

ORIGINAL



**Pennsylvania Power & Light Company**

Two North Ninth Street • Allentown, PA 18101-1179 • 610/774-5151

Paul E. Russell  
Associate General Counsel  
610/774-4254

FAX: 610/774-6726

May 19, 1995

RECEIVED

KJK

Mr. John G. Alford, Secretary  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

MAY 19 1995

PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

Re: **Application of  
Pennsylvania Power & Light Company  
for Approval, Pursuant to Chapter 11 of the  
Public Utility Code, of Certain Transactions  
in Connection with the Utility's Establishment  
of a Holding Company Structure  
Docket No. A-110500F.0206**

Dear Mr. Alford:

The purpose of this letter is to notify the Commission that on April 26, 1995, the shareowners of Pennsylvania Power & Light Company (PP&L) voted to form a holding company structure. Establishment of the holding company structure was effective as of April 27, 1995.

This notification is being provided pursuant to ordering paragraph 3 of the Commission's order entered on February 10, 1995, in the above-captioned docket.

Pursuant to 52 Pa. Code §1.11, I have attached U. S. Postal Form 3817 to evidence this filing.

If you have any additional questions regarding this issue, please call.

Very truly yours,

Paul E. Russell

DOCUMENT  
FOLDER

DOCKETED

MAY 25 1995

cc: Irwin A. Popowsky

85



Pennsylvania Power & Light Company

Two North Ninth Street • Allentown, PA 18101-1179 • 610/774-5151

Paul E. Russell  
Associate General Counsel  
610/774-4254

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DOCUMENT  
FOLDER

September 17, 1997

**FEDERAL EXPRESS**

James J. McNulty, Esquire  
Prothonotary  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

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SEP 17 1997

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

**Re: Pennsylvania Power & Light Company**  
**Docket No. A-110500F.0206**

Dear Mr. McNulty:

Pennsylvania Power & Light Company (PP&L) hereby provides the following document to the Pennsylvania Public Utility Commission (PUC):

- Form 10-Q Quarterly Report to the Securities and Exchange Commission for the Quarter Ended June 30, 1997, on behalf of PP&L Resources, Inc. and Pennsylvania Power & Light Company;

This document is being provided to the PUC and the Office of Consumer Advocate pursuant to conditions contained in the PUC's approval of PP&L's application for permission to establish a holding company structure (order entered on February 10, 1995 at Docket No. A-110500F.0206).

Please date and time-stamp the enclosed extra copy of this letter and return it to me in the envelope provided.

James J. McNulty, Esquire

- 2 -

September 17, 1997

If you have any questions regarding the enclosed document, please call.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Paul E. Russell". The signature is written in black ink and is positioned above the printed name.

Paul E. Russell

Enclosure

cc: Irwin A. Popowsky, Esquire

PP&L Resources, Inc.  
Pennsylvania Power & Light Company

# FORM 10 - Q

Quarterly Report  
to the Securities  
and Exchange  
Commission

DOCUMENT  
FOLDER

DOCKETED  
SEP 19 1997

~~DOCKETED  
SEP 16 1997~~

For the Quarter Ended  
June 30, 1997

United States  
Securities and Exchange Commission  
Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1997

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 No.</u>	<u>IRS Employer Identification No.</u>
1-11459	PP&L Resources, Inc. (Pennsylvania) Two North Ninth Street Allentown, PA 18101 (610) 774-5151	23-2758192
1-905	Pennsylvania Power & Light Company (Pennsylvania) Two North Ninth Street Allentown, PA 18101 (610) 774-5151	23-0959590

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PP&L Resources, Inc. Yes X No \_\_\_\_\_

PP&L Yes X No \_\_\_\_\_

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

PP&L Resources, Inc.	Common stock, \$.01 par value, 165,110,665 shares outstanding at July 31, 1997
Pennsylvania Power & Light Co.	Common stock, no par value, 157,300,382, shares outstanding and all held by PP&L Resources, Inc. at July 31, 1997

PP&L RESOURCES, INC.  
AND  
PENNSYLVANIA POWER & LIGHT COMPANY

FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 1997

INDEX

	<u>Page No.</u>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<b>PP&amp;L Resources, Inc.</b>	
Consolidated Statement of Income	2
Consolidated Balance Sheet	4
Consolidated Statement of Cash Flows	6
<b>Pennsylvania Power &amp; Light Company</b>	
Consolidated Statement of Income	8
Consolidated Balance Sheet	10
Consolidated Statement of Cash Flows	12
Notes to Financial Statements PP&L Resources, Inc. and Pennsylvania Power & Light Company	13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations PP&L Resources, Inc. and Pennsylvania Power & Light Company	23
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	35
Item 4. Submission of Matters to a Vote of Security Holders	35
Item 6. Exhibits and Reports on Form 8-K	35
GLOSSARY OF TERMS AND ABBREVIATIONS	37
SIGNATURES	39

**PP&L RESOURCES, INC. AND SUBSIDIARIES**

**Part 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

In the opinion of PP&L Resources, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 1997 and December 31, 1996, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended June 30, 1997 and 1996. PP&L Resources is the parent holding company of PP&L, PMDC, and Spectrum. PP&L constitutes substantially all of PP&L Resources' assets, revenues and earnings. All nonutility operating transactions are included in "Other Income and (Deductions)-Net" in PP&L Resources' Consolidated Statement of Income.

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(Millions of Dollars, except per share data)

	Three Ended 1997	Months June 30, 1996
Operating Revenues .....	\$686	\$669
Operating Expenses		
Operation		
Fuel.....	105	101
Power purchases.....	104	74
Other.....	121	127
Maintenance.....	49	55
Depreciation (including amortized depreciation).....	93	90
Income taxes .....	46	53
Taxes, other than income .....	50	49
	<u>568</u>	<u>549</u>
Operating Income.....	<u>118</u>	<u>120</u>
Other Income and (Deductions) - Net.....	<u>6</u>	<u>2</u>
Income Before Interest Charges and Dividends on Preferred Stock .....	<u>124</u>	<u>122</u>
Interest Charges		
Long-term debt.....	48	52
Short-term debt and other.....	7	2
	<u>55</u>	<u>54</u>
Preferred Stock Dividend Requirements.....	4	7
Net Income.....	<u>\$65</u>	<u>\$61</u>
Earnings Per Share of Common Stock (a).....	\$0.39	\$0.38
Average Number of Shares Outstanding (thousands).....	164,068	160,610
Dividends Declared Per Share of Common Stock.....	\$0.4175	\$0.4175

(a) Based on average number of shares outstanding.

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(Millions of Dollars, except per share data)

	Six Months Ended 1997	June 30, 1996
Operating Revenues .....	<u>\$1,472</u>	<u>\$1,458</u>
Operating Expenses		
Operation		
Fuel.....	216	225
Power purchases.....	220	165
Other.....	238	249
Maintenance.....	84	95
Depreciation (including amortized depreciation).....	185	181
Income taxes .....	134	142
Taxes, other than income .....	106	106
	<u>1,183</u>	<u>1,163</u>
Operating Income.....	<u>289</u>	<u>295</u>
Other Income and (Deductions) - Net.....	<u>13</u>	<u>4</u>
Income Before Interest Charges and Dividends on Preferred Stock .....	<u>302</u>	<u>299</u>
Interest Charges		
Long-term debt.....	99	104
Short-term debt and other.....	11	3
	<u>110</u>	<u>107</u>
Preferred Stock Dividend Requirements.....	11	14
Net Income.....	<u>\$181</u>	<u>\$178</u>
Earnings Per Share of Common Stock (a).....	\$1.11	\$1.11
Average Number of Shares Outstanding (thousands).....	163,660	160,271
Dividends Declared Per Share of Common Stock.....	\$0.835	\$0.835

(a) Based on average number of shares outstanding.

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Dollars)

	June 30, 1997 <u>(Unaudited)</u>	December 31, 1996 <u>(Audited)</u>
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - at original cost....	\$9,931	\$9,824
Accumulated depreciation .....	<u>(3,454)</u>	<u>(3,337)</u>
	6,477	6,487
Construction work in progress - at cost.....	154	172
Nuclear fuel owned and leased - net of amortization ....	164	170
Other leased property - net of amortization .....	<u>1</u>	<u>76</u>
Electric utility plant - net.....	6,796	6,905
Other property - (net of depreciation, amortization and depletion 1997, \$56; 1996, \$54).....	<u>54</u>	<u>55</u>
	<u>6,850</u>	<u>6,960</u>
<b>Investments</b>		
Investment in and advances to electric energy projects - at equity .....	247	224
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust fund .....	146	128
Financial investments.....	49	133
Other - at cost or less .....	<u>26</u>	<u>18</u>
	<u>485</u>	<u>520</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	45	101
Current financial investments .....	29	73
Accounts receivable (less reserve: 1997, \$21; 1996, \$25)		
Customers .....	195	196
Other.....	34	19
Unbilled revenues.....	74	85
Fuel, materials and supplies - at average cost.....	208	201
Deferred income taxes .....	28	21
Other.....	<u>111</u>	<u>53</u>
	<u>724</u>	<u>749</u>
<b>Regulatory Assets and Other Noncurrent Assets .....</b>	<u>1,449</u>	<u>1,407</u>
	<u>\$9,508</u>	<u>\$9,636</u>

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

(Millions of Dollars)

	June 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
Common equity		
Common stock .....	\$2	\$2
Capital in excess of par value .....	1,623	1,590
Earnings reinvested.....	1,187	1,143
Capital stock expense and other .....	(7)	10
	<u>2,805</u>	<u>2,745</u>
Preferred stock		
With sinking fund requirements .....	47	295
Without sinking fund requirements .....	50	171
Company-obligated mandatorily redeemable preferred securities .....	250	
Long-term debt .....	<u>2,482</u>	<u>2,802</u>
	<u>5,634</u>	<u>6,013</u>
<b>Current Liabilities</b>		
Commercial paper .....	191	
Bank loans .....	100	144
Long-term debt due within one year .....	150	30
Capital lease obligations due within one year .....	60	81
Accounts payable .....	122	133
Taxes accrued .....		19
Interest accrued .....	53	61
Dividends payable .....	73	75
Other .....	100	78
	<u>849</u>	<u>621</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred investment tax credits .....	204	209
Deferred income taxes .....	2,059	2,052
Capital lease obligations .....	109	166
Other .....	653	575
	<u>3,025</u>	<u>3,002</u>
<b>Commitments and Contingent Liabilities .....</b>		
	<u>\$9,508</u>	<u>\$9,636</u>

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)  
(Millions of Dollars)

	Six Months Ended 1997	Months June 30, 1996
<b>Net Cash Provided by Operating Activities.....</b>	<b>\$307</b>	<b>\$354</b>
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(143)	(155)
Proceeds from sale of nuclear fuel to trust.....	23	33
Purchases of available-for-sale securities.....	(52)	(278)
Sales and maturities of available-for-sale securities.....	91	261
Purchases and sales of other financial investments - net....	58	
Other investing activities - net.....	(1)	(8)
Net cash used in investing activities.....	<u>(24)</u>	<u>(147)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	10	116
Issuance of common stock.....	36	35
Issuance of company-obligated mandatorily redeemable preferred securities .....	250	
Retirement of long-term debt.....	(210)	(145)
Purchase of subsidiary's preferred stock (net of premium and associated costs).....	(369)	
Payments on capital lease obligations.....	(33)	(44)
Common and preferred dividends paid.....	(150)	(147)
Net increase in short-term debt.....	147	160
Other financing activities - net .....	(20)	(1)
Net cash used in financing activities.....	<u>(339)</u>	<u>(26)</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents .....</b>	<b>(56)</b>	<b>181</b>
Cash and Cash Equivalents at Beginning of Period .....	<u>101</u>	<u>20</u>
Cash and Cash Equivalents at End of Period .....	<u>\$45</u>	<u>\$201</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$106	\$107
Income taxes.....	\$131	\$146

See accompanying Notes to Financial Statements.

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**PENNSYLVANIA POWER & LIGHT COMPANY AND SUBSIDIARIES**

In the opinion of PP&L, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 1997 and December 31, 1996, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended June 30, 1997 and 1996. All nonutility operating transactions are included in "Other Income and Deductions--Net" in PP&L's Consolidated Statement of Income.

**CONSOLIDATED STATEMENT OF INCOME**  
(Unaudited)  
(Millions of Dollars)

	Three Ended 1997	Months June 30, 1996
<b>Operating Revenues</b> .....	<u>\$686</u>	<u>\$669</u>
<b>Operating Expenses</b>		
Operation		
Fuel.....	105	101
Power purchases.....	104	74
Other.....	121	127
Maintenance.....	49	55
Depreciation (including amortized depreciation) .....	93	90
Income taxes.....	46	53
Taxes, other than income.....	50	49
	<u>568</u>	<u>549</u>
<b>Operating Income</b> .....	<u>118</u>	<u>120</u>
<b>Other Income and (Deductions) - Net</b> .....	<u>6</u>	<u>3</u>
<b>Income Before Interest Charges</b> .....	<u>124</u>	<u>123</u>
<b>Interest Charges</b>		
Long-term debt.....	48	52
Short-term debt and other.....	6	2
	<u>54</u>	<u>54</u>
<b>Net Income</b> .....	<u>70</u>	<u>69</u>
Dividends on Preferred Stock.....	9	7
<b>Earnings Available to PP&amp;L Resources, Inc.</b> .....	<u>\$61</u>	<u>\$62</u>

See accompanying Notes to Financial Statements.

**PENNSYLVANIA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Unaudited)  
(Millions of Dollars)

	Six Ended 1997	Months June 30, 1996
<b>Operating Revenues</b> .....	<u>\$1,472</u>	<u>\$1,458</u>
<b>Operating Expenses</b>		
Operation		
Fuel.....	216	225
Power purchases.....	220	165
Other.....	238	249
Maintenance.....	84	95
Depreciation (including amortized depreciation) .....	185	181
Income taxes.....	134	142
Taxes, other than income.....	106	106
	<u>1,183</u>	<u>1,163</u>
<b>Operating Income</b> .....	<u>289</u>	<u>295</u>
<b>Other Income and (Deductions) - Net</b> .....	<u>7</u>	<u>6</u>
<b>Income Before Interest Charges</b> .....	<u>296</u>	<u>301</u>
<b>Interest Charges</b>		
Long-term debt.....	99	104
Short-term debt and other.....	7	3
	<u>106</u>	<u>107</u>
<b>Net Income</b> .....	<u>190</u>	<u>194</u>
<b>Dividends on Preferred Stock</b> .....	16	14
<b>Earnings Available to PP&amp;L Resources, Inc.</b> .....	<u>\$174</u>	<u>\$180</u>

See accompanying Notes to Financial Statements.

**PENNSYLVANIA POWER & LIGHT COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

(Millions of Dollars)

	June 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - at original cost.....	\$9,931	\$9,824
Accumulated depreciation .....	(3,454)	(3,337)
	<u>6,477</u>	<u>6,487</u>
Construction work in progress - at cost .....	154	172
Nuclear fuel owned and leased - net of amortization .....	164	170
Other leased property - net of amortization .....	<u>1</u>	<u>76</u>
Electric utility plant - net .....	6,796	6,905
Other property - (net of depreciation, amortization and depletion 1997, \$56; 1996, \$54) .....	54	55
	<u>6,850</u>	<u>6,960</u>
<b>Investments</b>		
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust .....	146	128
Loan to parent.....	375	
Financial investments .....	50	133
Other - at cost or less .....	<u>11</u>	<u>10</u>
	<u>599</u>	<u>288</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	6	95
Current financial investments .....	29	51
Accounts receivable (less reserve: 1997, \$21; 1996, \$25)		
Customers .....	195	196
Other .....	29	14
Unbilled revenues.....	74	85
Fuel, materials and supplies - at average cost .....	208	201
Deferred income taxes .....	27	21
Other .....	<u>111</u>	<u>53</u>
	<u>679</u>	<u>716</u>
<b>Regulatory Assets and Other Noncurrent Assets .....</b>	<u>1,448</u>	<u>1,407</u>
	<u>\$9,576</u>	<u>\$9,371</u>

See accompanying Notes to Financial Statements.

**PENNSYLVANIA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Dollars)

	June 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
<b>Common equity</b>		
Common stock .....	\$1,476	\$1,476
Additional paid-in capital .....	57	57
Earnings reinvested .....	1,095	1,094
Capital stock expense and other .....	(18)	(10)
	<u>2,610</u>	<u>2,617</u>
<b>Preferred stock</b>		
With sinking fund requirements .....	295	295
Without sinking fund requirements .....	171	171
Company-obligated mandatorily redeemable preferred securities .....	250	
Long-term debt .....	2,482	2,802
	<u>5,808</u>	<u>5,885</u>
<b>Current Liabilities</b>		
Commercial paper .....	192	
Bank loans .....		10
Long-term debt due within one year .....	150	30
Capital lease obligations due within one year .....	60	81
Accounts payable .....	121	132
Taxes accrued .....	2	21
Interest accrued .....	53	60
Dividends payable .....	79	75
Other .....	98	78
	<u>755</u>	<u>487</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred investment tax credits .....	204	209
Deferred income taxes .....	2,048	2,050
Capital lease obligations .....	109	166
Other .....	652	574
	<u>3,013</u>	<u>2,999</u>
<b>Commitments and Contingent Liabilities .....</b>		
	<u>\$9,576</u>	<u>\$9,371</u>

See accompanying Notes to Financial Statements.

**PENNSYLVANIA POWER & LIGHT COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)  
(Millions of Dollars)

	Six Ended 1997	Months June 30, 1996
<b>Net Cash Provided by Operating Activities.....</b>	<b>\$308</b>	<b>\$357</b>
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(143)	(155)
Proceeds from sales of nuclear fuel to trust.....	23	33
Purchases of available-for-sale securities .....	(52)	(71)
Sales and maturities of available-for-sale securities .....	69	73
Purchases and sales of other financial investments - net.....	76	
Loan to parent.....	(375)	
<b>Net cash used in investing activities.....</b>	<b>(402)</b>	<b>(120)</b>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	10	116
Issuance of company-obligated mandatorily redeemable preferred securities .....	250	
Retirement of long-term debt.....	(210)	(145)
Payments on capital lease obligations.....	(33)	(44)
Common and preferred dividends paid.....	(185)	(147)
Net increase (decrease) in short-term debt.....	182	(30)
Other financing activities - net .....	(9)	4
<b>Net cash provided by (used in) financing activities.....</b>	<b>5</b>	<b>(246)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(89)</b>	<b>(9)</b>
Cash and Cash Equivalents at Beginning of Period.....	95	15
Cash and Cash Equivalents at End of Period.....	<u>\$6</u>	<u>\$6</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for		
Interest (net of amount capitalized).....	\$102	\$107
Income taxes.....	\$133	\$146

See accompanying Notes to Financial Statements.

**PP&L Resources, Inc. and Pennsylvania Power & Light Company**  
**Notes to Financial Statements**

Terms and abbreviations appearing in Notes to Financial Statements are explained in the glossary.

**1. Interim Financial Statements**

Certain information in footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, has been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These financial statements should be read in conjunction with the financial statements and notes included in PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1996.

Certain amounts in the June 30, 1996 financial statements have been reclassified to conform to the presentation in the June 30, 1997 financial statements.

**2. PUC Restructuring Proceeding**

In December 1996, Pennsylvania enacted the Customer Choice Act to restructure its electric utility industry in order to create retail access to a competitive market for the generation of electricity. In accordance with that legislation, PP&L filed its restructuring plan with the PUC on April 1, 1997. Numerous parties have intervened in this proceeding. The PUC is required to take action on PP&L's filing by January 1998.

Under the Customer Choice Act, the PUC is authorized to determine the amount of PP&L's stranded costs to be recovered through a non-bypassable competitive transition charge (CTC) to be paid by all PUC-jurisdictional customers who receive transmission and distribution service from PP&L. Stranded costs are defined in the Customer Choice Act as "generation-related costs... which would have been recoverable under a regulated environment but which may not be recoverable in a competitive generation market and which the PUC determines will remain following mitigation by the electric utility."

