



PENNSYLVANIA PUBLIC UTILITY COMMISSION  
Harrisburg, Pennsylvania 17105

APPLICATION OF PENNSYLVANIA POWER  
& LIGHT COMPANY (PP&L) FOR  
APPROVAL OF CERTAIN TRANSACTIONS  
IN CONNECTION WITH THE UTILITY'S  
ESTABLISHMENT OF A HOLDING  
COMPANY STRUCTURE

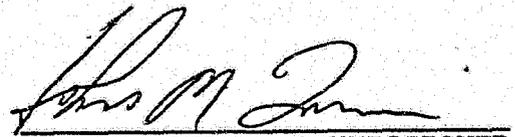
PUBLIC MEETING  
FEBRUARY 9, 1995  
FEB-95-OSA-1218\*  
DOCKET NO. A-110500 F.206

STATEMENT OF COMMISSIONER JOHN M. QUAIN

As a result of negotiations with the Office of Consumer Advocate (OCA), Pennsylvania Power & Light Company (PP&L) has agreed to certain conditions associated with its application to form a corporate holding company. In advance of our competitive bidding regulations, PP&L has agreed to prohibit its' affiliates from participating in future procurement by PP&L of generation resources.

As this is a settlement, I will approve the conditions. However, my vote today should not be viewed as disposing of similar issues in the context of the competitive bidding regulations.

2-9-95  
DATE

  
JOHN M. QUAIN, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION  
Harrisburg, Pennsylvania 17105-3265

APPLICATION OF PENNSYLVANIA  
POWER & LIGHT COMPANY (PP&L)  
FOR APPROVAL OF CERTAIN  
TRANSACTIONS IN CONNECTION WITH  
THE UTILITY'S ESTABLISHMENT OF A  
HOLDING COMPANY STRUCTURE

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STATEMENT OF COMMISSIONER LISA CRUTCHFIELD

This Application before us today represents yet another electric utility attempting to respond to the significant increase in the level of competition in the market for electricity. Pennsylvania Power & Light Company (PP&L) is requesting Commission approval to create a new exempt public holding company, PP&L Resources, with PP&L becoming a wholly-owned subsidiary of this new holding company. A further aspect of this corporate restructuring has the Power Markets Development Company (PowerCo), which was formed by PP&L on March 9, 1994 for the purpose of pursuing unregulated business opportunities that relate to the generation, transmission and distribution of electric energy, also becoming a wholly-owned subsidiary of PP&L Resources.

PP&L has agreed to several conditions concerning its future regulation within a holding company structure as a result of a protest filed against this Application by the Office of Consumer Advocate. I believe that the conditions negotiated to by the parties will provide additional protections for the customers of PP&L. I am concerned, however, that one of the conditions of the agreement which prohibits PowerCo or any other non-regulated PP&L affiliate from participating in any future competitive procurement for generating capacity, predetermines this Commission's final determination on the pending competitive bidding regulations. I will vote to approve staff's recommendation that the Application be approved subject to the conditions in the OCA/PP&L agreement, but I wish to note that this vote should not be interpreted as disposing of similar issues within the finalization of the competitive bidding regulations.

2/8/95

DATE



LISA CRUTCHFIELD  
COMMISSIONER



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17105-3265

KJR

IN REPLY PLEASE  
REFER TO OUR FILE

FEBRUARY 10, 1995

A-110500F.0206

DAVID B MACGREGOR ESQUIRE  
MORGAN LEWIS & BOCKIUS  
2000 ONE LOGAN SQUARE  
PHILADELPHIA PA 19103-6993

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.

To Whom It May Concern:

This is to advise you that an Opinion and Order has been adopted by the Commission in Public Meeting on February 9, 1995 in the above entitled proceeding.

An Opinion and Order has been enclosed for your records.

Very truly yours,

John G. Alford, Secretary

DOCUMENT  
FOLDER

smk  
Encls.  
Cert.Mail  
PAUL E RUSSELL ESQUIRE  
PENNSYLVANIA POWER & LIGHT COMPANY  
TWO NORTH NINTH STREET  
ALLENTOWN PA 18101-1179

TANYA J MCCLOSKEY  
OFFICE OF CONSUMER ADVOCATE

DOCKETED  
FEB 23 1995

PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE APPLICATION OF: A-110500, F.0206

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.

The Pennsylvania Public Utility Commission hereby certifies that after an investigation and/or hearing, it has, by its report and order made and entered, found and determined that the granting of the application is necessary or proper for the service, accommodation, convenience and safety of the public and hereby issues to the applicant this **CERTIFICATE OF PUBLIC CONVENIENCE** evidencing the Commission's approval.

*In Witness Whereof*, The PENNSYLVANIA PUBLIC UTILITY COMMISSION has caused these presents to be signed and sealed, and duly attested by its Secretary at its office in the city of Harrisburg this 9th day of February 1995.

DOCUMENT  
FOLDER

*James M. [Signature]*  
Secretary

FEB 23 1995

**DOCKETED**

PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA 17105-3265

Public Meeting held February 9, 1995

Commissioners Present:

David W. Rolka, Chairman  
Joseph Rhodes, Jr., Vice-Chairman  
John M. Quain, Statement attached  
Lisa Crutchfield, Statement attached  
John Hanger

DOCUMENT  
FOLDER

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.

A-110500 F.206

OPINION AND ORDER

DOCKETED  
FEB 23 1995

BY THE COMMISSION:

On March 18, 1994, Pennsylvania Power & Light Company (PP&L) filed the above-captioned Application pursuant to Chapter 11 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§1101, et seq., seeking approval of certain transactions in connection with the utility's establishment of a holding company structure. On May 16, 1994, the Office of Consumer Advocate (OCA) filed a Protest. No other Protests or objections to the Application were filed.

Concurrently filed and docketed with the instant Application were a Services Agreement between PP&L and its future affiliated interest, PP&L Resources, Inc. (PP&L Resources), docketed at G-00940388, and a request of PP&L for the Commission's certification of its authority to the Securities and Exchange Commission (SEC) pursuant to Section 33(a) of the Public Utility Holding Company Act of 1935, docketed at M-00940535.

In accordance with Commission regulations, the OCA and PP&L engaged in extensive negotiations to determine if the OCA's objections could be satisfied. As a result, PP&L has agreed to a number of conditions to its Application and OCA has agreed not to oppose PP&L's Application and will not pursue its protest. The conditions are specified in Appendix A to a letter, dated and filed January 11, 1995, written on behalf of PP&L by counsel for the utility. The representations in PP&L's letter concerning the agreement between OCA and PP&L were confirmed by a letter from the Office of Consumer Advocate, also dated and filed on January 11, 1995.

The conditions that OCA and PP&L have agreed to are attached here to as Appendix A and summarized below. PP&L has agreed:

1. to limit the ability of its affiliates to participate in any future competitive procurement of generating capacity resources conducted by PP&L;
2. to provide broad-based access to affiliate company records and personnel;
3. to file regular affiliate company financial statements with the Commission;
4. to limit the amount of investments in diversified businesses;
5. that its cost of capital in Pennsylvania base rate cases will be calculated on a stand-alone basis;
6. to establish reasonable accounting and pricing protocols for transactions with affiliates; and
7. that the Commission's approval of PP&L's Application will not alter PP&L's existing obligation to comply with the Public Utility Code.

By letter dated January 11, 1995, PP&L requested that the Commission include in its consideration of the Application the

conditions that arose from the satisfaction of the OCA protest. In order to facilitate the review process, PP&L also requested the Commission to sever and defer decision on PP&L's request, docketed at M-0094040435, for certification to the Securities and Exchange Commission pursuant to Section 33(a) of the Public Utility Holding Company Act of 1935. At this time, the Commission will deal only with the Application for approval of the establishment of a holding company. The affiliated interest agreement docketed at G-00940388 which governs the services agreements between PP&L and its future affiliated interest, PP&L Resources, will be considered at a later date. The Commission will also act on M-00940535 at a later date.

The proposed restructuring will result in the creation of a holding company structure. The initial steps in the creation of the holding company have been taken through the incorporation of two companies, Power Markets Development Company (PowerCo) and Resources. Eventually, Resources will be the holding company with PP&L and PowerCo as wholly-owned subsidiaries.

The creation of the holding company will be accomplished through the following transactions. PP&L first proposes to purchase, at the price of \$1/share, 100 shares of common stock to be issued by Resources. This will result in Resources becoming a wholly-owned first-tier subsidiary of PP&L. All shares of Resources' outstanding common stock will be cancelled and all of the outstanding shares of PP&L common stock will be converted and exchanged on a share-for-share basis into newly issued common stock of Resources. All of PP&L's common stock will then be owned by Resources and PP&L will be a wholly-owned subsidiary of Resources. PP&L's stockholders will vote on the proposed restructuring at the 1995 annual meeting scheduled to be held April 26, 1995.

