairment of these facilities.

Other Operation and Maintenance

The changes in other operation and maintenance expenses were due to:

Sept. 30, 2006 vs. Sept. 30, 2005

	Three Months Ended	Nine Months Ended
Martins Creek ash basin remediation adjustment (Note 11)	\$ (33)	\$ (22)
Reduction in Enron reserve (Note 2)		(19)
Accelerated amortization of stock-based compensation in 2005 (Note 9)		(13)
NorthWestern litigation accrual in March 2005		(9)
Stock-based compensation (Note 9)		(5)
Susquehanna plant refueling and inspection costs	4	16
Outage costs at Martins Creek and Brunner Island plants	3	11
Change in allocation of corporate service costs (Note 12)	5	12
Increase in domestic and international pension and postretirement costs	7	13
Increase in international operation and maintenance expenses	7	13
Union contract ratification bonus	2	2
Change in foreign currency exchange rates	2	
Other	3	(2)
	<u>\$</u>	<u>\$</u>

Depreciation

The changes in depreciation expense were due to:

Sept. 30, 2006 vs. Sept. 30, 2005

	Three Months Ended	Nine Months Ended
Additions to PP&E	\$ 1	\$ 10
Reduction of useful lives of certain distribution assets		3
Changes in foreign currency exchange rates	2	(2)
Extension of useful lives of certain generation assets		(2)
Chilean depreciation accounting adjustment (Note 3)	(7)	(7)
Other	1	2
	<u>\$</u>	<u>\$</u>

Other Income - net

See Note 13 to the Financial Statements for details of other income.

Interest Expense

The changes in interest expense, which includes "Interest Expense with Affiliates," were due to:

Sept. 30, 2006 vs. Sept. 30, 2005

	Three Months Ended	Nine Months Ended
Increase in long-term debt interest expense	\$ 17	\$ 28
Decrease in interest expense with affiliates	(2)	(9)
Increase in capitalized interest	(5)	(10)
Write-off in 2005 of financing costs associated with PPL Energy Supply's 2.625% Convertible Notes due to the market trigger price being met	(6)	(6)
Change in foreign currency exchange rates	1	(3)
Decrease in short-term debt interest expense	(1)	(4)
Other	1	(1)
	<u>\$</u>	<u>\$</u>

Income Taxes

The changes in income taxes were due to:

Sept. 30, 2006 vs. Sept. 30, 2005

	Three Months Ended	Nine Months Ended
Higher pre-tax book income	\$ 10	\$ 85
Reduction in tax benefits related to nonconventional fuel tax credits	2	42
Decrease in tax expense on foreign earnings	(8)	(8)
Chilean deferred tax accounting adjustment (Note 3)	(9)	(9)
Transfer of WPD tax items in 2006 (Note 5)		(20)
Other	(1)	1
	<u>\$</u>	<u>\$</u>

See Note 5 to the Financial Statements for details on effective income tax rates.

Discontinued Operations

In the second quarter of 2006, PPL Energy Supply recorded a \$24 million loss on the sale of its ownership interest in the Griffith plant, which is net of a tax benefit of \$16 million. The "Loss (Income) from Discontinued Operations" also includes the acceleration of net unrealized gains on derivatives associated with the Griffith plant of \$7 million after tax.

In the second quarter of 2005, PPL Energy Supply reported a \$47 million loss, which is net of a tax benefit of \$26 million, in connection with the sale of its Sundance power plant.

See "Discontinued Operations" in Note 8 to the Financial Statements for information on these sales, along with information regarding operating income (losses) recorded in 2006 and 2005 for the Griffith plant prior to the sale and for operating losses recorded in 2005 prior to the Sundance sale.

Financial Condition**Liquidity and Capital Resources**

At September 30, 2006, PPL Energy Supply had \$589 million of cash, cash equivalents and short-term investments and \$1 million of short-term debt. At December 31, 2005, PPL

Energy Supply had \$260 million of cash, cash equivalents and short-term investments and \$180 million of short-term debt (including a note payable to an affiliate). The \$329 million increase in PPL Energy Supply's cash, cash equivalents and short-term investments position was primarily the net result of:

- \$897 million of cash provided by operating activities;
- the issuance of \$800 million of long-term debt;
- contributions from Member of \$116 million; and
- \$115 million of proceeds from the sale of PPL Energy Supply's interest in the Griffith plant; offset by
- \$584 million of capital expenditures (including \$6 million to purchase equipment previously leased);
- distributions to Member of \$651 million;
- the retirement of \$144 million of long-term debt;
- a net decrease in short-term debt (including a note payable to an affiliate) of \$180 million (excluding the impact of foreign currency translation adjustments); and
- \$26 million of net purchases of emission allowances.

Leases

In September 2006, PPL's subsidiaries terminated the master lease agreements under which they leased equipment, such as vehicles, computers and office equipment. In addition, PPL and its subsidiaries purchased the equipment from the lessors at a negotiated price. Accordingly, these master lease agreements are no longer available as a source of financing. Prior to the buyout, PPL Energy Supply had been directly charged or allocated a portion of the lease expense related to the equipment it utilized. In connection with the buyout, ownership of the purchased equipment was reviewed and attributed to PPL subsidiaries based on usage of the equipment. As a result, PPL Energy Supply increased "Property, Plant and Equipment" on the Balance Sheet by \$27 million for its portion of the purchased equipment. As of September 30, 2006, PPL Energy Supply had paid \$6 million and the remaining \$21 million in payables are expected to be settled during the fourth quarter of 2006.

The "Contractual Obligations" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2005 Form 10-K included \$42 million in obligations related to these leases.

Convertible Senior Notes

The terms of PPL Energy Supply's 2.625% Convertible Senior Notes due 2023 include a market price trigger that permits holders to convert the notes during any fiscal quarter if the closing sale price of PPL's common stock exceeds \$29.83 for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. This market price trigger was met in the first, second and third quarters of 2006. Therefore, holders of the Convertible Senior Notes were entitled to convert their notes at any time during the second and third quarters of 2006 and are also entitled to convert their notes any time during the fourth quarter of 2006.

When holders elect to convert the Convertible Senior Notes, PPL Energy Supply is required to settle the principal amount in cash and any conversion premium in cash or PPL common stock.

During the nine months ended September 30, 2006, Convertible Senior Notes in an aggregate principal amount of \$39 million were presented for conversion. The total conversion premium related to these conversions was \$11 million, which was settled with 348,465 shares of PPL common stock along with an insignificant amount of cash in lieu of fractional shares. After such conversions, PPL Energy Supply has approximately \$361 million of Convertible Senior Notes that can be presented for conversion in the fourth quarter of 2006. PPL and PPL Energy Supply have, and expect to continue to have, access to sufficient liquidity sources to fund any future conversions.

Credit Facilities

In March 2006, PPL Energy Supply extended the expiration date of its 364-day reimbursement agreement, under which it can cause the bank to issue up to \$200 million of letters of credit, to March 2007. In June 2006, PPL Energy Supply entered into a \$1.9 billion Amended and Restated Five-Year Credit Agreement, which expires in June 2011. This credit agreement amended, restated and combined into one credit facility the following three five-year credit facilities of PPL Energy Supply: the \$800 million facility expiring in June 2010, the \$600 million facility expiring in June 2010 and the \$500 million facility expiring in December 2010.

WPD (South West)'s £100 million 364-day credit facility expired in October 2006 and is expected to be renewed in November 2006.

Debt Financings

PPL Energy Supply issued \$300 million of 6.20% Senior Notes due 2016 (6.20% Notes) in May 2006 and issued an additional \$150 million of the 6.20% Notes in July 2006. The 6.20% Notes may be redeemed at any time prior to maturity at PPL Energy Supply's option at make-whole redemption prices. In July 2006, PPL Energy Supply also issued \$250 million of 7% Senior Notes due 2046 (7% Notes). The 7% Notes are not subject to redemption prior to July 15, 2011. On or after July 15, 2011, PPL Energy Supply may, at its option, redeem the 7% Notes, in whole or in part, at par. Proceeds from the sale of both the 6.20% Notes and 7% Notes were used for capital expenditures, including expenditures relating to PPL Energy Supply's installation of pollution control equipment at two of its coal-fired power plants in Pennsylvania, and for general corporate purposes.

In July 2006, Emel issued 3 million UF (inflation-indexed Chilean Pesos) denominated bonds in two series (\$101 million at then-current exchange rates). The first series consists of 1 million UF denominated bonds that mature in 2011, are callable at par on or after June 1, 2009, and bear interest at

3.75%. The second series consists of 2 million UF denominated bonds with serial maturities from 2021 through 2027, which are callable on or after June 1, 2014, at a specified calculated value on the call date and bear interest at 4.50%. The proceeds were used to pay Emel's 3 million UF denominated bond maturity in August 2006.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the credit-worthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by these agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In March 2006, Moody's reviewed the credit ratings of PPL Energy Supply and concluded that its ratings remain unchanged.

In February 2006, Fitch's Europe, Middle East and Africa group implemented issuer default ratings (IDRs) based on its new IDR methodology. This implementation led to Fitch's assignment of the following IDRs and Fitch's revision of its ratings on the following securities currently outstanding at WPD and its affiliates:

- WPDH Limited IDR of BBB- and senior unsecured rating to BBB from BBB-;
- WPD LLP IDR of BBB, senior unsecured rating to BBB+ from BBB and preferred stock rating to BBB from BBB-; and
- WPD (South Wales) and WPD (South West) IDR of BBB+ and senior unsecured debt rating to A- from BBB+.

Fitch's outlook for WPD and its affiliates remains stable.

Capital Expenditures

The schedule below shows PPL Energy Supply's capital expenditure projections as of September 30, 2006, for the years 2006 through 2010.