PP&L's restructuring plan includes a claim of \$4.6 billion for stranded costs. Pursuant to the Customer Choice Act, this claim is comprised of the following categories:

1. Net plant investments and costs attributable to existing generation plants and facilities, disposal of spent nuclear fuel, retirement costs attributable to existing generating plants and employee-related transition costs;
2. Prudently incurred costs related to the cancellation, buyout, buydown or renegotiation of NUG contracts; and
3. Regulatory assets and other deferred charges typically recoverable under current regulatory practice and cost obligations under PUC-approved contracts with NUGs.

The following are the components of PP&L's stranded cost claim included in its rebuttal testimony filed with the PUC in August 1997 (a net increase of \$30 million from the amount included in PP&L's April 1997 filing):

<u>Category of Stranded Cost</u>	<u>Amount (Millions of Dollars)</u>
Nuclear Generation(a)	\$2,873
Fossil Generation(a)	757
NUG Contracts	657
Regulatory Assets	<u>354</u>
	<u>\$4,641</u>

(a) Includes deferred income taxes related to generation assets.

In determining the appropriate amount of stranded cost recovery, the Customer Choice Act requires the PUC to consider the extent to which an electric utility has taken steps to mitigate stranded costs by appropriate means that are reasonable under the circumstances. Mitigation efforts undertaken over time prior to the enactment of the Customer Choice Act are to be considered of equal importance by the PUC in determining an electric utility's stranded costs as actions taken after the passage of the Customer Choice Act. In its restructuring plan, PP&L described its extensive efforts to mitigate its stranded costs, resulting in a reduction in its stranded cost claim of over \$1 billion.

In July 1997, testimony was filed by eleven other parties in the restructuring proceeding. In this regard, the PUC's OTS recommends that PP&L be permitted to recover \$3.2 billion of its stranded costs; the PP&L Industrial Customer Alliance recommends recovery of \$661 million; and the OCA recommends recovery of \$383 million. Under Pennsylvania law, in proceedings before the PUC, the OCA and the OTS have advocacy roles. Testimony filed by the OCA and OTS carries no more weight than testimony filed by any party in the proceeding.

Evidentiary hearings in this matter will be held in late August. A recommended decision from the Administrative Law Judge hearing the case is expected by mid-November, with a final PUC order due in January 1998. PP&L cannot predict the outcome of this proceeding.

The ultimate impact of the Customer Choice Act on PP&L's financial health will depend on numerous factors, including:

1. The amount of stranded cost recovery approved by the PUC, the PUC's overall treatment of PP&L's filing and the effect of the rate cap imposed under the provisions of the Customer Choice Act;
2. The actual market price of electricity over the transition period;
3. Future sales levels; and
4. The extent to which the regulatory framework established by the Customer Choice Act will continue to be applied.

Under the Customer Choice Act, PP&L's rates to PUC-jurisdictional customers are capped at the level in effect on January 1, 1997 through mid-2001 for transmission and distribution services and through the year 2005 for generation customers. By applying the CTC proposed in its restructuring plan (which is restricted by the rate cap) through the year 2005, PP&L anticipates collecting approximately \$4 billion of its stranded costs. Based on these projections, the remaining \$600 million would be reflected as lower cash flow to PP&L after the transition period than would have occurred with continued regulated rates.

In this regard, it should be noted that PP&L's stranded cost claim included in the restructuring plan is based on a projection of future market prices and assumes a significant portion of PP&L's stranded costs will be recovered by way of increased market prices for electricity. This increase may or may not occur. To the extent that the market price of electricity does not increase as projected, or other projections such as future sales levels do not actually occur, PP&L could experience a lower recovery of stranded costs.

If the PUC permits full recovery of PP&L's stranded costs, including full recovery of all regulatory assets and above-market NUG costs over the transition period, PP&L estimates that its net income over the transition period would be reduced by about 5% of projected net income.

However, the PUC may make adjustments to components or assumptions included in the restructuring plan that could have an adverse effect on the amount of the CTC or the categories of stranded costs that are recoverable through the CTC. As a result of these uncertainties, PP&L cannot determine whether and to what extent it may be subject to a write-off or a reduction in earnings until the PUC issues an order with respect to the restructuring plan. Based on the substantial amounts involved in the restructuring plan, should PP&L be required to incur a write-off, it could be material in amount. Accordingly, PP&L is unable to predict the ultimate effect of the Customer Choice Act or the PUC's disposition of the restructuring plan on its financial position, results of operation or its need or ability to issue securities to meet future capital requirements.

The Customer Choice Act permits the issuance of "transition bonds" securitized by CTC revenues to finance the payment of stranded costs. PP&L is considering whether to seek to securitize some portion of its stranded cost claim, which would require the approval of the PUC in a qualified rate order.

In a related matter, certain parties filed suits in March 1997 in Pennsylvania Commonwealth Court challenging the constitutionality of the Customer Choice Act. PP&L has intervened in this proceeding in support of the Customer Choice Act.

### 3. Accounting for the Effects of Certain Types of Regulation

The Customer Choice Act establishes a definitive process for transition to market-based pricing for electric generation. This transition effectively includes cost-of-service based ratemaking during the transition period, subject to a rate cap. Rates will include a non-bypassable CTC, which is designed to give utilities the opportunity to recover their stranded costs during the transition period.

The SEC has made inquiries regarding the appropriateness of the continued application of SFAS 71 by utilities in states that have enacted restructuring legislation similar to the Customer Choice Act. Accordingly, the FASB's Emerging Issues Task Force (EITF) investigated this issue and concluded that utilities should discontinue application of SFAS 71 for the generation portion of their business when a deregulation plan is in place and its terms are known, which for PP&L will be upon the issuance of the PUC's restructuring order in January 1998. One of the EITF's key conclusions is that utilities should continue to carry some or all of their regulatory assets and liabilities that originated in the generation portion of the business if the regulatory cash flows to realize and settle them, respectively, will be derived from the regulated portion of the business (e.g., transmission and distribution). In addition, costs or obligations of the generation portion of the business that are incurred after application of SFAS 71 ceases and that are covered by the regulated cash flows for the portion of the business that remains regulated on a cost of service basis would also meet the criteria to be considered regulatory assets or liabilities.

Given the current regulatory environment, PP&L's electric transmission and distribution businesses are expected to remain regulated on a cost of service basis and, as a result, the provisions of SFAS 71 should continue to apply to those businesses. The impact of the discontinuance of application of SFAS 71 to the generation portion of PP&L's business will depend to a large degree on the outcome of the restructuring proceeding currently pending before the PUC. See Financial Note 2 for a discussion of the potential financial impacts of that proceeding.

#### **4. Rate Matters**

##### **Appeal of Base Rate Case**

Reference is made to PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1996, regarding the PUC Decision. The OCA appealed three issues from the PUC Decision to the Pennsylvania Commonwealth Court. In May 1997, the Commonwealth Court issued its opinion on the OCA's appeal.

The first issue was the recovery of deferrals under SFAS 106. PP&L had requested recovery of \$27 million of increased costs for post-retirement benefits caused by the change to accrual accounting of those costs under SFAS 106. The PUC had allowed this recovery, and the Commonwealth Court upheld the PUC's decision.

The second issue was the recovery of \$19 million of carrying charges and operating expenses incurred from the date of commercial operation of Susquehanna Unit 2 until the plant was recognized in rates. PP&L had requested recovery of those costs to be amortized over ten years. The PUC had allowed this recovery, and the Commonwealth Court upheld the PUC's decision.

The third issue was the recovery of Gross Receipts Tax (GRT) on uncollectible revenues. PP&L had requested an allowance for GRT on the full amount of revenue approved by the PUC, while the OCA had proposed a \$745,000 adjustment to disallow GRT on revenues that PP&L will not be able

to collect. The PUC had rejected the OCA's proposed adjustment. The Commonwealth Court reversed the PUC and remanded that issue to the PUC for recalculation of the allowance.

In June 1997, the OCA filed a petition for allowance of appeal with the Pennsylvania Supreme Court requesting review of the Commonwealth Court's decision on the SFAS 106 issue. PP&L and the PUC have filed briefs opposing the OCA's petition. This is not an appeal of right and the Supreme Court has the discretion to grant or deny the OCA's request for review. PP&L cannot predict the final outcome of this matter.

#### **FERC - Major Utility Rates**

In January 1996, PP&L filed a request with the FERC to incorporate a change in the method of calculating depreciation under its contracts with four major electric utility customers (Atlantic, BG&E, JCP&L, and UGI). PP&L also sought to increase the charges to those customers for nuclear decommissioning costs. A settlement of this case was approved by the FERC in June 1997, under terms which have no material effect on PP&L.

#### **5. Sales to Other Major Electric Utilities**

In March 1997, PP&L reached a new agreement with GPU Energy for installed capacity credit sales for up to 200,000 kW from July 1997 through December 1998, and in April 1997 PP&L signed a new agreement with Atlantic for installed capacity credit sales for up to 25,000 kilowatts from June 1997 through May 1998.

In May 1997, PP&L reached an agreement with Delmarva Power & Light Company and Old Dominion Electric Cooperative for PP&L and Delmarva to jointly provide Old Dominion with 60,000 kW of capacity to serve portions of Old Dominion's load from 1998 through 2003. Prices for this capacity reflect market conditions. FERC acceptance of this agreement is expected later in 1997.

In June 1997, PP&L began a sale of capacity and energy to JCP&L pursuant to an agreement which provides that JCP&L will purchase 150,000 kW of capacity and energy for 12 months, increasing to 200,000 kW in June 1998, and then to 300,000 kW in June 1999 through the end of the agreement in May 2004. Prices for this energy and capacity reflect market conditions.

In July 1997, FERC accepted a new wholesale power tariff that permits PP&L to sell capacity and energy at market-based rates, both inside and outside the PJM area, subject to certain conditions. This tariff allows PP&L to become more active in the wholesale market with utilities and other entities, and removes pricing restrictions which in the past had limited PP&L to charging at or below cost-based rates.

#### **6. Financial Instruments**

Financial investments decreased by \$128 million from December 31, 1996 to June 30, 1997, largely due to the liquidation of long-term investments to make funds more readily available for future investments.

## 7. Credit Arrangements and Financing Activity

From January through July 1997, PP&L Resources issued \$51 million of common stock through the DRIP.

In April 1997, PP&L redeemed \$210 million principal amount of four series of first mortgage bonds. Three of the series of first mortgage bonds were redeemed under the maintenance and replacement fund provisions of the mortgage. These series of bonds consisted of \$40 million principal amount of the 7% series due 1999; \$60 million principal amount of the 7-1/4% series due 2001; and \$80 million principal amount of the 7-1/2% series due 2003. The fourth series, \$30 million principal amount of the 6-3/4% series due 1997, was redeemed under the optional redemption provisions of that series.

In April 1997, PP&L instituted a short-term bond program in order to meet certain short-term working capital requirements and to accomplish other corporate purposes. Under this program, a total of \$800 million of short-term bonds (having maturities not in excess of 30 days) were issued from time to time, with no more than \$150 million of such bonds outstanding at any one time. No such bonds are now outstanding.

In March and April 1997, PP&L Resources acquired 79.09% (\$369 million par value) of the outstanding preferred stock of PP&L in a tender offer. By obtaining a majority of the 4-1/2% Preferred Stock and a majority of the combined amount of the 4-1/2% Preferred Stock and Series Preferred Stock (collectively, the Preferred Stock), PP&L Resources will be able to waive certain restrictive provisions contained in PP&L's Articles of Incorporation, including limitations on PP&L's ability to increase the authorized number of shares of Preferred Stock, merge or consolidate with other corporations, and issue additional Preferred Stock and unsecured debt.

To provide financing for a portion of this tender offer, PP&L arranged for the issuance of a total of \$250 million of Company-Obligated Mandatorily Redeemable Preferred Securities (preferred securities) by two Delaware statutory business trusts. These securities consist of four million shares of 8.20% preferred securities issued to the public in April 1997 for \$25 per share, for proceeds of \$100 million; and six million shares of 8.10% preferred securities issued to the public in June 1997 for \$25 per share, for proceeds of \$150 million. PP&L owns all of the common securities, representing the remaining undivided beneficial ownership interest in the assets of the trusts. The assets of the trusts consist solely of PP&L's junior subordinated deferrable interest debentures, whose rates and maturities match those of the preferred securities. PP&L has guaranteed all of the trusts' obligations under the preferred securities. The proceeds of the sale of these preferred securities were loaned by PP&L to PP&L Resources for the tender offer.

PP&L has credit arrangements with groups of banks, which have committed to lend PP&L up to \$295 million. The maturity date for loans under certain of these credit arrangements in the aggregate amount of \$45 million has been extended from May 1997 to December 1997.

PP&L Resources has a revolving credit facility in the amount of \$300 million. The maturity date for loans under this credit arrangement has

been extended from May 1997 to the end of November 1997, when the facility is due to terminate. Borrowings under this credit facility were \$100 million at June 30, 1997. An additional \$90 million was borrowed in July to finance a portion of PMDC's purchase of a 25.05% interest in Emel.

#### **8. Proposed Windfall Profits Tax - PMDC**

In July 1997, the new Labour government in the United Kingdom announced its budget proposals, which include a windfall profits tax on the privatized utilities in the U.K. The tax would be payable in two equal installments in December 1997 and December 1998. Preliminary estimates are that SWEB's windfall profits tax would be approximately 97 million pounds sterling, or about \$160 million (depending on exchange rates). Based on this estimate and PMDC's 25% ownership interest in SWEB, PP&L Resources would incur a one-time charge against earnings of about \$40 million, or 24 cents per share. PP&L Resources expects to record this charge in the third quarter of 1997.

#### **9. Proposed Acquisition of Penn Fuel Gas, Inc.**

In June 1997, PP&L Resources entered into an agreement with Penn Fuel Gas, Inc. (PFG), a Pennsylvania corporation, pursuant to which PP&L Resources would acquire PFG. PFG, with nearly 100,000 customers in Pennsylvania and a few hundred in Maryland, distributes and stores natural gas and sells propane.

Under the terms of the agreement, PFG would become a wholly-owned subsidiary of PP&L Resources. Upon consummation of the merger, each outstanding PFG common share would be converted into the right to receive between 6.968 and 8.516 shares of PP&L Resources' Common Stock, and each outstanding PFG preferred share would be converted into the right to receive between 0.682 and 0.833 shares of PP&L Resources' Common Stock. Based upon recent New York Stock Exchange closing prices, PP&L Resources expects to issue shares of its Common Stock valued at about \$121 million to complete the transaction. The exact conversion rate and number of PP&L Resources' shares to be issued will be based on the market value of the Common Stock of PP&L Resources at the time of the merger. The merger is expected to be treated as a pooling-of-interests for accounting and financial reporting purposes.

The merger is subject to several conditions, including the receipt of required approvals by the PUC, the Maryland Public Service Commission and the SEC. This acquisition does not require the approval of PP&L Resources' shareholders. The merger is expected to take approximately twelve months to complete.

In the third quarter of 1997, PP&L Resources will record one-time transaction costs associated with the merger with PFG, which are expected to reduce earnings by about six cents per share of common stock.

#### **10. Commitments and Contingent Liabilities**

There have been no material changes related to PP&L Resources' or PP&L's commitments and contingent liabilities since the companies filed their joint 1996 Form 10-K, except for the discussion below regarding loan guarantees of affiliated companies and employee relations.

For discussion pertaining to PP&L Resources' and PP&L's financing matters, see Financial Note 7.

### **Nuclear Insurance**

PP&L is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to \$2.75 billion under these programs. PP&L is also a member of an insurance program which provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, PP&L could be assessed retroactive premiums in the event of the insurers' adverse loss experience. The maximum amount PP&L could be assessed under these programs at June 30, 1997 was about \$36 million.

Under provisions of The Price Anderson Amendments Act of 1988, PP&L's public liability for claims arising from a nuclear incident at the Susquehanna station is limited to about \$8.9 billion. PP&L 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 Amendments Act, PP&L could be assessed up to \$151 million per incident, payable at a rate of \$20 million per year, plus an additional 5% surcharge, if applicable.

### **Environmental Matters**

#### Air

The Clean Air Act deals, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. PP&L has complied with the Phase I acid rain provisions required to be implemented by 1995 by installing continuous emission monitors on all units, burning lower sulfur coal and installing low nitrogen oxide burners on certain units. To comply with the year 2000 acid rain provisions, PP&L plans to purchase lower sulfur coal and use banked or purchased emission allowances instead of installing FGD on its wholly-owned units.

PP&L has met the initial ambient ozone requirements of the Clean Air Act by reducing nitrogen oxide emissions by 40% through the use of low nitrogen oxide burners. Further seasonal (i.e., 5 month) nitrogen oxide reductions to 55% and 75% of pre-Clean Air Act levels for 1999 and 2003, respectively, are specified under the Northeast Ozone Transport Region's Memorandum of Understanding. The PA DEP is finalizing regulations which require PP&L to reduce its ozone seasonal NO<sub>x</sub> by 57% beginning in 1999.

The Clean Air Act requires the EPA to study the health effects of hazardous air emissions from power plants and other sources. In this regard, in November 1996 the EPA proposed new national standards for ambient levels of ground-level ozone and fine particulates. The new standards, if implemented, may result in the EPA mandating additional NO<sub>x</sub> and SO<sub>2</sub> reductions from utility boilers in the 2005-2010 timeframe. NO<sub>x</sub> reductions to meet the new ozone standard are likely to be in the range of the 75% seasonal NO<sub>x</sub> reductions that are specified under the Memorandum of Understanding in 2003 and beyond. However, to meet the new fine

particulate standards, the EPA may mandate additional SO<sub>2</sub> reductions significantly greater than those now planned for the acid rain program and extend the NO<sub>x</sub> reductions required by the Memorandum of Understanding from seasonal to year-round.

Expenditures to meet the Memorandum of Understanding requirements for 1999 are included in the table of projected construction expenditures in the Review of the Financial Condition and Results of Operations under the caption "Financial Condition - Capital Expenditure Requirements" on page 32 of the 1996 Form 10-K. PP&L currently estimates that additional capital expenditures and operating costs for environmental compliance under the Clean Air Act will be incurred beyond 2001 in amounts which are not now determinable but which could be material.

#### Water and Residual Waste

DEP residual waste regulations set forth requirements for existing ash basins at PP&L's coal-fired generating stations. To address these DEP regulations, PP&L has installed dry fly ash handling systems at most of its power stations, which eliminate the need for ash basins. In other cases, PP&L has modified the existing facilities to allow continued operation of the ash basins under a new DEP permit. Any groundwater contamination caused by the basins must also be addressed. Any new ash disposal facility must meet the rigid siting and design standards set forth in the regulations.

Groundwater degradation related to fuel oil leakage from underground facilities and seepage from coal refuse disposal areas and coal storage piles has been identified at several PP&L generating stations. Remedial work is substantially completed at two generating stations. At this time, there is no indication that remedial work will be required at other PP&L generating stations.

The current Montour station NPDES permit contains stringent limits for certain toxic metals and increased monitoring requirements. Depending on the results of toxic reduction studies in progress, additional water treatment facilities may be needed at this station.

Capital expenditures through the year 2001 to comply with the residual waste regulations, correct groundwater degradation at fossil-fueled generating stations, and address waste water control at PP&L facilities are included in the table of construction expenditures in the Review of the Financial Condition and Results of Operations under the caption "Financial Condition - Capital Expenditure Requirements" on page 32 of the 1996 Form 10-K. In this regard, PP&L currently estimates that \$12 million of additional capital expenditures may be required in the next four years and \$67 million of additional capital expenditures could be required beyond the year 2001. Actions taken to correct groundwater degradation, to comply with the DEP's regulations and to address waste water control are also expected to result in increased operating costs in amounts which are not now determinable but could be material.

#### Superfund and Other Remediation

PP&L has signed a consent order with the DEP to address a number of sites where PP&L may be liable for remediation of contamination. This may

include potential PCB contamination at certain PP&L substations and pole sites; potential contamination at a number of coal gas manufacturing facilities formerly owned and operated by PP&L; and oil or other contamination which may exist at some of PP&L's former generating facilities.

