

DOCKET NO. : A-110500 F0206  
RESPONDENT OR APPLICANT: PENNSYLVANIA POWER & LIGHT CO.  
PARTY OR COMPLAINANT:

ENTRY TYPE	DATE	BUREAU	PERSONNEL
1 N	03/18/94	SEC	OSMAN
PP&L FILED APP IN CONNECTION WITH UTILITY'S ESTABLISHMT OF HOLDING CO STRUCTURE			
2 N	03/29/94	SEC	OSMAN
ACKNOWLEDGEMENT LETTER SENT TO APPLICANT			
3 N	03/29/94	SEC	OSMAN
SEC MEMO ASSIGNING APPLICATION TO OSA			
4 N	03/30/94	SEC	ESTERLINE
RECEIPT OF \$350.00 FILING FEE ISSUED			
5 N	05/16/94	COR	OSMAN
PROTESTS DUE TO BE FILED			
6 N	04/15/94	SEC	OSMAN
SEC MEMO TO TRANS ATTACHING NOTICE (3) TO BE PUBLISHED			
7 N	04/14/94	SEC	BARBUSH
RECOM ADOPTED-PUBLISH NOTICE OF APP IN PA BULLETIN; CONSOL W/G-940388, M-940535			
8 N	04/18/94	SEC	BARBUSH
OPINION & ORDER SERVED TO PARTIES (CONSOLIDATED W/G-940388 & M-940535)			
9 N	04/28/94	SEC	BARBUSH
PP&L FILED SEC FORM U-1; ADV SUBMITTED 4/21/94 TO SECURITIES & EXCHANGE COMM			
10 N	05/16/94	SEC	HUMES
OCA FILED PROTEST W/CERT OF SERVICE			
11 N	10/20/94	SEC	BREWSTER
SEC MEMO TO ALJ ADVISING PROTESTS HAVE BEEN RECEIVED			
12 N	12/07/94	SEC	BARBUSH
OSA MEMO TO SEC REQ PROTESTS BE RE-ASSIGNED FROM OALJ TO OSA FOR DISPOSITION			
13 N	12/13/94	SEC	BARBUSH
SEC MEMO TO OSA RE-ASSIGNING PROTESTS FOR DISPOSITION PER REQUEST			
14 N	01/09/95	SEC	BARBUSH
PP&L FILED U-1 APPLICATN FOR DECLARATION UNDER PUBLIC UTIL HOLDING CO ACT 1935			
15 N	01/09/95	SEC	BARBUSH
PP&L FILED AGREEMENT AND PLAN OF EXCHANGE BETWEEN PP&L & PP&L RESOURCES INC.			
16 N	01/09/95	SEC	BARBUSH
PP&L FILED AMENDED AND RESTATED ARTICLES OF INCORPORATION			
17 N	01/09/95	SEC	BARBUSH
PP&L FILED COPY OF RESOLUTION OF BOARD OF DIR APPROVING AGRMT/PLAN OF EXCHANGE			
18 N	01/09/95	SEC	BARBUSH
PP&L FILED ORDER FROM FERC & NUCLEAR REG COMM APPROVING CREATION OF HOLDING CO			
19 N	01/11/95	SEC	BARBUSH
PP&L LTR/REQ APP BE CONSIDERED AT 1/26/95 PUBLIC MTG; ADV OCA WILL NOT OPPOSE			
20 N	01/11/95	SEC	BARBUSH
OCA LTR ADV PP&L LTR DTD 1/11/95 ACCURATELY REPRESENTS AGREEMT OF OCA & PP&L			
21 N	02/10/95	SEC	JONES
OPINION/ORDER & CERT DATED 2/9/95 ISSUED-COM QUAIN & CRUTCHFIELD STMTS ATTCHED			
22 N	02/09/95	SEC	BARBUSH
RECOM ADOPTED-APPLICATION APPROVED SUBJECT TO CONDITIONS IN THE OCA/PP&L AGRMT			
23 N	05/19/95	SEC	BARBUSH
PP&L ADV ESTABLISHMT OF HOLDING CO STRUCTURE EFF 4/27/95 PURSUANT TO OPIN/ORD			
24 N	08/30/95	SEC	HUMES
PP&L FILED QTRLY FINANCIAL STMT OF POWER MARKETS & POLICIES & PROCEDURES			
25 N	06/02/97	SEC	BARBUSH
PP&L FILED FORM 10-Q QTR END 3/31/97 FOR SELF & PP&L RESOURCES PER OPIN & ORD			
26 N	06/02/97	SEC	BARBUSH
PP&L FILED POWER MARKETS DEVELOPMT & SUBSIDIARIES FINANCIAL STMTS PER OPIN/ORD			
27 N	06/02/97	SEC	BARBUSH
PP&L FILED SPECTRUM ENERGY SVCS CORP FINANCIAL STMTS PURSUANT TO OPINION & ORD			

ENTRY TYPE	DATE	BUREAU	PERSONNEL
28 N	09/17/97	SEC	ADAMS
PP&L FLD FORM 10-Q QUARTELY REPORT TO SECURITIES/EXCHANGE COMM QTR END 6/3/97			
29 N	11/12/97	SEC	BARBUSH
PP&L FILED FORM 10-Q QTR END 9/30/97 FOR SELF & PP&L RESOURCES PER OPIN & ORD			
30 N	11/05/97	SEC	ADAMS
PP&L FLD SPECTRUM EMERGY SVC FINANCIAL STMNT (UNAUDITED) 6 MNTH ENDED 6/30/97			
31 N	11/05/97	SEC	ADAMS
PP&L SPECTRUM FINANCIAL STMNT (UNAUDITED) FOR 9 MONTH ENDED 9/30/97			
32 N	05/05/98	SEC	BARBUSH
PP&L INC FILED PP&L SPECTRUM INC UNAUDITED FINANCL STMTS-YRS END 12/31/97 & 96			
33 N	05/05/98	SEC	BARBUSH
PP&L INC FILED PP&L SPECTRUM INC UNAUDITED FINANCL STMTS-3 MTHS ENDED 3/31/98			
34 N	07/27/98	SEC	MOTTER
PP&L FILED PP&L SPECTRUM FINANCIAL STMTS (UNAUDITED) FOR 6 MOS ENDED 6/30/98			
35 N	08/20/98	SEC	ADAMS
PP&L FILED FORM 10-Q QUARTERLY RPT TO SECURITY/EXCHANGE QUARTER ENDED 6/30/98			
36 N	10/19/98	SEC	MOTTER
PP&L FILED PP&L SPECTRUM FINANCIAL STMTS (UNAUDITED) FOR 9 MOS ENDED 9/30/98			
37 N	10/20/98	SEC	MOTTER
APPLICANT FILED PETITION FOR AMENDMENT OF ORDERS W/CERT OF SERVICE			
38 N	11/02/98	SEC	MOTTER
SEC MEMO TO OSA-ASSIGNING PETITION			
39 N	11/09/98	SEC	MOTTER
OCA FILED ANSWER TO APPLI PETITION FOR AMENDMENT OF ORDERS W/CERT OF SERVICE			
40 N	12/01/98	SEC	MOTTER
APPLI FILED SECURITES & EXCHANGE COMMISSION FORM 10-Q(QTRLY RPT ENDED 9/30/98)			
41 N	12/14/98	SEC	MOTTER
APPLI FLD AMENDED CONDITIONS TO APPROVAL OF ITS APPL FOR HOLDING CO STRUCTURE			
42 N	12/15/98	SEC	MOTTER
SEC MEMO TO OSA-ASSIGNING AMENDED CONDITIONS TO APPROVAL OF PP&L'S APPLICATN			
43 N	12/15/98	SEC	MOTTER
OCA LTR REQ COMMISSION APPROVE APPLICANT'S AMENDED CONDITIONS IN AN ORDER			
44 N	12/17/98	SEC	WILSON
RECOM ADOPTED-PETITION GRANTED, APPROVED AS AMENDED			
45 N	12/21/98	SEC	HANCOCK
OPINION AND ORDER SERVED TO PARTIES			
46 N	10/25/99	SEC	ADAMS
PP&L FLD RPT ON SECURITIES & EXCHANGE FORM 10-Q FOR QRT END 3/31/99 & 6/30/99			

Paul E. Russell  
Associate General Counsel  
Tel. 610 774-4254 Fax 610.774 6726  
E-mail perussell@papl.com

PP&L, Inc.  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel. 610 774.5151  
http://www.papl.com/



VIA FEDERAL EXPRESS

May 5, 1998

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

ORIGINAL

RECEIVED

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

MAY 05 1998

PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Dear Mr. McNulty:

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

- PP&L Spectrum, Inc. Financial Statements (Unaudited) for the Years Ended December 31, 1997 and 1996
- PP&L Spectrum, Inc. Financial Statements (Unaudited) for the Three Months Ended March 31, 1998

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

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

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

Very truly yours,

Paul E. Russell

Enclosures

cc. Irwin A. Popowsky, Esquire

DOCUMENT  
FOLDER

25

RECEIVED

MAY 05 1993

PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

PP&L SPECTRUM, INC.  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

INDEXED  
MAY 12 1998

DOCUMENT  
FOLDER

DATE: JANUARY 15, 1998

PP&L SPECTRUM, INC.