Each person who owned PP&L common stock immediately prior to the stock exchange will own a corresponding number of outstanding shares of common stock of Resources. Resources will be

a publicly held company whose common stock will be traded on the New York and Philadelphia Stock Exchanges; PP&L common stock will cease to be listed on the New York and Philadelphia Stock Exchanges.

Outstanding PP&L Preferred Stock will be unaffected by the exchange. All of PP&L's first mortgage bonds and other indebtedness of PP&L outstanding immediately prior to the proposed stock exchange will continue to be outstanding indebtedness of PP&L after the exchange.

Following the stock exchanges, PP&L proposes to transfer the common stock of its wholly-owned subsidiary, CEP, to Resources. CEP will then transfer the common stock of PowerCo to Resources which will make PowerCo a wholly-owned first-tier subsidiary of Resources. The stock transfer will most likely be made in the form of stock dividends.

The proposed restructuring should not adversely affect the quality of service provided by PP&L to its customers nor its ability to provide that service at a reasonable rate. PP&L has represented in its filing that it will separate non-regulated and regulated operations to assure that no cross-subsidization of costs or transfer of risk occurs.

It also appears that this Commission will continue to have the authority and resources necessary to regulate PP&L as a subsidiary of the new holding company, PP&L Resources. We shall continue to have access to the books and records of the utility pursuant to Section 506 of the Public Utility Code, and Condition No. 2 of the agreement between OCA and the utility extends our access to the "books, records, officials and staff of affiliated companies involved in diversified business activities." Further, by Condition No. 3 of the agreement, PP&L has agreed to furnish regular financial statements of such affiliated companies. The

utility will continue to be subject to Chapter 17 of the Public Utility Code, pertaining to accounting and budgetary matters, and has confirmed in Conditions Nos. 6, 7 and 8 of the agreement with OCA that transactions between PP&L and its affiliates are subject to the continued jurisdiction of this Commission as provided for in Chapter 21 of the Public Utility Code.

The formation of a holding company does not promise to interfere with our ability to establish just and reasonable rates, as we are charged to do in Chapter 13 of the Public Utility Code. Further, by Condition No. 5 of the agreement with OCA, PP&L has implicitly acknowledged that in the future the capital costs experienced by PP&L Resources may be an inappropriate measure of the capital cost to be assigned to the utility, and has agreed that PP&L's cost of capital will be calculated on a stand-alone basis.

We have examined the Application and have determined that the proposed transactions leading to the formation of a holding company are necessary or proper for the service, accommodation, convenience or safety of the public and that the Application should be approved; **THEREFORE,**

**IT IS ORDERED:**

1. That the 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, is hereby approved, subject to the conditions contained in the agreement between the utility and the Office of Consumer Advocate, and that a Certificate of Public Convenience and Necessity be issued evidencing such approval.

2. That the conditions specified by the agreement between Pennsylvania Power & Light Company and the Office of

Consumer Advocate, attached hereto as Appendix A, be made a part of this Order.

3. That within thirty days of the establishment of the holding company structure, Pennsylvania Power & Light Company shall notify this Commission of the effective date of the restructuring.

BY THE COMMISSION,



John G. Alford  
Secretary

(SEAL)

ORDER ADOPTED: February 9, 1995

ORDER ENTERED: FEB 10 1995

**Conditions to Approval of PP&L's  
Application for Holding Company Structure**

Following are the conditions to Pennsylvania Power & Light Company's (PP&L) application for a holding company structure that have been agreed to by PP&L and the Office of Consumer Advocate (OCA).

**Bidding for Generating Capacity Resources**

1. Neither Power Markets Development Company, nor any other non-regulated PP&L affiliate, will participate in any future competitive procurement for generating capacity resources conducted by PP&L. This prohibition does not affect the sale of power to PP&L, to the extent otherwise permitted under state and federal law, from the following sources existing at the time this Agreement is signed: PP&L's generating units; Safe Harbor Water Power Corporation; or non-utility generators that have contracted to sell output to PP&L.

**Access to Records and Personnel**

2. Upon request, PP&L will provide to the Commission and the OCA access to the books, records, officials and staff of affiliated companies involved in diversified business activities.

PP&L will accept service in Allentown, Pennsylvania, of any requests made pursuant to this provision. Further, in responding to such requests, PP&L will produce records and personnel in the Commonwealth of Pennsylvania.

PP&L does not waive its right to raise traditional discovery objections to any requests under this provision including, but not limited to, relevance and privilege. Furthermore, before responding to any requests under this provision, PP&L may require whatever protection it deems necessary to prohibit disclosure of proprietary or confidential information.

#### Financial Statements and Reports

3. PP&L will provide the Commission and the OCA with quarterly and annual financial statements of affiliated companies involved in diversified business activities (except that no quarterly financial statements shall be required with respect to the fourth quarter because fourth quarter financials are consolidated into the annual report), annual statements of intercompany transactions, and all financial reports filed with the Securities and Exchange Commission.

Before providing any information under this provision, PP&L may require whatever protection it deems necessary to prohibit disclosure of proprietary, confidential or non-public information.

#### Investments in Diversified Businesses

4. The total amount of PP&L's investments in diversified businesses other than the energy business and ancillary activities will not exceed 7.5% of the total assets of the holding company and its consolidated subsidiaries without prior Commission approval.

The total amount of PP&L's investments in all diversified businesses will not exceed 15% of the total assets of the holding company and its consolidated subsidiaries without prior Commission approval.

#### Cost of Capital and Rate of Return

5. PP&L's cost of capital for Pennsylvania jurisdictional ratemaking purposes will be calculated on a stand-alone "divisional" basis. This condition does not limit the Commission's authority and discretion to consider whatever evidence it deems relevant to establishing a fair rate of return in PP&L's retail base rate proceedings.

#### Transactions Between PP&L and its Affiliates

6. PP&L will set up accounting controls and other procedures for allocation of overhead and other costs of jointly-used assets or personnel. Such controls and procedures will be designed to assure that PP&L will not bear any costs associated with the diversified business activities of its affiliated companies. Following approval of its holding company application, PP&L will submit these controls and procedures to the Commission and the OCA for comment.

7. PP&L will develop pricing protocols for determining transfer prices between utility operations and affiliated companies involved in diversified business activities. PP&L will provide for appropriate ratemaking recognition of all after-tax proceeds from the sale of utility assets that have been allowed in PP&L's retail base

rates. Further, PP&L will provide for appropriate ratemaking recognition of royalties paid to PP&L by its affiliated companies involved in diversified business activities for programs, etc., that were developed at ratepayers' expense.

8. PP&L will develop an organization and staffing plan which provides for adequate, efficient staffing of the utility business. PP&L will report transfers of PP&L staff to any of its affiliated companies annually to the Commission.

Continued PUC Jurisdiction Over PP&L

9. The PUC's approval of PP&L's application to create a holding company structure does not affect PP&L's existing obligation to comply with all provisions of the Public Utility Code, including Chapter 11 (relating to PUC approval of transfer of utility assets) and Chapter 21 (relating to PUC approval of contracts between affiliated interests).

PENNSYLVANIA PUBLIC UTILITY COMMISSION  
Harrisburg, Pennsylvania 17105

APPLICATION OF PENNSYLVANIA POWER  
& LIGHT COMPANY (PP&L) FOR  
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As this is a settlement, I will approve the conditions. However, my vote today should not be viewed as disposing of similar issues in the context of the competitive bidding regulations.

2-9-95  
DATE

  
JOHN M. QUAIN, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION  
Harrisburg, Pennsylvania 17105-3265

APPLICATION OF PENNSYLVANIA  
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2/8/95

DATE



LISA CRUTCHFIELD  
COMMISSIONER

TM

KJH

THIS 10<sup>th</sup> DAY OF February 1995

THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF  
ONE COPY OPINION & ORDER

UNDER DATE OF FEBRUARY 9, 1995 IN DOCKET NUMBER A-110500F206

IN BEHALF OF TANYA J MCCLOSKEY  
OFFICE OF CONSUMER ADVOCATE

Tanya J. McCloskey  
SIGNATURE

Kindly sign and date this form and return to: PUC-FILE ROOM  
B-20  
NORTH OFFICE BLDG  
HARRISBURG PA

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95 FEB 13 PM 3:16  
P.A.P. U.C. DIV.  
INFO. CONTROL DIV.



Pennsylvania Power & Light Company

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

ORIGINAL

Michael A. McGrail  
Senior Counsel  
610/774-5644

FAX: 610/774-6726

ORIGINAL

August 25, 1995

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

DOCUMENT  
FOLDER

REC'D  
8/30/95 11:04 AM  
INFO. CONTROL DIV.

Re: Application of Pennsylvania;  
Docket No. A-110500F.0206

Dear Secretary Alford:

Pennsylvania Power & Light Company (the "PP&L") herewith submits three copies of the following documents in accordance with the Commission's February 10, 1995 Order in the above-captioned matter:

1. Quarterly Financial Statements of Power Markets Development Company;
2. PP&L's policies and procedures for billing of affiliated companies.