	Projected				
	2006	2007	2008	2009	2010
Construction expenditures (a)					
Generating facilities	\$ 296	\$ 241	\$ 186	\$ 296	\$ 295
Transmission and distribution facilities	289	289	290	298	310
Environmental	340	582	378	125	75
Other	43	50	13	10	8
Total Construction Expenditures	968	1,162	867	729	688
Nuclear fuel	79	92	97	97	99
Total Capital Expenditures	<u>\$ 1,047</u>	<u>\$ 1,254</u>	<u>\$ 964</u>	<u>\$ 826</u>	<u>\$ 787</u>

(a) Construction expenditures include AFUDC and capitalized interest, which are expected to be \$147 million for the 2006-2010 period.

PPL Energy Supply's capital expenditure projections for the years 2006-2010 total \$4.9 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The above schedule has been revised from that which was presented in PPL Energy Supply's 2005 Form 10-K, primarily to reflect the installation costs of cooling towers at the Brunner Island plant, the expansion of the Holtwood hydroelectric plant and the purchase of equipment previously leased under master lease agreements. See Notes 11, 8 and 2 to the Financial Statements for additional information.

PPL Energy Supply plans to fund all of its capital expenditures in 2006 with cash on hand, cash from operations and the issuance of debt securities.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2005 Form 10-K.

Risk Management - Energy Marketing & Trading and Other

Market Risk

Commodity Price Risk (Non-Trading)

PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2012. PPL Energy Supply segregates its non-trading activities as either hedge or economic. Transactions that are accounted for as hedge activity qualify for special hedge accounting treatment under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The non-trading economic category includes transactions that address a specific risk, but are not eligible for hedge accounting or hedge accounting is not elected. Included in the non-trading economic category are certain load-following energy

obligations and related supply contracts, financial transmission rights, crude oil swaps to hedge rail transportation charges and hedges of synthetic fuel tax credits. The fair value of these non-trading economic contracts as of September 30, 2006, including net premiums on related options, was \$10 million. The following chart sets forth PPL Energy Supply's net fair value of the non-trading contracts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Fair value of contracts outstanding at the beginning of the period	\$ (95)	\$ (127)	\$ (278)	\$ (9)
Contracts realized or otherwise settled during the period	(5)	(9)		(33)
Fair value of new contracts at inception	(27)	9	(27)	22
Other changes in fair values	21	(145)	199	(252)
Fair value of contracts outstanding at the end of the period	<u>\$ (106)</u>	<u>\$ (272)</u>	<u>\$ (106)</u>	<u>\$ (272)</u>

Beginning in January 2006, PPL Energy Supply implemented a program to hedge its exposures to changes in market prices of certain metals necessary for the scrubbers PPL Energy Supply is installing at the Brunner Island and Montour generating plants. These contracts, which qualify for cash flow hedge treatment, were designated as hedges in March 2006 and their fair values are included in the table above.

The following chart segregates estimated fair values of PPL Energy Supply's non-trading commodity derivative contracts at September 30, 2006, based on whether the fair values are determined by quoted market prices or other more subjective means.

Source of Fair Value	Fair Value of Contracts at Period-End Gains (Losses)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices actively quoted	\$ (3)	\$ 2	\$ 4	\$ 1	\$ 4
Prices provided by other external sources	(38)	(174)	(6)	3	(215)
Prices based on models and other valuation methods	43	62			105
Fair value of contracts outstanding at the end of the period	<u>\$ 2</u>	<u>\$ (110)</u>	<u>\$ (2)</u>	<u>\$ 4</u>	<u>\$ (106)</u>

The "Prices actively quoted" category includes the fair value of exchange-traded natural gas futures contracts quoted on the NYMEX. The NYMEX has currently quoted prices through 2011.

The "Prices provided by other external sources" category includes PPL Energy Supply's forward positions and options in

natural gas and power and natural gas basis swaps at points for which over-the-counter (OTC) broker quotes are available. The fair value of electricity positions recorded above use the midpoint of the bid/ask spreads obtained through OTC brokers. On average, OTC quotes for forwards and swaps of natural gas and power extend one and two years into the future.

The "Prices based on models and other valuation methods" category includes the value of transactions for which an internally developed price curve was constructed as a result of the long-dated nature of the transaction or the illiquidity of the market point, or the value of options not quoted by an exchange or OTC broker. This category reflects the fair value of transactions completed in auction markets, where contract prices represent the market value for load-following, bundled energy prices delivered at specific, illiquid delivery points. The transaction prices associated with the contracts did not equal the wholesale bilateral market prices at inception (Day 1). However, EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," does not generally permit Day 1 gains and losses to be recognized unless the fair value is derived principally from observable market inputs. Therefore, PPL Energy Supply recorded a reserve for the modeled Day 1 gain, which is netted against the above fair values.

As of September 30, 2006, PPL Energy Supply estimated that a 10% adverse movement in market prices across all geographic areas and time periods, excluding the effect of any commodity price correlations, would have decreased the value of the commodity contracts in its non-trading portfolio by \$332 million. For purposes of this calculation, an increase in the market price for electricity is considered an adverse movement because PPL Energy Supply's electricity portfolio is generally in a net sales position, and the decrease in the market price for fuel is considered an adverse movement because PPL Energy Supply's commodity fuels portfolio is generally in a net purchase position. PPL Energy Supply enters into these commodity contracts to reduce the market risk inherent in the generation of electricity.

In accordance with its marketing strategy, PPL Energy Supply does not completely hedge its generation output or fuel requirements. PPL Energy Supply estimates that for its entire portfolio, including all generation, emissions and physical and financial energy positions, a 10% adverse change in power prices across all geographic zones and time periods would decrease expected 2006 gross margins by \$5 million. Similarly, a 10% adverse movement in all fossil fuel prices would decrease 2006 gross margins by \$45 million.

The data in the above tables includes the activity for PPL Energy Supply's synthetic fuel tax credit hedges. Additional information regarding these hedges can be found in the "Synthetic Fuel Tax Credit Risk" section below.

Commodity Price Risk (Trading)

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The margins from these trading activities are shown in the Statements of Income as "Net energy trading margins."

PPL Energy Supply's trading contracts mature at various times through 2009. The following chart sets forth PPL Energy Supply's net fair value of trading contracts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Fair value of contracts outstanding at the beginning of the period	\$ 19	\$ 11	\$ 5	\$ 9
Contracts realized or otherwise settled during the period	20	(10)	2	(16)
Fair value of new contracts at inception	(16)	(2)	(13)	2
Other changes in fair values	6	11	35	15
Fair value of contracts outstanding at the end of the period	<u>\$ 29</u>	<u>\$ 10</u>	<u>\$ 29</u>	<u>\$ 10</u>

PPL Energy Supply will reverse \$18 million of the \$29 million unrealized trading gains over the next three months of 2006 as the transactions are realized.

The following chart segregates estimated fair values of PPL Energy Supply's trading portfolio at September 30, 2006, based on whether the fair values are determined by quoted market prices or other more subjective means.

Source of Fair Value	Fair Value of Contracts at Period-End Gains (Losses)				Total Fair Value
	Maturity Less Than 1 year	Maturity 1-3 years	Maturity 4-5 years	Maturity in Excess of 5 Years	
Prices actively quoted	\$ (1)	\$ (1)	\$ 1		\$ (1)
Prices provided by other external sources	12	4			16
Prices based on models and other valuation methods	4	10			14
Fair value of contracts outstanding at the end of the period	<u>\$ 15</u>	<u>\$ 13</u>	<u>\$ 1</u>		<u>\$ 29</u>

See "Commodity Price Risk (Non-trading)" for information on the various sources of fair value.

As of September 30, 2006, PPL Energy Supply estimated that a 10% adverse movement in market prices across all geographic areas and time periods, excluding the effect of any

commodity price correlations, would have decreased the value of the commodity contracts in its trading portfolio by \$25 million.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations, which increases their interest expense risk. Both PPL and PPL Energy Supply manage interest rate risk for PPL Energy Supply by using various financial derivative products to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in treasury rates (and interest rate spreads over treasuries) in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2006, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was \$2 million.

PPL Energy Supply is also exposed to changes in the fair value of its domestic and international debt portfolios. At September 30, 2006, PPL Energy Supply estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was \$194 million.

PPL and PPL Energy Supply utilize various risk management instruments to reduce PPL Energy Supply's exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL Energy Supply is exposed to changes in the fair value of these instruments, any changes in the fair value of these instruments are recorded in equity and then reclassified into earnings in the same period during which the item being hedged affects earnings. At September 30, 2006, the market value of these instruments, representing the amount PPL Energy Supply would receive upon their termination, was \$30 million. At September 30, 2006, PPL Energy Supply estimated that its potential exposure to a change in the fair value of these instruments, through a 10% adverse movement in the hedged exposure, was \$29 million.

PPL and PPL Energy Supply also utilize various risk management instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio. While PPL Energy Supply is exposed to changes in the fair value of these instruments, any change in market value is recorded with an equal and offsetting change in the value of the debt being hedged. At September 30, 2006, PPL Energy Supply estimated that its potential additional exposure to a change in the fair value of these instruments, through a 10% adverse movement in interest rates, was \$1 million.

Foreign Currency Risk

PPL Energy Supply is exposed to foreign currency risk, primarily through investments in affiliates in the U.K. and Latin America. In addition, PPL Energy Supply may make purchases of equipment in currencies other than U.S. dollars.

PPL and PPL Energy Supply have adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities and net investments. In addition, PPL and PPL Energy Supply enter into financial instruments to protect against foreign currency translation risk of expected earnings.

To protect 2006 expected income in Chilean pesos, PPL Energy Supply entered into an average rate forward for 8 billion Chilean pesos. The settlement date of this forward is November 2006. At September 30, 2006, the market value of this position, representing the amount PPL Energy Supply would receive upon its termination, was insignificant. PPL Energy Supply estimated that its potential additional exposure to a change in the market value of this instrument, through a 10% adverse movement in foreign currency exchange rates, was insignificant at September 30, 2006.