**BALANCE SHEET (UNAUDITED)**  
**DECEMBER 31, 1997 AND DECEMBER 31, 1996**

	<u>1997</u>	<u>1996</u>
<u>ASSETS</u>		
Cash and cash equivalents.....	\$2,231,813	\$3,501,704
Accounts receivable.....	1,701,864	710,897
Prepayments.....		7,453
Federal income taxes receivable.....	536,299	313,241
Unbilled revenue - projects.....	427,800	
Deferred compensation.....	14,825	
Accumulated deferred state income taxes.....	252,313	99,238
	<u>\$5,164,914</u>	<u>\$4,632,533</u>
<u>LIABILITIES AND SHAREOWNER'S INVESTMENT</u>		
Accounts payable - PP&L, Inc.....	\$1,884,713	\$897,915
Accounts payable - other.....	118,758	124,462
Accrued salaries.....	7,807	
Accrued taxes other than income.....	29,725	12,655
Deferred revenue - projects.....	366,992	
Accumulated deferred federal income taxes.....	88,310	34,733
	<u>2,496,305</u>	<u>1,069,765</u>
<u>SHAREOWNER'S INVESTMENT</u>		
Common stock (100 shares of \$.01 par value).....	1	1
Additional paid in capital.....	4,143,953	4,143,953
Accumulated deficit.....	(1,475,345)	(581,186)
	<u>2,668,609</u>	<u>3,562,768</u>
	<u>\$5,164,914</u>	<u>\$4,632,533</u>

See accompanying notes to financial statements.

PP&L SPECTRUM, INC.

**STATEMENT OF OPERATIONS (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996**

	<u>1997</u>	<u>1996</u>
<b>REVENUES</b>		
Sales.....	\$6,439,777	\$4,016,043
Interest.....	164,736	191,625
Other .....	580	468
	<u>6,605,093</u>	<u>4,208,136</u>
<b>EXPENSES</b>		
Project.....	5,613,246	3,268,468
Administrative and General		
Salaries and benefits (Note 2).....	1,096,175	222,219
PP&L, Inc. support services (Note 2).....	535,067	1,128,925
PP&L Resources, Inc. fees (Note 2).....	9,271	6,771
Capital stock and other taxes.....	51,375	39,707
Other administrative and general.....	832,242	436,928
	<u>8,137,376</u>	<u>5,103,018</u>
LOSS BEFORE INCOME TAXES.....	(1,532,283)	(894,882)
<b>INCOME TAXES (CREDIT)</b>		
Current		
Federal.....	(538,626)	(313,148)
Deferred		
Federal.....	53,577	31,292
State.....	(153,075)	(89,408)
	<u>(638,124)</u>	<u>(371,264)</u>
NET LOSS.....	<u>\$(894,159)</u>	<u>\$(523,618)</u>

See accompanying notes to financial statements.

PP&L SPECTRUM, INC.

STATEMENTS OF SHAREOWNER'S INVESTMENT (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	<u>TOTAL</u>	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>
BALANCE DECEMBER 31, 1995..	\$4,086,386	\$1	\$4,143,953	\$(57,568)
NET INCOME.....	<u>(523,618)</u>			<u>(523,618)</u>
BALANCE DECEMBER 31, 1996..	3,562,768	1	4,143,953	(581,186)
NET INCOME.....	<u>(894,159)</u>			<u>(894,159)</u>
BALANCE DECEMBER 31, 1997..	<u>\$2,668,609</u>	<u>\$1</u>	<u>\$4,143,953</u>	<u>\$(1,475,345)</u>

See accompanying notes to financial statements.

PP&L SPECTRUM, INC.

**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996**

	<u>1997</u>	<u>1996</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss.....	\$(894,159)	\$(523,618)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes.....	(99,498)	(58,116)
Change in current assets and current liabilities		
Net deferred (unbilled) revenues.....	(60,808)	
Accounts payable.....	988,901	1,022,377
Income taxes receivable.....	(223,058)	(306,523)
Interest receivable.....		17,922
Accounts receivable.....	(990,967)	(587,852)
Prepayments.....	7,453	3,547
Accrued taxes other than income.....	17,070	12,655
Other.....		(50,000)
Deferred compensation.....	(14,825)	
<b>NET CASH USED IN OPERATING ACTIVITIES.....</b>	<u>(1,269,891)</u>	<u>(469,608)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS.....</b>	(1,269,891)	(469,608)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period.....	3,501,704	3,971,312
End of period.....	<u>\$2,231,813</u>	<u>\$3,501,704</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash received during the period for:		
Interest.....	\$164,736	\$209,547
Income taxes.....	341,818	6,625

See accompanying notes to financial statements.

PP&L SPECTRUM, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS ACTIVITY

PP&L Spectrum, Inc. (Spectrum) was incorporated on July 14, 1995 as a wholly owned subsidiary of PP&L Resources, Inc. (Resources). Spectrum was formed to engage in unregulated business activities through investments in energy related power markets. Spectrum has been investing a majority of its funds in temporary cash investments.

2. RELATED COMPANY TRANSACTIONS

PP&L Services

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

Resources Fees

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

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PP&L SPECTRUM, INC.  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 1998

**DOCKETED**  
MAY 12 1998

DOCUMENT  
FOLDER

DATE: APRIL 14, 1998

PP&L SPECTRUM, INC.

**BALANCE SHEET (UNAUDITED)**  
**MARCH 31, 1998**

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ASSETS

Cash and cash equivalents.....	\$2,423,052
Accounts receivable.....	2,607,067
Federal income taxes receivable.....	136,449
Unbilled revenue - projects.....	1,279,501
Deferred compensation.....	13,046
Accumulated deferred state income taxes.....	288,034
	<u>          </u>
	<u>\$6,747,149</u>

LIABILITIES AND SHAREOWNER'S INVESTMENT

Accounts payable - PP&L, Inc.....	\$3,112,281
Accounts payable - other.....	23,706
Accrued salaries.....	12,238
Accrued taxes other than income.....	45,084
Deferred revenue - projects.....	993,622
Accumulated deferred federal income taxes.....	100,812
	<u>          </u>
	<u>4,287,743</u>

SHAREOWNERS' INVESTMENT

Common Stock (100 shares of \$.01 par value).....	1
Additional paid in capital.....	4,143,953
Accumulated deficit.....	(1,684,548)
	<u>          </u>
	<u>2,459,406</u>
	<u>          </u>
	<u>\$6,747,149</u>

See accompanying Notes to Financial Statements.

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PP&L SPECTRUM, INC.

STATEMENT OF OPERATIONS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 1998

REVENUES

Sales.....	\$3,123,989
Interest.....	33,772
Other .....	77
	<u>3,157,838</u>

EXPENSES

Project.....	3,010,910
Administrative and General	
Salaries and benefits (Note 2).....	252,070
PP&L, Inc. support services (Note 2).....	44,379
PP&L Resources, Inc. fees (Note 2).....	1,883
Taxes other than income.....	32,301
Other administrative and general.....	173,867
	<u>3,515,410</u>

LOSS BEFORE INCOME TAXES..... (357,572)

INCOME TAXES (CREDIT)

Current	
Federal.....	(125,150)
Deferred	
Federal.....	12,502
State.....	(35,721)
	<u>(148,369)</u>

NET LOSS..... \$(209,203)

See accompanying Notes to Financial Statements.

PP&L SPECTRUM, INC.

**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 1998**

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CASH FLOWS FROM OPERATING ACTIVITIES

Net loss.....	\$(209,203)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Deferred income taxes.....	(23,219)
Change in current assets and current liabilities	
Net deferred (unbilled) revenues.....	(225,071)
Accounts payable.....	1,136,947
Income taxes receivable.....	399,850
Accounts receivable.....	(905,203)
Accrued taxes other than income.....	15,359
Deferred compensation.....	1,779
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>191,239</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS..... 191,239

CASH AND CASH EQUIVALENTS

Beginning of period.....	<u>2,231,813</u>
End of period.....	<u>\$2,423,052</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash received during the period for:	
Interest.....	33,772
Income taxes.....	525,000

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See accompanying Notes to Financial Statements.

PP&L SPECTRUM, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS ACTIVITY

PP&L Spectrum, Inc. (Spectrum) was incorporated on July 14, 1995 as a wholly owned subsidiary of PP&L Resources, Inc. (Resources). Spectrum was formed to engage in unregulated business activities through investments in energy related power markets. Spectrum has been investing a majority of its funds in temporary cash investments.

2. RELATED COMPANY TRANSACTIONS

PP&L Services

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

Resources Fees

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

---

**Paul E. Russell**  
Associate General Counsel  
Tel. 610 774-4254 Fax 610 774 6726  
E-mail: perussell@papl.com

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



VIA FEDERAL EXPRESS

July 27, 1998

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

ORIGINAL

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

JUL 27 1998 KJR

PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Dear Mr. McNulty:

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

- PP&L Spectrum, Inc. Financial Statements (Unaudited) for the six months Ended June 30, 1998

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

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

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

Very truly yours,

Paul E. Russell

Enclosures

cc: Irwin A. Popowsky, Esquire

DOCUMENT  
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PP&L SPECTRUM, INC.  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 1998

**SECRET**

JUL 29 1998

DOCUMENT  
FOLDER

DATE: JULY 14, 1998

PP&L SPECTRUM, INC.