I understand that a copy of the second quarter Form 10-Q of PP&L Resources Inc. and PP&L has been provided to you separately, as well as to the Office of Consumer Advocate.

If you have any questions, please do not hesitate to call me at 610-774-5644.

Very truly yours,

Michael A. McGrail

Enclosures

cc: Tanya J. McCloskey, Esquire - OCA

DJB

8/30  
41

RECEIVED  
05 AUG 30 11:10:04  
F. P. U. S.  
INFO. CONTROL DIV.

POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARY  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 1995  
AND THE PERIOD FROM MARCH 9, 1994 (DATE OF INCORPORATION)  
TO JUNE 30, 1994

*A-11050070206*

**DOCKETED**  
SEP. 21 1995

DOCUMENT  
FOLDER

Date: July 27, 1995

**POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEET  
JUNE 30, 1995 AND 1994**

	<u>1995</u>	<u>1994</u>
<b>Assets</b>		
Marketable debt securities (Note 3)		
Amortized cost.....	\$48,576,412	\$46,785,557
Unrealized gain (loss).....	27,356	(30,762)
Fair value.....	<u>48,603,768</u>	<u>46,754,795</u>
Other investment (Note 1).....	1,370,000	
Cash and cash equivalents.....	342,416	3,174,098
Interest receivable.....	619,209	420,142
Accounts receivable.....	6,630	
Income taxes receivable.....	115,796	14,114
Deferred income taxes.....		13,164
	<u>\$51,057,819</u>	<u>\$50,376,313</u>
<b>Liabilities and Shareowner's Investment</b>		
Accounts payable - Pennsylvania Power & Light Company.....	\$118,643	
Accounts payable - other.....	65,505	
Accrued taxes other than income.....	69,698	\$6,000
Accrued salaries.....	50,150	
Deferred income taxes.....	10,641	
	<u>314,637</u>	<u>6,000</u>
<b>Shareowner's Investment</b>		
Common stock.....	100	100
Additional paid in capital.....	50,000,000	50,000,000
Retained earnings.....	726,369	387,812
Net unrealized securities gain (loss) (Note 3).....	16,713	(17,599)
	<u>50,743,182</u>	<u>50,370,313</u>
	<u>\$51,057,819</u>	<u>\$50,376,313</u>

See accompanying notes to financial statements.

**POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED JUNE 30, 1995 AND 1994**

	<u>1995</u>	<u>1994</u>
Revenue		
Interest income.....	\$543,892	\$375,484
Realized gain - marketable debt securities.....	69,430	
	<u>613,322</u>	<u>375,484</u>
Expenses		
Salaries.....	214,947	
Operational services.....	750,775	
Pennsylvania Power & Light Company services (Note 2).....	84,112	
Capital stock and other taxes.....	90,052	30,000
Administrative and general.....	94,519	325
	<u>1,234,405</u>	<u>30,325</u>
Income (Loss) Before Income Taxes.....	(621,083)	345,159
Federal Income Tax Credit.....	395,249	10,614
Net Income (Loss).....	<u>\$(225,834)</u>	<u>\$355,773</u>

See accompanying notes to financial statements.

**POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 1995 AND THE PERIOD  
FROM MARCH 9, 1994 (DATE OF INCORPORATION) TO JUNE 30, 1994**

	<u>1995</u>	<u>1994</u>
Revenue		
Interest income.....	\$1,064,164	\$414,023
Realized gain - marketable debt securities.....	60,520	
	<u>1,124,684</u>	<u>414,023</u>
Expenses		
Salaries.....	423,782	
Operational services.....	983,334	
Pennsylvania Power & Light Company services (Note 2).....	199,382	
Capital stock and other taxes.....	172,233	40,000
Administrative and general.....	157,237	325
	<u>1,935,968</u>	<u>40,325</u>
Income (Loss) Before Income Taxes.....	(811,284)	373,698
Federal Income Tax Credit.....	640,796	14,114
Net Income (Loss).....	<u>\$(170,488)</u>	<u>\$387,812</u>

See accompanying notes to financial statements.

**POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 1995 AND THE PERIOD  
FROM MARCH 9, 1994 (DATE OF INCORPORATION) TO JUNE 30, 1994**

	<u>1995</u>	<u>1994</u>
<b>Cash Flows from Operating Activities</b>		
Net income (loss).....	\$(170,488)	\$387,812
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of premium-marketable debt securities.....	247,260	76,870
Realized gain on sale of marketable debt securities.....	(60,520)	
Decrease (increase) in income taxes receivable.....	94,621	(14,114)
Increase in interest receivable.....	(148,485)	(420,142)
Increase in accounts receivable.....	(6,630)	
Decrease in accounts payable-Pennsylvania Power & Light Company.....	(227,021)	
Increase in accounts payable-other.....	61,419	
Increase in accrued salaries.....	50,150	
Increase in accrued taxes.....	24,434	6,000
Net cash provided by (used in) operating activities.....	<u>(135,260)</u>	<u>36,426</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of marketable debt securities.....	(94,091,636)	(64,112,428)
Sales of marketable debt securities.....	94,969,128	17,250,000
Other investment.....	(1,370,000)	
Net cash used in investing activities.....	<u>(492,508)</u>	<u>(46,862,428)</u>
<b>Cash Flows from Financing Activities</b>		
Capital contribution from parent.....		50,000,000
Common stock issued.....		100
Net cash provided by financing activities.....		<u>50,000,100</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(627,768)	3,174,098
<b>Cash and Cash Equivalents</b>		
Beginning of period.....	970,184	None
End of period.....	<u>\$342,416</u>	<u>\$3,174,098</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest.....	None	None
Income taxes.....	None	None

See accompanying notes to financial statements.

## POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARY

### NOTES TO FINANCIAL STATEMENTS

1. Power Markets Development Company (PMDC) was capitalized on March 9, 1994 through an initial investment of \$50 million. Through April 26, 1995, PMDC was a wholly owned subsidiary of CEP Group, Inc. (CEP), a wholly owned subsidiary of Pennsylvania Power & Light Company (PP&L). Effective April 27, 1995, PP&L Resources, Inc. (Resources) became the parent holding company of PP&L. Also, effective April 27, 1995, PMDC was transferred as a dividend in the amount of \$50.9 million from CEP to PP&L and from PP&L to ultimately become a direct subsidiary of Resources.

PMDC was formed to engage in unregulated business activities through investments in world-wide power markets. PMDC has been investing nearly all its funds in securities and temporary cash investments. In June 1995, PMDC deposited \$1.37 million with a consortium that includes Constellation Energy, Ogden Power Systems and two Bolivian companies as collateral in a bid to acquire part of an electric generating company located in Bolivia. In July 1995, PMDC invested \$10.1 million as part of the consortium to become part owner of the electric generating company in Bolivia. Constellation and Ogden will form a partnership to operate the company.

2. In accordance with a general services agreement, PP&L provides PMDC 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 PMDC will reimburse PP&L for the full cost (direct and indirect) of any services provided.
  3. Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115), addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Under SFAS 115, unrealized appreciation and depreciation of available-for-sale securities (such as PMDC's marketable debt securities) is included as a separate component of shareowner's investment, net of related deferred income taxes.
-

**PP&L**

# BILLING AFFILIATED COMPANIES

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TREASURY'S OFFICE  
Public Utility Commission

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## INTRODUCTION

Periodically, PP&L provides services, materials or equipment to affiliated companies. This policy provides guidance to bill affiliated companies for these services and other costs incurred by PP&L and to avoid any subsidy by PP&L of non-utility operations. Affiliated companies will include PP&L's proposed parent company, PP&L Resources, Inc. (Resources), any subsidiary of PP&L (presently Interstate Energy Company (IEC); BDW Corp.; CEP Group, Inc.; Power Markets Development Company (PMD); Pennsylvania Coal Resources Corporation (PCRC); Pennsylvania Mines Corp.; Greene Hill Coal Company; Greene Manor Coal Company; Rushton Mining Company; Lady Jane Collieries, Inc.; Realty Company of Penna. and Safe Harbor Water Power Corporation) and future subsidiaries of Resources or PP&L. The following affiliated billing procedures enable PP&L to accumulate costs and issue invoices (payment obligations) for services rendered by PP&L on behalf of these affiliated companies. This policy also allows for the number of active billing situations to be adequately controlled.

The affiliated billing procedures are part of the "Billing Job Order System." Billing Job Order (BJO) numbers applicable to the affiliated companies are the 490XX series shown in the PP&L Classification of Accounts, Authority Numbers section. All BJOs are reported and accounted for by the department providing the service. The BJO number is reported on various source documents such as payroll time reports, employee expenses, etc.