To protect 2006 expected income denominated in British pounds sterling, PPL entered into a combination of average rate forwards and average rate options for £88 million. In connection with these transactions, PPL Energy Supply entered into average rate forwards and average rate options with PPL that have terms identical to those executed by PPL. These forwards and options terminate in November 2006. At September 30, 2006, the market value of these positions, representing the amount PPL Energy Supply would pay upon their termination, was \$1 million. PPL Energy Supply estimated that its potential additional exposure to a change in the market value of these instruments, through a 10% adverse movement in foreign currency exchange rates, was \$1 million at September 30, 2006.

WPDH Limited holds a net position in cross-currency swaps totaling \$1.1 billion to hedge the interest payments and value of its U.S. dollar-denominated bonds with maturity dates ranging from December 2006 to December 2028. The estimated value of this position at September 30, 2006, being the amount PPL Energy Supply would pay to terminate it, including accrued interest, was \$260 million. PPL Energy Supply estimated that its potential additional exposure to a change in the market value of these instruments, through a 10% adverse movement in foreign currency exchange rates, was \$146 million at September 30, 2006.

On the Statements of Income, gains and losses associated with hedges of interest payments denominated in foreign currencies are reflected in "Interest Expense." Gains and losses associated with the purchase of equipment are reflected in "Depreciation." Gains and losses associated with net investment hedges remain in accumulated other comprehensive

loss, a component of "Member's Equity" on the Balance Sheets, until the investment is sold or substantially liquidated.

Nuclear Decommissioning Trust Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna station. As of September 30, 2006, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns to be used to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities in the trusts are exposed to changes in interest rates. PPL Susquehanna actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At September 30, 2006, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$34 million reduction in the fair value of the trust assets. See Note 21 in PPL Energy Supply's 2005 Form 10-K for more information regarding the nuclear decommissioning trust funds.

Synthetic Fuel Tax Credit Risk

At this time, PPL Energy Supply expects that the current high level and the volatility of crude oil prices will reduce the amount of synthetic fuel tax credits that PPL Energy Supply receives through its synthetic fuel production. The tax credits are reduced if the annual average wellhead price of domestic crude oil falls within a phase-out range. The tax credits are eliminated if this reference price exceeds the phase-out range. See "Regulatory Issues - IRS Synthetic Fuels Tax Credits" in Note 11 to the Financial Statements for more information regarding the phase-out of the tax credits and shutdown of synfuel projects.

PPL Energy Supply implemented a risk management strategy to hedge a portion of the variability of cash flows associated with its 2006 and 2007 synthetic fuel tax credits by hedging the risk that the 2006 and 2007 annual average wellhead price for domestic crude oil will be within the phase-out range.

PPL Energy Supply has options to mitigate some of the reductions in synthetic fuel tax credits if the annual average wellhead price for 2006 and 2007 falls within the applicable phase-out range. These positions did not qualify for hedge accounting treatment. The mark-to-market value of these positions at September 30, 2006, was a gain of \$33 million. A loss of \$24 million was recorded during the three months ended September 30, 2006, and a gain of \$23 million was recorded during the nine months ended September 30, 2006. This compares to gains of \$17 million and \$22 million recorded during the same periods in 2005. These amounts are

reflected in "Energy-related businesses" revenues on the Statements of Income.

As of September 30, 2006, PPL Energy Supply estimated that a 10% adverse movement in market prices of crude oil would have decreased the value of the synthetic fuel hedges by \$21 million. For purposes of this calculation, a decrease in the market price for crude oil is considered an adverse movement.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Energy Supply.

For additional information on related party transactions, see Note 12 to the Financial Statements.

Acquisitions, Development and Divestitures

From time to time, PPL Energy Supply and its subsidiaries are involved in negotiations with third parties regarding acquisitions and dispositions of businesses and assets, joint ventures and development projects, which may or may not result in definitive agreements. Any such transactions may impact future financial results. See Note 8 to the Financial Statements for information regarding recent transactions.

PPL Energy Supply is currently planning incremental capacity increases of 395 MW at several existing domestic generating facilities. Offsetting this increase is an expected 30 MW reduction in generation capability at each of the Brunner Island and Montour plants, due to the estimated increases in station service usage during the scrubber operation. See Note 11 for additional information, as well as information regarding the shut down of two 150 MW generating units at PPL Martins Creek.

PPL Energy Supply is continuously reexamining development projects based on market conditions and other factors to determine whether to proceed with these projects, sell them, cancel them, expand them, execute tolling agreements or pursue other opportunities.

Environmental Matters

See Note 11 to the Financial Statements for a discussion of environmental matters.

New Accounting Standards

See Note 18 to the Financial Statements for a discussion of new accounting standards recently adopted or pending adoption.

Application of Critical Accounting Policies

PPL Energy Supply's financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations of PPL Energy Supply, and require estimates or other judgments of matters inherently uncertain: price risk management, pension and other postretirement benefits, asset impairment, leasing, loss accruals and asset retirement obligations.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2005 Form 10-K for a discussion of each critical accounting policy. PPL's senior management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with its Audit Committee. In addition, PPL's senior management reviewed the Form 10-K disclosures regarding the application of these critical accounting policies with the Audit Committee.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." PPL Energy Supply and its subsidiaries will adopt the recognition provisions of SFAS 158 prospectively, as of December 31, 2006. See Note 18 to the Financial Statements for a more detailed discussion of this new accounting standard.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

PPL Electric provides electricity delivery service in eastern and central Pennsylvania. Its headquarters are in Allentown, PA. In PPL Electric's 2005 Form 10-K, a description of its business is found in "Item 1. Business - Background" and an overview of its strategy and the risks and the challenges that it faces in its business are discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview." See "Forward-Looking Information," Note 11 to the Financial Statements and the rest of this Item 2 in this Form 10-Q and "Item 1A. Risk Factors" and the rest of Item 7 in PPL Electric's 2005 Form 10-K for more information concerning the material risks and uncertainties that PPL Electric faces in its business and with respect to its future earnings.

The following information should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and in conjunction with PPL Electric's 2005 Form 10-K.

Terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

Results of Operations

The following discussion, which explains significant changes in principal items on PPL Electric's Statements of Income, compares the three and nine months ended September 30, 2006, with the same periods in 2005.

The Statements of Income reflect the results of past operations and are not intended as any indication of future operating results. Future operating results will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods do not necessarily indicate results or trends for the year.

Earnings

Income available to PPL was as follows:

Three Months Ended September 30,		Nine Months Ended September 30,	
2006	2005	2006	2005
\$ 50	\$ 52	\$ 131	\$ 103

The after-tax change in income available to PPL was due to the following factors.

Sept. 30, 2006 vs. Sept. 30, 2005

	Three Months Ended	Nine Months Ended
Delivery revenues (net of CTC/ITC amortization, interest expense on transition bonds and ancillary charges)	\$ (2)	\$ (4)
Operation and maintenance expenses	(18)	(15)
Other	4	4
Unusual items	14	43
	\$ (2)	\$ 28

The following after-tax items, which management considers unusual, had a significant impact on earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Reversal of cost recovery - Hurricane Isabel (Note 2)	\$ (7)		\$ (7)	
Realization of benefits related to Black Lung Trust assets (Note 10)	21		21	
PJM billing dispute (Note 11)				\$ (27)
Acceleration of stock-based compensation expense for periods prior to 2005 (Note 9)				(2)
Total	\$ 14		\$ 14	\$ (29)

The period-to-period changes in significant earnings components are explained in the "Statement of Income Analysis."

PPL Electric's period-to-period earnings were affected by a number of factors, including:

- As a result of a court's decision, in the third quarter of 2006, PPL Electric recognized an after-tax charge of \$7 million for the reversal of a regulatory asset that was previously recorded to defer restoration costs associated with Hurricane Isabel in September 2003 and record a liability for amounts already billed to customers.
- In the third quarter of 2006, PPL Electric recognized an after-tax credit of \$21 million in connection with the realization of benefits related to the ability to use excess Black Lung Trust assets to make future benefit payments for retired mine workers' medical costs.
- PPL Electric recognized an after-tax charge of \$27 million in the first quarter of 2005 for a loss contingency related to the PJM billing dispute. PPL Electric cannot be certain of the outcome or impact of this matter.
- Higher operation and maintenance expenses in both periods were primarily due to higher tree trimming costs, a union contract ratification bonus and storm costs. The three months

ended September 30, 2005, includes the deferral of the January 2005 ice storm costs as discussed below.

In January 2005, severe ice storms hit PPL Electric's service territory. The total cost of restoring service to 238,000 customers, excluding capitalized costs and regular payroll expenses, was \$16 million.

In August 2005, the PUC issued an order granting PPL Electric's petition for authority to defer and amortize for regulatory accounting and reporting purposes a portion of the ice storm costs, subject to certain conditions. As a result of the PUC Order and in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation," in the third quarter of 2005, PPL Electric deferred \$12 million of its previously expensed storm costs. The deferral was based on its assessment of the timing and likelihood of recovering the deferred costs in PPL Electric's next distribution base rate case.

Outlook

PPL Electric projects lower delivery earnings in 2006 compared with 2005 due to favorable weather in 2005. In addition, operation and maintenance expenses are expected to be higher in 2006, based on the factors noted above.

Statement of Income Analysis --

Operating Revenues

Retail Electric

The increases in revenues from retail electric operations were attributable to:

	<u>Sept. 30, 2006 vs. Sept. 30, 2005</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
PLR electric generation supply	\$ 33	\$ 100
Electric delivery	(14)	(28)
Other	(1)	1
	<u>\$ 18</u>	<u>\$ 73</u>

Higher PLR revenues for both periods resulted from an increase of 8.4% in prices and an increase in commercial and industrial sales volumes, due in part to the return of customers previously served by alternate suppliers, offset by a decrease in residential sales volumes, due in part to milder weather in 2006 compared to 2005.