**BALANCE SHEET (UNAUDITED)**  
**JUNE 30, 1998**

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ASSETS

Cash and cash equivalents.....	\$1,895,053
Accounts receivable.....	2,917,233
Prepayments.....	87,076
Federal income taxes receivable.....	321,177
Unbilled revenue - projects.....	577,941
Deferred compensation.....	9,934
Miscellaneous deferred debits.....	7,008
Accumulated deferred state income taxes.....	<u>321,530</u>
	<u>\$6,136,952</u>

LIABILITIES AND SHAREOWNER'S INVESTMENT

Accounts payable - PP&L, Inc.....	\$3,084,998
Accounts payable - other.....	589,290
Accrued salaries.....	18,220
Accrued taxes other than income.....	33,067
Deferred revenue - projects .....	35,605
Accumulated deferred federal income taxes.....	<u>112,536</u>
	<u>3,873,716</u>

SHAREOWNERS' INVESTMENT

Common Stock (100 shares of \$.01 par value).....	1
Additional paid in capital.....	4,143,953
Accumulated deficit.....	<u>(1,880,718)</u>
	<u>2,263,236</u>
	<u>\$6,136,952</u>

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See accompanying Notes to Financial Statements.

PP&L SPECTRUM, INC.

STATEMENT OF OPERATIONS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 1998

REVENUES

Sales .....	\$7,116,165
Interest .....	66,079
Other .....	260
	<u>7,182,504</u>

EXPENSES

Project .....	6,970,519
Administrative and General	
Salaries and benefits (Note 2) .....	443,962
PP&L, Inc support services (Note 2) .....	107,958
PP&L Resources, Inc. fees (Note 2) .....	3,248
Taxes other than income .....	56,230
Other administrative and general .....	293,454
	<u>7,875,371</u>

LOSS BEFORE INCOME TAXES ..... (692,867)

INCOME TAXES (CREDIT)

Current	
Federal .....	(242,503)
Deferred	
Federal .....	24,226
State .....	(69,217)
	<u>(287,494)</u>

NET LOSS ..... \$(405,373)

See accompanying Notes to Financial Statements.

**PP&L SPECTRUM, INC.**

**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 1998**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss.....	\$(405,373)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Deferred income taxes.....	(44,991)
Change in current assets and current liabilities	
Net deferred (unbilled) revenues.....	(481,528)
Accounts payable.....	1,681,230
Income taxes receivable.....	215,122
Accounts receivable.....	(1,215,369)
Prepayments.....	(87,076)
Accrued taxes other than income.....	3,342
Deferred compensation.....	4,891
Miscellaneous deferred debits.....	(7,008)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b><u>(336,760)</u></b>

**NET INCREASE IN CASH AND CASH EQUIVALENTS.....** (336,760)

**CASH AND CASH EQUIVALENTS**

Beginning of period .....	<u>2,231,813</u>
End of period.....	<u><u>\$1,895,053</u></u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash received during the period for:	
Interest.....	66,079
Income taxes.....	491,312

See accompanying Notes to Financial Statements

PP&L SPECTRUM, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS ACTIVITY

PP&L Spectrum, Inc. (Spectrum) was incorporated on July 14, 1995 as 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

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Resources Fees

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

---

Paul Russell  
Associate General Counsel  
Tel 610 774-4254 Fax 610 774 6726  
E-mail: perussell@papl.com

PP&L,  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel 610 774 5151  
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VIA FEDERAL EXPRESS

August 20, 1998

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

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AUG 20 1998

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

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Dear Mr. McNulty:

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

- Form 10-Q Quarterly Report to the Securities and Exchange Commission For the Quarter Ended June 30, 1998 for PP&L Resources, Inc. and PP&L, Inc.

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

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

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

Very truly yours,

Paul E. Russell

Enclosures

cc. Irwin A. Popowsky, Esquire



DOCKETED

AUG 26 1998

# Form 10-Q

Quarterly Report to the  
Securities and Exchange Commission

For the Quarter Ended  
June 30, 1998

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**PP&L Resources, Inc.**  
**PP&L, Inc.**

United States  
Securities and Exchange Commission  
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended June 30, 1998

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	PP&L, Inc. (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, Inc. 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, 168,266,320 shares outstanding at July 31, 1998
PP&L, Inc.	Common stock, no par value, 157,300,382, shares outstanding and all held by PP&L Resources, Inc. at July 31, 1998

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

FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 1998

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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 June 30, 1998 and December 31, 1997, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended June 30, 1998 and 1997. PP&L Resources is the parent holding company of PP&L Global, PP&L Spectrum, PP&L Capital Funding and H. T. Lyons. PP&L constitutes substantially all of PP&L Resources' assets, revenues and earnings.

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(Millions of Dollars, except per share data)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	1998	1997	1998	1997
<b>Operating Revenues</b>				
Electric operations.....	\$558	\$560	\$1,175	\$1,104
Wholesale energy and trading activities.....	259	136	504	287
Energy related businesses.....	21	7	40	17
<b>Total Operating Revenues.....</b>	<b>838</b>	<b>693</b>	<b>1,719</b>	<b>1,408</b>
<b>Operating Expenses</b>				
Operation				
Electric fuel.....	118	106	231	216
Energy purchases.....	218	104	432	297
Other operating.....	143	121	260	233
Maintenance.....	53	49	91	84
Depreciation and amortization.....	94	93	189	185
Taxes, other than income.....	49	50	102	106
Energy related businesses.....	15	5	29	9
<b>Total Operating Expenses.....</b>	<b>690</b>	<b>527</b>	<b>1,334</b>	<b>1,066</b>
<b>Operating Income.....</b>	<b>148</b>	<b>166</b>	<b>385</b>	<b>430</b>
<b>Other Income and (Deductions).....</b>	<b>4</b>	<b>3</b>	<b>11</b>	<b>5</b>
<b>Income Before Interest and Income Taxes.....</b>	<b>152</b>	<b>169</b>	<b>396</b>	<b>435</b>
<b>Interest Expense.....</b>	<b>54</b>	<b>55</b>	<b>106</b>	<b>110</b>
<b>Income Before Income Taxes and Extraordinary Items.....</b>	<b>98</b>	<b>114</b>	<b>290</b>	<b>325</b>
<b>Income Taxes.....</b>	<b>38</b>	<b>45</b>	<b>122</b>	<b>133</b>
<b>Income Before Extraordinary Items.....</b>	<b>60</b>	<b>69</b>	<b>168</b>	<b>192</b>
<b>Extraordinary Items (net of \$666 income taxes) (Note 4).....</b>	<b>(948)</b>		<b>(948)</b>	
<b>Income(Loss) Before Dividends on Preferred Stock.....</b>	<b>(888)</b>	<b>69</b>	<b>(780)</b>	<b>192</b>
<b>Preferred Stock Dividend Requirements.....</b>	<b>6</b>	<b>4</b>	<b>13</b>	<b>11</b>
<b>Net Income(Loss).....</b>	<b>(\$894)</b>	<b>\$65</b>	<b>(\$793)</b>	<b>\$181</b>
<b>Earnings Per Share of Common Stock</b>				
Basic and Diluted (a):				
Income Before Extraordinary Items.....	\$0.32	\$0.39	\$0.92	\$1.11
Extraordinary Items (net of tax).....	(5.66)		(5.67)	
<b>Net Income(Loss).....</b>	<b>\$(5.34)</b>	<b>\$0.39</b>	<b>\$(4.75)</b>	<b>\$1.11</b>
<b>Dividends Declared per Share of Common Stock.....</b>	<b>\$0.4175</b>	<b>\$0.4175</b>	<b>\$0.835</b>	<b>\$0.835</b>
(a) Based on average number of shares outstanding (thousands).....	167,436	164,068	167,106	163,820

See accompanying Notes to Financial Statements.

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

	Six Months Ended June 30,	
	1998	1997
Net Cash Provided by Operating Activities.....	\$281	\$307
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(149)	(143)
Proceeds from sale of nuclear fuel to trust.....	15	23
Purchases of available-for-sale securities.....	(12)	(52)
Sales and maturities of available for sale securities.....	14	91
Investment in electric energy projects.....	(276)	(19)
Purchases and sales of other financial investments - net....	4	76
Other investing activities - net.....	2	
Net cash used in investing activities.....	<u>(402)</u>	<u>(24)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	260	10
Issuance of common stock.....	33	36
Issuance of company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures.....		250
Retirement of long-term debt.....	(267)	(210)
Purchase of subsidiary's preferred stock (net of premium and associated costs).....		(369)
Payments on capital lease obligations.....	(26)	(33)
Common and preferred dividends paid.....	(152)	(150)
Net increase in short-term debt.....	260	147
Other financing activities - net .....	(1)	(20)
Net cash provided by (used in) financing activities...	<u>107</u>	<u>(339)</u>
Net Decrease In Cash and Cash Equivalents .....	(14)	(56)
Cash and Cash Equivalents at Beginning of Period .....	50	101
Cash and Cash Equivalents at End of Period .....	<u>\$36</u>	<u>\$45</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$111	\$106
Income taxes.....	\$98	\$131

See accompanying Notes to Financial Statements.