At June 30, 1997, PP&L had accrued \$9.4 million, representing the amount PP&L can reasonably estimate it will have to spend to remediate sites involving the removal of hazardous or toxic substances including those covered by the consent order mentioned above. Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs which PP&L cannot estimate at this time. In addition, certain federal and state statutes, including Superfund and the Pennsylvania Hazardous Sites Cleanup Act, empower certain governmental agencies, such as the EPA and the DEP, to seek compensation from the responsible parties for the lost value of damaged natural resources. The EPA and the DEP may file such compensation claims against the parties, including PP&L, held responsible for cleanup of such sites. Such natural resource damage claims against PP&L could result in material additional liabilities.

#### Other Environmental Matters

In addition to the issues discussed above, PP&L may be required to modify, replace or cease operating certain facilities to comply with other statutes, regulations and actions by regulatory bodies or courts involving environmental matters, including the areas of water and air quality, hazardous and solid waste handling and disposal, toxic substances and electric and magnetic fields. In this regard, PP&L also may incur capital expenditures, operating expenses and other costs in amounts which are not now determinable, but which could be material.

#### **Loan Guarantees of Affiliated Companies**

PMDC has guaranteed a subsidiary's pro rata share of the outstanding portion of certain debt issuances of an affiliate. At June 30, 1997, \$14 million of such loans were guaranteed by PMDC. PMDC's guarantee is expected to increase to \$20 million during 1998, as the affiliate draws down the balance of its debt facility.

In addition, Spectrum has a \$1 million line of credit, which is guaranteed by PP&L Resources.

#### **Employee Relations**

As of June 30, 1997, PP&L had a total of 6,359 full-time employees. Approximately 65 percent of these employees were represented by the IBEW. The previous three-year agreement with the IBEW expired in May 1997, and PP&L and the IBEW agreed to extend all provisions of that labor agreement through May 1998.

#### **11. New Accounting Standards**

During 1997, the FASB issued SFAS 128, Earnings Per Share; SFAS 129, Disclosure of Information about Capital Structure; SFAS 130, Reporting Comprehensive Income; and SFAS 131, Disclosures About Segments of an Enterprise and Related Information. SFAS 128, SFAS 129, and SFAS 131 are effective for financial statements issued for periods ending after December 15, 1997. SFAS 130 is effective in 1998. The adoption of these statements is not expected to have a significant impact on PP&L Resources' or PP&L's financial statements.

PP&L Resources, Inc. and Pennsylvania Power & Light Company

**Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

Certain 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 PP&L Resources and PP&L believe that the expectations reflected in these statements are reasonable, there can be no assurance that these expectations will prove to have been 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. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: state and federal regulatory treatment, especially the PUC's disposition of PP&L's April 1, 1997 restructuring filing; new state or federal legislation; national or regional economic conditions; weather variations affecting customer usage; competition in retail and wholesale power markets; the need for and effect of any business or industry restructuring; PP&L Resources' and PP&L's profitability and liquidity; new accounting requirements or new interpretations or applications of existing requirements; system conditions and operating costs; performance of new ventures; political, regulatory or economic conditions in foreign countries; exchange rates; and PP&L Resources' and PP&L's commitments and liabilities. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PP&L Resources' and PP&L's other documents on file with the SEC.

The financial condition and results of operations of PP&L are currently the principal factors affecting the financial condition and results of operations of PP&L Resources. All fluctuations, unless specifically noted, are primarily due to activities of PP&L. All nonutility operating transactions are included in "Other Income and (Deductions) - Net" on the PP&L Resources' Consolidated Statement of Income. This discussion should be read in conjunction with the section entitled "Review of the Financial Condition and Results of Operations of PP&L Resources, Inc. and Pennsylvania Power & Light Company" in PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1996.

Terms and abbreviations appearing in Management's Discussion and Analysis of Financial Condition and Results of Operations are explained in the glossary.

Results of Operations

The following discussion explains material changes in principal items on the Consolidated Statement of Income comparing the three months and six months ended June 30, 1997, to the comparable periods ended June 30, 1996.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any indication of the results of future operations. Future results of operations 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 are not necessarily indicative of results or trends for the year.

### Earnings

	Comparison of Earnings - June 30			
	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Earnings per share - excluding weather variances	\$ .39	\$ .36	\$ 1.15	\$ 1.05
Weather variances on billed sales		<u>.02</u>	<u>(0.04)</u>	<u>0.06</u>
Earnings per share - reported	<u>\$ .39</u>	<u>\$ .38</u>	<u>\$ 1.11</u>	<u>\$ 1.11</u>

Earnings per share, excluding weather variances, improved by \$.03 for the three months ended June 30, 1997, and by \$.10 for the first six months of 1997, when compared with the same periods in 1996. Earnings improvement for these periods, on a weather-normalized basis, was primarily the net effect of the following:

	<u>June 30, 1997 vs. June 30, 1996</u>	
	<u>Three Months Ended</u>	<u>Six Months Ended</u>
	(per share)	
o Higher base rate revenues, due to unbilled revenues and moderate growth in weather-normalized sales;	\$	\$0.04
o Net reduction in revenues due to the phase-down of the contract with JCP&L;	(0.02)	(0.05)
o Higher PMDC earnings, primarily from SWEB;	0.02	0.05
o Higher other operating revenues, primarily due to increased sales of reservation of electrical output to other utilities;	0.03	0.05
o Decrease in preferred dividends, net of distributions on preferred securities;	0.02	0.02
o Higher depreciation expense due to plant additions; and	(0.01)	(0.02)
o Other	<u>(0.01)</u>	<u>0.01</u>
Earnings Improvement	<u>\$0.03</u>	<u>\$0.10</u>

The reduction in contractual bulk power sales to JCP&L and other major utilities will continue to adversely affect earnings over the next few years. PP&L has increased its efforts to sell this returning energy and capacity on the open market; however, the price received for this capacity and energy on the open market is currently less than the amount received pursuant to the contract.

In addition, the Customer Choice Act, enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity, could have a major impact on the future financial performance of PP&L. See "PUC Restructuring Proceeding" for additional information.

In July 1997, the new Labour government in the United Kingdom announced its budget proposals, which include a windfall profits tax on the privatized utilities in the U.K. Based on preliminary estimates and PMDC's 25% ownership interest in SWEB, PP&L Resources would incur a one-time charge against earnings of about 24 cents per share. PP&L Resources expects to record this charge in the third quarter of 1997. See Financial Note 8 for additional information on the windfall profits tax.

### Electric Energy Sales

The increase (decrease) in PP&L's electric energy sales was attributable to the following:

	<u>June 30, 1997 vs. June 30, 1996</u>	
	<u>Three Months</u>	<u>Six Months</u>
	<u>Ended</u>	<u>Ended</u>
	(Millions of Kwh)	
Service Area Sales:		
Residential	(57)	(424)
Commercial	22	(42)
Industrial	54	161
Other	<u>(5)</u>	<u>(14)</u>
Total Service Area Sales	14	(319)
Wholesale Energy Sales	<u>716</u>	<u>1,116</u>
 Total	 <u>730</u>	 <u>797</u>

Service area sales of 7.5 billion kwh for the three months ended June 30, 1997 were essentially unchanged from the same period in 1996. If normal weather conditions had been experienced in both the second quarter of 1996 and 1997, service area sales would have increased by about 117 million kwh, or 1.6%, over the same period of 1996.

Service area sales were 16.4 billion kwh for the six months ended June 30, 1997, a decrease of 319 million kwh, or 1.9%, from the first six months of 1996. This change was primarily due to a mild winter heating season in 1997 when compared to 1996. Sales to the Residential and Commercial classes declined by 6.5% and 0.8%, respectively, for the period, and Industrial sales increased by 3.3%. Under normal weather conditions service area sales would have increased by about 179 million kwh, or 1.1%, over the same period of 1996.

Wholesale energy sales, which includes sales to other utilities and energy marketers, through contracts, spot market transactions or power pool arrangements, were 4.3 billion kwh for the three months ended June 30, 1997, an increase of 716 million kwh, or 19.8%, from the same period of 1996, despite the reduction in PP&L's contractual bulk power sales to JCP&L. This increase was primarily the result of the increased spot market transactions. For the six months ended June 30, 1997, the increase in wholesale energy sales was 1.1 billion kwh, or 15.9%.

### Operating Revenues

The increase in total operating revenues was attributable to the following:

June 30, 1997 vs. June 30, 1996

	<u>Three Months</u>	<u>Six Months</u>
	<u>Ended</u>	<u>Ended</u>
	(Millions of Dollars)	
<b>Base Rate Revenues - Service Area Sales</b>		
Sales volume and sales mix	\$ 5	\$ 8
Unbilled revenues	(2)	7
Weather effect	(8)	(39)
<b>Wholesale Revenues</b>		
Energy and capacity	12	21
Reservation charges and other	8	14
<b>Other</b>	<u>2</u>	<u>3</u>
	<u>\$17</u>	<u>\$14</u>

Operating revenues increased by \$17 million, or 2.5%, during the three months ended June 30, 1997, from the same period in 1996. Revenue from sales of energy and capacity to wholesale customers increased by \$12 million over the prior year, despite the phase-down of the capacity and energy agreement with JCP&L. These results continue to reflect PP&L's increased emphasis on competing in wholesale markets. This emphasis is also reflected in the increase in revenues from the sales of capacity credits, reservation charges and transmission entitlements in the second quarter of 1997. Moderate sales growth to PUC and FERC jurisdictional customers also contributed to the increase in revenues. Mild weather patterns in the second quarter of 1997, in comparison to 1996, offset these revenue gains by about \$8 million.

Operating revenues increased by \$14 million, or 1.0%, during the six months ended June 30, 1997, when compared with the first half of 1996. Revenue increases are attributable to the same factors identified above for the second quarter, as well as higher unbilled revenues. However, weather caused an even more unfavorable impact during the six months ended June 30, 1997, versus June 30, 1996. Weather changes, most notably the extremely cold winter in 1996 versus a mild winter in 1997, decreased revenues by about \$39 million for this period.

**PUC Restructuring Proceeding**

In December 1996, Pennsylvania enacted the Customer Choice Act to restructure its electric utility industry in order to create retail access to a competitive market for the generation of electricity. In accordance with that legislation, PP&L filed its restructuring plan with the PUC on April 1, 1997. Numerous parties have intervened in this proceeding. The PUC is required to take action on PP&L's filing by January 1998.

Under the Customer Choice Act, the PUC is authorized to determine the amount of PP&L's stranded costs to be recovered through a non-bypassable competitive transition charge (CTC) to be paid by all PUC-jurisdictional customers who receive transmission and distribution service from PP&L. Stranded costs are defined in the Customer Choice Act as "generation-related costs... which would have been recoverable under a regulated environment but which may not be recoverable in a competitive generation market and which the PUC determines will remain following mitigation by the electric utility."

PP&L's restructuring plan includes a claim of \$4.6 billion for stranded costs. Pursuant to the Customer Choice Act, this claim is comprised of the following categories:

1. Net plant investments and costs attributable to existing generation plants and facilities, disposal of spent nuclear fuel, retirement costs attributable to existing generating plants and employee-related transition costs;
2. Prudently incurred costs related to the cancellation, buyout, buydown or renegotiation of NUG contracts; and
3. Regulatory assets and other deferred charges typically recoverable under current regulatory practice and cost obligations under PUC-approved contracts with NUGs.

The following are the components of PP&L's stranded cost claim included in its rebuttal testimony filed with the PUC in August 1997 (a net increase of \$30 million from the amount included in PP&L's April 1997 filing):

<u>Category of Stranded Cost</u>	<u>Amount</u> <u>(Millions of Dollars)</u>
Nuclear Generation(a)	\$2,873
Fossil Generation(a)	757
NUG Contracts	657
Regulatory Assets	<u>354</u>
	<u>\$4,641</u>

(a) Includes deferred income taxes related to generation assets.

In determining the appropriate amount of stranded cost recovery, the Customer Choice Act requires the PUC to consider the extent to which an electric utility has taken steps to mitigate stranded costs by appropriate means that are reasonable under the circumstances. Mitigation efforts undertaken over time prior to the enactment of the Customer Choice Act are to be considered of equal importance by the PUC in determining an electric utility's stranded costs as actions taken after the passage of the Customer Choice Act. In its restructuring plan, PP&L described its extensive efforts to mitigate its stranded costs, resulting in a reduction in its stranded cost claim of over \$1 billion.

In July 1997, testimony was filed by eleven other parties in the restructuring proceeding. In this regard, the PUC's OTS recommends that PP&L be permitted to recover \$3.2 billion of its stranded costs; the PP&L Industrial Customer Alliance recommends recovery of \$661 million; and the OCA recommends recovery of \$383 million. Under Pennsylvania law, in proceedings before the PUC, the OCA and the OTS have advocacy roles. Testimony filed by the OCA and OTS carries no more weight than testimony filed by any party in the proceeding.

Evidentiary hearings in this matter will be held in late August. A recommended decision from the Administrative Law Judge hearing the case is expected by mid-November, with a final PUC order due in January 1998. PP&L cannot predict the outcome of this proceeding.

The ultimate impact of the Customer Choice Act on PP&L's financial health will depend on numerous factors, including:

1. The amount of stranded cost recovery approved by the PUC, the PUC's overall treatment of PP&L's filing and the effect of the rate cap imposed under the provisions of the Customer Choice Act;

2. The actual market price of electricity over the transition period;

3. Future sales levels; and

4. The extent to which the regulatory framework established by the Customer Choice Act will continue to be applied.

Under the Customer Choice Act, PP&L's rates to PUC-jurisdictional customers are capped at the level in effect on January 1, 1997 through mid-2001 for transmission and distribution services and through the year 2005 for generation customers. By applying the CTC proposed in its restructuring plan (which is restricted by the rate cap) through the year 2005, PP&L anticipates collecting approximately \$4 billion of its stranded costs. Based on these projections, the remaining \$600 million would be reflected as lower cash flow to PP&L after the transition period than would have occurred with continued regulated rates.

In this regard, it should be noted that PP&L's stranded cost claim included in the restructuring plan is based on a projection of future market prices and assumes a significant portion of PP&L's stranded costs will be recovered by way of increased market prices for electricity. This increase may or may not occur. To the extent that the market price of electricity does not increase as projected, or other projections such as future sales levels do not actually occur, PP&L could experience a lower recovery of stranded costs.

If the PUC permits full recovery of PP&L's stranded costs, including full recovery of all regulatory assets and above-market NUG costs over the transition period, PP&L estimates that its net income over the transition period would be reduced by about 5% of projected net income.

However, the PUC may make adjustments to components or assumptions included in the restructuring plan that could have an adverse effect on the amount of the CTC or the categories of stranded costs that are recoverable through the CTC. As a result of these uncertainties, PP&L cannot determine whether and to what extent it may be subject to a write-off or a reduction in earnings until the PUC issues an order with respect to the restructuring plan. Based on the substantial amounts involved in the restructuring plan, should PP&L be required to incur a write-off, it could be material in amount. Accordingly, PP&L is unable to predict the ultimate effect of the Customer Choice Act or the PUC's disposition of the restructuring plan on its financial position, results of operation or its need or ability to issue securities to meet future capital requirements.

The Customer Choice Act permits the issuance of "transition bonds" securitized by CTC revenues to finance the payment of stranded costs. PP&L is considering whether to seek to securitize some portion of its stranded cost claim, which would require the approval of the PUC in a qualified rate order.

In a related matter, certain parties filed suits in March 1997 in Pennsylvania Commonwealth Court challenging the constitutionality of the Customer Choice Act. PP&L has intervened in this proceeding in support of the Customer Choice Act.

## Rate Matters

Reference is made to PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1996, regarding the PUC Decision. The OCA appealed three issues from the PUC Decision to the Pennsylvania Commonwealth Court. In May 1997, the Commonwealth Court issued its opinion on the OCA's appeal.

The first issue was the recovery of deferrals under SFAS 106. PP&L had requested recovery of \$27 million of increased costs for post-retirement benefits caused by the change to accrual accounting of those costs under SFAS 106. The PUC had allowed this recovery, and the Commonwealth Court upheld the PUC's decision.

The second issue was the recovery of \$19 million of carrying charges and operating expenses incurred from the date of commercial operation of Susquehanna Unit 2 until the plant was recognized in rates. PP&L had requested recovery of those costs to be amortized over ten years. The PUC had allowed this recovery, and the Commonwealth Court upheld the PUC's decision.

The third issue was the recovery of Gross Receipts Tax (GRT) on uncollectible revenues. PP&L had requested an allowance for GRT on the full amount of revenue approved by the PUC, while the OCA had proposed a \$745,000 adjustment to disallow GRT on revenues that PP&L will not be able to collect. The PUC had rejected the OCA's proposed adjustment. The Commonwealth Court reversed the PUC and remanded that issue to the PUC for recalculation of the allowance.

In June 1997, the OCA filed a petition for allowance of appeal with the Pennsylvania Supreme Court requesting review of the Commonwealth Court's decision on the SFAS 106 issue. PP&L and the PUC have filed briefs opposing the OCA's petition. This is not an appeal of right and the Supreme Court has the discretion to grant or deny the OCA's request for review. PP&L cannot predict the final outcome of this matter.

In January 1996, PP&L filed a request with the FERC to incorporate a change in the method of calculating depreciation under its contracts with four major electric utility customers (Atlantic, BG&E, JCP&L, and UGI). PP&L also sought to increase the charges to those customers for nuclear decommissioning costs. A settlement of this case was approved by the FERC in June 1997, under terms which have no material effect on PP&L.

## Power Purchases

Purchased power for the three and six months ended June 30, 1997 increased \$30 million and \$55 million, respectively, over the comparable periods in 1996. These increases were primarily due to greater quantities of power purchased from other utilities to meet planned and unplanned outages at the Susquehanna station and to meet increased energy marketing activities.

## Other Operation and Maintenance Expense

Other operation and maintenance expenses decreased by \$12 million and \$22 million, respectively, for the three and six months ended June 30, 1997 over the comparable periods in 1996. Excluding the effect of underrecovered energy costs, operation and maintenance expenses remained essentially unchanged from 1996. Beginning in 1997, underrecovered energy

costs are recorded as a reduction of operating expense; prior to 1997, these underrecovered costs were accrued as energy revenues.

#### **Other Income and (Deductions) - Net**

Other income and deductions increased during the three and six months ended June 30, 1997 when compared with the same periods in 1996. These increases reflect improvements in PMDC's earnings, largely due to the acquisition of an interest in SWEB in July 1996. The increased earnings from PMDC were partially offset by decreases in the earnings of CEP's investments. About \$99 million of CEP's investments were liquidated in the first six months of 1997 to make funds available for other corporate investments.

### Financial Condition

#### **Financing Activities**

The following financings have occurred through July 31, 1997:

- o From January through July 1997, PP&L Resources issued \$51 million of common stock through the DRIP.
- o In April 1997, PP&L redeemed \$210 million principal amount of four series of first mortgage bonds.
- o PP&L Resources obtained 79.09% of the outstanding preferred stock of PP&L pursuant to a tender offer in March and April 1997.
- o To provide financing for a portion of this tender offer, PP&L arranged for two Delaware statutory business trusts to issue a total of \$250 million of preferred securities supported by a corresponding amount of junior subordinated deferrable interest debentures issued by PP&L to the trusts. Specifically in April and June 1997 the trusts issued \$100 million and \$150 million of preferred securities, respectively.
- o PP&L Resources' \$300 million revolving credit facility was extended to the end of November 1997. In April 1997, PP&L Resources repaid \$35 million of the \$135 borrowed under this facility. In July 1997, PP&L Resources borrowed an additional \$90 million to finance a portion of PMDC's purchase of a 25.05% interest in Emel.

Refer to Financial Note 7 for additional information.

#### **Financing and Liquidity**

The change in cash and cash equivalents for the six months ended June 30, 1997 decreased \$237 million for PP&L Resources from the comparable period in 1996. The reasons for this change were:

- o A \$47 million decrease in cash provided by operating activities due to cash outflows for a refueling outage of Susquehanna Unit 2 and a buyout of a contract with a non-utility generator.