The decreases in electric delivery revenues for both periods resulted primarily from the impact of milder weather on residential sales in 2006 compared with 2005.

Wholesale Electric to Affiliate

PPL Electric has a contract to sell to PPL EnergyPlus the electricity that PPL Electric purchases under contracts with NUGs. The increase of \$8 million in wholesale revenue to

affiliate for the nine months ended September 30, 2006, compared with the same period in 2005, was primarily due to an unplanned outage at a NUG facility during the second quarter of 2005. PPL Electric therefore had more electricity to sell to PPL EnergyPlus in 2006.

Energy Purchases

Energy purchases decreased by \$10 million for the three months ended September 30, 2006, compared with the same period in 2005, primarily due to \$6 million in lower ancillary service costs in connection with the power supply contracts with PPL EnergyPlus and a reduction of \$3 million resulting from the elimination of a charge to load-serving entities, which minimized the impacts of integrating into the Midwest ISO and PJM markets.

Energy purchases decreased by \$46 million for the nine months ended September 30, 2006, compared with the same period in 2005, primarily due to a \$39 million pre-tax loss accrual for the PJM billing dispute recorded in the first quarter of 2005. Also, \$9 million in lower ancillary costs and a reduction of \$6 million resulting from the elimination of a charge to load-serving entities minimized the impacts of integrating into the Midwest ISO and PJM markets. These decreases were partially offset by a \$7 million increase due to an unplanned NUG outage in the second quarter of 2005. See Note 11 to the Financial Statements for additional information regarding the loss accrual recorded for the PJM billing dispute.

Energy Purchases from Affiliate

Energy purchases from affiliate increased by \$30 million and \$92 million for the three and nine months ended September 30, 2006, compared with the same periods in 2005. The increases primarily reflect an 8.4% increase in prices for energy purchased under the power supply contracts with PPL EnergyPlus needed to support PLR load.

Other Operation and Maintenance

For the three months and nine months ended September 30, 2006, PPL Electric's other operation and maintenance expense was reduced by a \$36 million one-time credit in connection with the realization of benefits related to the ability to use excess Black Lung Trust assets to make future benefit payments for retired mine workers' medical costs. See Note 10 for additional information.

Excluding this one-time credit, the increases in other operation and maintenance expenses were due to:

Financial Condition

Liquidity and Capital Resources

At September 30, 2006, PPL Electric had \$155 million of cash, cash equivalents and short-term investments and \$42 million of short-term debt. At December 31, 2005, PPL Electric had \$323 million of cash, cash equivalents and short-term investments and \$42 million of short-term debt. The \$168 million decrease in PPL Electric's cash, cash equivalents and short-term investments position was primarily the net result of:

- the retirement of \$365 million of long-term debt;
- \$200 million of capital expenditures (including \$50 million to purchase equipment previously leased);
- the repurchase of \$200 million of common stock from PPL; and
- the payment of \$84 million of common stock dividends to PPL; offset by
- \$360 million of cash provided by operating activities;
- \$245 million of net proceeds from the issuance of preference stock; and
- a contribution of \$75 million from PPL.

Leases

In September 2006, PPL's subsidiaries terminated the master lease agreements under which they leased equipment, such as vehicles, computers and office equipment. In addition, PPL and its subsidiaries purchased the equipment from the lessors at a negotiated price. Accordingly, these master lease agreements are no longer available as a source of financing. Prior to the buyout, PPL Electric had been directly charged or allocated a portion of the lease expense related to the equipment it utilized. In connection with the buyout, ownership of the purchased equipment was reviewed and attributed to PPL's subsidiaries based on usage of the equipment. In connection with the purchase, "Property, Plant and Equipment" on the Balance Sheet increased by \$52 million. As of September 30, 2006, \$50 million had been paid, and the remaining \$2 million payable is expected to be settled during the fourth quarter of 2006.

The "Contractual Obligations" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2005 Form 10-K included \$54 million in obligations related to these leases.

Preference Stock

In April 2006, PPL Electric sold 10 million depositary shares, each representing a quarter interest in a share of PPL Electric's 6.25% Series Preference Stock (Preference Shares), totaling \$250 million. In connection with the sale of the depositary shares, PPL Electric issued 2.5 million Preference Shares, with a liquidation preference of \$100 per share, to the bank acting as a depositary. The net proceeds of \$245 million from the offering were used to repurchase \$200 million of PPL

	<u>Sept. 30, 2006 vs. Sept. 30, 2005</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
Costs associated with severe ice storms in January 2005		\$ (16)
Subsequent deferral of a portion of 2005 ice storm costs	\$ 12	12
Reversal of cost recovery - Hurricane Isabel (Note 2)	11	11
PUC reportable storm costs in 2006	3	10
Tree trimming costs	2	4
Union contract ratification bonus	3	3
Increase in pension and postretirement costs	2	3
Allocation of corporate service costs (Note 12)	5	3
Accelerated amortization of stock-based compensation (Note 9)		(5)
Other	2	9
	<u>\$ 40</u>	<u>\$ 34</u>

Other Income - net

See Note 13 to the Financial Statements for details of other income.

Financing Costs

The changes in financing costs, which include "Interest Expense," "Interest Expense with Affiliate" and "Dividends on Preferred Securities," were due to:

	<u>Sept. 30, 2006 vs. Sept. 30, 2005</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
Dividends on 6.25% Series Preference Stock	\$ 4	\$ 8
Additional interest on PLR contract collateral	1	4
Decrease in long-term debt interest expense	(5)	(15)
Interest accrued in 2005 for PJM billing dispute (Note 11)		(8)
Other		(1)
	<u>\$</u>	<u>\$ (12)</u>

Income Taxes

The changes in income taxes were due to:

	<u>Sept. 30, 2006 vs. Sept. 30, 2005</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
Higher (lower) pre-tax book income	\$ (4)	\$ 15
Decrease in tax expense related to tax reserves	(5)	(6)
	<u>\$ (9)</u>	<u>\$ 9</u>

See Note 5 to the Financial Statements for details on effective income tax rates.

Electric's common stock held by PPL, and for other general corporate purposes.

Holders of the depositary shares are entitled to all proportional rights and preferences of the Preference Shares, including dividend, voting, redemption and liquidation rights, exercised through the depositary. The Preference Shares rank senior to PPL Electric's common stock and junior to its preferred stock, and they have no voting rights, except as provided by law.

Dividends on the Preference Shares will be paid when, as and if declared by the Board of Directors at a fixed annual rate of 6.25%, or \$1.5625 per depositary share per year, and are not cumulative. PPL Electric may not pay dividends on, or redeem, purchase or make a liquidation payment with respect to any of its common stock, except in certain circumstances, unless full dividends on the Preference Shares have been paid for the then-current dividend period.

The Preference Shares do not have a stated maturity, and are not subject to sinking fund requirements. However, PPL Electric may, at its option, redeem the Preference Shares in whole or in part from time to time for \$100 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, on or after April 6, 2011. It is PPL Electric's intention to redeem or repurchase the Preference Shares only from the proceeds of the sale of certain qualifying securities having equity characteristics similar to or greater than the applicable equity characteristics of the Preference Shares. PPL Electric may decide to affirm this intention in the future by making an enforceable covenant in favor of holders of a specific series of its outstanding long-term debt securities.

Credit Facilities

In June 2006, PPL Electric amended and restated the credit agreement for its \$200 million five-year credit facility and extended the expiration date to June 2011. PPL Electric's \$100 million three-year credit facility expired in June 2006 and was not renewed. In July 2006, PPL Electric extended the expiration date of the credit agreement related to its participation in an asset-backed commercial paper program to July 2007.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Electric and its subsidiary, PPL Transition Bond Company. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the credit-worthiness associated with an issuer and particular securities that it issues. PPL Electric's and PPL Transition Bond Company's credit ratings are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric or PPL Transition Bond

Company. Such ratings may be subject to revisions or withdrawal by these agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Electric's or PPL Transition Bond Company's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In March 2006, Moody's upgraded the issuer rating of PPL Electric to Baa1 from Baa2, upgraded the ratings of its First Mortgage Bonds and Senior Secured Bonds to A3 from Baa1 and upgraded the rating of its preferred stock to Baa3 from Ba1.

In connection with PPL Electric's issuance of Preference Shares in April 2006, S&P affirmed all of PPL Electric's credit ratings.

Capital Expenditures

The schedule below shows PPL Electric's capital expenditure projections as of September 30, 2006, for the years 2006 through 2010.

	<u>Projected</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Construction expenditures (a)					
Transmission and distribution facilities	\$ 252	\$ 251	\$ 230	\$ 267	\$ 319
Other	<u>11</u>	<u>23</u>	<u>26</u>	<u>22</u>	<u>23</u>
Total Capital Expenditures	<u>\$ 263</u>	<u>\$ 274</u>	<u>\$ 256</u>	<u>\$ 289</u>	<u>\$ 342</u>

(a) Construction expenditures include AFUDC, which is expected to be \$15 million for the 2006-2010 period.

PPL Electric's capital expenditure projections for the years 2006-2010 total \$1.4 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The above schedule has been revised from that which was presented in PPL Electric's 2005 Form 10-K, primarily to reflect the purchase of equipment previously leased under master lease agreements. See Note 2 to the Financial Statements for additional information.

PPL Electric plans to fund all of its capital expenditures in 2006 with cash on hand and cash from operations.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2005 Form 10-K.