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

	June 30, 1998 (Unaudited)	December 31, 1997 Audited
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - net (Notes 2 and 4)		
Transmission and distribution .....	\$2,171	\$2,160
Generation .....	1,632	4,022
General and intangible .....	216	232
	<u>4,019</u>	<u>6,414</u>
Construction work in progress - at cost.....	97	185
Nuclear fuel owned and leased - net.....	156	167
Electric utility plant - net.....	<u>4,272</u>	<u>6,456</u>
Other property - net.....	53	54
	<u>4,325</u>	<u>6,510</u>
<b>Investments</b>		
Electric energy projects - at equity .....	638	360
Nuclear plant decommissioning trust fund .....	186	163
Financial investments.....	50	52
Affiliated companies - at equity .....	17	17
Other.....	13	13
	<u>904</u>	<u>605</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	36	55
Accounts receivable (less reserve: 1998, \$18; 1997, \$16)		
Customers .....	160	190
Other.....	79	48
Unbilled revenues		
Customers.....	84	90
Other.....	91	37
Fuel, materials and supplies - at average cost.....	175	283
Prepayments.....	89	29
Deferred income taxes .....	32	32
Other.....	26	50
	<u>772</u>	<u>695</u>
<b>Regulatory Assets and Other Noncurrent Assets (Note 4)</b>		
Recoverable transition costs.....	2,819	
Other.....	379	1,365
	<u>3,198</u>	<u>1,365</u>
	<u>\$9,199</u>	<u>\$8,486</u>

See accompanying Notes to Financial Statements.

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

	June 30, 1998 (Unaudited)	December 31, 1997 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
<b>Common equity</b>		
Common stock .....	\$2	\$2
Capital in excess of par value .....	1,702	1,669
Earnings reinvested (Note 4) .....	231	1,164
Capital stock expense and other .....	(28)	(26)
	<u>1,907</u>	<u>2,809</u>
<b>Preferred stock</b>		
With sinking fund requirements .....	47	47
Without sinking fund requirements .....	50	50
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures.....	250	250
Long-term debt .....	<u>2,730</u>	<u>2,585</u>
	<u>4,984</u>	<u>5,741</u>
<b>Current Liabilities</b>		
Short-term debt.....	397	135
Long-term debt due within one year .....		150
Capital lease obligations due within one year .....	58	58
Liability for above market NUG purchases due within one year (Note 4) .....	105	
Accounts payable .....	182	140
Taxes accrued .....	59	40
Interest accrued .....	62	62
Dividends payable .....	76	76
Other .....	99	108
	<u>1,038</u>	<u>769</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes and ITC .....	1,556	2,221
Liability for above market NUG purchases (Note 4) .....	775	
Capital lease obligations .....	103	113
Other .....	743	641
	<u>3,177</u>	<u>2,975</u>
<b>Commitments and Contingent Liabilities .....</b>		
	<u>\$9,199</u>	<u>\$9,485</u>

See accompanying Notes to Financial Statements.

PP&L, INC. AND SUBSIDIARIES

In the opinion of PP&L, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 1998 and December 31, 1997, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended June 30, 1998 and 1997. All nonutility operating transactions are included in "Other Income and (Deductions)" in PP&L's Consolidated Statement of Income.

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(Millions of Dollars)

	Three Months		Six Months	
	Ended June 30, 1998	1997	Ended June 30, 1998	1997
<b>Operating Revenues</b>				
Electric operations.....	\$558	\$550	\$1,175	\$1,224
Wholesale energy and trading activities.....	259	136	504	267
Energy related businesses.....	1			1
<b>Total Operating Revenues</b>	<u>818</u>	<u>686</u>	<u>1,679</u>	<u>1,492</u>
<b>Operating Expenses</b>				
Operation				
Electric fuel.....	118	105	231	216
Energy purchases.....	218	104	432	220
Other operating.....	143	121	260	236
Maintenance.....	53	49	91	84
Depreciation and amortization.....	94	93	189	185
Taxes, other than income.....	49	50	102	106
Energy related businesses.....		1		1
<b>Total Operating Expenses</b>	<u>675</u>	<u>523</u>	<u>1,305</u>	<u>1,050</u>
<b>Operating Income</b>	143	163	374	422
<b>Other Income and (Deductions)</b>	9	9	21	8
<b>Income Before Interest and Income Taxes</b>	152	171	395	430
<b>Interest Expense</b>	49	54	98	106
<b>Income Before Income Taxes and Extraordinary Items</b>	103	117	297	324
<b>Income Taxes</b>	40	47	124	134
<b>Income Before Extraordinary Items</b>	63	70	173	190
<b>Extraordinary Items (net of \$668 income taxes: (Note 4))</b>	<u>(948)</u>		<u>(948)</u>	
<b>Net Income(Loss) Before Dividends on Preferred Stock</b>	(885)	70	(775)	190
<b>Dividends on Preferred Stock</b>	12	9	24	16
<b>Earnings Available to PP&amp;L Resources, Inc.</b>	<u><u>\$(897)</u></u>	<u><u>\$61</u></u>	<u><u>\$(799)</u></u>	<u><u>\$174</u></u>

See accompanying Notes to Financial Statements.

PEEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Millions of Dollars)

	Six Months	
	Ended June 30,	
	1998	1997
Net Cash Provided by Operating Activities.....	\$307	\$308
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(149)	(143)
Proceeds from sales of nuclear fuel to trust.....	15	23
Purchases of available-for-sale securities .....	(12)	(52)
Sales and maturities of available-for-sale securities .....	14	69
Purchases and sales of other financial investments - net.....	4	76
Loan to parent.....	(1)	(375)
Other investing activities - net.....	1	
Net cash used in investing activities.....	<u>(128)</u>	<u>(402)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	200	10
Issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures.....		250
Retirement of long-term debt.....	(266)	(210)
Payments on capital lease obligations.....	(26)	(33)
Common and preferred dividends paid.....	(163)	(185)
Net increase in short-term debt.....	82	182
Other financing activities - net .....	(1)	(9)
Net cash provided by (used in) financing activities.....	<u>(174)</u>	<u>5</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	5	(89)
Cash and Cash Equivalents at Beginning of Period.....	15	95
Cash and Cash Equivalents at End of Period.....	<u>\$20</u>	<u>\$6</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$105	\$102
Income taxes.....	\$102	\$133

See accompanying Notes to Financial Statements.

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

	June 30, 1998 (Unaudited)	December 31, 1997 Audited
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - net (Notes 2 and 4)		
Transmission and distribution .....	\$2,171	\$2,160
Generation .....	1,632	4,322
General and intangible .....	216	232
	<u>4,019</u>	<u>6,714</u>
Construction work in progress - at cost .....	97	185
Nuclear fuel owned and leased - net .....	156	187
Electric utility plant - net .....	<u>4,272</u>	<u>6,786</u>
Other property - net .....	51	54
	<u>4,323</u>	<u>6,820</u>
<b>Investments</b>		
Loan to parent .....	376	375
Nuclear plant decommissioning trust fund .....	186	163
Financial investments .....	49	52
Affiliated companies - at equity .....	17	17
Other .....	13	13
	<u>641</u>	<u>620</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	20	15
Accounts receivable (less reserve: 1998, \$18; 1997, \$16)		
Customers .....	158	138
Other .....	81	64
Unbilled revenues		
Customers .....	81	90
Other .....	91	36
Fuel, materials and supplies - at average cost .....	175	200
Prepayments .....	88	25
Deferred income taxes .....	32	22
Other .....	23	29
	<u>749</u>	<u>670</u>
<b>Regulatory Assets and Other Noncurrent Assets (Note 4)</b>		
Recoverable transition costs .....	2,819	1,362
Other .....	364	1,362
	<u>3,183</u>	<u>1,362</u>
	<u>\$8,896</u>	<u>\$8,472</u>

See accompanying Notes to Financial Statements.

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

	June 30, 1998 (Unaudited)	December 31, 1997 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
<b>Common equity</b>		
Common stock .....	\$1,476	\$1,476
Additional paid-in capital .....	64	64
Earnings reinvested (Note 4) .....	153	1,092
Capital stock expense and other .....	(20)	(20)
	<u>1,673</u>	<u>2,612</u>
<b>Preferred stock</b>		
With sinking fund requirements .....	295	295
Without sinking fund requirements .....	171	171
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures .....	250	250
Long-term debt .....	2,568	2,483
	<u>4,957</u>	<u>5,811</u>
<b>Current Liabilities</b>		
Short-term debt .....	127	45
Long-term debt due within one year .....		150
Capital lease obligations due within one year .....	58	58
Liability for above market NUG purchases due within one year (Note 4) .....	105	
Accounts payable .....	181	148
Taxes accrued .....	58	40
Interest accrued .....	58	59
Dividends payable .....	82	81
Other .....	97	107
	<u>766</u>	<u>688</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes and ITC .....	1,555	2,221
Liability for above market NUG purchases (Note 4) .....	775	
Capital lease obligations .....	103	113
Other .....	740	639
	<u>3,173</u>	<u>2,973</u>
<b>Commitments and Contingent Liabilities</b>		
	<u>\$8,896</u>	<u>\$9,472</u>

See accompanying Notes to Financial Statements.

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

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

## 1. Interim Financial Statements

Certain information in footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, has been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These financial statements should be read in conjunction with the financial statements and notes included in PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1997.

Certain amounts in the June 30, 1997 and December 31, 1997 financial statements have been reclassified to conform to the presentation in the June 30, 1998 financial statements. The most significant reclassifications have been made in the Consolidated Statement of Income. This Statement has been modified to better reflect the changing nature of the business from a regulated electric utility to a full-service provider of retail and wholesale energy and related products and services. The revenues and expenses of PP&L Global, PP&L Spectrum and H.T. Lyons are now reflected in "Operating Income." Previously, the results of these non-regulated affiliates were included in "Other Income and (Deductions)" in PP&L Resources' Statement of Income. In addition, the revenues generated by PP&L's wholesale energy and trading activities are now separately disclosed. Finally, income taxes are no longer reflected as "Operating Expense," which was the traditional disclosure used by utilities. On the Consolidated Balance Sheet, "Electric utility plant in service - net" at December 31, 1997 has been reclassified to separately disclose generation plant, which is no longer subject to the regulatory accounting provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." See Notes 2 and 4 for further information.