- o A \$313 million increase in cash used in financing activities as a result of PP&L Resources acquiring 79% of PP&L preferred stock for a cost, including a premium and associated costs of purchase, of \$380 million. There was also a \$106 decrease in the issuance of long-term debt and a \$65 million increase in the retirement of long-term debt. Offsetting these financing activities was the issuance of \$250 million of preferred securities.
- o A \$123 million decrease in cash used in investing activities due to a few subsidiaries liquidating long-term investments to make funds available for other investments.

PP&L's projected internally generated funds would be sufficient to permit PP&L to retire about \$550 million of its long-term debt during 1998-2001.

Outside financing, in amounts not currently determinable, or the liquidation of certain financial investments, may be required over the next five years to finance investment opportunities in worldwide energy projects by PMDC.

#### Financial Indicators

The ratio of pre-tax income to interest charges remained unchanged at 3.8 for the six months ended June 30, 1997, compared to the same period in 1996. The annual per share dividend rate on common stock was also unchanged at \$1.67 per share. The ratio of the market price to book value of common stock was 116% at June 30, 1997, compared with 142% at June 30, 1996.

#### Unregulated Investments

PMDC continues to pursue opportunities to develop and acquire electric generation, transmission and distribution facilities in the United States and abroad.

As of June 30, 1997, PMDC had investments and commitments in the amount of approximately \$370 million in distribution, transmission and generation facilities in the United Kingdom, Bolivia, Peru, Argentina, Spain, Portugal and Chile. PMDC's principal investments to date are in SWEB and Emel. Refer to Financial Note 8 for information regarding the effect of the U.K.'s windfall profits tax on SWEB.

In July 1997, PMDC purchased a 25.05 percent interest in Emel for approximately \$115 million. Emel is a Chilean holding company that has majority interests in six electric distribution companies located in Chile and Bolivia. Emel's electric distribution company holdings make it the third largest distributor of electricity in Chile and the second largest in Bolivia, serving a total of 535,000 customers in those countries. Contemporaneously with financial closing, which occurred in July 1997, PMDC entered into a shareholders' agreement that enables PMDC and another major shareholder, Las Espigas Group, to control Emel's board of directors. The \$115 million purchase price is included in the \$370 million of investments and commitments discussed above.

PP&L Resources' other unregulated subsidiary, Spectrum, offers energy-related products and services to PP&L's existing customers and to others outside of PP&L's service territory. Other subsidiaries may be formed by PP&L Resources to take advantage of new business opportunities.

## Commitments and Contingent Liabilities

There have been no material changes related to PP&L Resources' or PP&L's commitments and contingent liabilities since the companies filed their joint 1996 Form 10-K, except for the discussions in Financial Note 10 -- "Commitments and Contingent Liabilities" regarding loan guarantees of affiliated companies and employee relations.

### Increasing Competition

#### Background

The electric utility industry has experienced and will continue to experience a significant increase in the level of competition in the energy supply market. PP&L has publicly expressed its support for full customer choice of electricity suppliers for all customer classes. PP&L is actively involved in efforts at both the state and federal levels to encourage a smooth transition to full competition. PP&L believes that this transition to full competition should provide for the recovery of a utility's stranded costs, which are generation-related costs that traditionally would be recoverable in a regulated environment but which may not be recoverable in a competitive electric generation market.

#### Pennsylvania Activities

Reference is made to "PUC Restructuring Proceeding" for a discussion of PP&L's April 1997 filing of its restructuring plan pursuant to the Customer Choice Act.

PP&L has filed a proposed retail access pilot program with the PUC in accordance with the applicable provisions of the Customer Choice Act and PUC guidelines. Under its pilot program, approximately 54,000 PP&L residential, commercial and industrial customers -- representing about 5% of PP&L's average annual peak load -- will have an opportunity to purchase energy and capacity from alternative suppliers. PP&L will provide all transmission and distribution, customer service and back-up energy supply services to participating customers. Only those alternative suppliers licensed by the PUC and in compliance with the state tax obligations set forth in the Customer Choice Act may participate in the pilot programs.

In May 1997, the PUC issued a preliminary opinion and order approving and revising PP&L's proposed pilot program. PP&L has filed comments to the Commission's preliminary order. The other major electric utilities in Pennsylvania received similar preliminary orders and filed comments. A number of the major parties entered into a joint settlement agreement resolving all of the issues in these proceedings. Although not signatories to the joint settlement agreement, the OCA and the OSBA filed letters indicating that they did not object to it. Several alternative suppliers and an environmental group have opposed the settlement. Evidentiary hearings have been held regarding the reasonableness of the settlement, and a PUC final order is expected by the end of August.

In June 1997, the PUC approved PP&L's application for a license to act as an electric generation supplier. This license will permit PP&L to participate in the various retail access pilot programs of other Pennsylvania utilities presently under review by the PUC.

## Federal Activities

Legislation has been introduced in the U.S. Congress that would give all retail customers the right to choose among competitive suppliers of electricity as early as 2000.

In addition, in April 1996 the FERC adopted rules on competition in the wholesale electricity market primarily dealing with open access to transmission lines, recovery of stranded costs, and information systems for displaying available transmission capability (FERC Orders 888 and 889). These rules required all electric utilities to file open access transmission tariffs by July 9, 1996. The rules also provided that utilities are entitled to recover from certain wholesale requirements customers all "legitimate, verifiable, prudently incurred stranded costs." The FERC has provided recovery mechanisms for wholesale stranded costs, including stranded costs resulting from municipalization. Wholesale contracts signed after July 11, 1994 must contain explicit provisions addressing recovery of stranded costs. For requirements contracts signed before that date, a utility may seek recovery if it can show that it had a reasonable expectation of continuing to serve the customer after the contract term. Finally, the rules required that power pools file pool-wide open access transmission tariffs and modified bilateral coordination agreements reflecting the removal of discriminatory provisions by December 31, 1996.

In July 1996, PP&L filed the open access transmission tariff required by FERC Order 888. Under the new FERC rules, that tariff became effective on July 9, 1996, subject to refund. The non-rate terms and conditions of that tariff were accepted by FERC. Several parties moved to intervene and protested the new rates. On July 31, 1997, FERC rejected PP&L's rates and ordered that the pre-existing rates, which had been placed into effect on May 27, 1996, be inserted into the tariff.

In March 1997, the FERC issued Orders 888-A and 889-A. Among other things, these orders required utilities to make certain changes to the non-rate terms and conditions of their open access transmission tariffs. In July 1997, in compliance with Order 888-A, PP&L filed a revised open access transmission tariff. PP&L also requested in that filing that FERC approve certain transmission tariff rate changes. The FERC has not yet acted on that filing.

Under the new rules, 16 small utilities which have power supply agreements with PP&L signed before July 11, 1994, requested and were provided with PP&L's current estimate of its stranded costs applicable to these customers if they were to terminate their agreements in 1999. Based upon a formula set forth in FERC Order 888 and applicable only to wholesale requirements customers, and based upon data unique to the agreements between PP&L and these customers, PP&L estimated that the stranded costs associated with service to these wholesale customers would be approximately \$125 million. As a result of a protest by these parties against such recovery, hearings were conducted at FERC in March 1997 and June 1997 regarding PP&L's right to recover these stranded costs. Further proceedings in this matter have been suspended pending the negotiation and approval by the FERC of a settlement with these customers.

In December 1996, the PJM companies submitted a compliance filing with the FERC, which proposed a pool-wide pro forma transmission tariff and a revised interconnection agreement and transmission owners agreement designed to accommodate open, non-discriminatory participation in the pool.

FERC accepted the PJM tariff and proposed rates, subject to refund, and they went into effect on March 1, 1997. In June 1997, all of the PJM companies, except PECO, filed with the FERC proposals to amend the PJM tariff and restructure the PJM pool. PECO filed a separate request with the FERC to amend the PJM tariff and restructure the PJM pool. The FERC has not yet acted on these filings.

In July 1997, FERC accepted a new wholesale power tariff that permits PP&L to sell capacity and energy at market-based rates, both inside and outside the PJM area, subject to certain conditions. This tariff allows PP&L to become more active in the wholesale market with utilities and other entities, and removes pricing restrictions which in the past had limited PP&L to charging at or below cost-based rates.

PP&L RESOURCES, INC. AND  
PENNSYLVANIA POWER & LIGHT COMPANY AND SUBSIDIARIES

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings

Reference is made to Notes to Financial Statements for information concerning rate matters.

Item 4. Submission of Matters to a Vote of Security Holders

At PP&L Resources' Annual Meeting of Shareowners held on April 23, 1997, the shareowners:

(1) Elected all four nominees for the office of director. The vote for all nominees was 125,074,853. The votes for individual nominees were as follows:

	<u>For</u>	<u>Number of Votes</u> <u>Withhold Authority</u>
E. Allen Deaver	123,958,177	3,294,214
Nance K. Dicciani	123,932,317	3,320,074
Elmer D. Gates	123,538,150	3,714,241
Norman Robertson	123,760,294	3,492,097

The vote to withhold authority for all nominees was 2,177,538.

(2) Ratified the appointment of Price Waterhouse LLP as independent auditors for year ended December 31, 1997. The vote was 124,872,330 in favor and 1,169,088 against, with 1,210,973 abstaining.

At PP&L's Annual Meeting of Shareowners held on April 23, 1997, the shareowners:

(1) Elected all four nominees for the office of director. The vote for all nominees was 160,565,641. The votes for individual nominees were as follows:

	<u>For</u>	<u>Number of Votes</u> <u>Withhold Authority</u>
E. Allen Deaver	160,570,090	5,849
Nance K. Dicciani	160,569,761	6,178
Elmer D. Gates	160,568,987	6,952
Norman Robertson	160,569,566	6,373

The vote to withhold authority for all nominees was 5,849.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27 - Financial Data Schedule

(b) Reports on Form 8-K

Report dated April 2, 1997 and May 2, 1997

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

Information regarding PP&L's restructuring plan filed with the PUC pursuant to the provisions of Pennsylvania's Customer Choice Act.

Report dated June 30, 1997

Item 5. Other Events

Information regarding PP&L Resources' acquisition of Penn Fuel Gas, Inc.

## Glossary of Terms and Abbreviations

Atlantic - Atlantic City Electric Company

BG&E - Baltimore Gas & Electric Company

CEP (CEP Group, Inc.) - a wholly-owned subsidiary of PP&L

Clean Air Act (Federal Clean Air Act Amendments of 1990) - legislation passed by Congress to address environmental issues including acid rain, ozone and toxic air emissions

CTC - Competitive transition charge

Customer Choice Act - Electricity Generation Customer Choice and Competition Act

DEP - Pennsylvania Department of Environmental Protection

DRIP (Dividend Reinvestment Plan) - program available to shareowners of PP&L Resources' common stock and PP&L preferred stock to reinvest dividends in PP&L Resources' common stock instead of receiving dividend checks

EITF - Emerging Issues Task Force

Emel - Empresas Emel, S.A., a Chilean electric distribution holding company

EPA - Environmental Protection Agency

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

FGD - Flue gas desulfurization equipment installed at coal-fired power plants to reduce sulfur dioxide emissions

FERC (Federal Energy Regulatory Commission) - government agency that regulates interstate transmission and sale of electricity and related matters

GRT - Gross Receipts Tax

IBEW - International Brotherhood of Electrical Workers

JCP&L - Jersey Central Power & Light Company

Major utilities - Atlantic, BG&E and JCP&L

NO<sub>x</sub> - Nitrogen oxide

NPDES - National Pollutant Discharge Elimination System

NUG (Non-Utility Generator) - generating plant not owned by regulated utilities. If the NUG meets certain criteria, its electrical output must be purchased by public utilities as required by PURPA.

OBSA - Office of Small Business Advocate

OCA - Pennsylvania Office of Consumer Advocate

**OTS** - Office of Trial Staff

**PCB** (Polychlorinated Biphenyl) - additive to oil used in certain electrical equipment up to the late 1970s. Now classified as a hazardous chemical.

**PECO** - PECO Energy Company

**PFG** - Penn Fuel Gas, Inc.

**PJM** (Pennsylvania - New Jersey - Maryland Interconnection Association) - Mid-Atlantic power pool consisting of 11 operating electric utilities, including PP&L

**PMDC** (Power Markets Development Company) - PP&L Resources' unregulated subsidiary formed to invest in and develop world-wide power markets

**PP&L** - Pennsylvania Power & Light Company

**PP&L Resources** (PP&L Resources, Inc.) - parent holding company of PP&L, PMDC and Spectrum

**preferred securities** - Company-obligated mandatorily redeemable preferred securities

**PUC** (Pennsylvania Public Utility Commission) - agency that regulates certain ratemaking, accounting, and operations of Pennsylvania utilities

**PUC Decision** - final order issued by the PUC on September 27, 1995 pertaining to PP&L's base rate case filed in December 1994

**SEC** - Securities and Exchange Commission

**SFAS** (Statement of Financial Accounting Standards) - accounting and financial reporting rules issued by the FASB

**Small utilities** - utilities subject to FERC jurisdiction whose billings include base rate charges and a supplemental charge or credit for fuel costs over or under the levels included in base rates

**SO<sub>2</sub>** - Sulfur dioxide

**Spectrum** (Spectrum Energy Services Corporation) - PP&L Resources' unregulated subsidiary formed to offer energy related products and services

**Superfund** - Federal and state legislation that addresses remediation of contaminated sites

**SWEB** - South Western Electricity Board plc, a British regional electric utility company

**UGI** - UGI Corporation

**U.K.** - United Kingdom

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its 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 subsidiary.

PP&L Resources, Inc.  
(Registrant)

Pennsylvania Power & Light Company  
(Registrant)

Date: August 14, 1997

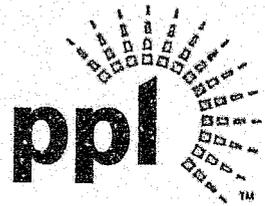
/s/ R. E. Hill  
R. E. Hill  
Senior Vice President-Financial  
(PP&L Resources, Inc. and  
Pennsylvania Power & Light Company)

/s/ J. J. McCabe  
J. J. McCabe  
Vice President & Controller (PP&L  
Resources, Inc. and Pennsylvania  
Power & Light Company)

Paul E. Russell  
Associate General Counsel  
Tel. 610.774-4254 Fax 610.774.6726  
E-mail: perussell@papl.com

PP&L, Inc.  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel. 610.774.5151  
http://www.papl.com/

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NOV 5 1997

PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

November 5, 1997

James J. McNulty, Esquire  
Prothonotary  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

DOCUMENT  
FOLDER

Re: PP&L, Inc.  
Docket No. A-110500F.0206

KJR

Dear Mr. McNulty:

PP&L, Inc. ("PP&L") hereby provides the following documents to the Pennsylvania Public Utility Commission (PUC):

- Spectrum Energy Services Corporation Financial Statements (Unaudited) for the Six Months Ended June 30, 1997;
- PP&L Spectrum, Inc. Financial Statements (Unaudited) for the Nine Months Ended September 30, 1997.

These documents are being provided to the PUC and the Office of Consumer Advocate pursuant to conditions contained in the PUC's approval of PP&L's application for permission to establish a holding company structure (order entered on February 10, 1995 at Docket No. A-110500F.0206).

Please date and time-stamp the enclosed extra copy of this letter and return it to me in the envelope provided.

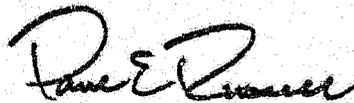
James J. McNulty, Esquire

- 2 -

November 5, 1997

If you have any questions regarding the enclosed document, please call.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Paul E. Russell".

Paul E. Russell

Enclosures

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NOV 5 1997

PUBLIC UTILITY COMMISSION  
SECRETARY'S OFFICE

SPECTRUM ENERGY SERVICES CORPORATION  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 1997

DOCKETED

NOV 19 1997

DOCUMENT  
FILED

DATE: JULY 15, 1997

# SPECTRUM ENERGY SERVICES CORPORATION

## **BALANCE SHEET**

**JUNE 30, 1997**

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### ASSETS

Cash and cash equivalents.....	\$2,929,013
Accounts receivable.....	645,225
Federal income taxes receivable.....	469,779
Deferred compensation.....	18,383
Accumulated deferred state income taxes.....	<u>218,344</u>
	<u>\$4,280,744</u>

### LIABILITIES AND SHAREOWNER'S INVESTMENT

Accounts payable-Pennsylvania Power & Light Company.....	\$1,039,130
Accounts payable-other.....	253,187
Accrued salaries.....	26,861
Accrued taxes other than income.....	19,922
Accumulated deferred federal income taxes.....	<u>76,420</u>
	<u>1,415,520</u>

### SHAREOWNERS' INVESTMENT

Common Stock (100 shares of \$.01 par value).....	1
Additional paid in capital.....	4,143,953
Accumulated deficit.....	<u>(1,278,730)</u>
	<u>2,865,224</u>
	<u>\$4,280,744</u>

See accompanying notes to financial statements.

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**SPECTRUM ENERGY SERVICES CORPORATION**

**STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 1997**

Revenues	
Sales.....	\$2,571,042
Interest.....	85,959
Other .....	440
	<u>2,657,441</u>
Expenses	
Project.....	2,465,873
Administrative and General	
Salaries and benefits (Note 2).....	585,363
Pennsylvania Power & Light Company support services (Note 2).....	329,707
PP&L Resources, Inc. fees (Note 2).....	3,225
Capital stock and other taxes.....	29,763
Other administrative and general.....	435,760
	<u>3,849,691</u>
Loss Before Income Taxes.....	(1,192,250)
Income Taxes (Credits)	
Current	
Federal.....	(417,287)
Deferred	
Federal.....	41,687
State.....	(119,106)
	<u>(494,706)</u>
Net Loss.....	<u><u>\$(697,544)</u></u>

See accompanying notes to financial statements.

**SPECTRUM ENERGY SERVICES CORPORATION**

**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 1997**

---

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss.....	\$(697,544)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Deferred compensation.....	(18,383)
Deferred income taxes.....	(77,419)
Change in current assets and current liabilities	
Income taxes receivable.....	(156,538)
Accounts receivable.....	65,672
Prepayments.....	7,453
Accounts payable.....	296,801
Accrued taxes other than income.....	7,267
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	<u>(572,691)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS..... (572,691)

**CASH AND CASH EQUIVALENTS**

Beginning of period.....	<u>3,501,704</u>
End of period.....	<u>\$2,929,013</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid (received) during the period for:	
Interest.....	NONE
Income taxes.....	(260,750)

---

See accompanying notes to financial statements.

SPECTRUM ENERGY SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS ACTIVITY

Spectrum Energy Services Corporation (Spectrum) was incorporated on July 14, 1995 and initially capitalized on August 31, 1995 through an investment of \$1.49 million. Spectrum is a wholly owned subsidiary of PP&L Resources, Inc. (Resources).

Spectrum was formed to engage in unregulated business activities through investments in energy related power markets. Spectrum has been investing a majority of its funds in temporary cash investments.

2. RELATED COMPANY TRANSACTIONS

PP&L Services

In accordance with a general services agreement, Pennsylvania Power & Light Company (PP&L) provides Spectrum with various technical and support services as requested. Services provided by PP&L include, but are not limited to, executive management, administration, accounting, information systems, corporate secretarial, human resources, insurance and other similar types of services. The agreement provides that Spectrum will reimburse PP&L for the full cost (direct and indirect) of any services provided.

Resources Fees

Resources' costs are allocated to its subsidiaries based on their share of Resources' total capitalization. Resources' costs are from various technical and support services provided by PP&L and others, including executive management, administration, accounting, information systems, corporate secretarial, human resources, insurance and other similar types of services.

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DOCKETED

NOV 19 1997

PP&L SPECTRUM, INC.  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

DATE: OCTOBER 15, 1997

PP&L SPECTRUM, INC.