## RESPONSIBILITIES OF AFFILIATED COMPANIES

Affiliated companies are responsible to request, review and control the services for which they will be billed by PP&L. When a PP&L work group feels it has work to perform for one of these companies, the group manager must obtain authorization from that affiliate to proceed; PP&L cannot bill for work unless approved by the affiliated company management. Corporate Accounting controls the issuance of BJO numbers. The affiliated company forwards all necessary paperwork to PP&L for processing, and reviews the status of all BJOs under its responsibility. Since the BJO requires an estimate to be made of the cost of the service, any over-runs must be approved by the appropriate affiliated company manager before additional work is performed. Corporate Accounting shall be responsible for the billing of PP&L costs and services to affiliated companies. (The Corporate Accounting billing group maintains appropriate records of required approvals.)

## PROCEDURES

The following steps have been defined to establish, record charges to, bill, close and cancel BJOs for affiliated companies:

- The appropriate affiliated company manager contacts the PP&L work group responsible for service. If the PP&L work group agrees to provide the service, the group's manager contacts the appropriate affiliated company manager to discuss the possible service.
- The head of the work group responsible for providing the service estimates the cost of the service based on the agreed-upon job specifications.
- After the work has been agreed upon, the affiliated company manager completes the BJO Assignment (Form 2437) including all the required information and data. (See Illustration.) The Billing Section - Corporate Accounting is the custodian of this BJO Assignment form.

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- The affiliate manager signs (in the Affiliated Company area) on the "requested by" line indicating approval for the service to begin, agreement of the affiliate to pay PP&L for such services, and that accounting codes have been selected to record charges as desired. The cost area number of the group providing the service is also inserted. The BJO Assignment form is forwarded for approval to the responsible manager of the affiliated company or an appropriate alternate as delegated.
- The approver then forwards the BJO Assignment to PP&L to perform the service or work.
- The responsible PP&L manager signs the "approved by" line (in the PP&L Co. area) acknowledging responsibility to perform the work and for charging the assigned BJO number for the work specified. The manager then forwards the form to the Billing Section-Corporate Accounting.
- Corporate Accounting enters the accounting, posts the BJO number to the system, retains the original for their files, sends one copy to the affiliated company and sends another copy to the PP&L manager providing the service.
- At the close of each accounting month, Corporate Accounting prepares a bill for charges to BJO numbers and sends the bill to the appropriate individual of the affiliated company.
- The affiliated company manager is responsible for following the progress and maintaining affiliated company records for each job.
- When the job is complete, the responsible PP&L manager notifies the affiliated company manager in writing (or the affiliated company manager may inform the responsible work group manager that services are no longer needed).
- The affiliated company manager or responsible PP&L manager then sends a letter to Corporate Accounting stating that the services provided by PP&L are completed or no longer needed and that the BJO number should be closed. The close date is also provided in this letter. The letter should be signed by the appropriate individual.

- Corporate Accounting closes the BJO number using the completion data, which will stop subsequent charges. A final billing is then issued.

### COSTS INCLUDED ON THE BILL

PP&L uses the BJO System to accumulate all costs associated with services provided by PP&L to affiliated companies. When a BJO is established it will accept charges from all accounting source systems. To ensure accurate billing, avoid cross-subsidization and comply with regulatory requirements, it is imperative that PP&L employees accurately report their time providing service to affiliated companies. Any 30 minute time interval working for an affiliated company should be charged accordingly. Also, employees should accurately charge employee expenses, purchases, or other costs related to an affiliated company to the applicable BJO.

### Payroll

PP&L employees performing services for an affiliated company should charge the BJO for their time worked on the affiliate's business. Decentralized Time Reporting (DTR) employees should charge their time worked on affiliated company business to the BJO as they would for any other direct charge activity. Employees on a predetermined payroll basis will charge the BJO on an exception reporting basis.

After a history of exception reporting has been established and documented, predetermined employees may elect to have their time automatically charged to the affiliated company. In order to do this, however, each employee electing this option must have at least two months of exception reporting data to support and document the percentage. Additionally, every year the employee will sign a confirmation of his/her election stating that the current percentage of time charged to the affiliated company is still appropriate and proper or that a new predetermined percentage should be established.

Payroll costs in the BJO will show each employee's time charged, their base hourly rate, applicable taxes and benefits, a time-off-with-pay charge for time reporting employees, and any applicable departmental overhead loadings.



### Employee Expenses

PP&L employees should charge the appropriate BJO for employee expenses incurred in the course of providing services to affiliated companies - for example, attendance at conferences, seminars and trade organizations if the purpose of the meeting is directly related to the affiliated company's activities. If the employee spent only part of the time on an affiliated company's issues, the employee must determine and charge the applicable portion of their expenses incurred to the BJO number. This attendance, however, should be approved by an appropriate manager of the affiliated company.

### Office Space

PP&L will charge affiliated companies for office space provided based on a reasonable cost allocation methodology.

### Administrative and General Overhead

PP&L's Corporate Accounting Department semi-annually calculates this overhead loading which will be applied to direct labor charges. This loading provides for the recovery of costs incurred for the overall operation of the Company that are not directly chargeable to a specific operation or function.

### Other Costs

PP&L employees should charge the appropriate BJO for materials, services, insurance or other services that benefit an affiliated company. The PP&L employee preparing the request for payment should charge the applicable BJO for the affiliated company. If only part of the costs benefit an affiliated company, employees must determine the appropriate percentage to charge the BJO.

### CANCELING BILLING JOB ORDER NUMBERS

The affiliated company manager or responsible PP&L manager may cancel a BJO by preparing a letter stating that the services are no longer necessary, and that the BJO should be canceled. The cancel date must also be provided. The letter is then forwarded to the Billing Section-Corporate Accounting for processing. However, all charges that have accumulated to that point will be billed to the affiliated company.

### MONTHLY REPORT

Each month a Billing Status Report (see Chapter 1103) is prepared and reviewed by Corporate Accounting.

### REFERENCE

See Chapter and Supplement Index (Chapter 101) for responsible individual.



# 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

June 2, 1997

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JUN 2 1997

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

**FEDERAL EXPRESS**

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

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

DOCUMENT  
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Dear Mr. McNulty:

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

- Form 10-Q for the Quarterly Period Ended March 31, 1997 Filed with the Securities and Exchange Commission on behalf of PP&L Resources, Inc. and Pennsylvania Power & Light Company;
- Power Markets Development Company and Subsidiaries Financial Statements for the three months ended March 31, 1997 and 1996;
- Spectrum Energy Services Corporation Financial Statements for the three months ended March 31, 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).

James J. McNulty, Esquire

- 2 -

June 2, 1997

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

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

Very truly yours,

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

Paul E. Russell

Enclosures

cc: Irwin A. Popowsky, Esquire

United States  
Securities and Exchange Commission  
Washington, DC 20549

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JUN 2 1997

Form 10-Q

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

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

For the quarterly period ended March 31, 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, 164,188,649 shares outstanding at April 30, 1997
Pennsylvania Power & Light Co.	Common stock, no par value, 157,300,382, shares outstanding and all held by PP&L Resources, Inc. at April 30, 1997

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DOCKETED

JUN 05 1997

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

FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 1997

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**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 March 31, 1997 and December 31, 1996, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended March 31, 1997 and 1996. PP&L Resources is the parent holding company of PP&L, PMDC, and Spectrum. PP&L comprises 97 percent of PP&L Resources' assets. 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)

	<u>Three Ended 1997</u>	<u>Months March 31, 1996</u>
Operating Revenues .....	\$786	\$789
Operating Expenses		
Operation		
Fuel.....	111	124
Power purchases.....	116	91
Other.....	117	122
Maintenance.....	35	40
Depreciation (including amortized depreciation).....	92	90
Income taxes .....	88	89
Taxes, other than income .....	56	57
	<u>615</u>	<u>613</u>
Operating Income.....	<u>171</u>	<u>176</u>
Other Income and (Deductions) - Net.....	<u>7</u>	<u>1</u>
Income Before Interest Charges and Dividends on Preferred Stock .....	<u>178</u>	<u>177</u>
Interest Charges		
Long-term debt.....	51	52
Short-term debt and other.....	3	2
	<u>54</u>	<u>54</u>
Preferred Stock Dividend Requirements.....	<u>7</u>	<u>7</u>
Net Income.....	<u>\$117</u>	<u>\$116</u>
Earnings Per Share of Common Stock (a).....	\$0.72	\$0.73
Average Number of Shares Outstanding (thousands).....	163,192	159,890
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 BALANCE SHEET**  
(Millions of Dollars)

	March 31, 1997 (Unaudited)	December 31, 1996 (Audited)
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - at original cost.....	\$9,895	\$9,824
Accumulated depreciation .....	(3,407)	(3,337)
	<u>6,488</u>	<u>6,487</u>
Construction work in progress - at cost.....	149	172
Nuclear fuel owned and leased - net of amortization .....	176	170
Other leased property - net of amortization .....	<u>74</u>	<u>76</u>
Electric utility plant - net.....	6,887	6,905
Other property - (net of depreciation, amortization and depletion 1997, \$55; 1996, \$54).....	54	55
	<u>6,941</u>	<u>6,960</u>
<b>Investments</b>		
Investment in and advances to electric energy projects - at equity .....	240	224
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust fund .....	131	128
Financial investments.....	129	133
Other - at cost or less .....	<u>20</u>	<u>18</u>
	<u>537</u>	<u>520</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	72	101
Current financial investments .....	22	73
Accounts receivable (less reserve: 1997, \$20; 1996, \$25)		
Customers .....	210	196
Other.....	17	19
Unbilled revenues.....	83	85
Fuel, materials and supplies - at average cost.....	194	201
Deferred income taxes .....	27	21
Other.....	<u>334</u>	<u>53</u>
	<u>959</u>	<u>749</u>
<b>Regulatory Assets and Other Noncurrent Assets .....</b>	<u>1,465</u>	<u>1,407</u>
	<u>\$9,902</u>	<u>\$9,636</u>

See accompanying Notes to Financial Statements.