## 2. Summary of Significant Accounting Policies

The PUC's order dated June 15, 1998 (see Note 3) impacted certain accounting policies of PP&L. Following are updates to the "Summary of Significant Accounting Policies" as detailed in PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1997. Refer to Note 4 for more information on the PUC restructuring charge.

### Management's Estimates

These financial statements have been prepared using information which represents management's best estimates of existing conditions. Actual results could differ from these estimates.

Significant estimates were required in recording the effect of the PUC's order. The impairment write-down of certain generation plant was dependent on projections of future cash flows and capacity factors. Cash flow projections and the resulting impact on the fair value determination of these generating facilities are subject to future re-evaluation. In

addition, the liabilities recorded for above-market purchases from NUGs were based on estimated generation by the NUG facilities and estimated future market prices for this generation. Again, these recorded amounts are subject to revision if the underlying estimates change.

### Regulation

Historically, PP&L accounted for its operations in accordance with the provisions of SFAS 71, which requires rate-regulated entities to reflect the effects of regulatory decisions in their financial statements. PP&L discontinued application of SFAS 71 for the generation portion of its business effective June 30, 1998.

### Utility Plant

Following are the classes of Electric Utility Plant in Service, with associated accumulated depreciation reserves, at June 30, 1998 and December 31, 1997.

	Transmission & <u>Distribution</u>	<u>Generation</u>	General & <u>Intangible</u>	Electric Utility Plant In <u>Service</u>
June 30, 1998:				
Original Cost	\$3,353	\$6,339	\$372	\$10,064
Accumulated Depreciation Reserve	<u>(1,182)</u>	<u>(4,707)</u>	<u>(156)</u>	<u>(6,045)</u>
	<u>\$2,171</u>	<u>\$1,632</u>	<u>\$216</u>	<u>\$ 4,019</u>
December 31, 1997:				
Original Cost	\$3,309	\$6,306	\$369	\$ 9,984
Accumulated Depreciation Reserve	<u>(1,149)</u>	<u>(2,284)</u>	<u>(137)</u>	<u>(3,570)</u>
	<u>\$2,160</u>	<u>\$4,022</u>	<u>\$232</u>	<u>\$ 6,414</u>

Generation plant is reflected at the lower of cost or market value at June 30, 1998. As noted in the "Regulation" section of this note, PP&L discontinued application of SFAS 71 for the generation portion of its business effective June 30, 1998. In accordance with SFAS 101, "Regulated Enterprises-Accounting for the Discontinuation of Application of FASB Statement No. 71", impairment tests were performed on the individual generating facilities. These impairment tests used the provisions of SFAS 121, "Accounting For the Impairment of Long-Lived Assets and For Long-Lived Assets to Be Disposed Of". As a result, generation plant assets were written down by \$2.357 billion.

The other classes of Electric Utility Plant in Service continue to be carried at historical cost.

### Capitalized Interest

Effective June 30, 1998, PP&L stopped capitalizing AFUDC on generation-related construction projects, since these assets are no longer subject to the provisions of SFAS 71. Instead, interest is being capitalized on generation-related projects in accordance with SFAS 34, "Capitalizing Interest Costs."

## Premium on Reacquired Long Term Debt

In accordance with SFAS 71, PP&L deferred the premiums and expenses to redeem long-term debt and amortized these costs over the life of the new debt. If no new debt was issued to refinance the retired debt, these costs were amortized over the remaining life of the retired debt. Effective June 30, 1998, losses on reacquired debt attributable to the generation portion of PP&L's business will be recorded in accordance with SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt."

## Comprehensive Income

During 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income." This statement required disclosure of "comprehensive income," defined as changes in equity other than from transactions with shareowners. Comprehensive income consists of net income, as well as holding gains and losses of certain assets (such as available-for-sale securities), foreign currency translation adjustments and the effects of certain accounting adjustments to earlier periods recognized during the current periods. The comprehensive income of PP&L Resources and PP&L is not materially different than net income for the three and six months ended June 30, 1998 or the corresponding periods in 1997.

## 3. PUC Restructuring Proceeding

Reference is made to PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1997, regarding PP&L's April 1, 1997 filing of its restructuring plan with the PUC pursuant to the Customer Choice Act.

Under the Customer Choice Act, the PUC is authorized to determine the amount of PP&L's stranded costs to be recovered through a Competitive Transition Charge (CTC) to be paid by all PUC-jurisdictional customers who receive transmission and distribution service from PP&L. Stranded (or transition) 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."

The Customer Choice Act also permits the issuance of "transition bonds" securitized by customer revenues from an Intangible Transition Charge (ITC) to finance the payment of transition costs. Proceeds of the transition bonds are required to be used "principally to reduce qualified stranded costs and related capitalization." The ITC is intended to recover the principal, interest and issuance, refinance and servicing costs and fees related to the transition bonds.

In accordance with the Customer Choice Act, PP&L filed its restructuring plan with the PUC on April 1, 1997. PP&L's restructuring plan included a claim of \$4.5 billion (on a net present value basis as of January 1, 1999) for transition costs.

On June 15, 1998, the PUC entered an order in the restructuring proceeding. Under that order, PP&L estimated that it could recover about \$2.5 billion in transition costs over the 8-1/2 year transition period prescribed by the order--i.e., through June 30, 2007.

Numerous parties filed legal challenges to the PUC's June 15 order in state and federal court. PP&L filed an appeal of the order in the Pennsylvania Commonwealth Court, an action for Declaratory Judgment against the order in the Commonwealth Court, and a civil complaint action against the order in the U.S. District Court for the Eastern District of Pennsylvania.

In July 1998, the PUC offered all parties to the restructuring proceeding the opportunity for substantive settlement discussions. On August 13, 1998, the PUC entered a Tentative Order approving a "Joint Petition for Full Settlement of PP&L, Inc.'s Restructuring Plan and Related Court Proceedings" (Joint Settlement Petition). The Tentative Order is subject to a public comment period, and final PUC action is expected on August 27, 1998.

The terms and conditions of the Joint Settlement Petition represent a comprehensive resolution of all issues before the Pennsylvania Commonwealth Court and the U. S. District Court arising from challenges by certain parties, including PP&L, to the PUC's June 15 order. In the Joint Settlement Petition, the parties request that the PUC (i) approve the proposed settlement set forth in the Joint Settlement Petition; (ii) amend the June 15 order consistent with the proposed settlement; (iii) approve the supplements to PP&L's tariff necessary to implement the proposed settlement; (iv) issue a Qualified Rate Order authorizing PP&L to securitize up to \$2.85 billion of transition and related costs; and (v) preapprove future transfers of PP&L generation assets at PP&L's discretion.

The following are the major elements of the settlement:

1. PP&L is permitted to recover \$2.97 billion (on a net present value basis) in transition costs over 11 years -- i.e., from January 1, 1999 through December 31, 2009. PP&L is permitted a return of 10.86% on the unamortized balance of these transition costs.

2. PP&L will reduce rates to all retail customers by 4% effective January 1, 1999 through December 31, 1999.

3. One-third of PP&L customers will be able to choose their electric supplier on January 1, 1999, one-third on January 2, 1999, and the remainder on January 2, 2000. Beginning on January 1, 1999, PP&L will unbundle its retail electric rates to reflect separate prices for the transmission and distribution charges, the CTC (and, if applicable, the ITC), and a "shopping credit" for customers choosing an alternate electric supplier. These shopping credits vary among customer classes and will increase over the transition period to reflect decreases in the CTC. The proposed settlement provides for the following unbundled rates over the transition period:

SCHEDULE OF SYSTEM AVERAGE RATES  
CENTS/KWH

Effective Date	Transmission & Distribution	CTC (a)	Shopping Credit (b)	Generation Rate Cap (c)	Total Rate (d)
Jan. 1, 1999	1.74	1.57	3.81	5.68	7.12
Jan. 1, 2000	1.74	1.55	4.13	5.68	7.42
Jan. 1, 2001	1.74	1.52	4.16	5.68	7.42
Jan. 1, 2002	1.74	1.45	4.23	5.68	7.42
Jan. 1, 2003	1.74	1.41	4.27	5.68	7.42
Jan. 1, 2004	1.74	1.35	4.33	5.68	7.42
Jan. 1, 2005	(e)	1.27	4.41	5.68	(e)
Jan. 1, 2006	(e)	1.27	4.38	6.05	(e)
Jan. 1, 2007	(e)	1.21	4.64	6.05	(e)
Jan. 1, 2008	(e)	1.14	4.91	6.05	(e)
Jan. 1, 2009 (f)	(e)	1.03	5.02	6.05	(e)

(a) Average CTC rates are fixed, subject to reconciliation for actual sales and CTC collection.

(b) The CTC and, as a result, the shopping credit figures will be adjusted to reflect changes due to the CTC reconciliation.

(c) The Generation Rate Cap equals the sum of the CTC and Shopping Credit. The generation portion of bills for customers who continue to be supplied by PP&L as the supplier of last resort will not, on average, exceed the figures in this column.

(d) The bundled rate equals the sum of Transmission & Distribution plus Generation Rate Cap. Customers who continue to be supplied by PP&L as the supplier of last resort will, on average, pay the total rate shown in the last column. The 1999 rate represents a 4% reduction from the existing rate cap of 7.42 cents/kWh.