**BALANCE SHEET (UNAUDITED)  
SEPTEMBER 30, 1997**

---

ASSETS

Cash and cash equivalents.....	\$2,502,769
Accounts receivable.....	899,478
Accounts receivable - PP&L, Inc.....	11,275
Federal income taxes receivable.....	552,220
Unbilled revenue - projects.....	124,009
Deferred compensation.....	16,604
Accumulated deferred state income taxes.....	<u>241,872</u>
	<u>\$4,348,227</u>

LIABILITIES AND SHAREOWNER'S INVESTMENT

Accounts payable - PP&L, Inc.....	\$1,153,332
Accounts payable - other.....	45,853
Accrued salaries.....	17,790
Accrued taxes other than income.....	21,667
Deferred revenue - projects.....	295,176
Accumulated deferred federal income taxes.....	<u>84,655</u>
	<u>1,618,473</u>

SHAREOWNERS' INVESTMENT

Common Stock (100 shares of \$.01 par value).....	1
Additional paid in capital.....	4,143,953
Accumulated deficit.....	<u>(1,414,200)</u>
	<u>2,729,754</u>
	<u>\$4,348,227</u>

See accompanying notes to financial statements.

---

**PP&L SPECTRUM, INC.**

**STATEMENT OF OPERATIONS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997**

Revenues	
Sales.....	\$3,953,549
Interest.....	125,357
Other.....	568
	<u>4,079,474</u>
Expenses	
Project.....	3,573,238
Administrative and General	
Salaries and benefits (Note 2).....	810,053
PP&L, Inc. support services (Note 2).....	465,468
PP&L Resources, Inc. fees (Note 2).....	4,933
Capital stock and other taxes.....	38,813
Other administrative and general.....	614,741
	<u>5,507,246</u>
Loss Before Income Taxes.....	(1,427,772)
Income Taxes (Credits)	
Current	
Federal.....	(502,047)
Deferred	
Federal.....	49,922
State.....	(142,634)
	<u>(594,759)</u>
Net Loss.....	<u><u>\$(833,013)</u></u>

See accompanying notes to financial statements.

**PP&L SPECTRUM, INC.**

**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997**

---

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss.....	\$(833,014)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Deferred income taxes.....	(92,712)
Change in current assets and current liabilities	
Net deferred (unbilled) revenues.....	171,167
Accounts payable.....	194,598
Income taxes receivable.....	(238,979)
Accounts receivable.....	(199,856)
Prepayments.....	7,453
Accrued taxes other than income.....	9,012
Deferred compensation.....	(16,604)
NET CASH USED IN OPERATING ACTIVITIES.....	<u>(998,935)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS..... (998,935)

**CASH AND CASH EQUIVALENTS**

Beginning of period.....	<u>3,501,704</u>
End of period.....	<u>\$2,502,769</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid (received) during the period for:	
Interest.....	NONE
Income taxes.....	(263,068)

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See accompanying notes to financial statements.

PP&L SPECTRUM, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS ACTIVITY

PP&L Spectrum, Inc. (Spectrum) was incorporated on July 14, 1995 and initially capitalized on August 31, 1995 through an investment of \$1.49 million. Spectrum is a wholly owned subsidiary of PP&L Resources, Inc. (Resources).

Spectrum was formed to engage in unregulated business activities through investments in energy related power markets. Spectrum has been investing a majority of its funds in temporary cash investments.

2. RELATED COMPANY TRANSACTIONS

PP&L Services

In accordance with a general services agreement, PP&L, Inc. (PP&L) provides Spectrum with various technical and support services as requested. Services provided by PP&L include, but are not limited to, executive management, administration, accounting, information systems, corporate secretarial, human resources, insurance and other similar types of services. The agreement provides that Spectrum will reimburse PP&L for the full cost (direct and indirect) of any services provided.

Resources Fees

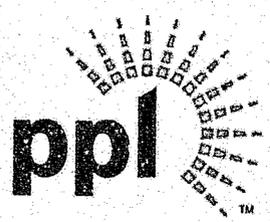
Resources' costs are allocated to its subsidiaries based on their share of Resources' total capitalization. Resources' costs are from various technical and support services provided by PP&L and others, including executive management, administration, accounting, information systems, corporate secretarial, human resources, insurance and other similar types of services.

---

Paul E. Russell  
Associate General Counsel  
Tel. 610.774-4254 Fax 610.774.6726  
E-mail: perussell@pppl.com

PP&L, Inc.  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel. 610.774.5151  
http://www.pppl.com/

**ORIGINAL**



VIA FEDERAL EXPRESS

November 12, 1997

James J. McNulty, Esquire  
Prothonotary  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

RECEIVED  
NOV 12 1997  
PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

Re: PP&L, Inc.  
Docket No. A-110500F.0206

KJR

Dear Mr. McNulty:

PP&L, Inc. ("PP&L") hereby provides the following documents to the Pennsylvania Public Utility Commission (PUC):

- Form 10-Q Quarterly Report to the Securities and Exchange Commission for the Quarter Ended September 30, 1997 on behalf of PP&L Resources, Inc. and PP&L, Inc.

This document is being provided to the PUC and the Office of Consumer Advocate pursuant to conditions contained in the PUC's approval of PP&L's application for permission to establish a holding company structure (order entered on February 10, 1995 at Docket No. A-110500F.0206).

Please date and time-stamp the enclosed extra copy of this letter and return it to me in the envelope provided.

**DOCUMENT  
FOLDER**

WJ

James J. McNulty, Esquire

- 2 -

November 12, 1997

If you have any questions regarding the enclosed document, please  
call.

Very truly yours,

*Paul E Russell / JMK*  
Paul E. Russell

Enclosures

cc: Irwin A. Popowsky, Esquire

United States  
Securities and Exchange Commission  
Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Registrant; State of Incorporation; Address; and Telephone No.	IRS Employer Identification No.
1-11459	PP&L Resources, Inc. (Pennsylvania) Two North Ninth Street Allentown, PA 18101 (610) 774-5151	23-2758192
1-905	PP&L, Inc. (Pennsylvania) Two North Ninth Street Allentown, PA 18101 (610) 774-5151	23-0959590

NOV 12 1997  
FEDERAL PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PP&L Resources, Inc. Yes  No

PP&L, Inc. Yes  No

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

PP&L Resources, Inc. Common stock, \$.01 par value,  
165,873,877 shares outstanding at  
October 31, 1997

PP&L, Inc. Common stock, no par value,  
157,300,382, shares outstanding and  
all held by PP&L Resources, Inc. at  
October 31, 1997

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NOV 17 1997

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PP&L RESOURCES, INC.  
AND  
PP&L, INC.

FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 1997

INDEX

	<u>Page No.</u>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<b>PP&amp;L Resources, Inc.</b>	
Consolidated Statement of Income	2
Consolidated Statement of Cash Flows	3
Consolidated Balance Sheet	4
<b>PP&amp;L, Inc.</b>	
Consolidated Statement of Income	6
Consolidated Statement of Cash Flows	7
Consolidated Balance Sheet	8
Notes to Financial Statements PP&L Resources, Inc. and PP&L, Inc.	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations PP&L Resources, Inc. and PP&L, Inc.	21
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	33
Item 6. Exhibits and Reports on Form 8-K	33
<b>GLOSSARY OF TERMS AND ABBREVIATIONS</b>	35
<b>SIGNATURES</b>	37
<b>COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES</b>	38

**PP&L RESOURCES, INC. AND SUBSIDIARIES**

**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

In the opinion of PP&L Resources, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of September 30, 1997 and December 31, 1996, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended September 30, 1997 and 1996. PP&L Resources is the parent holding company of PP&L, PP&L Global, and PP&L Spectrum. PP&L constitutes substantially all of PP&L Resources' assets, revenues and earnings. All nonutility operating transactions are included in "Other Income and (Deductions)" in PP&L Resources' Consolidated Statement of Income.

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(Millions of Dollars, except per share data)

	Three Months		Nine Months	
	Ended September 30, 1997	1996	Ended September 30, 1997	1996
Operating Revenues .....	\$778	\$715	\$2,250	\$2,173
Operating Expenses				
Operation				
Fuel.....	134	124	350	349
Power purchases.....	138	84	358	249
Other.....	125	138	363	387
Maintenance.....	46	40	130	136
Depreciation (including amortized depreciation) .....	94	91	279	272
Income taxes.....	58	52	192	193
Taxes, other than income.....	50	50	156	156
	<u>645</u>	<u>579</u>	<u>1,828</u>	<u>1,742</u>
Operating Income .....	<u>133</u>	<u>136</u>	<u>422</u>	<u>431</u>
Other Income and (Deductions)				
Other - net.....	3	6	15	10
Income taxes.....	5		6	
Windfall profits tax - PP&L Global.....	(40)		(40)	
	<u>(32)</u>	<u>6</u>	<u>(19)</u>	<u>10</u>
Income Before Interest Charges and Dividends on Preferred Stock.....	<u>101</u>	<u>142</u>	<u>403</u>	<u>441</u>
Interest Charges				
Long-term debt.....	48	52	147	155
Short-term debt and other.....	5	4	16	9
	<u>53</u>	<u>56</u>	<u>163</u>	<u>164</u>
Preferred Stock Dividend Requirements.....	<u>6</u>	<u>7</u>	<u>17</u>	<u>21</u>
Net Income.....	<u>\$42</u>	<u>\$79</u>	<u>\$223</u>	<u>\$256</u>
Earnings Per Share of Common Stock (a).....	\$0.25	\$0.49	\$1.36	\$1.60
Average Number of Shares Outstanding (thousands).....	164,961	161,360	164,110	160,650
Dividends Declared Per Share of Common Stock.....	\$0.4175	\$0.4175	\$1.2525	\$1.2525

(a) Based on average number of shares outstanding.

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)  
(Millions of Dollars)

	Nine Months Ended September 30,	
	1997	1996
<b>Net Cash Provided by Operating Activities</b> .....	\$579	\$632
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(200)	(250)
Purchases of available-for-sale securities.....	(61)	(405)
Sales and maturities of available-for-sale securities.....	100	392
Investment in electric energy projects .....	(149)	(203)
Purchases and sales of other financial investments - net.....	76	
Other investing activities - net.....	23	45
Net cash used in investing activities.....	(211)	(421)
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	10	116
Issuance of common stock.....	53	53
Issuance of Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures ...	250	
Retirement of long-term debt.....	(210)	(145)
Purchase of subsidiary's preferred stock (net of premium and associated costs).....	(369)	
Payments on capital lease obligations.....	(50)	(63)
Common and preferred dividends paid.....	(223)	(221)
Net increase in short-term debt.....	139	130
Other financing activities - net .....	(20)	(1)
Net cash used in financing activities.....	(420)	(131)
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b> .....	(52)	80
Cash and Cash Equivalents at Beginning of Period .....	101	20
Cash and Cash Equivalents at End of Period .....	\$49	\$100
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$152	\$156
Income taxes.....	\$194	\$224

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Dollars)

	September 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - at original cost....	\$9,949	\$9,824
Accumulated depreciation .....	(3,502)	(3,337)
	<u>6,447</u>	<u>6,487</u>
Construction work in progress - at cost.....	163	172
Nuclear fuel owned and leased - net of amortization ....	146	170
Other leased property - net of amortization .....		76
	<u>6,756</u>	<u>6,905</u>
Electric utility plant - net.....		6,905
Other property - (net of depreciation, amortization and depletion 1997, \$57; 1996, \$54).....	54	55
	<u>6,810</u>	<u>6,960</u>
<b>Investments</b>		
Investment in and advances to electric energy projects - at equity .....	357	224
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust fund .....	156	128
Financial investments.....	49	133
Other - at cost or less .....	11	18
	<u>590</u>	<u>520</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	49	101
Current financial investments .....	32	73
Accounts receivable (less reserve: 1997, \$17; 1996, \$25)		
Customers .....	182	196
Other.....	29	19
Unbilled revenues.....	72	85
Fuel, materials and supplies - at average cost.....	200	201
Deferred income taxes .....	24	21
Other.....	69	53
	<u>657</u>	<u>749</u>
<b>Regulatory Assets and Other Noncurrent Assets .....</b>	<u>1,428</u>	<u>1,407</u>
	<u>\$9,485</u>	<u>\$9,636</u>

See accompanying Notes to Financial Statements.

**PP&L RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Dollars)

	September 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
Common equity		
Common stock .....	\$2	\$2
Capital in excess of par value .....	1,646	1,596
Earnings reinvested.....	1,160	1,143
Capital stock expense and other .....	(18)	4
	<u>2,790</u>	<u>2,745</u>
Preferred stock		
With sinking fund requirements .....	47	295
Without sinking fund requirements .....	50	171
Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures .....	250	
Long-term debt .....	2,482	2,802
	<u>5,619</u>	<u>6,013</u>
<b>Current Liabilities</b>		
Commercial paper .....	93	
Bank loans .....	190	144
Long-term debt due within one year .....	150	30
Capital lease obligations due within one year .....	58	81
Accounts payable .....	102	133
Taxes accrued .....		19
Interest accrued .....	63	61
Dividends payable .....	76	75
Other .....	114	78
	<u>846</u>	<u>621</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred investment tax credits .....	202	209
Deferred income taxes .....	2,035	2,052
Capital lease obligations .....	94	166
Other .....	689	575
	<u>3,020</u>	<u>3,002</u>
	<u>\$9,485</u>	<u>\$9,636</u>

See accompanying Notes to Financial Statements.

**PP&L, INC. AND SUBSIDIARIES**

In the opinion of PP&L, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of September 30, 1997 and December 31, 1996, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended September 30, 1997 and 1996. All nonutility operating transactions are included in "Other Income and (Deductions)" in PP&L's Consolidated Statement of Income.

**CONSOLIDATED STATEMENT OF INCOME**  
(Unaudited)  
(Millions of Dollars)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	1997	1996	1997	1996
Operating Revenues .....	\$778	\$715	\$2,250	\$2,173
Operating Expenses				
Operation				
Fuel.....	134	124	350	349
Power purchases.....	138	84	358	249
Other.....	125	138	363	387
Maintenance.....	46	40	130	136
Depreciation (including amortized depreciation) .....	94	91	279	272
Income taxes.....	58	52	192	193
Taxes, other than income.....	50	50	156	156
	<u>645</u>	<u>579</u>	<u>1,828</u>	<u>1,742</u>
Operating Income .....	<u>133</u>	<u>136</u>	<u>422</u>	<u>431</u>
Other Income and (Deductions).....	(1)	3	6	9
Income Before Interest Charges.....	<u>132</u>	<u>139</u>	<u>428</u>	<u>440</u>
Interest Charges				
Long-term debt.....	48	52	147	155
Short-term debt and other.....	3	1	10	5
	<u>51</u>	<u>53</u>	<u>157</u>	<u>160</u>
Net Income.....	<u>81</u>	<u>86</u>	<u>271</u>	<u>280</u>
Dividends on Preferred Stock.....	12	7	28	21
Earnings Available to PP&L Resources .....	<u>\$69</u>	<u>\$79</u>	<u>\$243</u>	<u>\$259</u>

See accompanying Notes to Financial Statements.

**PP&L, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30.	
	1997	1996
<b>Net Cash Provided by Operating Activities</b> .....	\$576	\$634
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(200)	(250)
Purchases of available-for-sale securities .....	(61)	(84)
Sales and maturities of available-for-sale securities .....	78	87
Purchases and sales of other financial investments - net.....	76	
Loan to parent.....	(375)	
Other investing activities - net .....	22	45
Net cash used in investing activities.....	(460)	(202)
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	10	116
Issuance of Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures .....	250	
Retirement of long-term debt.....	(210)	(145)
Payments on capital lease obligations.....	(50)	(63)
Common and preferred dividends paid.....	(264)	(221)
Net increase (decrease) in short-term debt.....	84	(59)
Other financing activities - net .....	(9)	21
Net cash provided by (used in) financing activities.....	(189)	(351)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b> .....	(73)	81
Cash and Cash Equivalents at Beginning of Period.....	95	15
Cash and Cash Equivalents at End of Period.....	\$22	\$96
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for		
Interest (net of amount capitalized).....	\$145	\$156
Income taxes.....	\$197	\$226

See accompanying Notes to Financial Statements.

**PP&L, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Dollars)

	September 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - at original cost.....	\$9,949	\$9,824
Accumulated depreciation .....	(3,502)	(3,337)
	<u>6,447</u>	<u>6,487</u>
Construction work in progress - at cost .....	163	172
Nuclear fuel owned and leased - net of amortization .....	146	170
Other leased property - net of amortization .....		76
	<u>6,756</u>	<u>6,905</u>
Electric utility plant - net .....		6,905
Other property - (net of depreciation, amortization and depletion 1997, \$57; 1996, \$54) .....	54	55
	<u>6,810</u>	<u>6,960</u>
<b>Investments</b>		
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust fund .....	156	128
Loan to parent.....	375	
Financial investments .....	49	133
Other - at cost or less .....	11	10
	<u>608</u>	<u>288</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	22	95
Current financial investments .....	32	51
Accounts receivable (less reserve: 1997, \$17; 1996, \$25)		
Customers .....	182	196
Other .....	34	14
Unbilled revenues.....	72	85
Fuel, materials and supplies - at average cost .....	200	201
Deferred income taxes .....	25	21
Other .....	68	53
	<u>635</u>	<u>716</u>
<b>Regulatory Assets and Other Noncurrent Assets .....</b>	<u>1,428</u>	<u>1,407</u>
	<u>\$9,481</u>	<u>\$9,371</u>

See accompanying Notes to Financial Statements.

**PP&L, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Dollars)

	September 30, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
<b>Common equity</b>		
Common stock .....	\$1,476	\$1,476
Additional paid-in capital .....	57	57
Earnings reinvested .....	1,095	1,094
Capital stock expense and other .....	(18)	(10)
	<u>2,610</u>	<u>2,617</u>
<b>Preferred stock</b>		
With sinking fund requirements .....	295	295
Without sinking fund requirements .....	171	171
Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures .....	250	
Long-term debt .....	<u>2,482</u>	<u>2,802</u>
	<u>5,808</u>	<u>5,885</u>
<b>Current Liabilities</b>		
Commercial paper .....	93	
Bank loans .....		10
Long-term debt due within one year .....	150	30
Capital lease obligations due within one year .....	58	81
Accounts payable .....	102	132
Taxes accrued .....	1	21
Interest accrued .....	62	60
Dividends payable .....	82	75
Other .....	113	78
	<u>661</u>	<u>487</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred investment tax credits .....	202	209
Deferred income taxes .....	2,028	2,050
Capital lease obligations .....	94	166
Other .....	688	574
	<u>3,012</u>	<u>2,999</u>
<b>Commitments and Contingent Liabilities .....</b>		
	<u>\$9,481</u>	<u>\$9,371</u>

See accompanying Notes to Financial Statements.

**PP&L Resources, Inc. and PP&L, Inc.**  
**Notes to Financial Statements**

Terms and abbreviations appearing in Notes to Financial Statements are explained in the glossary.

**1. Interim Financial Statements**

Certain information in footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, has been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These financial statements should be read in conjunction with the financial statements and notes included in PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1996.

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation in the September 30, 1997 financial statements.

**2. PUC Restructuring Proceeding**

In December 1996, Pennsylvania enacted the Customer Choice Act to restructure its electric utility industry in order to create retail access to a competitive market for the generation of electricity. In accordance with that legislation, PP&L filed its restructuring plan with the PUC on April 1, 1997.

Under the Customer Choice Act, the PUC is authorized to determine the amount of PP&L's stranded costs to be recovered through a non-bypassable competitive transition charge (CTC) to be paid by all PUC-jurisdictional customers who receive transmission and distribution service from PP&L. Stranded costs are defined in the Customer Choice Act as "generation-related costs... which would have been recoverable under a regulated environment but which may not be recoverable in a competitive generation market and which the PUC determines will remain following mitigation by the electric utility."

PP&L's restructuring plan includes a claim of \$4.5 billion for stranded costs. Pursuant to the Customer Choice Act, this claim is comprised of the following categories:

1. Net plant investments and costs attributable to existing generation plants and facilities, costs of power purchases, disposal costs of spent nuclear fuel, retirement costs attributable to existing generating plants and employee-related transition costs;
2. Prudently incurred costs related to the cancellation, buyout, buydown or renegotiation of NUG contracts; and
3. Regulatory assets and other deferred charges typically recoverable under current regulatory practice and cost obligations under PUC-approved contracts with NUGs.