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

	March 31, 1997 <u>(Unaudited)</u>	December 31, 1996 <u>(Audited)</u>
<b>LIABILITIES</b>		
<b>Capitalization</b>		
<b>Common equity</b>		
Common stock .....	\$2	\$2
Capital in excess of par value .....	1,608	1,590
Earnings reinvested.....	1,192	1,143
Capital stock expense and other .....	2	10
	<u>2,804</u>	<u>2,745</u>
<b>Preferred stock</b>		
With sinking fund requirements .....	295	295
Without sinking fund requirements .....	171	171
<b>Long-term debt</b> .....	<u>2,802</u>	<u>2,802</u>
	<u>6,072</u>	<u>6,013</u>
<b>Current Liabilities</b>		
Commercial paper .....	80	
Bank loans .....	144	144
Long-term debt due within one year .....	30	30
Capital lease obligations due within one year .....	80	81
Accounts payable .....	114	133
Taxes accrued .....	84	19
Interest accrued .....	61	61
Dividends payable .....	75	75
Other .....	90	78
	<u>758</u>	<u>621</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred investment tax credits .....	207	209
Deferred income taxes .....	2,058	2,052
Capital lease obligations .....	173	166
Other .....	634	575
	<u>3,072</u>	<u>3,002</u>
<b>Commitments and Contingent Liabilities</b> .....		
	<u>\$9,902</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)

	Three Ended <u>1997</u>	Months March 31, <u>1996</u>
Net cash provided by operating activities.....	\$202	\$220
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(72)	(68)
Proceeds from sale of nuclear fuel to trust.....	21	3
Purchases of available-for-sale securities.....	(28)	(152)
Sales and maturities of available-for-sale securities.....	68	138
Investment in electric energy projects.....	(13)	
Other investing activities - net.....		1
Net cash used in investing activities.....	<u>(24)</u>	<u>(78)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....		116
Issuance of common stock.....	17	17
Retirement of long-term debt.....		(115)
Funds deposited for retirement of long-term debt.....	(210)	
Payments on capital lease obligations.....	(19)	(22)
Common and preferred dividends paid.....	(75)	(73)
Net increase(decrease) in short-term debt.....	80	(63)
Net cash used in financing activities.....	<u>(207)</u>	<u>(140)</u>
Net Increase (Decrease) In Cash and Cash Equivalents .....	(29)	2
Cash and Cash Equivalents at Beginning of Period .....	101	20
Cash and Cash Equivalents at End of Period .....	<u>\$72</u>	<u>\$22</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$51	\$55
Income taxes.....	\$15	\$14

See accompanying Notes to Financial Statements.

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 March 31, 1997 and December 31, 1996, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended March 31, 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 March 31, 1996
Operating Revenues .....	\$786	\$789
Operating Expenses		
Operation		
Fuel.....	111	124
Power purchases.....	116	91
Other.....	117	122
Maintenance.....	35	40
Depreciation (including amortized depreciation) .....	92	90
Income taxes.....	88	89
Taxes, other than income.....	56	57
	<u>615</u>	<u>613</u>
Operating Income .....	<u>171</u>	<u>176</u>
Other Income and (Deductions) - Net .....	<u>2</u>	<u>3</u>
Income Before Interest Charges.....	<u>173</u>	<u>179</u>
Interest Charges		
Long-term debt.....	51	52
Short-term debt and other.....	2	2
	<u>53</u>	<u>54</u>
Net Income.....	<u>120</u>	<u>125</u>
Dividends on Preferred Stock.....	7	7
Earnings Available to PP&L Resources, Inc. ....	<u>\$113</u>	<u>\$118</u>

See accompanying Notes to Financial Statements.

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

	March 31, 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.....	\$9,895	\$9,824
Accumulated depreciation .....	(3,407)	(3,337)
	<u>6,488</u>	<u>6,487</u>
Construction work in progress - at cost .....	149	172
Nuclear fuel owned and leased - net of amortization .....	176	170
Other leased property - net of amortization .....	74	76
	<u>6,887</u>	<u>6,905</u>
Electric utility plant - net .....		
Other property - (net of depreciation, amortization and depletion 1997, \$55; 1996, \$54) .....	54	55
	<u>6,941</u>	<u>6,960</u>
<b>Investments</b>		
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust fund .....	131	128
Financial investments .....	129	133
Other - at cost or less .....	10	10
	<u>287</u>	<u>288</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	45	95
Current financial investments .....	22	51
Accounts receivable (less reserve: 1997, \$20; 1996, \$25)		
Customers .....	210	196
Other .....	11	14
Unbilled revenues.....	83	85
Fuel, material and supplies - at average cost .....	194	201
Deferred income taxes .....	27	21
Other .....	334	53
	<u>926</u>	<u>716</u>
<b>Regulatory Assets and Other Noncurrent Assets .....</b>	<u>1,464</u>	<u>1,407</u>
	<u>\$9,618</u>	<u>\$9,371</u>

See accompanying Notes to Financial Statements.

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

	March 31, 1997 <u>(Unaudited)</u>	December 31, 1996 <u>(Audited)</u>
<b>LIABILITIES</b>		
<b>Capitalization</b>		
<b>Common equity</b>		
Common stock .....	\$1,476	\$1,476
Additional paid-in capital .....	57	57
Earnings reinvested .....	1,138	1,094
Capital stock expense and other .....	(10)	(10)
	<u>2,661</u>	<u>2,617</u>
<b>Preferred stock</b>		
With sinking fund requirements .....	295	295
Without sinking fund requirements .....	171	171
<b>Long-term debt .....</b>		
	<u>2,802</u>	<u>2,802</u>
	<u>5,929</u>	<u>5,885</u>
<b>Current Liabilities</b>		
Commercial paper .....	80	
Bank loans .....	10	10
Long-term debt due within one year .....	30	30
Capital lease obligations due within one year .....	80	81
Accounts payable .....	112	132
Taxes accrued .....	86	21
Interest accrued .....	61	60
Dividends payable .....	75	75
Other .....	90	78
	<u>624</u>	<u>487</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred investment tax credits .....	207	209
Deferred income taxes .....	2,052	2,050
Capital lease obligations .....	173	166
Other .....	633	574
	<u>3,065</u>	<u>2,999</u>
<b>Commitments and Contingent Liabilities .....</b>		
	<u>\$9,618</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)

	Three Ended <u>1997</u>	Months March 31, <u>1996</u>
Net cash provided by operating activities.....	\$206	\$222
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(72)	(68)
Proceeds from sales of nuclear fuel to trust.....	21	3
Purchases of available-for-sale securities .....	(28)	(49)
Sales and maturities of available-for-sale securities .....	46	48
Other investing activities -- net.....	1	2
Net cash used in investing activities.....	<u>(32)</u>	<u>(64)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....		116
Retirement of long-term debt.....		(115)
Funds deposited for retirement of long-term debt.....	(210)	
Payments on capital lease obligations.....	(19)	(22)
Common and preferred dividends paid.....	(75)	(74)
Net increase (decrease) in short-term debt.....	80	(63)
Other financing activities - net .....		2
Net cash used in financing activities.....	<u>(224)</u>	<u>(156)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(50)</u>	<u>2</u>
Cash and Cash Equivalents at Beginning of Period.....	95	15
Cash and Cash Equivalents at End of Period.....	<u>\$45</u>	<u>\$17</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for		
Interest (net of amount capitalized).....	\$49	\$55
Income taxes.....	\$16	\$14

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 March 31, 1996 financial statements have been reclassified to conform to the presentation in the March 31, 1997 financial statements.

**2. PUC Restructuring Filing**

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. 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:

<u>Category of Stranded Cost</u>	<u>Amount (Millions of Dollars)</u>
Nuclear Generation(a)	\$2,852
Fossil Generation(a)	718
NUG Contracts	657
Regulatory Assets	<u>384</u>
	<u>\$4,611</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.

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 by PP&L 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 greater non-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%.

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 to issue securities to meet future capital requirements.