(e) The cap on PP&L's transmission and distribution rates under the Customer Choice Act is extended through 2004. Under the Customer Choice Act, T&D rates were capped until June 30, 2001.

(f) Effective until December 31, 2009.

In addition, the proposed settlement results in the following schedule for amortization of the transition costs over the transition period:

**ANNUAL STRANDED COST  
AMORTIZATION AND RETURN (a)**

<u>Year</u>	<u>Annual Sales mWh</u>	<u>CTC Cents/ kWh</u>	<u>Revenue Excluding GRT</u>		<u>Amortization (\$000)</u>
			<u>Total (\$000)</u>	<u>Return (\$000)</u>	
1999	33,108,701	1.57	\$497,938	\$310,396	\$187,542
2000	33,605,332	1.55	498,027	290,796	207,231
2001	34,109,412	1.52	496,671	269,138	227,532
2002	34,621,053	1.45	481,095	245,359	235,736
2003	35,140,369	1.41	473,995	220,722	253,273
2004	35,667,474	1.35	461,682	194,252	267,430
2005	36,202,486	1.27	438,637	166,303	272,334
2006	36,745,524	1.27	447,326	137,841	309,485
2007	37,296,707	1.21	433,106	105,497	327,610
2008	37,856,157	1.14	411,419	71,258	340,161
2009(b)	38,424,000	1.03	377,373	35,708	341,665

- (a) Subject to reconciliation of actual sales and collections.  
 (b) Through December 31, 2009.

4. The cap on the generation component of rates is extended from December 31, 2005 until December 31, 2009. The cap on the transmission and distribution component of rates is extended from June 30, 2001 until December 31, 2004.

5. PP&L will recover its nuclear plant decommissioning costs through the CTC. PP&L may seek an exception to the rate cap for increases in these decommissioning costs, but agrees not to recover more than 96% of such increased amount.

6. PP&L will seek to securitize up to \$2.85 billion in transition and related costs, and a proposed PUC Qualified Rate Order authorizing this securitization is included in the proposed settlement. The proposed settlement would require 75% of the savings from securitization to be passed back to customers, while 25% would be retained by PP&L. The costs of issuing the transition bonds and refinancing outstanding debt and equity will be reflected in the ITC to be charged to all customers. As with the CTC, the ITC must terminate by the end of the transition period; also, the ITC will offset the CTC on customer bills.

7. On January 1, 2002, 20% of all PP&L's residential customers will be assigned to a provider of last resort other than PP&L or an affiliate of PP&L. These customers will be selected at random, and the supplier will be selected on the basis of a PUC-approved bidding process.

8. Effective on January 1, 1999, alternate electric generation suppliers can provide metering and billing service to PP&L's commercial and industrial customers; effective on January 1, 1999, such alternate suppliers can provide certain metering service to PP&L's residential

customers; and effective on January 1, 2000, PP&L's residential customers can choose their billing service as well from such alternate suppliers.

9. PP&L will transfer its retail marketing function to a separate affiliated corporation by September 15, 1998.

10. PP&L is permitted, but not required, to transfer ownership and operation of its generating facilities to a separate corporate entity at book value.

11. PP&L will spend approximately \$16 million annually on assistance and energy conservation for low-income customers.

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

PP&L prepares its financial statements for its regulated operations in accordance with SFAS 71, which requires rate-regulated companies to reflect the effects of regulatory decisions in their financial statements. PP&L has deferred certain costs pursuant to rate actions of the PUC and FERC and is recovering, or expects to recover, such costs in electric rates charged to customers.

The FASB's EITF has addressed the appropriateness of the continued application of SFAS 71 by entities in states that have enacted restructuring legislation similar to Pennsylvania's Customer Choice Act. The EITF issued its statement No. 97-4, "Deregulation of the Pricing of Electricity - Issues Related to the Application of FASB Statements 71 and 101", which concluded that an entity should cease to apply SFAS 71, when a deregulation plan is in place and its terms are known. For PP&L, with respect to the generation portion of its business, this occurred on June 15, 1998 when the PUC entered its order on PP&L's restructuring filing. Effective June 30, 1998, PP&L adopted SFAS 101 for the generation side of its business. SFAS 101 requires a determination of impairment of plant assets under SFAS 121, and the elimination of all effects of rate regulation that have been recognized as assets and liabilities under SFAS 71.

PP&L performed impairment tests of its electric generation assets on a plant specific basis and determined that \$2.388 billion of its generation plant was impaired as of June 30, 1998. Impaired plant is the excess of the plant investment at June 30, 1998 over the present value of the net cash flows during the remaining lives of the plants. Annual net cash flows were determined by comparing estimated generation sustenance costs to estimated regulated revenues for the remainder of 1998, market revenues for 1999 and beyond, and revenues from bulk power contracts. The net cash flows were then discounted to present value.

In addition to impaired generation plant, PP&L estimates that there will be other stranded costs totaling \$1.989 billion at June 30, 1998. This primarily includes generation-related regulatory assets and liabilities and an estimated liability for above-market purchases under NUG contracts. The total estimated impairment to these assets is \$4.377 billion. The PUC Tentative Order, approved on August 13, 1998, permits the recovery of \$2.819 billion through the CTC on a present value basis, excluding amounts for nuclear decommissioning and consumer education, resulting in a net under-recovery of \$1.558 billion. PP&L recorded an

extraordinary charge at June 30, 1998 for this underrecovery of \$1.558 billion.

Under FERC Order 888, 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. Subject to certain conditions, these settlement agreements provide for continued power supply by PP&L to 15 of these small utilities through January 2004. These agreements were approved by FERC in May 1998. As a result, PP&L, in the second quarter of 1998, recorded an extraordinary charge in the amount of \$56 million.

The extraordinary items related to the PUC restructuring proceeding and the FERC settlement were reported on the Statement of Income, net of income taxes.

Details of amounts written-off at June 30, 1998, in connection with the PUC Tentative Order, are as follows (millions of dollars):

Impaired generation-related assets	\$2,388
Above-market NUG contracts	854
Generation-related regulatory assets and other	<u>1,135</u>
Total	4,377
Recoverable transition costs	<u>(2,819)</u>
Extraordinary item pre-tax - PUC	1,558
- FERC	<u>56</u>
	1,614
Tax effects	<u>(666)</u>
Extraordinary items	<u>\$ 948</u>

PP&L believes that the electric transmission and distribution operations continue to meet the requirements of SFAS 71 and that regulatory assets associated with these operations will continue to be recovered through rates from customers. At June 30, 1998, \$356 million of regulatory assets, other than the recoverable transition costs, remain on the books. The majority of these regulatory assets will continue to be recovered through regulated transmission and distribution rates over periods ranging from 2 to 31 years.

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

PP&L provided Atlantic with 125,000 kilowatts of capacity (summer rating) and related energy from its wholly-owned coal-fired stations. Sales to Atlantic under that agreement expired in March 1998. PP&L will provide JCP&L with 378,000 kilowatts of capacity and related energy from all of its generating units during 1998. This amount will decline to 189,000 kilowatts in 1999. The agreement with JCP&L will terminate on December 31, 1999. PP&L expects to be able to resell the returning capacity and energy through the Energy Marketing Center.

Under a separate agreement, PP&L is providing additional capacity and energy to JCP&L. This capacity and energy increased from 150,000 kilowatts to 200,000 kilowatts in June 1998, and will increase to 300,000 kilowatts in June 1999 through the end of the agreement in May 2004. Prices for this capacity and energy are market-based.

## 6. Credit Arrangements and Financing Activity

From January through July 1998, PP&L Resources issued \$47 million of common stock through the DRIP.

In March 1998, the 364-day revolving credit agreement for PP&L and PP&L Capital Funding was increased from \$150 million to \$350 million. This increase, when added to the \$300 million five-year revolving credit agreement of PP&L and PP&L Capital Funding, brings to \$650 million the total amount of revolving credit available to PP&L and PP&L Capital Funding under these joint agreements. Additionally, in July 1998, PP&L Capital Funding entered into five separate \$80 million, 364-day credit facilities with five banks. These additional credit facilities will initially be used to provide funding for PP&L Resources' Tender Offer (see discussion below). As of June 30, 1998, no borrowings were outstanding under any revolving credit agreements.

In March 1998, PP&L Capital Funding sold \$60 million of medium-term notes having a five-year term. The proceeds from this sale were used to repay \$60 million of short-term borrowings which had provided interim financing for investments made by PP&L Global. As of June 30, 1998, \$162 million of medium-term notes were outstanding.

PP&L Capital Funding also established a commercial paper program in March 1998. As with all PP&L Capital Funding debt, this commercial paper is guaranteed by PP&L Resources. As of June 30, 1998, PP&L Capital Funding had \$270 million of commercial paper outstanding. Of this amount, \$170 million was issued to provide interim funding for PP&L Global's June acquisition of an additional 26% ownership share of SWEB. It is expected that this interim funding will be replaced by long-term debt during the second half of 1998.

In April 1998, PP&L retired \$150 million principal amount of First Mortgage Bonds, 5-1/2% series that matured on that date.