The following are the components of PP&L's stranded cost claim as presented in the evidentiary record of the proceeding:

<u>Category of Stranded Cost</u>	<u>Amount (Millions of Dollars)</u>
Nuclear Generation(a)	\$2,825
Fossil Generation(a)	670
NUG Contracts	651
Regulatory Assets	<u>354</u>
	<u>\$4,500</u>

(a) Includes deferred income taxes related to generation assets.

In determining the appropriate amount of stranded cost recovery, the Customer Choice Act requires the PUC to consider the extent to which an electric utility has taken steps to mitigate stranded costs by appropriate means that are reasonable under the circumstances. Mitigation efforts undertaken over time prior to the enactment of the Customer Choice Act are to be considered of equal importance by the PUC in determining an electric utility's stranded costs as actions taken after the passage of the Customer Choice Act. In its restructuring plan, PP&L described its extensive efforts to mitigate its stranded costs, resulting in a reduction in its stranded cost claim of over \$1 billion.

Numerous parties have intervened in PP&L's restructuring proceeding. In this regard, the PUC's OTS recommends that PP&L be permitted to recover \$3.2 billion of its stranded costs; the PP&L Industrial Customer Alliance recommends recovery of \$661 million; and the OCA recommends recovery of \$1.1 billion. Under Pennsylvania law, in proceedings before the PUC, the OCA and the OTS have advocacy roles. Testimony filed by the OCA and OTS carries no more weight than testimony filed by any other party in the proceeding.

Evidentiary hearings in this matter were held in late-August. On September 12, 1997, the PUC extended the schedule for this proceeding by 30 days to allow time for the parties to engage in settlement discussions. On October 23, 1997, the PUC further extended the procedural schedule by 45 days for continued settlement discussions. If the parties reach a settlement of this proceeding, the settlement agreement will be filed with the PUC; the PUC could accept, reject or modify that settlement in its final order. If no settlement is reached, then the proceeding will continue pursuant to the established schedule under which the PUC's final order currently is due by March 26. PP&L cannot predict the outcome of the ongoing settlement discussions or the ultimate outcome of this proceeding.

The ultimate impact of the Customer Choice Act on PP&L's financial health will depend on numerous factors, including:

1. The PUC's final order in the restructuring proceeding -- either on a proposed settlement by the parties or as a result of a fully-litigated proceeding -- including the amount of stranded cost recovery approved by the PUC and the PUC's disposition of other issues raised;

2. The effect of the rate cap imposed under the provisions of the Customer Choice Act;

3. The actual market price of electricity over the transition period;
4. Future sales levels; and
5. The extent to which the regulatory framework established by the Customer Choice Act will continue to be applied.

Under the Customer Choice Act, PP&L's rates to PUC-jurisdictional customers are capped at the level in effect on January 1, 1997 through mid-2001 for transmission and distribution services and through the year 2005 for generation services to customers who do not choose an alternative supplier. Applying the CTC proposed in its restructuring plan (which is restricted by the rate cap) through the year 2005, it is estimated that PP&L would collect approximately \$4 billion of its stranded costs. The remaining \$500 million would be reflected as lower cash flow to PP&L after the transition period than would have occurred with continued regulated rates.

In this regard, it should be noted that PP&L's stranded cost claim included in the restructuring plan is based on a projection of future market prices and assumes a significant portion of PP&L's stranded costs will be recovered by way of increased market prices for electricity. This increase may or may not occur. To the extent that the market price of electricity does not increase as projected, or other projections do not actually occur, PP&L could experience a lower recovery of stranded costs.

If the PUC's final order in the restructuring proceeding were to permit full recovery of PP&L's stranded costs, including full recovery of all regulatory assets and above-market NUG costs over the transition period, PP&L estimates that its net income over the transition period would be reduced by about 5% of projected net income.

However, the PUC's final order -- either on a proposed settlement by the parties or as a result of a fully-litigated proceeding -- may result in changes to components or assumptions in PP&L's restructuring plan that could have an adverse effect on the amount of the CTC, the amount of stranded costs that are recoverable through the CTC or the overall amount of revenues to be collected from customers. As a result of these uncertainties, PP&L cannot determine whether and to what extent it may be subject to a write-off or a reduction in earnings with respect to the restructuring proceeding. Based on the substantial amounts involved in the restructuring proceeding, should PP&L incur such a write-off or reduction in earnings, either one could be material in amount. Accordingly, PP&L is unable to predict the ultimate effect of the Customer Choice Act or the PUC's final order in the restructuring proceeding on its financial position, results of operation, future rate levels or its need or ability to issue securities to meet future capital requirements.

The Customer Choice Act permits the issuance of "transition bonds" securitized by CTC revenues to finance the payment of stranded costs. PP&L is considering whether to seek to securitize some portion of its stranded cost claim, which would require the approval of the PUC in a qualified rate order.

Certain parties have brought actions in Pennsylvania Commonwealth Court challenging the constitutionality of the Customer Choice Act. PP&L has intervened in these proceedings in support of the Customer Choice Act.

### 3. Accounting for the Effects of Certain Types of Regulation

The Customer Choice Act establishes a definitive process for transition to market-based pricing for electric generation. This transition effectively includes cost-of-service based ratemaking during the transition period, subject to a rate cap. Rates will include a non-bypassable CTC, which is designed to give utilities the opportunity to recover their stranded costs during the transition period.

The FASB's Emerging Issues Task Force (EITF) has addressed the appropriateness of the continued application of SFAS 71 by utilities in states that have enacted restructuring legislation similar to the Customer Choice Act. The EITF has concluded that utilities should discontinue application of SFAS 71 for the generation portion of their business when a deregulation plan is in place and its terms are known, which for PP&L will be upon the issuance of the PUC's restructuring order expected to be no later than early-1998. One of the EITF's key conclusions is that utilities should continue to carry some or all of their regulatory assets and liabilities that originated in the generation portion of the business if the regulatory cash flows to realize and settle them will be derived from the regulated portion of the business (e.g., transmission and distribution). In addition, costs or obligations of the generation portion of the business that are incurred after application of SFAS 71 ceases and that are covered by the regulated cash flows for the portion of the business that remains regulated on a cost of service basis would also meet the criteria to be considered regulatory assets or liabilities.

Given the current regulatory environment, PP&L's electric transmission and distribution businesses are expected to remain regulated on a cost-of-service basis and, as a result, the provisions of SFAS 71 should continue to apply to those businesses. The impact of the discontinuance of application of SFAS 71 to the generation portion of PP&L's business will depend to a large degree on the outcome of the restructuring proceeding currently pending before the PUC. See Financial Note 2 for a discussion of the potential financial impacts of that proceeding.

### 4. Rate Matters

#### Appeal of Base Rate Case

Reference is made to PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1996, regarding the PUC Decision. The OCA appealed three issues from the PUC Decision to the Pennsylvania Commonwealth Court. In May 1997, the Commonwealth Court issued its opinion on the OCA's appeal.

The first issue was the recovery of deferrals under SFAS 106. PP&L had requested recovery of \$27 million of increased costs for post-retirement benefits caused by the change to accrual accounting of those costs under SFAS 106. The PUC had allowed this recovery, and the Commonwealth Court upheld the PUC's decision. In June 1997, the OCA filed a petition for allowance of appeal with the Pennsylvania Supreme Court

requesting review of the Commonwealth Court's decision with respect to SFAS 106. The Supreme Court has denied the OCA's request for review, and the Commonwealth Court's decision is now final.

The second issue was the recovery of \$19 million of carrying charges and operating expenses incurred from the date of commercial operation of Susquehanna Unit 2 until the plant was recognized in rates. PP&L had requested recovery of those costs to be amortized over ten years. The PUC had allowed this recovery, and the Commonwealth Court upheld the PUC's decision.

The third issue was the recovery of Gross Receipts Tax (GRT) on uncollectible revenues. PP&L had requested an allowance for GRT on the full amount of revenue approved by the PUC, while the OCA had proposed a \$745,000 adjustment to disallow GRT on revenues that PP&L will not be able to collect. The PUC had rejected the OCA's proposed adjustment. The Commonwealth Court reversed the PUC decision and remanded that issue to the PUC for recalculation of the allowance.

#### **FERC - Major Utility Rates**

In January 1996, PP&L filed a request with the FERC to incorporate a change in the method of calculating depreciation under its contracts with four major electric utility customers (Atlantic, BG&E, JCP&L, and UGI). PP&L also sought to increase the charges to those customers for nuclear decommissioning costs. A settlement of this case was approved by the FERC in June 1997, under terms which have no material effect on PP&L.

#### **5. Sales to Other Major Electric Utilities**

In March 1997, PP&L began sales of installed capacity credits of up to 225,000 kW through December 1998 to GPU and Atlantic Electric. Prices for these sales reflect market conditions.

In May 1997, PP&L reached an agreement with Delmarva Power & Light Company and Old Dominion Electric Cooperative for PP&L and Delmarva to jointly provide Old Dominion with 60,000 kW of capacity to serve portions of Old Dominion's load from 1998 through 2003. Prices for this capacity reflect market conditions. FERC acceptance of this agreement is pending.

In June 1997, PP&L began a sale of capacity and energy to JCP&L pursuant to an agreement which provides that JCP&L will purchase 150,000 kW of capacity and energy for 12 months, increasing to 200,000 kW in June 1998, and then to 300,000 kW in June 1999 through the end of the agreement in May 2004. Prices for this energy and capacity reflect market conditions.

In July 1997, FERC accepted a new wholesale power tariff that permits PP&L to sell capacity and energy at market-based rates, both inside and outside the PJM area, subject to certain conditions. This tariff allows PP&L to become more active in the wholesale market with utilities and other entities, and removes pricing restrictions which in the past had limited PP&L to charging at or below cost-based rates.

In October 1997, PP&L made an application to the United States Department of Energy for an export license to sell capacity and/or energy

to electric utilities in Canada. If this application is granted, PP&L will be able to sell either its own capacity and energy not required to serve domestic obligations or power purchased from other utilities.

## 6. Financial Instruments

Financial investments decreased by \$125 million from December 31, 1996 to September 30, 1997, largely due to the liquidation of long-term investments to make funds more readily available for the tender offer to repurchase PP&L preferred stock by PP&L Resources.

## 7. Credit Arrangements and Financing Activity

From January through October 1997, PP&L Resources issued \$68 million of common stock through the DRIP.

In April 1997, PP&L redeemed \$210 million principal amount of four series of first mortgage bonds. Three of the series of first mortgage bonds were redeemed under the maintenance and replacement fund provisions of the mortgage. These series of bonds consisted of \$40 million principal amount of the 7% series due 1999; \$60 million principal amount of the 7-1/4% series due 2001; and \$80 million principal amount of the 7-1/2% series due 2003. The fourth series, \$30 million principal amount of the 6-3/4% series due 1997, was redeemed under the optional redemption provisions of that series.

In April 1997, PP&L instituted a short-term bond program in order to meet certain short-term working capital requirements and to accomplish other corporate purposes. Under this program, a total of \$800 million of short-term bonds (having maturities not in excess of 30 days) were issued from time to time, with no more than \$150 million of such bonds outstanding at any one time. No such bonds were outstanding at September 30, 1997.

In March and April 1997, PP&L Resources acquired 79.10% (\$369 million par value) of the outstanding preferred stock of PP&L in a tender offer. By obtaining a majority of the 4-1/2% Preferred Stock and a majority of the combined amount of the 4-1/2% Preferred Stock and Series Preferred Stock (collectively, the Preferred Stock), PP&L Resources will be able to waive certain restrictive provisions contained in PP&L's Articles of Incorporation, including limitations on PP&L's ability to increase the authorized number of shares of Preferred Stock, merge or consolidate with other corporations, and issue additional Preferred Stock and unsecured debt.

To provide financing for a portion of this tender offer, PP&L arranged for the issuance of a total of \$250 million of "Company-obligated mandatorily redeemable preferred securities of subsidiary holding solely parent debentures" (preferred securities) by two Delaware statutory business trusts. These securities consist of four million shares of 8.20% preferred securities issued to the public in April 1997 at \$25 per share, for proceeds of \$100 million; and six million shares of 8.10% preferred securities issued to the public in June 1997 at \$25 per share, for proceeds of \$150 million. PP&L owns all of the common securities, representing the remaining undivided beneficial ownership interest in the assets of the trusts. The assets of the trusts consist solely of PP&L's junior subordinated deferrable interest debentures, whose rates and maturities

match those of the preferred securities. PP&L has guaranteed all of the trusts' obligations under the preferred securities. The proceeds of the sale of these preferred securities were loaned by PP&L to PP&L Resources for the tender offer.

PP&L Capital Funding is a wholly-owned subsidiary of PP&L Resources which was formed in September 1997 to provide debt financing for PP&L Resources and its subsidiaries. The payment of principal, interest and premium, if any, with respect to debt securities issued by PP&L Capital Funding will be guaranteed by PP&L Resources.

PP&L Capital Funding has registered \$400 million of debt securities with the SEC. It is expected that these debt securities will be issued from time to time as medium-term notes to provide long-term debt financing for PP&L Resources and its unregulated subsidiaries.

As more fully described in PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1996, PP&L has a \$250 million revolving credit agreement with a group of banks (the PP&L Credit Agreement). Any loans made under this credit agreement will mature, and the facility will terminate, in September 1999. At September 30, 1997, there were no borrowings outstanding under the PP&L Credit Agreement. Additional credit arrangements under which another group of banks was committed to lend PP&L up to \$45 million were terminated by PP&L effective November 7, 1997.

Also as described in the 1996 Form 10-K Report for PP&L Resources and PP&L, PP&L Resources has a \$300 million revolving credit agreement with a group of banks (the PP&L Resources Credit Agreement). Due to a six-month extension of this credit agreement in May 1997, loans made under this credit agreement will mature, and the facility will terminate at the end of November 1997. At September 30, 1997, there were \$190 million of borrowings outstanding under the PP&L Resources Credit Agreement.

PP&L Capital Funding and PP&L currently are negotiating a new revolving credit facility with a group of banks under which a total of \$450 million of loans will be available to PP&L Capital Funding and PP&L. This revolving credit facility will replace the PP&L Resources Credit Agreement and the PP&L Credit Agreement and will be evidenced by two new revolving credit agreements--a \$150 million 364-day Revolving Credit Agreement and a \$300 million five-year Revolving Credit Agreement. At the option of PP&L Capital Funding and PP&L, interest rates for borrowings under these agreements will be based upon Eurodollar deposit rates or the prime rate. The respective obligations of PP&L Capital Funding and PP&L under these agreements will be several and not joint.

#### **8. Windfall Profits Tax - PP&L Global**

In July 1997, the U.K. enacted a windfall profits tax on privatized utilities. The tax is payable in two equal installments; the first installment is due in December 1997 and the second one is due in December 1998. SWEB's windfall profits tax was approximately 97 million pounds sterling, or about \$159 million. Based on PP&L Global's 25% ownership interest in SWEB, PP&L Resources incurred a one-time charge against earnings of \$40 million, or 24 cents per share, in the third quarter of 1997. Subsequent to September 30, 1997, SWEB revised its estimate of the

windfall profits tax from 97 million pounds sterling to approximately 90 million pounds sterling, or about \$148 million. The reduction in PP&L Resources' share of the tax, which is not material, is expected to be recorded during the fourth quarter.

#### 9. Acquisition of Penn Fuel Gas, Inc.

In June 1997, PP&L Resources entered into an agreement with Penn Fuel Gas, Inc. (PFG), a Pennsylvania corporation, pursuant to which PP&L Resources would acquire PFG. PFG, with nearly 100,000 customers in Pennsylvania and a few hundred in Maryland, distributes and stores natural gas and sells propane.

Under the terms of the agreement, PFG would become a wholly-owned subsidiary of PP&L Resources. Upon consummation of the acquisition, each outstanding PFG common share would be converted into the right to receive between 6.968 and 8.516 shares of PP&L Resources' Common Stock, and each outstanding PFG preferred share would be converted into the right to receive between 0.682 and 0.833 shares of PP&L Resources' Common Stock. PP&L Resources expects to issue shares of its Common Stock valued at about \$121 million to complete the transaction. The exact conversion rate and number of PP&L Resources' shares to be issued will be based on the market value of the Common Stock of PP&L Resources at the time of the merger. The merger is expected to be treated as a pooling-of-interests for accounting and financial reporting purposes.

The acquisition of PFG is subject to several conditions, including the receipt of required approvals by the PUC and the SEC. The Maryland Public Service Commission has determined not to institute proceedings on the matter. The U.S. Department of Justice and the Federal Trade Commission have granted early termination of the required waiting period for the acquisition under the Hart-Scott-Rodino Premerger Notification Act. On October 1, 1997, PFG's shareholders approved the acquisition at a special shareholders meeting. The acquisition does not require the approval of PP&L Resources' shareholders. The acquisition is expected to be completed by mid-1998.

In the third quarter of 1997, PP&L Resources recorded one-time transaction costs associated with the acquisition of PFG of \$5.7 million, which reduced earnings by about three cents per share.

#### 10. Commitments and Contingent Liabilities

There have been no material changes related to PP&L Resources' or PP&L's commitments and contingent liabilities since the companies filed their joint 1996 Form 10-K, except for the discussion below regarding loan guarantees of affiliated companies and employee relations.

For discussion pertaining to PP&L Resources' and PP&L's financing matters, see Financial Note 7.

#### Nuclear Insurance

PP&L is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to

\$2.75 billion under these programs. PP&L is also a member of an insurance program which provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, PP&L could be assessed retroactive premiums in the event of the insurers' adverse loss experience. The maximum amount PP&L could be assessed under these programs at September 30, 1997 was about \$36 million.

Under provisions of The Price Anderson Amendments Act of 1988, PP&L's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about \$8.9 billion. PP&L 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 Amendments Act, PP&L could be assessed up to \$151 million per incident, payable at a rate of \$20 million per year, plus an additional 5% surcharge, if applicable.

## Environmental Matters

### Air

The Clean Air Act deals, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. PP&L has complied with the Phase I acid rain provisions required to be implemented by 1995 by installing continuous emission monitors on all units, burning lower sulfur coal and installing low nitrogen oxide burners on certain units. To comply with the year 2000 acid rain provisions, PP&L plans to purchase lower sulfur coal and use banked or purchased emission allowances instead of installing FGD on its wholly-owned units.

PP&L has met the initial ambient ozone requirements of the Clean Air Act by reducing nitrogen oxide emissions by 40% through the use of low nitrogen oxide burners. Further seasonal (i.e., 5 month) nitrogen oxide reductions to 55% and 75% of 1990 levels for 1999 and 2003, respectively, are specified under the Northeast Ozone Transport Region's Memorandum of Understanding. The PA DEP has finalized regulations which require PP&L to reduce its ozone seasonal NO<sub>x</sub> by 57% beginning in 1999.

The Clean Air Act requires the EPA to study the health effects of hazardous air emissions from power plants and other sources. In this regard, the EPA has finalized new national standards for ambient levels of ground-level ozone and fine particulates. Based in part on the new ozone standard, the EPA has proposed NO<sub>x</sub> emission limits for 22 states including Pennsylvania, which in effect requires approximately an 80% reduction from the 1990 level in Pennsylvania in the 2005-2012 timeframe. The new particulates standard may require yet further reductions in both NO<sub>x</sub> and SO<sub>2</sub> and may extend the reductions from seasonal to year round.

Expenditures to meet the 1999 NO<sub>x</sub> reduction requirements are included in the table of projected construction expenditures in the Review of the Financial Condition and Results of Operations under the caption "Financial Condition - Capital Expenditure Requirements" on page 32 of the 1996 Form 10-K. PP&L currently estimates that additional capital expenditures and operating costs for environmental compliance under the Clean Air Act will be incurred beyond 2001 in amounts which are not now determinable but which could be material.

## Water and Residual Waste

DEP residual waste regulations set forth requirements for existing ash basins at PP&L's coal-fired generating stations. To address these DEP regulations, PP&L has installed dry fly ash handling systems at most of its power stations, which eliminate the need for ash basins. In other cases, PP&L has modified the existing facilities to allow continued operation of the ash basins under a new DEP permit. Any groundwater contamination caused by the basins must also be addressed. Any new ash disposal facility must meet the rigid siting and design standards set forth in the regulations.