Finally, the Customer Choice Act permits the issuance of "transition bonds" securitized by CTC revenues to finance the payment of stranded costs. PP&L is still 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, a Pennsylvania state senator and two consumer groups in March 1997 filed a suit in Pennsylvania Commonwealth Court challenging the constitutionality of the Customer Choice Act.

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

PP&L believes that the Customer Choice Act establishes a definitive transition to market-based pricing for electric generation. This transition includes cost-of-service based ratemaking during the transition period. In addition, PP&L's stranded costs will be collected through a non-bypassable CTC. Based on this structure, PP&L believes it will continue to meet the requirements of SFAS No. 71 through the transition period.

PP&L is aware that the SEC has begun inquiries regarding the appropriateness of the continued application of SFAS No. 71 by utilities in states that have enacted restructuring legislation similar to the Customer Choice Act. As discussed above, PP&L believes it currently meets and will continue to meet the requirements to apply SFAS No. 71 during the transition period. In the event that the SEC concludes that the current regulatory and legal framework in Pennsylvania no longer meets the requirements to apply SFAS No. 71 to the generation business, PP&L would reevaluate the impact on its financial statements, and a material write-off could occur. The FASB's Emerging Issues Task Force is scheduled to address the issue of whether SFAS 71 should continue to apply to utilities in states that have enacted restructuring legislation.

Given the current regulatory environment, PP&L's electric transmission and distribution businesses are expected to remain regulated and, as a result, the provisions of SFAS No. 71 should continue to apply to those businesses.

#### 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 has appealed certain aspects of the PUC Decision to the Commonwealth Court. 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. This case was settled in principle with the four customers in January 1997, under terms which would have no material effect on PP&L. This settlement is currently pending before the FERC for approval.

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

In March 1996, the New Jersey Board of Public Utilities approved an agreement between PP&L and JCP&L, under which PP&L will provide JCP&L with 150,000 kilowatts of capacity credits and energy from June 1997 through May 1998, 200,000 kilowatts from June 1998 through May 1999 and 300,000 kilowatts from June 1999 through May 2004. Prices under the new agreement are based on a predetermined reservation rate that escalates over time, plus an energy component based on PP&L's actual fuel-related costs. FERC acceptance of the contract is expected in mid-1997.

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

#### 6. Financial Instruments

The carrying amount and fair value of financial investments decreased by \$55 million from December 31, 1996 to March 31, 1997, largely due to the liquidation of long-term investments to make funds more readily available for future investing activities. The carrying amount and fair value of cash and cash equivalents decreased \$29 million for the same period due to the use of funds to retire long-term debt.

#### 7. Credit Arrangements and Financing Activity

From January through April 1997, PP&L Resources obtained \$33 million from sales of common stock through the DRIP.

On April 1, 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 these bonds. 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. The funds for these redemptions were required to be made available to the Trustee on March 31, 1997.

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, up to \$800 million of short-term bonds (having maturities not in excess of sixty days) may be issued from time to time, with no more than \$150 million of such bonds outstanding at any one time.

PP&L Resources acquired 79.02% of the outstanding preferred stock of PP&L in a tender offer between March 3 and April 4, 1997. PP&L Resources acquired 52.58% of the 4-1/2% Preferred Stock and 82.42% of the Series Preferred Stock. 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, PP&L Resources will be able to waive certain restrictive provisions in the terms of the 4-1/2% Preferred Stock and Series Preferred Stock, including limitations contained in PP&L's Articles of Incorporation on PP&L's ability to increase the authorized number of any series of Preferred Stock, merge or consolidate with other corporations, issue senior stock, issue unsecured debt and issue additional shares of the Series Preferred Stock.

To provide financing for a portion of this tender offer, PP&L, in April 1997, arranged for the issuance by a Delaware statutory business trust, PP&L Capital Trust, of \$100 million of Trust Originated Preferred Securities to the public at \$25 per share, to provide investors with a yield of 8.20%. These Preferred Securities were backed by Subordinated Debentures of PP&L issued to the Trust, and PP&L guaranteed all of the Trust's 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.

## 8. 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 source of labor supply.

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 March 31, 1997 was about \$36 million.

PP&L's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about \$8.9 billion under provisions of The Price Anderson Amendments Act of 1988. 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 of 1988, 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 in Title I 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 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 already are required for PP&L 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 year 1999 Memorandum of Understanding 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 could be material.

## Water and Residual Waste

DEP residual waste regulations require PP&L to obtain permits for existing ash basins at all of its coal-fired generating stations as disposal facilities. Ash basins that cannot be permitted are required to close by July 1997. 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. To address these DEP regulations, PP&L is moving forward with plans to install dry fly ash handling systems at its power stations.

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 and proposed Holtwood station NPDES permit contain 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 these stations.

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 March 31, 1997, PP&L had accrued \$10 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 may be material.

#### Loan Guarantees of Affiliated Companies

PMDC has provided a parental guarantee of a subsidiary's pro rata share of the outstanding portion of certain debt issuances of an investee. At March 31, 1997, \$14 million of such loans were guaranteed by PMDC. The amount of debt guaranteed by PMDC is expected to grow to \$19 million as the investee 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

At March 31, 1997, PP&L had a total of 6,389 full-time employees. Approximately 65 percent of these employees are represented by the IBEW. The existing three-year agreement with the IBEW will expire in May 1997. In April 1997, PP&L and the IBEW tentatively agreed to extend all provisions of the current labor agreement through May 1998. The process by which the IBEW has asked its membership to ratify this extension agreement will continue through mid-May 1997.

#### 9. New Accounting Standards

In February, the FASB issued SFAS 128, Earnings Per Share, and SFAS 129, Disclosure of Information about Capital Structure, both of which are effective for financial statements issued for periods ending after December 15, 1997. The adoption of these statements is not expected to have a significant 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**

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 explains material changes in principal items on the Consolidated Statement of Income comparing the three months ended March 31, 1997 to the comparable period ended March 31, 1996.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any representation of the results of future operations. Future results of operations will necessarily be affected by various and diverse factors and developments. 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

	<u>Three Months Ended March 31,</u>	
	<u>1997</u>	<u>1996</u>
Earnings per share - excluding weather variances	\$ .76	\$ .69
Weather impact - billed sales	<u>(.04)</u>	<u>.04</u>
Earnings per share - reported	<u>\$ .72</u>	<u>\$ .73</u>

Earnings per share, excluding the effects of weather on billed sales, improved by \$.07 for the three months ended March 31, 1997 when compared with the same period in 1996. Earnings improvement, excluding weather, was primarily due to the following:

	<u>Three Months Ended</u> <u>March 31, 1997 vs</u> <u>March 31, 1996</u>
Higher net unbilled revenues, primarily due to weather impacts on unbilled sales	\$ .03
Reduction in earnings due to the phase-down of the contract with JCP&L	(.03)
Higher PMDC earnings, primarily from SWEB	.03
Increased sales of reservation of electrical output to other utilities and a reduction in other operating costs	.04

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.

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 Filing" for additional information.

### Electric Energy Sales

The increases (decreases) in PP&L's electric energy sales were attributable to the following:

	<u>Three Months Ended</u> <u>March 31, 1997 vs</u> <u>March 31, 1996</u> (Millions of Kwh)
Electric energy sales	
Residential	(367)
Commercial	(64)
Industrial	106
Other (including UGI)	<u>(48)</u>
System sales	(373)
Sales to other utilities	717
PJM energy sales	<u>(278)</u>
Total	<u>66</u>

System, or service area, sales were 9.2 billion kwh for the three months ended March 31, 1997, a decrease of 373 million KWH, or 3.9% from the three months ended March 31, 1996. The decrease was primarily due to milder than normal weather during the first quarter of 1997 as compared to 1996. If normal weather conditions had been experienced in the first quarter of both 1996 and 1997, system sales for 1997 would have increased by about 39 million kwh, or 0.4% over 1996.

Sales to other utilities were 3.4 billion kwh in the first quarter of 1997, an increase of 717 million kwh, or 26.8% from the same period of 1996, despite a reduction in PP&L's contractual bulk power sales to JCP&L. These increases were primarily the result of an overall increased emphasis on bilateral sales to other utilities and wholesale customers on the open market.

Sales to PJM in the first quarter of 1997 decreased by 278 million kwh, or 78.3%, from the first quarter of 1996. These lower PJM sales are primarily the result of an increase in direct sales to other utilities and wholesale customers.

#### PUC Restructuring Filing

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. 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:

<u>Category of Stranded Cost</u>	<u>Amount (Millions of Dollars)</u>
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Regulatory Assets	<u>384</u>
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(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.

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 by PP&L 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 greater non-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%.

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 to issue securities to meet future capital requirements.

Finally, the Customer Choice Act permits the issuance of "transition bonds" securitized by CTC revenues to finance the payment of stranded costs. PP&L is still 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, a Pennsylvania state senator and two consumer groups in March 1997 filed a suit in Pennsylvania Commonwealth Court challenging the constitutionality of the Customer Choice Act.