In May 1998, PP&L issued \$200 million First Mortgage Bonds, 6-1/2% Reset Put Securities Series due 2006. In connection with this issuance, PP&L assigned to a third party the option to call the bonds from the holders on May 1, 2001. These bonds will mature on May 1, 2006, but will be required to be surrendered by the existing holders on May 1, 2001 either through the exercise of the call option by the callholder or, if such option is not exercised, through the automatic exercise of a mandatory put by the trustee on behalf of the bondholders. If the call option is exercised, the bonds will be remarketed and the interest rate will be reset for the remainder of their term to the maturity date. If the call option is not exercised, the mandatory put will be exercised and PP&L will be required to repurchase the bonds at 100% of their principal amount on May 1, 2001. Proceeds from the sale of the bonds were used by PP&L to retire \$116 million of its unsecured term loans and to reduce its outstanding commercial paper balances.

On August 14, 1998, PP&L Resources announced a Tender Offer to purchase up to 17,000,000 shares of its common stock, or approximately 10% of the currently outstanding shares, from existing shareowners. The price paid for the shares will not be in excess of \$27 nor less than \$24.50 per share.

PP&L Resources made this Tender Offer through the use of a procedure commonly referred to as a "Dutch Auction." This procedure allows the shareowners to select a specific price within the price range at which they are willing to sell their shares and submit (Tender) these Shares to PP&L Resources for possible sale at their designated price.

At midnight on September 11, 1998 (unless the Tender Offer is extended to a later date), PP&L Resources will evaluate all Tenders received up until that date and determine the lowest price within the price range that will enable PP&L Resources to purchase up to 17,000,000 shares (the Purchase Price). This Purchase Price will then be paid for all Shares purchased pursuant to this Tender Offer, even for those shares that were Tendered at a lower designated price. Shares that have been Tendered a designated price that is above the Purchase Price will not be purchased and will be returned to the shareowners.

PP&L Resources has developed a financial strategy that is intended to position PP&L Resources for the anticipated future competitive environment after giving effect to the PUC's Tentative Order, the related restructuring charge on PP&L's books and the collection of CTC revenues during the Transition Period. PP&L Resources' financial strategy and goals include:

(a) a reduction in PP&L Resources' permanent capitalization to a level that is consistent with PP&L's restated asset values and the earning power of those assets;

(b) a Common Stock dividend level based on a targeted payout ratio of 45%-55% designed to increase PP&L Resources' future financing flexibility;

(c) the temporary use of a higher degree of leverage in PP&L Resources' capital structure during the Transition Period; and

(d) maintenance of investment grade ratings on the senior debt securities of PP&L Resources and PP&L.

As the electric utility industry transitions to a competitive environment, PP&L Resources anticipates the potential to achieve long-term returns on shareowner capital that exceed the returns that have been historically permitted in a fully regulated business environment. At the same time, PP&L Resources' business risks are expected to increase, resulting in an increase in the potential volatility in revenue and income streams. As such, PP&L Resources believes that a dividend payout ratio that is significantly lower than the 80%-90% payout ratio previously experienced by PP&L Resources and the electric utility industry in general is required to better position PP&L Resources to more effectively compete in the energy markets by increasing PP&L Resources' future financing flexibility. Accordingly, effective with the dividend payable October 1, 1998 to owners of record on September 10, 1998, PP&L Resources' quarterly Common Stock dividend will be reduced to \$.25 per share (\$1.00 annualized

rate) from the previous level of \$.4175 per share (\$1.67 annualized rate). In addition to providing an increase in PP&L Resources' future financing flexibility, this dividend action positions PP&L Resources' Common Stock for potential increased growth in market value by retaining a proportionately higher level of earnings in the business for reinvestment. The Shares purchased pursuant to the Tender Offer will receive the October 1 dividend.

The reduction in PP&L Resources' permanent capitalization, as well as the temporary increase in leverage, is being effected through this Tender Offer, which will be financed by PP&L Resources through the use of short-term debt. It is anticipated that the short-term debt used by PP&L Resources will be made available through the issuance of commercial paper by PP&L Capital Funding.

Declaration of dividends on common stock are made at the discretion of the Boards of Directors of PP&L Resources and PP&L. PP&L Resources and PP&L will continue to consider the appropriateness of these dividend levels, taking into account the respective financial positions, results of operations, conditions in the industry and other factors which the respective Boards deem relevant.

PP&L Resources and PP&L believe that, following completion of the Tender Offer, their anticipated cash flow from operations, access to credit facilities, cash and short-term investments will, taken together, be adequate for their capital needs for the foreseeable future.

#### **7. 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 1997 Form 10-K.

For discussion pertaining to PP&L Resources' and PP&L's credit arrangements and financing activities, see Note 6.

#### **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. At April 1, 1998, the maximum amount PP&L could be assessed under these programs was about \$29 million.

PP&L's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about \$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 1995 Phase I acid rain provisions by installing continuous emission monitors on all units, burning lower sulfur coal and installing low nitrogen oxide burners on most units. To comply with the year 2000 Phase II 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 1995 ambient ozone requirements of the Clean Air Act by reducing nitrogen oxide emissions by nearly 50% through the use of low nitrogen oxide burners. Further seasonal (i.e., 5 month) nitrogen oxide reductions to 55% and 75% of 1990 levels for 1999 and 2003, respectively, are specified under the Northeast Ozone Transport Region's Memorandum of Understanding. The PA DEP has finalized regulations which require PP&L to reduce its ozone seasonal NO<sub>x</sub> by 57% beginning in 1999. PP&L plans to comply with this reduction with operational initiatives that rely, to a large extent, on the existing low nitrogen oxide burners.

The EPA has finalized new national standards for ambient levels of ground level ozone and fine particulates. Based in part on the new ozone standard, the EPA has proposed NO<sub>x</sub> emission limits for 22 states, including Pennsylvania, which in effect require approximately an 80% reduction from the 1990 level in Pennsylvania in the 2002-2004 timeframe. The new particulates standard may require further reductions in SO<sub>2</sub> and may expand the planned seasonal NO<sub>x</sub> reductions to year round in the 2010-2012 timeframe.

Under the Clean Air Act, the EPA has been studying the health effects of hazardous air emissions from power plants and other sources, in order to determine whether those emissions should be regulated. Recently, the EPA released a technical report of its findings to-date. The EPA concluded that mercury is the utility air toxic of greatest concern but that more evaluation is needed before it can determine whether regulation of air toxics from fossil fuel plants is necessary. In addition, the EPA has announced a new enforcement initiative against older coal-fired plants. Several of PP&L's coal-fired plants could fall into this category. These EPA initiatives could result in compliance costs for PP&L in amounts which are not now determinable but which could be material.

Expenditures to meet the 2000 acid rain and 1999 NO<sub>x</sub> reduction requirements are included in the table of projected construction expenditures in the section entitled "Financial Condition - Capital Expenditure Requirements" in the Review of the Financial Condition and Results of Operations in the 1997 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 2002 in amounts which are not now determinable but which could be material.

### Water and Residual Waste

PP&L has installed dry fly ash handling systems at most of its power stations, which reduces waste water discharge. In other cases, PP&L has modified the existing facilities to allow continued operation of the ash

basins under a DEP permit. Any groundwater contamination caused by the basins must also be addressed.

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 related to oil leakage is substantially completed at two generating stations. At this time, the only other remedial work being planned is to abate a localized groundwater degradation problem associated with a waste disposal impoundment at the Montour plant.

The final NPDES permit for the Montour plant contains stringent limits for iron and chlorine discharges. Depending on the results of a toxic reduction study, additional water treatment facilities or operational changes may be needed at this plant.

Capital expenditures through the year 2002 to correct groundwater degradation at fossil-fueled generating stations, and to address waste water control at PP&L facilities are included in the table of construction expenditures in the section entitled "Financial Condition - Capital Expenditure Requirements" in the Review of the Financial Condition and Results of Operations in the 1997 Form 10-K. In this regard, PP&L currently estimates that \$5.5 million of additional capital expenditures may be required in the next four years to close some of the ash basins and address other ash basin issues at various generating plants. Additional capital expenditures could be required beyond the year 2002 in amounts which are not now determinable but which could be material. Actions taken to correct groundwater degradation, to comply with the DEP's regulations and to address waste water control are also expected to result in increased operating costs in amounts which are not now determinable but which could be material.

#### Superfund and Other Remediation

In 1995, PP&L entered into 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. As of June 30, 1998, PP&L has completed work on slightly more than half of the sites included in the consent order.

At June 30, 1998, PP&L had accrued approximately \$8 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.

## General

Due to the environmental issues discussed above or other environmental matters, PP&L may be required to modify, replace or cease operating certain facilities to comply with statutes, regulations and actions by regulatory bodies or courts. In this regard, PP&L also may incur capital expenditures, operating expenses and other costs in amounts which are not now determinable but which could be material.

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

In the second quarter of 1998, PP&L guaranteed a portion of a subsidiary's borrowings. As of June 30, 1998, \$12 million of such borrowings were guaranteed by PP&L.

### **Source of Labor Supply**

On June 29, 1998, IBEW members ratified a new labor agreement with PP&L. This new agreement expires on May 12, 2002. Among other things, the agreement provides for wage increases for IBEW members of 3.25% in 1998 (effective as of May 18) and 3% in each of the three remaining years. In addition, IBEW members received a lump-sum ratification bonus equal to 2% of base pay, or approximately \$4 million.

### **8. New Accounting Standards**

In February 1998, the FASB issued SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which is effective for fiscal years beginning after December 15, 1997. The adoption of this statement is not expected to have a material impact on the financial statements of PP&L Resources or PP&L.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. PP&L Resources and PP&L intend to adopt this statement as of January 1, 2000. The impact of the adoption of this statement on the net income of PP&L Resources and PP&L is not yet determinable.