Risk Management

Market Risk

Commodity Price Risk - PLR Contracts

PPL Electric and PPL EnergyPlus have power supply agreements under which PPL EnergyPlus sells to PPL Electric (under a predetermined pricing arrangement) energy and capacity to fulfill PPL Electric's PLR obligation through 2009. As a result, PPL Electric has shifted any electric price risk relating to its PLR obligation to PPL EnergyPlus through 2009. See Note 12 to the Financial Statements for information on the PLR contracts.

Interest Rate Risk

PPL Electric has issued debt to finance its operations, which increases its interest expense risk. At September 30, 2006, PPL Electric's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was insignificant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. At September 30, 2006, PPL Electric estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was \$39 million.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric.

For additional information on related party transactions, see Note 12 to the Financial Statements.

Environmental Matters

See Note 11 to the Financial Statements for a discussion of environmental matters.

New Accounting Standards

See Note 18 to the Financial Statements for a discussion of new accounting standards recently adopted or pending adoption.

Application of Critical Accounting Policies

PPL Electric's financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations of PPL Electric, and require estimates or other judgments of matters inherently uncertain: pension and other postretirement benefits and loss accruals.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." in PPL Electric's 2005 Form 10-K for a discussion of each critical accounting policy. PPL's senior management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with its Audit Committee. In addition, PPL's senior management reviewed the Form 10-K disclosures regarding the application of these critical accounting policies with the Audit Committee.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." PPL Electric will adopt the recognition provisions of SFAS 158 prospectively, as of December 31, 2006. See Note 18 to the Financial Statements for a more detailed discussion of this new accounting standard.

**PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management - Energy Marketing & Trading and Other" for PPL and PPL Energy Supply and "Risk Management" for PPL Electric in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2006, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

- (b) Change in internal controls over financial reporting.

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in PPL's, PPL Energy Supply's and PPL Electric's 2005 Form 10-K; and
- Note 11 of the registrants' "Combined Notes to Condensed Consolidated Financial Statements" in Part I of this report.

Item 1A. Risk Factors

There have been no material changes in PPL's, PPL Energy Supply's and PPL Electric's risk factors from those disclosed in "Item 1A. Risk Factors" of the 2005 Form 10-K.

Item 6. Exhibits

- *[_]10(a) - Compensation arrangement changes regarding James H. Miller (PPL Corporation Form 8-K Report (File No. 1-11459) dated September 15, 2006)
- 10(b) - Fourth Amendment dated April 12, 2006, to Reimbursement Agreement, dated as of March 31, 2005, among PPL Energy Supply, LLC, The Bank of Nova Scotia, as Issuer and Administrative Agent, and the Lenders party thereto from time to time
- *[_]10(c) - Compensation arrangement changes for Named Executive Officers of PPL Corporation and PPL Electric Utilities Corporation and non-employee Directors of PPL Corporation (PPL Corporation and PPL Electric Utilities Corporation Form 8-K Report (File Nos. 1-11459 and 1-905) dated November 1, 2006)
- 12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- 12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

* - Previously filed

[_] - Filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2006, filed by the following officers for the following companies:

- 31(a) - James H. Miller for PPL Corporation
- 31(b) - John R. Biggar for PPL Corporation
- 31(c) - James H. Miller for PPL Energy Supply, LLC
- 31(d) - Paul A. Farr for PPL Energy Supply, LLC
- 31(e) - John F. Sipics for PPL Electric Utilities Corporation
- 31(f) - Paul A. Farr for PPL Electric Utilities Corporation

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2006, furnished by the following officers for the following companies:

- 32(a) - James H. Miller for PPL Corporation
- 32(b) - John R. Biggar for PPL Corporation
- 32(c) - James H. Miller for PPL Energy Supply, LLC
- 32(d) - Paul A. Farr for PPL Energy Supply, LLC
- 32(e) - John F. Sipics for PPL Electric Utilities Corporation
- 32(f) - Paul A. Farr for PPL Electric Utilities Corporation

SIGNATURES

rsuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

PPL Energy Supply, LLC

(Registrant)

PPL Electric Utilities Corporation

(Registrant)

Date: November 3, 2006

/s/ Matt Simmons

Matt Simmons
Vice President and Controller
(Principal Accounting Officer)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	12 Months Ended September 30,			12 Months Ended December 31,		
	2006	2005	2004	2003	2002	2001
Fixed charges, as defined:						
Interest on long-term debt	\$ 478	\$ 465	\$ 491	\$ 417	\$ 486	\$ 351
Interest on short-term debt and other interest.....	17	29	20	25	70	44
Amortization of debt discount, expense and premium - net.....	11	23	8	41	25	17
Estimated interest component of operating rentals.....	31	32	34	45	38	36
Preferred securities distributions of subsidiaries on a pre-tax basis.....	18	5	5	45	79	64
Total fixed charges.....	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 558</u>	<u>\$ 573</u>	<u>\$ 698</u>	<u>\$ 512</u>
Earnings, as defined:						
Net income (a).....	\$ 912	\$ 744	\$ 721	\$ 740	\$ 444	\$ 167
Preferred security dividend requirements.....	10	3	3	30	66	52
Less undistributed income (loss) of equity method investments.....	(6)	(14)	(14)	(19)	(23)	20
	<u>928</u>	<u>761</u>	<u>738</u>	<u>789</u>	<u>533</u>	<u>199</u>
Add:						
Income taxes.....	203	121	203	179	214	261
Total fixed charges as above (excluding capitalized interest and preferred security distributions of subsidiaries on a pre-tax basis).....	<u>518</u>	<u>540</u>	<u>547</u>	<u>521</u>	<u>598</u>	<u>419</u>
Total earnings	<u>\$ 1,649</u>	<u>\$ 1,422</u>	<u>\$ 1,488</u>	<u>\$ 1,489</u>	<u>\$ 1,345</u>	<u>\$ 879</u>
Ratio of earnings to fixed charges.....	<u>3.0</u>	<u>2.6</u>	<u>2.7</u>	<u>2.6</u>	<u>1.9</u>	<u>1.7</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (b).....	<u>3.0</u>	<u>2.6</u>	<u>2.7</u>	<u>2.6</u>	<u>1.9</u>	<u>1.7</u>

(a) Net income excludes minority interest, loss from discontinued operations and the cumulative effects of changes in accounting principles.

(b) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	12 Months Ended September 30,		12 Months Ended December 31,			
	2006	2005	2004	2003	2002	2001
Fixed charges, as defined:						
Interest on long-term debt	\$ 285	\$ 259	\$ 255	\$ 149	\$ 169	\$ 36
Interest on short-term debt and other interest	13	26	23	25	52	33
Amortization of debt discount, expense and premium - net	(1)	7	(6)	31	9	2
Estimated interest component of operating rentals	15	15	17	31	21	19
Preferred securities distributions of subsidiaries on a pre-tax basis				8	12	
Total fixed charges.....	\$ 312	\$ 307	\$ 289	\$ 244	\$ 263	\$ 90
Earnings, as defined:						
Net income (a)	\$ 734	\$ 608	\$ 673	\$ 733	\$ 515	\$ 168
Preferred security dividend requirement				5	8	
Less undistributed income (loss) of equity method investments	(6)	(14)	(13)	(15)	(22)	20
	740	622	686	753	545	148
Add:						
Income taxes	167	75	207	194	270	274
Total fixed charges as above (excluding capitalized interest and preferred security distributions of subsidiaries on a pre-tax basis)	297	299	285	230	231	66
Total earnings	\$ 1,204	\$ 996	\$ 1,178	\$ 1,177	\$ 1,046	\$ 488
Ratio of earnings to fixed charges.....	3.9	3.2	4.1	4.8	4.0	5.4

(a) Net income excludes minority interest, loss from discontinued operations and the cumulative effects of changes in accounting principles.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	12 Months Ended September 30,			12 Months Ended December 31,		
	2006	2005	2004	2003	2002	2001
Fixed charges, as defined:						
Interest on long-term debt	\$ 136	\$ 151	\$ 176	\$ 201	\$ 209	\$ 220
Interest on short-term debt and other interest	19	22	7	3	3	4
Amortization of debt discount, expense and premium - net	8	9	7	8	7	6
Estimated interest component of operating rentals	9	8	8	7	7	8
Preferred security distributions of subsidiaries on a pre-tax basis					13	23
Total fixed charges	<u>\$ 172</u>	<u>\$ 190</u>	<u>\$ 198</u>	<u>\$ 219</u>	<u>\$ 239</u>	<u>\$ 261</u>
Earnings, as defined:						
Net income (a)	\$ 183	\$ 147	\$ 76	\$ 28	\$ 55	\$ 140
Add:						
Income taxes	78	69	8	18	18	65
Total fixed charges as above (excluding capitalized interest and preferred security distributions of subsidiaries on a pre-tax basis)	<u>171</u>	<u>190</u>	<u>197</u>	<u>219</u>	<u>225</u>	<u>238</u>
Total earnings	<u>\$ 432</u>	<u>\$ 406</u>	<u>\$ 281</u>	<u>\$ 265</u>	<u>\$ 298</u>	<u>\$ 443</u>
Ratio of earnings to fixed charges	<u>2.5</u>	<u>2.1</u>	<u>1.4</u>	<u>1.2</u>	<u>1.2</u>	<u>1.7</u>
Preferred stock dividend requirements on a pre-tax basis	\$ 17	\$ 4	\$ 4	\$ 5	\$ 7	\$ 7
Fixed charges, as above	<u>172</u>	<u>190</u>	<u>198</u>	<u>219</u>	<u>239</u>	<u>261</u>
Total fixed charges and preferred stock dividends	<u>\$ 189</u>	<u>\$ 194</u>	<u>\$ 202</u>	<u>\$ 224</u>	<u>\$ 246</u>	<u>\$ 268</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.3</u>	<u>2.1</u>	<u>1.4</u>	<u>1.2</u>	<u>1.2</u>	<u>1.7</u>

(a) Net income excludes the cumulative effect of a change in accounting principle.