#### Rate Matters

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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. This case was settled in principle with the four customers in January 1997, under terms which would have no material effect on PP&L. This settlement is currently pending before the FERC for approval.

#### Fuel Expense

Fuel expense for the three months ended March 31, 1997 decreased \$13 million from the comparable period in 1996. The decrease was primarily due to lower generation at the Martins Creek oil/gas fired units as well as Susquehanna SES. The Martins Creek units were in lower demand in the first quarter of 1997, due to mild weather. Susquehanna's generation was down due to the planned Unit 2 refueling outage and the forced outage of Unit 1. The lower fuel costs, resulting from lower generation, were partially offset by higher fuel prices for all units.

#### Power Purchases

Purchased power increased \$25 million over the comparable period in 1996. The increase was primarily due to (i) greater quantities of power purchased from PJM and other utilities to meet planned and unplanned outages at Susquehanna SES, and (ii) attractive market prices for energy. The increase was partially offset by lower purchases from non-utility generating companies due to PP&L's buyout of the contract with Continental Energy Associates.

## PMDC Earnings

Other income and deductions increased by \$6 million for PP&L Resources for the three months ended March 31, 1997 from the comparable period in 1996. This increase resulted primarily from a \$5 million improvement in PMDC's net income. PMDC's earnings for the quarter ended March 31, 1997 are higher than the quarter ended March 31, 1996, largely due to the acquisition of an interest in SWEB in July 1996.

## Financial Condition

### Financing Activities

The following financings have occurred to date in 1997:

- o From January through April 1997, PP&L Resources obtained \$33 million from sales of common stock through the DRIP.
- o On April 1, 1997, PP&L redeemed \$210 million principal amount of four series of first mortgage bonds.
- o PP&L Resources obtained 79.02% of the outstanding preferred stock of PP&L pursuant to a tender offer conducted in March and April.
- o To provide financing for a portion of this tender offer, PP&L issued preferred securities through a Delaware statutory business trust, PP&L Capital Trust. Specifically, in April 1997, PP&L arranged for the Trust to issue \$100 million of Trust Originated Preferred Securities to the public at \$25 per share, to provide investors with a yield of 8.20%. These Preferred Securities were backed by Subordinated Debentures issued by PP&L to the Trust.

Refer to Financial Note 7 for additional information.

### Financing and Liquidity

The change in cash and cash equivalents for the three months ended March 31, 1997 decreased \$31 million for PP&L Resources from the comparable period in 1996. This reflects an \$18 million decrease in cash provided by operating activities. This decrease was also due to a \$67 million increase in cash used in financing activities partially offset by a \$54 million decrease in cash used in investing activities. The increase in cash used in financing activities was due to funds made available for the retirement of \$210 million of long-term debt in 1997 partially offset by a \$143 million increase in short-term debt in 1997 from 1996. The decrease in cash used in investing activities was due to several subsidiaries liquidating long-term investments to make funds more readily available for future investing activities.

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 power projects by PMDC.

## 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 March 31, 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 investment to date is its 25 percent interest in SWEB, a British regional electric utility company, for approximately \$189 million.

PMDC has executed a Share Purchase Agreement pursuant to which PMDC will purchase a 25.05 percent interest in Emel for approximately \$120 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 is anticipated to occur in August 1997, PMDC will enter into a shareholders' agreement that will enable PMDC and another major shareholder, Las Espigas Group, to control the action taken with respect to matters brought before Emel's board of directors. Financial closing remains subject to certain regulatory and third party approvals, and the outcome of a thirty-day "pre-emptive rights" period during which Emel's existing shareholders will be entitled to purchase the shares in Emel that PMDC intends to acquire. The \$120 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 8 -- "Commitments and Contingent Liabilities" regarding loan guarantees of affiliated companies and source of labor supply.

### 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 Filing" for a discussion of PP&L's April 1, 1997 filing pursuant to the Customer Choice Act.

In response to a July 1996 PUC Report on achieving retail competition in Pennsylvania, PP&L in October 1996 voluntarily filed for PUC approval of a retail access pilot program. In January 1997, the PUC issued final guidelines for pilot programs. Those guidelines required each major electric utility in Pennsylvania to file a proposed pilot program in accordance with the guidelines by March 1, 1997.

On February 28, 1997, PP&L submitted a revised retail access pilot program in accordance with the applicable provisions of the Customer Choice Act and the PUC's 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.

On May 9, 1997, the PUC issued an order approving and revising PP&L's proposed pilot program. Comments regarding the PUC's proposed revisions must be filed by May 22, 1997. PP&L currently is reviewing this order and plans to file comments. The PUC is expected to conduct hearings on this matter.

In addition, in April 1997 PP&L filed an application with the PUC for a license to act as an electric generation supplier. Approval of this application 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 tariffs had to offer point-to-point and network services, as well as ancillary services. A utility had to offer these services to all eligible wholesale customers on a basis comparable to the services the utility provides to itself. A utility must take service under its open access transmission tariff for its own wholesale sales and purchases. The rules do not abrogate existing transmission agreements.

The rules also provide that utilities are entitled to recover from their wholesale 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 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.

The rules further 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 and implement such tariffs and agreements by March 1, 1997. In addition, utilities had to separate their transmission and power marketing functions, and implement an electronic bulletin board for transmission capacity information by January 3, 1997. Finally, utilities were required to "unbundle", or separately state, the transmission charges contained within certain tariffs and bilateral coordination sales agreements.

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 have been accepted by FERC. Several parties moved to intervene and protested the new rates, and the FERC has not issued an order concerning these rates.

In addition, PP&L has made filings to unbundle its tariffs and certain of its bilateral coordination sales agreements, which have been accepted by the FERC. PP&L plans to file to unbundle certain other agreements in the near future. Finally, PP&L has requested FERC approval to cancel certain agreements which duplicate the terms and conditions now contained in PP&L's open access transmission tariff.

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 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 are currently being conducted regarding PP&L's right to recover these stranded costs.

In July 1996, all of the PJM companies, except PECO, submitted a comprehensive filing for FERC approval of changes to the PJM to accommodate greater competition and broader participation. The filing would have (i) established pool-wide transmission service tariffs to provide comparable, open-access service for all wholesale transactions throughout PJM; (ii) established a price-based bidding system, with the resulting regional energy market open to all wholesale buyers and sellers of power; (iii) created a not-for-profit corporate entity in the form of an ISO responsible for impartial daily management and administration of the energy market and the transmission system; and (iv) developed an enhanced pool-wide planning function to be administered by the ISO. In August 1996, PECO filed a separate PJM restructuring proposal with the FERC, which differed significantly in several areas from the other companies' filing.

In November 1996, the FERC rejected both proposals for restructuring the PJM. The FERC ordered the PJM companies to file a pool-wide tariff and modified coordination agreements reflecting the removal of provisions which the FERC considered discriminatory against non-PJM members. In December

1996, all members of PJM submitted an interim 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 PJM companies currently are working with multiple stakeholders to develop a consensus package for the comprehensive restructuring of the PJM, which is expected to be filed with the FERC in May 1997.

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.

Reference is made to PP&L's 1996 Form 10-K for information concerning a federal antitrust suit against PP&L by a group of fuel oil dealers in PP&L's service area. This suit has now been settled on terms which do not have a material effect on PP&L.

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.

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

(a) Exhibits

27 - Financial Data Schedule

(b) Reports on Form 8-K

Report dated March 3, 1997

Item 5. Other Events

Information regarding PP&L Resources' tender offer for any and all of the outstanding 4-1/2% Preferred Stock and Series Preferred Stock of PP&L.