Groundwater degradation related to fuel oil leakage from underground facilities and seepage from coal refuse disposal areas and coal storage piles has been identified at several PP&L generating stations. Remedial work is substantially completed at two generating stations. At this time, there is no indication that remedial work will be required at other PP&L generating stations.

The proposed renewal of the Montour station's NPDES permit contains stringent limits for iron and chlorine discharges. Depending on the results of a toxic reduction study to be conducted, additional water treatment facilities or operational changes may be needed at this station.

Capital expenditures through the year 2001 to comply with the residual waste regulations, correct groundwater degradation at fossil-fueled generating stations, and address waste water control at PP&L facilities are included in the table of construction expenditures in the Review of the Financial Condition and Results of Operations under the caption "Financial Condition - Capital Expenditure Requirements" on page 32 of the 1996 Form 10-K. In this regard, PP&L currently estimates that \$12 million of additional capital expenditures may be required in the next four years and \$67 million of additional capital expenditures could be required beyond the year 2001. Actions taken to correct groundwater degradation, to comply with the DEP's regulations and to address waste water control are also expected to result in increased operating costs in amounts which are not now determinable but which could be material.

## Superfund and Other Remediation

PP&L has signed a consent order with the DEP to address a number of sites where PP&L may be liable for remediation of contamination. This may include potential PCB contamination at certain PP&L substations and pole sites; potential contamination at a number of coal gas manufacturing facilities formerly owned and operated by PP&L; and oil or other contamination which may exist at some of PP&L's former generating facilities.

At September 30, 1997, PP&L had accrued \$8.9 million, representing the amount PP&L can reasonably estimate it will have to spend to remediate sites involving the removal of hazardous or toxic substances including those covered by the consent order mentioned above. Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs which PP&L cannot estimate at this time. In addition, certain federal and state

statutes, including Superfund and the Pennsylvania Hazardous Sites Cleanup Act, empower certain governmental agencies, such as the EPA and the DEP, to seek compensation from the responsible parties for the lost value of damaged natural resources. The EPA and the DEP may file such compensation claims against the parties, including PP&L, held responsible for cleanup of such sites. Such natural resource damage claims against PP&L could result in material additional liabilities.

#### Other Environmental Matters

In addition to the issues discussed above, PP&L may be required to modify, replace or cease operating certain facilities to comply with other statutes, regulations and actions by regulatory bodies or courts involving environmental matters, including the areas of water and air quality, hazardous and solid waste handling and disposal, toxic substances and electric and magnetic fields. In this regard, PP&L also may incur capital expenditures, operating expenses and other costs in amounts which are not now determinable but which could be material.

#### Loan Guarantees of Affiliated Companies

PP&L Global has guaranteed a subsidiary's pro rata share of the outstanding portion of certain debt issuances of an affiliate. At September 30, 1997, \$13 million of such loans were guaranteed by PP&L Global. PP&L Global's guarantee is expected to increase to \$18 million during 1998, as the affiliate draws down the balance of its debt facility.

In addition, PP&L Spectrum has a \$1 million line of credit, which is guaranteed by PP&L Resources.

#### Employee Relations

As of September 30, 1997, PP&L had a total of 6,350 full-time employees. Approximately 65 percent of these employees are represented by the IBEW. The labor agreement with the IBEW expires in May 1998.

#### 11. New Accounting Standards

During 1997, the FASB issued SFAS 128, Earnings Per Share; SFAS 129, Disclosure of Information about Capital Structure; SFAS 130, Reporting Comprehensive Income; and SFAS 131, Disclosures About Segments of an Enterprise and Related Information. SFAS 128, SFAS 129, and SFAS 131 are effective for financial statements issued for periods ending after December 15, 1997. SFAS 130 is effective in 1998. The adoption of these statements is not expected to have a material impact on PP&L Resources' or PP&L's financial statements.

**Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

The financial condition and results of operations of PP&L are currently the principal factors affecting the financial condition and results of operations of PP&L Resources. All fluctuations, unless specifically noted, are primarily due to activities of PP&L. All nonutility operating transactions are included in "Other Income and (Deductions)" on the PP&L Resources' Consolidated Statement of Income. This discussion should be read in conjunction with the section entitled "Review of the Financial Condition and Results of Operations of PP&L Resources, Inc. and Pennsylvania Power & Light Company" in PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1996.

Terms and abbreviations appearing in Management's Discussion and Analysis of Financial Condition and Results of Operations are explained in the glossary.

**Forward-looking Information**

Certain 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 PP&L Resources and PP&L believe that the expectations reflected in these statements are reasonable, there can be no assurance that these expectations will prove to have been 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. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: state and federal regulatory developments, especially the PUC's final order on PP&L's April 1, 1997 restructuring filing; new state or federal legislation; national or regional economic conditions; weather variations affecting customer usage; competition in retail and wholesale power markets; the need for and effect of any business or industry restructuring; PP&L Resources' and PP&L's profitability and liquidity; new accounting requirements or new interpretations or applications of existing requirements; system conditions and operating costs; performance of new ventures; political, regulatory or economic conditions in foreign countries; exchange rates; and PP&L Resources' and PP&L's commitments and liabilities. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PP&L Resources' and PP&L's other documents on file with the SEC.

**Results of Operations**

The following discussion explains material changes in principal items on the Consolidated Statement of Income comparing the three months and nine months ended September 30, 1997, to the comparable periods ended September 30, 1996.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any indication of the results of future

operations. Future results of operations will not 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 are not necessarily indicative of results or trends for the year.

### Earnings

	Comparison of Earnings - September 30			
	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Earnings per share - excluding weather variances and one-time adjustments	\$0.48	\$0.51	\$1.63	\$1.56
Weather variances on billed sales	(0.02)	(0.02)	(0.06)	0.04
One-time adjustments				
Windfall Profits Tax	(0.24)	-	(0.24)	-
UK Income Tax Rate Reduction	0.06	-	0.06	-
Penn Fuel Gas, Inc. acquisition costs	(0.03)	-	(0.03)	-
Earnings per share - reported	<u>\$0.25</u>	<u>\$0.49</u>	<u>\$1.36</u>	<u>\$1.60</u>

Earnings per share, excluding weather variances and one-time adjustments, were \$.03 lower for the three months ended September 30, 1997, and \$.07 higher for the first nine months of 1997, when compared with the same periods in 1996. Earnings changes for these periods, excluding weather variances and one-time adjustments, were primarily the net effect of the following:

	<u>Sept. 30, 1997 vs. Sept. 30, 1996</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
	<u>(per share)</u>	
o Higher base rate revenues, due to unbilled revenues and moderate growth in weather-normalized sales;	\$ -	\$0.04
o Higher other operating revenues, primarily due to increased sales of reservation of electrical output to other utilities;	0.05	0.10
o Higher pre-tax earnings from PP&L Global;	0.01	0.06
o Net reduction in revenues due to the phase-down of the contract with JCP&L;	(0.01)	(0.06)
o Change in regulatory treatment of energy costs;	(0.04)	(0.04)
o Lower other income and deductions primarily due to the sale of investment securities in 1996, and lower earnings from CEP due to the liquidation of its investments; and	(0.02)	(0.04)
o Other	<u>(0.02)</u>	<u>0.01</u>
<b>Earnings Change</b>	<b><u>\$(0.03)</u></b>	<b><u>\$0.07</u></b>

The reduction in contractual bulk power sales to JCP&L and other major utilities will continue to adversely affect earnings over the next few years. PP&L has increased its efforts to sell this returning energy and capacity on the open market; however, the price received for this capacity and energy on the open market is currently less than the amount received pursuant to the contract.

In addition, the Customer Choice Act and the regulatory and business developments related thereto could have a major impact on the future financial performance of PP&L. See "PUC Restructuring Proceeding" for additional information.

### Electric Energy Sales

The change in PP&L's electric energy sales was attributable to the following:

	<u>Sept. 30, 1997 vs. Sept. 30, 1996</u>	
	<u>Three Months</u>	<u>Nine Months</u>
	<u>Ended</u>	<u>Ended</u>
	(Millions of kWh)	
Service Area Sales:		
Residential	41	(383)
Commercial	56	13
Industrial	5	166
Other	<u>3</u>	<u>(6)</u>
Total Service Area Sales	105	(210)
Wholesale Energy Sales	<u>2,779</u>	<u>3,891</u>
 Total	 <u>2,884</u>	 <u>3,681</u>

Service area sales were 7.8 billion kWh for the three months ended September 30, 1997, an increase of 105 million kWh, or 1.4%, over the third quarter of 1996. If normal weather conditions had been experienced in the third quarters of 1996 and 1997, service area sales would have increased by about 58 million kWh, or 0.7%, over the same period of 1996.

Service area sales were 24.1 billion kWh for the nine months ended September 30, 1997, a decrease of 210 million kWh, or 0.9%, from the first nine months of 1996. This change was primarily due to a mild winter heating season in 1997 when compared to 1996. Sales to the Residential class declined by 4.2% for the period, while Industrial sales increased by 2.2%. Under normal weather conditions, service area sales would have increased by about 239 million kWh, or 1.0%, over the same period of 1996.

Wholesale energy sales, which includes sales to other utilities and energy marketers through contracts, spot market transactions or power pool arrangements, were 6.6 billion kWh for the three months ended September 30, 1997, an increase of 2.8 billion kWh, or 72.1%, from the same period of 1996, despite the reduction in PP&L's contractual bulk power sales to JCP&L. Improved availability of generating units, along with increased power purchases, allowed for increased bilateral sales. For the nine months ended September 30, 1997, the increase in wholesale energy sales was 3.9 billion kWh, or 35.4%.

## Operating Revenues

The change in total operating revenues was attributable to the following:

	<u>Sept. 30, 1997 vs. Sept. 30, 1996</u>	
	<u>Three Months</u>	<u>Nine Months</u>
	<u>Ended</u>	<u>Ended</u>
	<u>(Millions of Dollars)</u>	
Base Rate Revenues - Service Area Sales		
Sales volume and sales mix effect	\$ 6	\$13
Weather effect	4	(36)
Unbilled revenues	(1)	6
Energy Revenues	(15)	(16)
SBRCA	2	8
Wholesale Revenues		
Energy and capacity	54	74
Reservation charges and other	10	24
Other	<u>3</u>	<u>4</u>
	<u>\$63</u>	<u>\$77</u>

Operating revenues increased by \$63 million, or 8.8%, during the three months ended September 30, 1997, from the same period in 1996. Revenue from sales of energy and capacity to wholesale customers increased by \$54 million over the prior year, despite the phase-down of the capacity and energy agreement with JCP&L. These results continue to reflect PP&L's increased emphasis on competing in wholesale markets. This emphasis is also reflected in the increase in revenues from the sales of reservation charges and capacity credits in the third quarter of 1997. Moderate sales growth to PUC and FERC jurisdictional customers also contributed to the increase in revenues. These increases were partially offset by a change in the regulatory treatment of energy costs. Specifically, beginning January 1, 1997, underrecovered energy costs are no longer recorded as energy revenues but as regulatory credits, which are offsets to "Other Operating Expenses".

Operating revenues increased by \$77 million, or 3.5%, during the nine months ended September 30, 1997, when compared with the first nine months of 1996. Revenue increases are attributable to the same factors identified above for the third quarter, as well as higher unbilled revenues. However, weather caused an unfavorable impact during the nine months ended September 30, 1997 versus September 30, 1996. Weather changes, most notably the extremely cold winter in 1996 versus a mild winter in 1997, decreased revenues by about \$36 million for this period.

### PUC Restructuring Proceeding

In December 1996, Pennsylvania enacted the Customer Choice Act to restructure its electric utility industry in order to create retail access to a competitive market for the generation of electricity. In accordance with that legislation, PP&L filed its restructuring plan with the PUC on April 1, 1997.

Under the Customer Choice Act, the PUC is authorized to determine the amount of PP&L's stranded costs to be recovered through a non-bypassable competitive transition charge (CTC) to be paid by all PUC-jurisdictional

customers who receive transmission and distribution service from PP&L. Stranded costs are defined in the Customer Choice Act as "generation-related costs... which would have been recoverable under a regulated environment but which may not be recoverable in a competitive generation market and which the PUC determines will remain following mitigation by the electric utility."

PP&L's restructuring plan includes a claim of \$4.5 billion for stranded costs. Pursuant to the Customer Choice Act, this claim is comprised of the following categories:

1. Net plant investments and costs attributable to existing generation plants and facilities, costs of power purchases, disposal costs of spent nuclear fuel, retirement costs attributable to existing generating plants and employee-related transition costs;
2. Prudently incurred costs related to the cancellation, buyout, buydown or renegotiation of NUG contracts; and
3. Regulatory assets and other deferred charges typically recoverable under current regulatory practice and cost obligations under PUC-approved contracts with NUGs.

The following are the components of PP&L's stranded cost claim as presented in the evidentiary record of the proceeding:

<u>Category of Stranded Cost</u>	<u>Amount</u> <u>(Millions of Dollars)</u>
Nuclear Generation(a)	\$2,825
Fossil Generation(a)	670
NUG Contracts	651
Regulatory Assets	<u>354</u>
	<u>\$4,500</u>

(a) Includes deferred income taxes related to generation assets.

In determining the appropriate amount of stranded cost recovery, the Customer Choice Act requires the PUC to consider the extent to which an electric utility has taken steps to mitigate stranded costs by appropriate means that are reasonable under the circumstances. Mitigation efforts undertaken over time prior to the enactment of the Customer Choice Act are to be considered of equal importance by the PUC in determining an electric utility's stranded costs as actions taken after the passage of the Customer Choice Act. In its restructuring plan, PP&L described its extensive efforts to mitigate its stranded costs, resulting in a reduction in its stranded cost claim of over \$1 billion.

Numerous parties have intervened in PP&L's restructuring proceeding. In this regard, the PUC's OTS recommends that PP&L be permitted to recover \$3.2 billion of its stranded costs; the PP&L Industrial Customer Alliance recommends recovery of \$661 million; and the OCA recommends recovery of \$1.1 billion. Under Pennsylvania law, in proceedings before the PUC, the OCA and the OTS have advocacy roles. Testimony filed by the OCA and OTS carries no more weight than testimony filed by any other party in the proceeding.

Evidentiary hearings in this matter were held in late-August. On September 12, 1997, the PUC extended the schedule for this proceeding by 30 days to allow time for the parties to engage in settlement discussions. On

October 23, 1997, the PUC further extended the procedural schedule by 45 days for continued settlement discussions. If the parties reach a settlement of this proceeding, the settlement agreement will be filed with the PUC; the PUC could accept, reject or modify that settlement in its final order. If no settlement is reached, then the proceeding will continue pursuant to the established schedule under which the PUC's final order currently is due by March 26. PP&L cannot predict the outcome of the ongoing settlement discussions or the ultimate outcome of this proceeding.

The ultimate impact of the Customer Choice Act on PP&L's financial health will depend on numerous factors, including:

1. The PUC's final order in the restructuring proceeding -- either on a proposed settlement by the parties or as a result of a fully-litigated proceeding -- including the amount of stranded cost recovery approved by the PUC and the PUC's disposition of other issues raised;
2. The effect of the rate cap imposed under the provisions of the Customer Choice Act;
3. The actual market price of electricity over the transition period;
4. Future sales levels; and
5. The extent to which the regulatory framework established by the Customer Choice Act will continue to be applied.

Under the Customer Choice Act, PP&L's rates to PUC-jurisdictional customers are capped at the level in effect on January 1, 1997 through mid-2001 for transmission and distribution services and through the year 2005 for generation services to customers who do not choose an alternative supplier. Applying the CTC proposed in its restructuring plan (which is restricted by the rate cap) through the year 2005, it is estimated that PP&L would collect approximately \$4 billion of its stranded costs. The remaining \$500 million would be reflected as lower cash flow to PP&L after the transition period than would have occurred with continued regulated rates.

In this regard, it should be noted that PP&L's stranded cost claim included in the restructuring plan is based on a projection of future market prices and assumes a significant portion of PP&L's stranded costs will be recovered by way of increased market prices for electricity. This increase may or may not occur. To the extent that the market price of electricity does not increase as projected, or other projections do not actually occur, PP&L could experience a lower recovery of stranded costs.

If the PUC's final order in the restructuring proceeding were to permit full recovery of PP&L's stranded costs, including full recovery of all regulatory assets and above-market NUG costs over the transition period, PP&L estimates that its net income over the transition period would be reduced by about 5% of projected net income.

However, the PUC's final order -- either on a proposed settlement by the parties or as a result of a fully-litigated proceeding -- may result in changes to components or assumptions in PP&L's restructuring plan that could have an adverse effect on the amount of the CTC, the amount of stranded costs that are recoverable through the CTC or the overall amount of revenues to be collected from customers. As a result of these uncertainties, PP&L cannot determine whether and to what extent it may be subject to a write-off or a reduction in earnings with respect to the

restructuring proceeding. Based on the substantial amounts involved in the restructuring proceeding, should PP&L incur such a write-off or reduction in earnings, either one could be material in amount. Accordingly, PP&L is unable to predict the ultimate effect of the Customer Choice Act or the PUC's final order in the restructuring proceeding on its financial position, results of operation, future rate levels or its need or ability to issue securities to meet future capital requirements.

The Customer Choice Act permits the issuance of "transition bonds" securitized by CTC revenues to finance the payment of stranded costs. PP&L is considering whether to seek to securitize some portion of its stranded cost claim, which would require the approval of the PUC in a qualified rate order.

Certain parties have brought actions in Pennsylvania Commonwealth Court challenging the constitutionality of the Customer Choice Act. PP&L has intervened in these proceedings in support of the Customer Choice Act.

#### **Rate Matters**

Refer to Financial Note 4 for information regarding rate matters.

#### **Fuel Expense**

Fuel expense for the three months ended September 30, 1997, increased by \$10 million from the comparable period in 1996. This change was primarily due to increased generation at the Susquehanna nuclear station. During this period in 1996, an unplanned outage of Unit 2 occurred during July and the ninth refueling and inspection outage of Unit 1 began in September. During this same period in 1997, Unit 1 experienced a 100% availability factor while Unit 2 experienced a brief shutdown in September.

The PJM Power Pool has begun operating with new marketing procedures under which companies bid their generators' output and buy or sell energy at a pool-wide market clearing price. Accordingly, PP&L has found it advantageous at times to independently schedule the operation of its coal-fired units rather than follow a PJM schedule, resulting in these units operating at higher output and causing an increase of coal-fired generation for the quarter.

Fuel expense for the nine months ended 1997 compared to the same period in 1996 remained virtually unchanged.

#### **Power Purchases**

For the three months ended September 30, 1997, power purchases increased by \$54 million over the comparable period in 1996. This increase was primarily due to greater quantities of power purchased from other utilities to meet increased energy marketing activities.

For the nine months ended September 30, 1997, power purchases increased by \$109 million over the comparable period in 1996. This increase was primarily due to greater quantities purchased from other utilities to meet planned and unplanned outages at the Susquehanna station and to meet increased energy marketing activities.

The overall market price of power has been higher during 1997 than 1996. Coupled with the increase in quantities of power purchased, these higher prices contributed to the increase in purchased power costs.

## Other Operation and Maintenance Expense

Other operation and maintenance expenses decreased by \$7 million and \$30 million, respectively, for the three and nine months ended September 30, 1997 over the comparable periods in 1996. Excluding the effect of underrecovered energy costs, operation and maintenance expenses increased by \$2 million in both periods.

Prior to 1997, underrecovered energy costs were accrued as energy revenues. Due to a change by the PUC, effective January 1, 1997 these underrecovered costs are now recorded as regulatory credits, subject to a maximum credit of \$31.5 million for 1997. At September 30, 1997, these underrecovered costs have exceeded the limit by \$9.9 million. These regulatory credits are reflected in the income statement as a reduction of operating expense to be recovered in PP&L's restructuring proceeding.