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation ("the registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2006

/s/ James H. Miller
 James H. Miller
 Chairman, President and Chief Executive Officer
 PPL Corporation

CERTIFICATION

I, JOHN R. BIGGAR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation ("the registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2006

/s/ John R. Biggar
John R. Biggar
Executive Vice President and Chief Financial Officer
PPL Corporation

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2006

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2006

/s/ Paul A. Farr

Paul A. Farr
Senior Vice President
PPL Energy Supply, LLC

CERTIFICATION

I, JOHN F. SIPICS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2006

/s/ John F. Sipics

John F. Sipics

President

PPL Electric Utilities Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2006

/s/ Paul A. Farr

Paul A. Farr
Senior Vice President-Financial
PPL Electric Utilities Corporation

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2006

/s/ James H. Miller
James H. Miller
Chairman, President and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2006

/s/ John R. Biggar

John R. Biggar
Executive Vice President and
Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2006

/s/ James H. Miller

James H. Miller
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2006

/s/ Paul A. Farr _____
Paul A. Farr
Senior Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2006

/s/ John F. Sipics
John F. Sipics
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2006

/s/ Paul A. Farr

Paul A. Farr
Senior Vice President-Financial
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

PROSPECTUS SUPPLEMENT
(To Prospectus dated March 20, 2006)

\$250,000,000



**PPL Electric Utilities
PPL Electric Utilities Corporation**

**10,000,000 Depositary Shares
Each representing a ¼ interest in a share of Preference Stock, 6.25% Series
of PPL Electric Utilities Corporation
(Non-cumulative, Liquidation Preference \$25.00 per Depositary Share)**

Each of the depositary shares offered hereby (the "Depositary Shares") represents a ¼ interest in a share of our Preference Stock, 6.25% Series, liquidation preference \$100.00 per share (the "Preference Shares"). As a holder of Depositary Shares, you will be entitled to all proportional rights and preferences of the Preference Shares (including dividend, voting, redemption and liquidation rights) exercised through the depositary. Dividends on the Preference Shares will be payable in arrears on January 1, April 1, July 1 and October 1 of each year, when, as and if declared by our Board of Directors, beginning on July 1, 2006 at an annual rate of 6.25%, or \$1.5625 per Depositary Share per year. Dividends on the Preference Shares are not cumulative. If for any reason we do not declare a dividend on the Preference Shares before the dividend payment date for a quarterly dividend period, that dividend will not accumulate and holders of the Preference Shares will have no right to receive, and we will have no obligation to pay, a dividend for that period, whether or not we pay, or have sufficient funds to pay, dividends in full or in part in the future.

With certain limited exceptions, we may not pay dividends on, or redeem, purchase or make a liquidation payment with respect to, any of our common stock, unless full dividends on the Preference Shares have been paid for the then-current dividend period.

We may not redeem the Preference Shares prior to April 6, 2011. On and after that date, we may, at our option, redeem the Preference Shares, in whole at any time or in part from time to time, for \$100.00 per Preference Share (equivalent to \$25.00 per Depositary Share), plus any declared and unpaid dividends (without accumulation of any undeclared dividends), payable in cash. The Preference Shares have no stated maturity, are not subject to any sinking fund provisions and will remain outstanding indefinitely unless redeemed.

The Preference Shares will have no voting rights, except as provided by law. See "Description of the Preference Shares—Voting Rights."

We will not apply to list the Depositary Shares on any securities exchange or to include the Depositary Shares in any automated quotation system. We do not expect that there will be any public trading market for the Preference Shares except as represented by the Depositary Shares.

Investing in the Depositary Shares involves risks. See "Risk Factors" on page S-6 of this prospectus supplement and page 4 of the accompanying prospectus.

	Price to Public (1)	Underwriting Discounts and Commissions	Proceeds, Before Expenses, to Us
Per Depositary Share	\$ 25.00	\$ 0.50	\$ 24.50
Total	\$250,000,000	\$ 5,000,000	\$245,000,000

(1) The price to public does not include accrued dividends, if any, that may be declared. Dividends, if declared, will accrue from the date of original issuance, which is expected to be April 6, 2006.

Delivery of the Depositary Shares in book-entry form only will be made on or about April 6, 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Lead and Book-Running Managers

Merrill Lynch & Co.

JPMorgan

Wachovia Securities

Citigroup

Credit Suisse

Goldman, Sachs & Co.

Lehman Brothers

Morgan Stanley

Janney Montgomery Scott LLC

LaSalle Capital Markets

The date of this prospectus supplement is April 3, 2006.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission (the "SEC") utilizing a "shelf" registration process. Under this shelf process, we are offering to sell the Depositary Shares, using this prospectus supplement and the accompanying prospectus. This prospectus supplement describes the specific terms of this offering. The accompanying prospectus and the information incorporated by reference therein describe our business and give more general information, some of which may not apply to this offering. Generally, when we refer only to the "prospectus," we are referring to both parts combined. You should read this prospectus supplement together with the accompanying prospectus before making a decision to invest in the Depositary Shares. If the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus, the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement will apply and will supersede that information in the accompanying prospectus. You should rely on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of any date after the date of this prospectus supplement.

PPL Electric Utilities Corporation ("PPL Electric") is a Pennsylvania corporation. Our principal executive offices are located at Two North Ninth Street, Allentown, Pennsylvania 18101-1179 and our telephone number at that address is (610) 774-5151. Information about PPL Electric is available on our website at www.pplelectric.com and on the Investor Center page of www.pplweb.com. The information on these sites is not part of this prospectus supplement. In this prospectus supplement, "we," "us" and "our" refer to PPL Electric and not any of its subsidiaries or affiliates and "underwriters" refers to the firms listed in the "Underwriting" section of this prospectus supplement.

SUMMARY

The following summary contains information about the offering by PPL Electric of the Depositary Shares (defined below). It does not contain all of the information that may be important to you in making a decision to purchase the Depositary Shares. For a more complete understanding of PPL Electric and the offering of the Depositary Shares, we urge you to read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the "Risk Factors" sections and our financial statements and the notes to those statements incorporated by reference herein.

The Offering

Issuer	PPL Electric.
Securities Offered	10,000,000 depositary shares (the "Depositary Shares"), each representing a 1/4 interest in a share of our Preference Stock, 6.25% Series (the "Preference Shares").
Size	\$250,000,000.
Dividend Rate and Payment Dates ...	Dividends will be payable quarterly in arrears on the 1 st day of January, April, July and October of each year, when, as and if declared by our Board of Directors, beginning on July 1, 2006, at the fixed rate per annum of 6.25% per Preference Share, or \$1.5625 per Depositary Share per year. Dividends, if declared, will accrue from the date of original issuance, which is expected to be April 6, 2006. See "Description of the Preference Shares-Dividends."
Listing	We will not apply to list the Depositary Shares on any securities exchange or to include the Depositary Shares in any automated quotation system. We do not expect that there will be any public trading market for the Preference Shares except as represented by the Depositary Shares.
Term	Perpetual.
Optional Redemption	We may not redeem the Preference Shares prior to April 6, 2011. On and after that date, we may, at our option, redeem the Preference Shares, in whole at any time or in part from time to time, for \$100.00 per Preference Share (equivalent to \$25.00 per Depositary Share), plus any declared and unpaid dividends (without accumulation of any undeclared dividends), payable in cash. It is our intention to redeem the Preference Shares only from the proceeds of the sale of certain qualifying securities having equity characteristics similar to or greater than the applicable equity characteristics of the Preference Shares.
Public Offering Price	\$25.00 per Depositary Share. The public offering price does not include accrued dividends, if any, that may be declared.

Dividends	Dividends on the Preference Shares are not cumulative and, accordingly, if for any reason we do not declare a dividend on the Preference Shares before the dividend payment date for a quarterly dividend period, that dividend will not accumulate and holders of the Preference Shares will have no right to receive and we will have no obligation to pay a dividend for that period, whether or not we pay, or have sufficient funds to pay, dividends in full or in part in the future. In addition, holders of Preference Shares will have no right to any representation on our Board of Directors, regardless of the number of periods for which dividends are not paid. Dividends may be prohibited under certain circumstances, as described below under "Risk Factors—Our ability to pay dividends is restricted."
Dividend Stopper	With certain limited exceptions, we may not pay dividends on, or redeem, purchase, or make a liquidation payment with respect to, any of our common stock, unless full dividends on the Preference Shares have been paid for the then-current dividend period. See "Description of the Preference Shares—Dividend Stopper."
Ranking	The Preference Shares will rank senior to our common stock, junior to our 4 1/2% Preferred Stock and all of our Series Preferred Stock, and on parity with any other series of our preference stock that we may issue in the future, in each case with respect to the payment of dividends and distribution of assets upon liquidation, dissolution or winding up of PPL Electric.
Issuance of Senior Shares	As long as any Preference Shares are outstanding, we do not intend to issue any shares of our 4 1/2% Preferred Stock, Series Preferred Stock or other preferred stock or preference stock that rank senior to the Preference Shares with respect to the payment of dividends and distribution of assets upon liquidation, dissolution or winding up of PPL Electric.
Voting Rights	The Preference Shares will have no voting rights, except as provided by law. See "Description of the Preference Shares—Voting Rights."
Preemptive and Conversion Rights ...	The Preference Shares are without any preemptive rights and are not convertible into, or exchangeable for, any of our other property or securities.
Use of Proceeds	We will use the net proceeds from the sale of the Depositary Shares to repurchase from PPL Corporation up to \$200 million of our common stock and for such other general corporate purposes as we deem appropriate, including the redemption or repurchase of our outstanding debt securities.
Transfer Agent	Wells Fargo Bank, N.A.
Depositary	Wells Fargo Bank, N.A.