## Glossary of Terms and Abbreviations

**Atlantic** - Atlantic City Electric Company

**BG&E** - Baltimore Gas & Electric Company

**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

**District Court** - United States District Court for the Eastern District of Pennsylvania

**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

**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

**IBEW** - International Brotherhood of Electrical Workers

**ISO** - Independent System Operator

**JCP&L** - Jersey Central Power & Light Company

**LIBOR** - London Inter-Bank Offered Rate

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

**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

**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

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

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

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

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

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 plc, a British regional electric utility company

UGI - UGI Corporation

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: May 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)

POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARIES  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED  
MARCH 31, 1997 AND 1996

DOCUMENT  
FOLDER

**DOCKETED**  
JUN 05 1997

DATE: APRIL 24, 1997

**POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET - UNAUDITED  
MARCH 31, 1997 and DECEMBER 31, 1996**

Assets	March 31, 1997	December 31, 1996
<b>Current Assets:</b>		
Cash and cash equivalents.....	\$ 23,932,497	\$ 1,982,976
Marketable debt securities, at fair value (Note 2).....	0	22,273,179
Interest receivable.....	343,281	64,847
Accounts receivable.....	613,052	226,060
Income taxes receivable.....	2,471,156	1,777,097
Dividend receivable.....	4,686,249	5,046,339
<b>Total current assets.....</b>	<b>32,046,235</b>	<b>31,370,498</b>
Marketable debt securities, at fair value (Note 2).....		
<b>Investments (Note 4):</b>		
Bolivian Generating Group, LLC.....	11,054,555	10,956,291
Latin America Energy and Electricity Fund I, LP.....	3,650,784	3,329,155
Aguaytia Energy, LLC.....	10,081,978	6,225,229
SIUK Holdings, Ltd.....	214,317,244	209,868,235
Hydrocentrais Reunidas, Lda.....	11,248,911	-
Other.....	\$ -	1,640,002
Property, Plant & Equipment net of depreciation (incl. Cap. Leases).....	235,844	-
Other - (Capitalized development costs-Emel Chile).....	542,451	-
Other.....	440,049	308,126
<b>Total.....</b>	<b>\$ 283,618,051</b>	<b>\$ 263,697,536</b>
<b>Liabilities and Shareowner's Investment</b>		
<b>Current Liabilities:</b>		
Note payable - PP&L Resources, Inc. (Note 3).....	\$ 135,000,000	\$ 135,000,000
Accounts payable - Pennsylvania Power & Light Company.....	342,190	211,840
Accounts payable - other.....	1,006,372	467,811
Interest payable.....	111,328	678,689
Accrued taxes other than income.....	2,122	8,565
Accrued compensation.....	504,938	535,315
Deferred income taxes.....	824,357	-
<b>Total current liabilities.....</b>	<b>137,791,307</b>	<b>136,902,220</b>
Deferred compensation.....	247,715	136,071
Accrued pensions.....	583,595	490,216
Deferred income taxes.....	6,149,228	1,553,301
	<b>6,980,538</b>	<b>2,179,588</b>
<b>Shareowner's Investment:</b>		
Common stock - 100 shares of \$0.01 par value, authorized, issued and outstanding.....	1	1
Additional paid in capital.....	128,528,380	111,184,197
Cumulative translation adjustment (Note 2).....	6,117,320	13,257,725
Retained earnings (accumulated deficit).....	4,197,229	173,641
Net unrealized securities gain (loss) (Note 2).....	3,276	164
<b>Total shareowners' investment.....</b>	<b>138,846,206</b>	<b>124,615,728</b>
<b>Total.....</b>	<b>\$ 283,618,051</b>	<b>\$ 263,697,536</b>

See accompanying notes to financial statements.

**POWER MARKETS DEVELOPMENT COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF OPERATIONS - UNAUDITED  
FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND 1996**

	<u>1997</u>	<u>1996</u>
<b>Revenue</b>		
Earnings - marketable debt securities.....	\$ 304,391	\$ 827,911
Earnings - associated companies.....	8,434,770	-
Other income.....	228,618	420
	<u>8,967,779</u>	<u>828,331</u>
<b>Expenses</b>		
Project development.....	451,967	1,471,608
Salaries and benefits.....	968,654	585,826
Pennsylvania Power & Light Company services (Note 3).....	47,681	16,086
PP&L Resources, Inc. fees (Note 3).....	54,523	41,722
Interest - loan from PP&L Resources, Inc. (Note 3).....	2,075,314	-
Capital stock and other taxes.....	600	38,640
Depreciation and amortization (office related).....	8,158	-
Administrative and general.....	319,556	210,231
	<u>3,926,453</u>	<u>2,364,113</u>
Income (Loss) Before Income Taxes.....	5,041,326	(1,535,782)
<b>Income Taxes (Credits)</b>		
Current Federal.....	(282,262)	(468,858)
Deferred Federal.....	1,300,000	(81,003)
	<u>1,017,738</u>	<u>(549,861)</u>
Net Income (Loss).....	<u>\$ 4,023,588</u>	<u>\$ (985,921)</u>

See accompanying notes to financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND 1996**

	<u>1997</u>	<u>1996</u>
<b>Cash Flows from Operating Activities</b>		
Net income(loss).....	\$ 4,023,588	\$ (985,921)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in earnings from investments.....	(8,661,846)	-
Amortization of premium-marketable debt securities.....	-	7,475
Amortization-capitalized project development costs.....	286,081	-
Amortization-Depreciation - office costs.....	8,158	-
Realized loss (gain) on sale-marketable debt securities.....	(576)	132
Deferred income tax.....	1,800,000	(81,003)
Change in current assets and current liabilities		
Income taxes receivable.....	(461,440)	(468,858)
Interest receivable.....	(278,434)	(80,626)
Accounts receivable - other.....	(381,488)	(17,197)
Prepayment.....	(5,505)	-
Accounts payable-Pennsylvania Power & Light Company.....	129,815	468,749
Accounts payable-other.....	538,590	114,493
Accrued salaries.....	(29,871)	(9,649)
Accrued taxes.....	124,035	7,121
Accrued interest (note from parent).....	(567,360)	-
Other operating activities - net.....	(177,637)	(880,942)
Net cash used in operating activities.....	<u>(3,653,890)</u>	<u>(1,926,226)</u>
<b>Cash Flows from Investing Activities</b>		
Property, plant and equipment expenditures.....	(39,591)	-
Purchases of marketable debt securities.....	-	(103,292,724)
Sales of marketable debt securities.....	22,273,179	90,105,308
Investment in Latin America Energy and Electricity Fund I,LP.....	(120,752)	(160,394)
Investment in Aguaytia Energy.....	(3,856,748)	-
investment in Hidrocentrais Reunidas.....	(9,454,409)	-
Capitalized Project Development Costs (Emel).....	(542,451)	-
Net cash provided by (used in) investing activities.....	<u>8,259,228</u>	<u>(13,347,810)</u>
<b>Cash Flows from Financing Activities</b>		
Capital contribution from parent.....	17,344,183	15,003,951
Net cash provided by financing activities.....	<u>17,344,183</u>	<u>15,003,951</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	21,949,521	(270,085)
<b>Cash and Cash Equivalents</b>		
Beginning of period.....	1,982,976	607,574
End of period.....	<u>\$ 23,932,497</u>	<u>\$ 337,489</u>

See accompanying notes to financial statements.

SPECTRUM ENERGY SERVICES CORPORATION  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 1997

**DOCKETED**  
JUN 05 1997

DATE: APRIL 14, 1997

DOCUMENT  
FOLDER

**SPECTRUM ENERGY SERVICES CORPORATION**

**BALANCE SHEET**

**MARCH 31, 1997**

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**ASSETS**

Cash and cash equivalents.....	\$3,414,433
Accounts receivable.....	700,965
Federal income taxes receivable.....	132,898
Deferred compensation.....	20,162
Accumulated deferred state income taxes.....	137,173
	<hr/>
	\$4,405,631
	<hr/>

**LIABILITIES AND SHAREOWNER'S INVESTMENT**

Accounts payable-Pennsylvania Power & Light Company.....	\$426,104
Accounts payable-other.....	557,249
Accrued salaries.....	14,651
Accrued taxes other than income.....	19,018
Accumulated deferred federal income taxes.....	48,011
	<hr/>
	1,065,033
	<hr/>

**SHAREOWNERS' INVESTMENT**

Common Stock (100 shares of \$.01 par value).....	1
Additional paid in capital.....	4,143,953
Accumulated deficit.....	(803,356)
	<hr/>
	3,340,598
	<hr/>
	\$4,405,631
	<hr/>

See accompanying notes to financial statements.

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**SPECTRUM ENERGY SERVICES CORPORATION**

**STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 1997**

Revenues	
Sales.....	\$1,361,717
Interest.....	43,811
Other .....	213
	<u>1,405,741</u>
Expenses	
Project.....	1,099,479
Administrative and General	
Salaries and benefits (Note 2).....	340,784
Pennsylvania Power & Light Company support services (Note 2).....	91,437
PP&L Resources, Inc. fees (Note 2).....	1,717
Capital stock and other taxes.....	5,001
Other administrative and general.....	247,057
	<u>1,785,475</u>
Loss Before Income Taxes.....	(379,734)
Income Taxes (Credits)	
Current	
Federal.....	(132,907)
Deferred	
Federal.....	13,278
State.....	(37,935)
	<u>(157,564)</u>
Net Loss.....	<u><u>\$(222,170)</u></u>

See accompanying notes to financial statements.

**SPECTRUM ENERGY SERVICES CORPORATION**

**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 1997**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss.....	\$(222,170)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Deferred compensation.....	(20,162)
Deferred income taxes.....	(24,657)
Change in current assets and current liabilities	
Income taxes receivable.....	180,343
Accounts receivable.....	9,932
Prepayments.....	7,453
Accounts payable.....	(24,373)
Accrued taxes.....	6,363
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	<u>(87,271)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS..... (87,271)

**CASH AND CASH EQUIVALENTS**

Beginning of period.....	3,501,704
End of period.....	<u>\$3,414,433</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid (received) during the period for:	
Interest.....	NONE
Income taxes.....	(313,250)

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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