## Windfall Profits Tax - PP&L Global

In July 1997, the U.K. enacted a windfall profits tax on privatized utilities. The tax is payable in two equal installments; the first installment is due in December 1997 and the second one is due in December 1998. SWEB's windfall profits tax was approximately 97 million pounds sterling, or about \$159 million. Based on PP&L Global's 25% ownership interest in SWEB, PP&L Resources incurred a one-time charge against earnings of \$40 million, or 24 cents per share, in the third quarter of 1997. Subsequent to September 30, 1997, SWEB revised its estimate of the windfall profits tax from 97 million pounds sterling to approximately 90 million pounds sterling, or about \$148 million. The reduction in PP&L Resources' share of the tax, which is not material, is expected to be recorded during the fourth quarter.

## Financial Condition

### Financing Activities

The following financings have occurred through September 30, 1997:

- o From January through October 1997, PP&L Resources issued \$68 million of common stock through the DRIP.
- o In April 1997, PP&L redeemed \$210 million principal amount of four series of first mortgage bonds.
- o PP&L Resources acquired 79.10% of the outstanding preferred stock of PP&L pursuant to a tender offer in March and April 1997.
- o To provide financing for a portion of this tender offer, PP&L arranged for two Delaware statutory business trusts to issue a total of \$250 million of preferred securities supported by a corresponding amount of junior subordinated deferrable interest debentures issued by PP&L to the trusts. Specifically, in April and June 1997 the trusts issued \$100 million and \$150 million of preferred securities, respectively.
- o PP&L Resources' \$300 million revolving credit facility was extended to the end of November 1997. As of September 30, 1997, borrowings under this credit facility were \$190 million.

Refer to Financial Note 7 for additional information.

## Financing and Liquidity

The change in cash and cash equivalents for the nine months ended September 30, 1997 decreased \$132 million for PP&L Resources from the comparable period in 1996. The reasons for this change were:

- o A \$53 million decrease in cash provided by operating activities due, in part, to cash outflows for a refueling outage of Susquehanna Unit 2 and a buyout of a contract with a non-utility generator.
- o A \$210 million decrease in cash used in investing activities due to subsidiaries liquidating long-term investments to make funds available for other investments and to a reduction in the amount of investment in electric energy projects by PP&L Global.
- o A \$289 million increase in cash used in financing activities as a result of PP&L Resources acquiring 79% of PP&L preferred stock for a cost, including a premium and associated costs of purchase, of \$380 million. There also was a \$106 decrease in the issuance of long-term debt and a \$65 million increase in the retirement of long-term debt. Offsetting these outflows was PP&L's issuance of \$250 million of preferred securities.

PP&L's projected internally generated funds would be sufficient to permit PP&L to retire about \$550 million of its long-term debt during 1998-2001.

Outside financing, in amounts not currently determinable, or the liquidation of certain financial investments, may be required over the next five years to finance investments in world-wide energy projects by PP&L Global.

### Financial Indicators

The ratio of pre-tax income to interest charges was 3.4 and 3.6, respectively, for the nine months ended September 30, 1997 and 1996. The annual per share dividend rate on common stock was unchanged at \$1.67 per share. The ratio of the market price to book value of common stock was 130% at September 30, 1997, compared with 131% at September 30, 1996.

### Unregulated Investments

PP&L Global continues to pursue opportunities to develop and acquire electric generation, transmission and distribution facilities in the United States and abroad.

As of September 30, 1997, PP&L Global had investments and commitments in the amount of approximately \$370 million in distribution, transmission and generation facilities in the United Kingdom, Bolivia, Peru, Argentina, Spain, Portugal and Chile. PP&L Global's principal investments to date are in SWEB and Emel. Refer to "Windfall Profits Tax - PP&L Global" for information regarding the effect of the U.K.'s windfall profits tax on the investment in SWEB.

In July 1997, PP&L Global acquired a 25.05% interest in Emel at a cost of approximately \$118 million. Emel is a Chilean holding company that has majority interests in six electric distribution companies located in Chile and Bolivia. Emel's electric distribution company holdings make it the

third largest distributor of electricity in Chile and the second largest in Bolivia, serving a total of 535,000 customers in those countries. Under a shareholders' agreement, PP&L Global and another major shareholder, Las Espigas Group, jointly control Emel's board of directors.

PP&L Resources' other unregulated subsidiary, PP&L Spectrum, offers energy-related products and services inside and outside of PP&L's service territory. Other subsidiaries may be formed by PP&L Resources to take advantage of new business opportunities.

### **Commitments and Contingent Liabilities**

There have been no material changes related to PP&L Resources' or PP&L's commitments and contingent liabilities since the companies filed their joint 1996 Form 10-K, except for the discussions in Financial Note 10 -- "Commitments and Contingent Liabilities" regarding loan guarantees of affiliated companies and employee relations.

### **Increasing Competition**

#### Background

The electric utility industry has experienced and will continue to experience a significant increase in the level of competition in the energy supply market. PP&L has publicly expressed its support for full customer choice of electricity suppliers for all customer classes. PP&L is actively involved in efforts at both the state and federal levels to encourage a smooth transition to full competition. PP&L believes that this transition to full competition should provide for the recovery of a utility's stranded costs, which are generation-related costs that traditionally would be recoverable in a regulated environment but which may not be recoverable in a competitive electric generation market.

#### Pennsylvania Activities

Reference is made to "PUC Restructuring Proceeding" for a discussion of PP&L's April 1997 filing of its restructuring plan pursuant to the Customer Choice Act.

In February 1997, PP&L filed a proposed retail access pilot program with the PUC in accordance with the applicable provisions of the Customer Choice Act and PUC guidelines. Under its pilot program, approximately 61,000 PP&L residential, commercial and industrial customers -- representing about 5% of PP&L's average annual peak load -- will have an opportunity to purchase energy and capacity from alternative suppliers. A number of the major parties, including PP&L, entered into a joint settlement agreement resolving all of the issues in the Pennsylvania utilities' pilot proceedings. In August 1997, the PUC issued an order modifying this settlement and modifying and approving PP&L's pilot program. In October 1997, PP&L submitted its pilot program compliance filing to the PUC. Under the current schedule, retail customers participating in the PP&L and other pilot programs will begin to receive power from their supplier of choice in November 1997.

The customers selected for the pilot programs are now choosing their electricity supplier. The PUC has extended the state-wide deadline to choose an electricity supplier from October 25 to November 14, 1997. Only those alternative suppliers licensed by the PUC and in compliance with the state tax obligations set forth in the Customer Choice Act may participate in the pilot programs. To date, approximately 42 suppliers have obtained

such licenses to participate in the pilot programs. PP&L will provide all transmission and distribution, customer service and back-up energy supply services to participating customers.

In June 1997, the PUC approved PP&L's application for a license to act as an electric generation supplier. This license permits PP&L to participate in the various retail access pilot programs of the other Pennsylvania utilities, and PP&L currently is offering electric supply to the participating customers of those utilities.

### Federal Activities

Legislation has been introduced in the U.S. Congress that would give all retail customers the right to choose among competitive suppliers of electricity as early as 2000.

In addition, in April 1996 the FERC adopted rules on competition in the wholesale electricity market primarily dealing with open access to transmission lines, recovery of stranded costs, and information systems for displaying available transmission capability (FERC Orders 888 and 889). These rules required all electric utilities to file open access transmission tariffs by July 9, 1996. The rules also provided that utilities are entitled to recover from certain wholesale requirements customers all "legitimate, verifiable, prudently incurred stranded costs." The FERC has provided recovery mechanisms for wholesale stranded costs, including stranded costs resulting from municipalization. Wholesale contracts signed after July 11, 1994 must contain explicit provisions addressing recovery of stranded costs. For requirements contracts signed before that date, a utility may seek recovery if it can show that it had a reasonable expectation of continuing to serve the customer after the contract term. Finally, the rules required that power pools file pool-wide open access transmission tariffs and modified bilateral coordination agreements reflecting the removal of discriminatory provisions by December 31, 1996.

In July 1996, PP&L filed its open access transmission tariff required by FERC Order 888. Under the new FERC rules, that tariff became effective on July 9, 1996, subject to refund. The non-rate terms and conditions of that tariff were accepted by the FERC. However, several parties moved to intervene and protested the new rates in the tariff. In July 1997, the FERC rejected PP&L's rates and ordered that the rates which had been in effect prior to the July 1996 filing be reinserted into the tariff. Hearings have been scheduled in this matter for April 1998.

In March 1997, the FERC issued Orders 888-A and 889-A. Among other things, these orders required utilities to make certain changes to the non-rate terms and conditions of their open access transmission tariffs. In compliance with Order 888-A, in July 1997 PP&L filed a revised open access transmission tariff. PP&L also requested in that filing that the FERC approve certain transmission tariff rate changes. The FERC has not yet acted on that filing.

Under the new FERC rules, 16 small utilities which have power supply agreements with PP&L signed before July 11, 1994, requested and were provided with PP&L's current estimate of its stranded costs applicable to these customers if they were to terminate their agreements in 1999. Based upon a formula set forth in FERC Order 888 and applicable only to wholesale requirements customers, and based upon data unique to the agreements between PP&L and these customers, PP&L estimated that the stranded costs

associated with service to these wholesale customers would be approximately \$125 million. As a result of a protest by these parties against such recovery, hearings were conducted at the FERC in March 1997 and June 1997 regarding PP&L's right to recover these stranded costs. Further proceedings in this matter have been suspended pending the negotiation and approval by the FERC of a settlement with these customers.

In December 1996, the PJM companies submitted a compliance filing with the FERC, which proposed a pool-wide pro forma transmission tariff and a revised interconnection agreement and transmission owners agreement designed to accommodate open, non-discriminatory participation in the pool. The FERC accepted the PJM tariff and proposed rates, subject to refund, and they went into effect on March 1, 1997. In June 1997, all of the PJM companies except PECO filed with the FERC proposals to amend the PJM tariff and restructure the PJM pool. PECO filed a separate request with the FERC to amend the PJM tariff and restructure the PJM pool. The FERC has not yet acted on these filings.

In September 1997, PP&L filed with the FERC a request to lower the applicable PP&L revenue requirement currently set forth in the PJM open access transmission tariff. The new revenue requirement results from PP&L's use of the same test year and cost support data used in the PUC restructuring proceeding. PP&L requested that the new revenue requirement take effect on November 1, 1997. The FERC has taken no action on this filing.

In September 1997, PP&L also filed with the FERC a request to approve new revenue requirements and rates for the PP&L open access transmission tariff. No customers currently take service under that tariff. As with the PJM tariff filing, the new revenue requirements and rates requested by PP&L are based on the same test year and cost support data used by PP&L in its PUC restructuring proceeding. The FERC has taken no action in this filing.

In July 1997, the FERC accepted a new wholesale power tariff that permits PP&L to sell capacity and energy at market-based rates, both inside and outside the PJM area, subject to certain conditions. This tariff allows PP&L to become more active in the wholesale market with utilities and other entities, and removes pricing restrictions which in the past had limited PP&L to charging at or below cost-based rates.

In October 1997, PP&L made an application to the United States Department of Energy for an export license to sell capacity and/or energy to electric utilities in Canada. If this application is granted, PP&L will be able to sell either its own capacity and energy not required to serve domestic obligations or power purchased from other utilities.

PP&L RESOURCES, INC. AND  
PP&L, INC. AND SUBSIDIARIES

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Reference is made to Notes to Financial Statements for information concerning rate matters and PP&L's restructuring proceeding before the PUC under the Customer Choice Act.

Reference is made to PP&L's 1996 Form 10-K for information concerning a federal antitrust suit by SER, one of the non-utility generating companies from which PP&L purchases power under PURPA, against PP&L in the District Court for alleged improper curtailment of power purchases under the power purchase agreement between the parties. In May 1997, the U.S. Court of Appeals for the Third Circuit affirmed the District Court's dismissal of this suit. In September 1997, SER requested the United States Supreme Court to review the Third Circuit's decision. PP&L cannot predict the outcome of this proceeding.

Reference is made to PP&L's 1996 Form 10-K for information concerning a suit by Mon Valley Steel Company, Inc. against PP&L and two of its subsidiaries regarding the 1992 sale to Mon Valley of Tunnelton Mining Company. The suit was settled in August 1997 on terms which have no material effect on PP&L.

Reference is made to PP&L's 1996 Form 10-K for information concerning PP&L's complaint to the Surface Transportation Board regarding coal transportation rates charged by three rail carriers. In September 1997, PP&L reached an agreement with the carriers to settle this case. Under the terms of the settlement, PP&L would pay lower coal transportation rates to the carriers. However, the settlement is conditioned on the outcome of the joint Norfolk Southern/CSX application to take control of Conrail, which is pending before the Surface Transportation Board. PP&L cannot predict the outcome of this proceeding or its ultimate impact on PP&L's coal transportation rates.

Reference is made to PP&L's 1996 Form 10-K for information concerning complaints by PP&L and 16 unrelated parties against 64 other parties in District Court seeking reimbursement under Superfund for costs incurred at the Novak landfill site in Lehigh County, Pennsylvania, as well as an action by EPA against PP&L and 29 other parties under section 107 of CERCLA to recover EPA's costs at the site. The parties have reached tentative settlements in both of these actions. PP&L's allocated share of the costs at this site is not expected to be material.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

12 - Computation of Ratio of Earnings to Fixed Charges  
27 - Financial Data Schedule

(b) Reports on Form 8-K

Report dated July 14, 1997

Item 5. Other Events

Information regarding the effect of the U.K. windfall profits tax on PP&L Resources.

Report dated September 12, 1997

Item 5. Other Events

Information regarding (i) a schedule extension in PP&L's restructuring case; and (ii) corporate name changes of Pennsylvania Power & Light Company to PP&L, Inc., Power Markets Development Company to PP&L Global, Inc., and Spectrum Energy Services Corporation to PP&L Spectrum, Inc., effective September 12, 1997.

## GLOSSARY OF TERMS AND ABBREVIATIONS

Atlantic - Atlantic City Electric Company

BG&E - Baltimore Gas & Electric Company

CEP (CEP Group, Inc.) - a wholly-owned subsidiary of PP&L

CERCLA - Comprehensive Environmental Response, Compensation and Liability Act

Clean Air Act (Federal Clean Air Act Amendments of 1990) - legislation enacted to address environmental issues including acid rain, ozone and toxic air emissions

CTC - Competitive transition charge

Customer Choice Act - (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 - Pennsylvania Department of Environmental Protection

DRIP (Dividend Reinvestment Plan) - program available to shareowners of PP&L Resources' common stock and PP&L preferred stock to reinvest dividends in PP&L Resources' common stock instead of receiving dividend checks

EITF - Emerging Issues Task Force

Emel - Empresas Emel, S.A., a Chilean electric distribution holding company

EPA - Environmental Protection Agency

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

FGD - Flue gas desulfurization equipment installed at coal-fired power plants to reduce sulfur dioxide emissions

FERC (Federal Energy Regulatory Commission) - federal agency that regulates interstate transmission and sale of electricity and related matters

GRT - Gross Receipts Tax

IBEW - International Brotherhood of Electrical Workers

JCP&L - Jersey Central Power & Light Company

Major utilities - Atlantic, BG&E and JCP&L

NO<sub>x</sub> - Nitrogen oxide

NPDES - National Pollutant Discharge Elimination System

NUG (Non-Utility Generator) - generating plant not owned by regulated utilities. If the NUG meets certain criteria, its electrical output must be purchased by public utilities as required by PURPA.

OCA - Pennsylvania Office of Consumer Advocate

OTS - Office of Trial Staff

**PCB (Polychlorinated Biphenyl)** - additive to oil used in certain electrical equipment up to the late-1970s. Now classified as a hazardous chemical.

**PECO** - PECO Energy Company

**PFG** - Penn Fuel Gas, Inc.

**PJM (Pennsylvania - New Jersey - Maryland Interconnection Association)** - Mid-atlantic power pool consisting of 11 operating electric utilities, including PP&L

**PP&L** - PP&L, Inc. (formerly Pennsylvania Power & Light Company)

**PP&L Capital Funding** - PP&L Capital Funding, Inc., PP&L Resources' debt financing subsidiary

**PP&L Global** - PP&L Global, Inc., a PP&L Resources' unregulated subsidiary which invests in and develops world-wide power projects (formerly Power Markets Development Company)

**PP&L Resources** - PP&L Resources, Inc., the parent holding company of PP&L, PP&L Global and PP&L Spectrum

**PP&L Spectrum** - PP&L Spectrum, Inc., a PP&L Resources' unregulated subsidiary which offers energy-related products and services inside and outside of PP&L's service territory (formerly Spectrum Energy Services Corporation)

**preferred securities** - Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures

**PUC (Pennsylvania Public Utility Commission)** - state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities

**PUC Decision** - final order issued by the PUC on September 27, 1995 pertaining to PP&L's base rate case filed in December 1994

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

**SBRCA** - Special Base Rate Credit Adjustment

**SEC** - Securities and Exchange Commission

**SER** - Schuylkill Energy Resources, Inc.

**SFAS (Statement of Financial Accounting Standards)** - accounting and financial reporting rules issued by the FASB

**Small utilities** - utilities subject to FERC jurisdiction whose billings include base rate charges and a supplemental charge or credit for fuel costs over or under the levels included in base rates

**SO<sub>2</sub>** - Sulfur dioxide

**Superfund** - Federal and state environmental legislation that addresses remediation of contaminated sites

**SWEB** - South Western Electricity Board plc, a British regional electric utility company

**UGI** - UGI Corporation

**U.K.** - United Kingdom

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its 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 subsidiary.

PP&L Resources, Inc.  
(Registrant)

PP&L, Inc.  
(Registrant)

Date: November 10, 1997

/s/ R. E. Hill  
R. E. Hill  
Senior Vice President-Financial  
(PP&L Resources, Inc. and PP&L, Inc.)

/s/ J. J. McCabe  
J. J. McCabe  
Vice President & Controller (PP&L  
Resources, Inc. and PP&L, Inc.)

## PP&amp;L RESOURCES, INC. AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	12 Months Ended September 30,					
	1997	1996	1995	1994	1993	1992
<b>Fixed charges, as defined:</b>						
Interest on long-term debt .....	\$198	\$207	\$213	\$214	\$226	\$240
Interest on short-term debt and other interest .....	25	17	18	18	13	12
Amortization of debt discount, expense and premium - net.....	2	2	2	2	2	1
Interest on capital lease obligations						
Charged to expense .....	11	13	15	12	9	10
Capitalized .....	2	2	2	1	1	2
Estimated interest component of operating rentals .....	18	8	8	6	5	5
Proportionate share of fixed charges of 50-percent-or-less-owned persons .....	1	1	1	1	1	1
<b>Total fixed charges .....</b>	<b>\$257</b>	<b>\$250</b>	<b>\$259</b>	<b>\$254</b>	<b>\$257</b>	<b>\$271</b>
<b>Earnings, as defined:</b>						
Net income .....	\$286	\$329	\$323	\$216	\$314	\$306
Preferred and Preference Stock Dividend Requirements.....	24	28	28	28	34	40
Less undistributed income of less than 50-percent-owned persons .....	-	-	-	-	-	-
	310	357	351	244	348	346
<b>Add (Deduct):</b>						
Federal income taxes .....	169	189	195	198	163	145
State income taxes .....	54	64	62	77	64	65
Deferred income taxes .....	39	10	15	(45)	22	33
Investment tax credit - net .....	(10)	(10)	(10)	(12)	(14)	(14)
Income taxes on other income and deductions - net .....	5	0	24	(38)	(1)	0
Amortization of capitalized interest on capital leases .....	3	4	5	9	12	13
<b>Total fixed charges as above (excluding capitalized interest on capital lease obligations) .....</b>	<b>255</b>	<b>248</b>	<b>257</b>	<b>253</b>	<b>256</b>	<b>271</b>
<b>Total earnings .....</b>	<b>\$825</b>	<b>\$862</b>	<b>\$899</b>	<b>\$686</b>	<b>\$850</b>	<b>\$859</b>
<b>Ratio of earnings to fixed charges .....</b>	<b>3.21</b>	<b>3.45</b>	<b>3.47</b>	<b>2.70</b>	<b>3.31</b>	<b>3.15</b>