RECENT DEVELOPMENTS

We currently are authorized under our Amended and Restated Articles of Incorporation (our "Articles of Incorporation") to issue up to 5,000,000 shares of preference stock. The Board of Directors is authorized, without further shareholder action, to issue shares of preference stock from time to time in one or more series and to determine the designations, preferences, limitations and special rights of any series. In connection with the issuance of the Depositary Shares offered by this prospectus supplement, we will issue 2,500,000 Preference Shares. In connection with our 2006 Annual Meeting of Shareowners to be held on April 26, 2006, we have proposed to increase the authorized amount of preference stock from 5,000,000 to 10,000,000 shares through an amendment to our Articles of Incorporation. We expect this amendment to be adopted, as PPL Corporation, which owns all of our outstanding shares of common stock and as a result 99% of our voting shares, intends to vote all of its shares in favor of this amendment. The holders of the Preference Shares (and, accordingly, the holders of the Depositary Shares) will not be entitled to vote with respect to this amendment.

RISK FACTORS

Before making a decision to invest in the Depositary Shares, you should carefully consider the risk factors described below and the risk factors contained in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as the other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Dividends on the Preference Shares are non-cumulative.

Dividends on the Preference Shares are not cumulative and, accordingly, if for any reason we do not declare a dividend on the Preference Shares before the dividend payment date for a quarterly dividend period, that dividend will not accumulate and holders of the Preference Shares will have no right to receive, and we will have no obligation to pay, a dividend for that period, whether or not we pay, or have sufficient funds to pay, dividends in full or in part in the future. In addition, holders of Preference Shares will have no right to any representation on our Board of Directors, regardless of the number of periods for which dividends are not paid. The market value of the Preference Shares may decline substantially if we do not make dividend payments.

There may not be an active trading market for the Depositary Shares.

Prior to this offering, there has been no market for the Depositary Shares. We will not apply to list the Depositary Shares on any securities exchange or to include the Depositary Shares in any automated quotation system. As the Depositary Shares will not be quoted on a national securities exchange, there may be little or no secondary market for them. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Depositary Shares easily, which may affect the price you receive upon any such sale. We do not expect that there will be any public trading market for the Preference Shares except as represented by the Depositary Shares.

Holders of the Preference Shares have limited voting rights.

The Preference Shares will have no voting rights, except as provided by law. See "Description of the Preference Shares—Voting Rights."

The Preference Shares are subordinated to our indebtedness and our outstanding preferred stock.

Holders of our indebtedness and our existing 4½% Preferred Stock and Series Preferred Stock will have seniority over the holders of the Preference Shares with respect to rights to payment from any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of PPL Electric. This may have the effect of reducing the amount of proceeds paid to you as a holder of Depositary Shares upon an insolvency, liquidation, reorganization, dissolution or other winding up of PPL Electric, and you would not be paid any proceeds upon an insolvency, liquidation, reorganization, dissolution or other winding up of PPL Electric if our assets were insufficient to pay our debt obligations at that time.

Our ability to pay dividends is restricted.

Our 2001 senior secured bond indenture restricts dividend payments on our equity, including the Preference Shares, in the event that we fail to meet an interest coverage ratio or fail to comply with certain requirements included in our Articles of Incorporation and our Bylaws to maintain our separateness from PPL Corporation and PPL Corporation's other subsidiaries. If we are prohibited from paying dividends that have been declared for any dividend period as a result of the application of these restrictions, those dividends will cease to accrue and holders of the Preference Shares (and, accordingly, holders of the Depositary Shares) will have no right to receive the dividend for that period on the corresponding dividend payment date or in the future. The market value of the Preference Shares may decline substantially if we do not make dividend payments.

USE OF PROCEEDS

We will use the net proceeds from the sale of the Depositary Shares to repurchase from PPL Corporation up to \$200 million of our common stock and for such other general corporate purposes as we deem appropriate, including the redemption or repurchase of our outstanding debt securities.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected historical consolidated financial and other data for each of the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been derived from the audited consolidated financial statements of PPL Electric Utilities Corporation.

The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which is incorporated by reference herein, and with the consolidated financial statements, related notes, and other financial information incorporated by reference into this prospectus supplement and the accompanying prospectus.

	2005	2004	2003	2002	2001
PPL Electric Utilities Corporation (a)					
Income Items—millions					
Operating revenues	\$ 3,163	\$ 2,847	\$ 2,788	\$ 2,748	\$ 2,694
Operating income	377	259	251	275	419
Income available to PPL Corporation	145	74	25	39	119
Balance Sheet Items—millions (b)					
Property, plant and equipment—net	2,716	2,657	2,589	2,456	2,319
Recoverable transition costs	1,165	1,431	1,687	1,946	2,172
Total assets	5,537	5,526	5,469	5,583	5,921
Long-term debt	2,411	2,544	2,937	3,175	3,459
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures					250
Preferred stock	51	51	51	82	82
Common equity	1,324	1,272	1,222	1,147	931
Short-term debt	42	42		15	
Total capital provided by investors	3,828	3,909	4,210	4,419	4,722
Financial Ratios					
Return on average common equity—%	11.20	5.95	2.08	3.87	11.09
Embedded cost rates (b)					
Long-term debt—%	6.56	6.86	6.61	6.83	6.81
Preferred stock—%	5.14	5.14	5.14	5.81	5.81
Preferred securities—%					8.44
Times interest earned before income taxes	2.19	1.45	1.22	1.33	1.89
Ratio of earnings to fixed charges (c)	2.1	1.4	1.2	1.2	1.7
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	2.1	1.4	1.2	1.2	1.7
Sales Data					
Customers (thousands) (b)	1,365	1,351	1,330	1,308	1,298
Electric energy delivered—millions of kWh					
Residential	14,218	13,441	13,266	12,640	12,269
Commercial	13,196	12,610	12,388	12,371	12,130
Industrial	9,777	9,620	9,599	9,853	10,000
Other	167	163	154	169	211
Retail electric sales	37,358	35,834	35,407	35,033	34,610
Wholesale electric sales (d)		72	676	679	924
Total electric energy delivered	37,358	35,906	36,083	35,712	35,534
Electric energy supplied as a PLR—millions of kWh	36,917	34,841	33,627	33,747	31,653

- (a) The earnings for each year other than 2004 were affected by items management considers unusual, which affected net income. See "Earnings" in Management's Discussion and Analysis of Financial Condition and Results of Operations for a description of unusual items in 2005 and 2003.
- (b) At year-end.
- (c) Computed using earnings and fixed charges of PPL Electric and its subsidiaries. Fixed charges consist of interest on short- and long-term debt, other interest charges and the estimated interest component of other rentals. In calculating the earnings component, net income excludes the cumulative effect of a change in accounting principle.
- (d) The contracts for wholesale sales to municipalities expired in January 2004.

CAPITALIZATION

The following table sets forth PPL Electric's historical unaudited consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2005:

- on an actual basis;
- on an as-adjusted basis to give effect to the estimated net proceeds from the sale by us of the Depository Shares in this offering, assuming we repurchase \$200 million of our common equity.

This table should be read in conjunction with our consolidated financial statements, the notes related thereto and the other financial and operating data incorporated by reference into this prospectus supplement and the accompanying prospectus.

	<u>As of December 31, 2005</u>	
	<u>Actual</u>	<u>As Adjusted</u>
	(in millions)	
Cash and cash equivalents	\$ 298	\$ 343
Short-term debt	\$ 42	\$ 42
Long-term debt, including current portion	\$2,411	\$2,411
Preferred stock	51	301
Common equity	<u>1,324</u>	<u>1,124</u>
Total capitalization	<u>\$3,786</u>	<u>\$3,836</u>

DESCRIPTION OF THE PREFERENCE SHARES

General

The following summary description of certain provisions of our Articles of Incorporation does not purport to be complete and is qualified in its entirety by reference to our Articles of Incorporation. The Preference Shares constitute a single series of our preference stock. The Preference Shares are not convertible into, or exchangeable for, shares of any other class or series of stock or other securities or property of ours. The Preference Shares have no preemptive rights. Any Preference Shares that are surrendered for redemption will be returned to the status of authorized and unissued preference stock.

We currently are authorized under our Articles of Incorporation to issue up to 5,000,000 shares of preference stock. The Board of Directors is authorized, without further shareowner action, to issue shares of preference stock from time to time in one or more series and to determine the designations, preferences, limitations and special rights of any series. In connection with the issuance of the Depositary Shares offered by this prospectus supplement, we will issue 2,500,000 Preference Shares.

In connection with our 2006 Annual Meeting of Shareowners to be held on April 26, 2006, we have proposed to increase the authorized amount of preference stock from 5,000,000 to 10,000,000 shares through an amendment to our Articles of Incorporation. We expect this amendment to be adopted, as PPL Corporation, which owns all of our outstanding shares of common stock and as a result 99% of our voting shares, intends to vote all of its shares in favor of this amendment. The holders of the Preference Shares (and, accordingly, the holders of the Depositary Shares) will not be entitled to vote with respect to this amendment.

We will issue 10,000,000 Depositary Shares in connection with this offering, each representing a $\frac{1}{4}$ interest in a Preference Share. Our Board of Directors will be permitted, without the consent of any holders, to issue additional shares of preference stock, including shares of preference stock of the same series as the Preference Shares, pursuant to different offerings from time to time, up to the maximum number of authorized shares of preference stock.

Our Board of Directors also is permitted under our Articles of Incorporation, without further shareowner action, to issue from time to time shares of one or more other series of our preference stock, and to determine the designations, preferences, limitations and special rights of any series including, but not limited to, the following:

- the rate of dividend, if any;
- the rights, if any, of the holders of stock of the series upon our insolvency, liquidation, reorganization, dissolution or other winding up;
- the terms and conditions upon which stock may be converted into stock of other series or other capital stock, if issued with the privilege of conversion;
- the price at and the terms and conditions upon which stock may be redeemed; and
- the voting rights, if any.

Dividends and Payment Dates

Holders of Preference Shares will receive, when, as and if declared by us, out of funds legally available for payment of dividends under Pennsylvania law, cash dividends at a fixed annual rate of 6.25%. We will pay dividends on the Preference Shares quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, beginning on July 1, 2006 (or, if any such dividend payment date is not a business day, then the next succeeding business day), when, as and if declared by us out of legally available funds to the holders of record as of a date not exceeding 40 days and not less than 10 days preceding such dividend payment dates, to be fixed by our Board of Directors. Dividends, if declared, will accrue from the date of original issuance, which is expected to be

April 6, 2006. "Business day" means any day that is not a Saturday or Sunday and that is not a day on which banking institutions generally are authorized or obligated by law or executive order to be closed. The amount of dividends payable for any period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Dividends on the Preference Shares are not cumulative and, accordingly, if for any reason we do not declare a dividend on the Preference Shares before the dividend payment date for a quarterly dividend period, that dividend will not accumulate and holders of the Preference Shares will have no right to receive and we will have no obligation to pay a dividend for that period, whether or not we pay, or have sufficient funds to pay, dividends in full or in part in the future. In addition, holders of Preference Shares will have no right to any representation on our Board of Directors, regardless of the number of periods for which dividends are not paid.

Dividend Stopper

We may not pay dividends on, or redeem, purchase, or make a liquidation payment with respect to, any of our common stock or any of our other capital stock ranking junior to the Preference Shares (other than the distributions of shares, options, warrants or rights to purchase shares of our common stock or any of our other capital stock ranking junior to the Preference Shares), unless full dividends on the Preference Shares have been paid for the then-current dividend period.

We may not pay dividends on, or redeem, purchase, or make a liquidation payment with respect to, any other preference stock that we may issue ranking on parity with the Preference Shares, unless dividends on the Preference Shares have been paid for the then-current dividend period ratably in proportion to the respective amounts of dividends declared and unpaid on the Preference Shares and such other parity preference stock.

Optional Redemption

The Preference Shares are not redeemable prior to April 6, 2011. On and after that date, the Preference Shares, and the corresponding Depositary Shares, will be redeemable at our option, in whole at any time or in part from time to time, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to \$100.00 per share (equivalent to \$25.00 per Depositary Share), plus any declared and unpaid dividends through the date of redemption (without accumulation of any undeclared dividends), payable in cash. Once proper notice has been given, from and after the redemption date, such Preference Shares called for redemption will no longer be deemed outstanding, and all rights of the holders thereof will cease. There will be no sinking fund for the redemption or purchase of the Preference Shares. Holders of the Preference Shares will have no right to require the redemption of the Preference Shares.

It is our intention to redeem or repurchase the Preference Shares only from the proceeds of the sale of certain qualifying securities having equity characteristics similar to or greater than the applicable equity characteristics of the Preference Shares ("Qualifying Securities").

We may decide to affirm this intention by making an enforceable covenant in favor of the holders of a specific series of our outstanding long-term debt securities (including any replacement series designated by PPL Electric, the "Covered Debt") stating that, if we redeem or repurchase the Preference Shares, we will do so only if, during the 180 days on or prior to such redemption, we have received proceeds from the sale of Qualifying Securities. If we make this covenant, on or shortly after the date that we make the covenant, we would give notice thereof to the holders of the Covered Debt and we would file the covenant with the SEC on a Current Report on Form 8-K. Any such covenant would be subject to termination under certain circumstances, including with the consent of holders of a majority of the principal amount of such Covered Debt. If we were to enter into this covenant, the covenant would not be intended to be enforceable by, or for the benefit of, holders of our Preference Shares, any of our preferred stock, any other preference stock that we may issue or any series of our long-term debt securities (other than the Covered Debt).

Ranking

The Preference Shares rank:

- subordinate to our 4 ½% Preferred Stock and Series Preferred Stock;
- equally with any other shares of preference stock that we may issue in the future; and
- senior to our common stock,

with respect to the payment of dividends and distribution of assets upon liquidation or winding up of PPL Electric.

In the event of a voluntary or involuntary liquidation, dissolution or winding up of PPL Electric, after satisfaction of the distribution rights of the holders of our 4 ½% Preferred Stock and Series Preferred Stock, the holders of the Preference Shares will be entitled to receive out of our assets available for distribution to stockholders, \$100.00 per share (or \$25.00 per Depositary Share), plus all declared and unpaid dividends from prior dividend periods and accrued and unpaid dividends for the then-current dividend period to the date such payment is made available, whether or not earned or declared, before any payment or distribution out of our assets may be made to or set apart for the holders of our common stock or any other capital stock ranking junior to the Preference Shares. If, upon any voluntary or involuntary liquidation, dissolution or winding up of PPL Electric, our assets, or proceeds thereof, distributable among the holders of Preference Shares or any stock ranking equally with the Preference Shares shall be insufficient to pay in full the preferential amounts to which such stock would be entitled, then such assets, or the proceeds thereof, shall be distributable among such holders ratably in accordance with the respective amounts which would be payable on such shares if all amounts payable thereon were paid in full. The terms "involuntary liquidation, dissolution or winding up" shall include, without being limited to, a liquidation, dissolution or winding up of PPL Electric resulting in the distribution of all of the net proceeds of a sale, lease or conveyance of all or substantially all of the property or business of PPL Electric to any governmental body including, without limitation, any municipal corporation or political subdivision or authority.

Issuance of Senior Shares

As long as any Preference Shares are outstanding, we do not intend to issue any shares of 4 ½% Preferred Stock, Series Preferred Stock or other preferred stock or preference stock that rank senior to the Preference Shares with respect to the payment of dividends and distribution of assets upon our insolvency, liquidation, reorganization, dissolution or other winding up.

Voting Rights

Preference Share holders shall have no voting rights, except with respect to certain material changes in the terms of the Preference Shares as provided by law. Currently, under the Pennsylvania Business Corporation Law Section 1914, regardless of any limitations stated in our Articles of Incorporation or Bylaws, the holders of Preference Shares shall be entitled to vote as a class on the following actions:

- changing the preferences, limitations or special rights (other than preemptive rights or the right to vote cumulatively) of the shares of a class or series adverse to the Preference Shares;
- authorizing a new class or series of shares having a preference as to dividends or assets which is senior to the Preference Shares;
- increasing the number of authorized shares of any class or series having a preference as to dividends or assets which is senior in any respect to the Preference Shares; or
- making the Preference Shares redeemable by a method that is not pro rata, by lot or otherwise equitable.

Maturity

The Preference Shares do not have a maturity date, and we are not required to redeem the Preference Shares. In addition, we are not required to set aside funds to redeem the Preference Shares. Accordingly, the Preference Shares will remain outstanding indefinitely unless we decide to redeem them.

DESCRIPTION OF THE DEPOSITARY SHARES

Each Depositary Share will represent a $\frac{1}{4}$ interest in a Preference Share and will be represented by a depositary receipt. We will deposit the underlying Preference Shares pursuant to a deposit agreement among us, Wells Fargo Bank, N.A., as depositary, and the holders from time to time of the depositary receipts. Subject to the terms of the deposit agreement, the Depositary Shares will be entitled to all the rights and preferences of the Preference Shares in proportion to the $\frac{1}{4}$ of a Preference Share represented by such Depositary Share.

Dividends

The depositary will distribute all cash dividends and other cash distributions received on the Preference Shares to the holders of record of the depositary receipts in proportion to the number of Depositary Shares held by each holder. In the event of a distribution other than in cash, the depositary will distribute property received by it to the holders of record of the depositary receipts in proportion to the number of Depositary Shares held by each holder, unless the depositary determines that it is not feasible to make such distribution, in which case the depositary may, with our approval, adopt a method of distribution that it deems practicable, including sale of the property and distribution of the net proceeds from such sale to the holders of depositary receipts. The obligation of the depositary to distribute dividends and distributions is subject to us paying certain charges and expenses of the depositary.

The depositary will distribute dividends and other distributions only in an amount that can be distributed without distributing to any holder of depositary receipts a fraction of one cent. Any balance not so distributable will be held by the depositary and will be added to the next sum received by the depositary for distribution. The depositary will not be liable for interest on amounts held for later distribution.

Pursuant to PPL Corporation's Dividend Reinvestment Plan (the "PPL Corporation DRIP"), holders of the Depositary Shares will be entitled to invest their cash dividends in shares of common stock of PPL Corporation. The holders of the Depositary Shares can contact us or Wells Fargo Bank, N.A., our transfer agent and registrar, for more information on the PPL Corporation DRIP, including the related prospectus.

Taxes and Other Governmental Charges

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangement. We also will pay charges of the depositary in connection with the deposit of the Preference Shares and any redemption of Preference Shares. All other transfer and other taxes and governmental charges and fees for the withdrawal of Preference Shares upon surrender of depositary receipts evidencing the Depositary Shares shall be at the expense of the holders of the Depositary Shares. If, at the request of a holder of depositary receipts, the depositary incurs charges or expenses for which it is not otherwise liable, such holder will be liable for such charges and expenses. The depositary may refuse to make any payment or distribution, or any transfer, exchange or withdrawal of any Depositary Shares or Preference Shares, until such taxes or other governmental charges are paid.

Voting the Depositary Shares

Each Depositary Share holder shall have no voting rights, except for the voting rights of $\frac{1}{4}$ of a Preference Share represented by such Depositary Share. See "Description of Preference Shares—Voting Rights."

Optional Redemption of Depositary Shares

The Preference Shares are not redeemable prior to April 6, 2011. On and after that date, the Preference Shares will be redeemable at our option, in whole at any time or in part from time to time, at a redemption price