### **9. Acquisitions**

In July 1998, the PUC approved the acquisition of Penn Fuel Gas by PP&L Resources. In addition, in August 1998, the SEC approved the acquisition under the PUHCA. As a result, this acquisition is currently expected to close by August 31, 1998.

In July 1998, PP&L Resources acquired McClure, a heating, ventilating and air-conditioning firm, in a cash transaction for an amount that is not material.

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

The financial condition and results of operations of PP&L are currently the principal factors affecting the financial condition and results of operations of PP&L Resources. Unless specifically noted, fluctuations are primarily due to activities of PP&L. 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 PP&L, Inc." in PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1997.

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

**Forward-looking Information**

Certain statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts, are "forward-looking statements" within the meaning of the federal securities laws. Although PP&L Resources and PP&L believe that the expectations reflected in these statements are reasonable, there can be no assurance that these expectations will prove to have been correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: state and federal regulatory developments; new state or federal legislation; national or regional economic conditions; weather variations affecting customer energy 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; foreign exchange rates; and PP&L Resources' and PP&L's commitments and liabilities. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PP&L Resources' and PP&L's other documents on file with the SEC.

**Results of Operations**

The following discussion explains material changes in principal items on the Consolidated Statement of Income comparing the three months and six months ended June 30, 1998, to the comparable periods ended June 30, 1997.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any indication of the results of future operations. Future results of operations will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods are not necessarily indicative of results or trends for the year.

## Earnings

	Comparison of Earnings - June 30			
	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Earnings per share - excluding weather variances and one-time adjustments	\$0.35	\$0.39	\$1.06	\$1.15
Weather variances on billed sales	(0.03)		(0.14)	(0.04)
One-time adjustments				
PUC Restructuring Charge	(5.47)		(5.48)	
FERC Municipalities Settlement	(0.19)		(0.19)	
Earnings per share - reported	<u>\$15.34</u>	<u>\$0.39</u>	<u>\$4.75</u>	<u>\$1.11</u>

PP&L had two extraordinary items in June 1998 related to the PUC restructuring proceeding and a settlement with municipalities under FERC jurisdiction. Refer to Financial Note 4 for further information.

Earnings per share, excluding weather variances and extraordinary items, were \$0.04 lower for the three months ended June 30, 1998, and \$0.09 lower for the first six months of 1998, when compared with the same periods in 1997. Earnings changes for these periods, excluding weather variances and extraordinary items, were primarily the net effect of the following:

June 30, 1998 vs. June 30, 1997  
Three Months Ended    Six Months Ended  
(per share)

o Higher revenues from electric operations, due to unbilled revenues and moderate growth in adjusted weather-normalized sales;	\$0.03	\$0.01
o Higher other operating revenues, primarily due to increased sales of reservation of electrical output to other utilities;	0.02	0.08
o Net reduction in earnings due to the phase-down of the contract with JCP&L and the end of the contract with Atlantic;	(0.02)	(0.05)
o Higher wages and benefits costs primarily due to the bargaining unit contract ratification bonus and higher overtime costs;	(0.03)	(0.03)
o Higher other operating costs primarily due to the write-off of excess and obsolete inventory, additional provisions for uncollectable accounts, costs associated with meeting retail competition requirements and increased costs associated with computer information systems; and	(0.06)	(0.09)
o Other	<u>0.02</u>	<u>(0.01)</u>
<b>Earnings Change</b>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>

The reduction in contractual bulk power sales to JCP&L and other major utilities will continue to adversely impact earnings over the next few years. However, the efforts of the Energy Marketing Center to resell the returning electric energy and capacity on the open market, along with its other energy trading activities, is expected to continue to offset the loss

in revenues from declining contractual sales. Finally, the Customer Choice Act and the regulatory and business developments related thereto could have a major impact on the future financial performance of PP&L.

#### PUC Restructuring Proceeding

Refer to Financial Notes 3 and 4 for information regarding the PUC restructuring proceeding.

#### Electric Energy Sales

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

	June 30, 1998 vs. June 30, 1997			
	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Change</u>	<u>% Change</u>	<u>Change</u>	<u>% Change</u>
	(Millions of kWh)			
Electricity Delivered to Retail Customers(a)	(146)	(2.5)%	(532)	(3.3)%
Electricity Supplied to Retail Customers(a)	(189)	(2.5)%	(835)	(5.1)%
Wholesale Energy Sales	3,850	88.2%	8,808	106.9%

(a) kWh for customers residing in PP&L's service territory who are receiving energy from PP&L will be reflected in both of these categories.

Under Pennsylvania's competition pilot program, customers are allowed to choose the supplier of their electricity. Pilot customers will continue to have the utility that serves their territory deliver electricity from the supplier of choice. "Electricity Delivered to Retail Customers" is the amount of electricity delivered by PP&L to customers in its service territory. "Electricity Supplied to Retail Customers" represents the amount of electricity supplied to PP&L service territory customers who are not participating in the pilot program, and electricity supplied to customers within and outside PP&L service territory who are participating in the pilot program and have chosen PP&L as their energy supplier.

Electricity delivered to retail customers decreased for the three and six months ended June 30, 1998 from the comparable periods in 1997. Due to the timing of certain large customer bills in June, approximately 100 million kWh were included in unbilled sales rather than billed sales. Excluding the effects of these timing differences in 1998 and weather variances in 1998 and 1997, electricity delivered to retail customers would have increased by 85 million kWh and 41 million kWh, respectively, for the three and six months ended June 30, 1998. Electricity delivered to industrial customers decreased from 1997 for both the three and six months ended June 30, 1998. This decrease was mainly due to a steel plant closing and the reduction of energy supplied to a paper mill.

Electricity supplied to retail customers decreased for the three and six months ended June 30, 1998 from the comparable periods in 1997. This decrease was due to the mild weather experienced during the first half of the year and the impact of the competition pilot program.

## Electricity Trading Activities

During June 1998, a number of unexpected events in the midwestern United States, including unplanned outages at generating units, higher summer temperatures and transmission constraints, caused extreme price volatility in the wholesale energy markets, particularly in the ECAR region. As a result of these events, several participants in wholesale energy markets requested the FERC to initiate an investigation into alleged market abuses during this period and consider the imposition of price caps during emergency conditions. The FERC has begun an informal investigation to determine whether any measures are needed in response to these events.

PP&L, through its Energy Marketing Center, purchases and sells electric capacity and energy at the wholesale level under its FERC market-based tariff. PP&L's tariff was recently amended to permit the resale of transmission capacity at market-based rates. PP&L has entered into agreements to sell firm capacity or energy under its market-based tariff to certain entities located inside and outside of the PJM power pool, including entities located in the ECAR region. By being a net seller of electricity in the second quarter of 1998, PP&L profited from the unprecedented price spikes. Some of the profitability was offset, however, due to the transmission constraints that developed in the PJM and ECAR regions, which required PP&L to meet certain of its obligations by purchasing electricity in the ECAR spot market and selling into the PJM spot market electricity intended for sale in the ECAR region.

If PP&L were unable to meet its obligations under these agreements to sell capacity and energy, under certain circumstances it would be required to pay damages equal to the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be material in amount. Events that could affect PP&L's ability to meet its firm capacity or energy obligations or cause significant increases in the market price of replacement capacity and energy include the occurrence of extremely warm weather conditions, unplanned generating plant outages, transmission disruptions, non-performance by counterparties with which it has power contracts and other factors affecting the wholesale energy markets. Although PP&L attempts to mitigate these risks as described below, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty non-performance in the future.

PP&L's efforts to mitigate risks associated with open contract positions include maintaining generation capability to deliver electricity to satisfy its net firm sales contracts. To further mitigate supply and transmission risk, the Energy Marketing Center has assigned PP&L generating capacity to satisfy its commitments in ECAR for July and August and has purchased firm transmission service. In addition, the Energy Marketing Center adheres to established credit policies, and PP&L has not experienced non-performance by counterparties to date.

### Operating Revenues: Electric Operations

The increase (decrease) in revenues from electric operations was attributable to the following:

June 30, 1998 vs. June 30, 1997  
Three Months Ended    Six Months Ended  
(Millions of Dollars)

Retail Electric Revenues		
Weather effect	\$(9)	\$(35)
Sales volume and sales mix effect	5	(2)
Unbilled revenues	11	5
Pilot shopping credit above market price	(4)	(8)
Other, net	1	5
Other Electric Revenues	<u>5</u>	<u>5</u>
	<u>\$ 8</u>	<u>\$(29)</u>

Revenues from electric operations increased by \$8 million, or 1.5%, for the three months ended June 30, 1998 when compared to the same period in 1997. Increased revenues from billed and unbilled sales were partially offset by the effects of milder than normal weather.

For the six months ended June 30, 1998, revenues from electric operations decreased by \$29 million, or 2.4%, when compared to the same period in 1997. Most of the decrease can be attributed to the milder-than-normal weather experienced during the first quarter of 1998. This period saw the largest weather impact on earnings in the 27 years PP&L has tracked weather effects. This decrease also reflects the mandatory "shopping credit" (see Financial Note 3) under the competition pilot program being higher than the market clearing price of generation. PP&L is deferring these losses for future recovery. These future recoveries are recorded as an offset to "Other Operating Expenses."

**Operating Revenues: Wholesale Energy and Trading Activities**

The increase (decrease) in revenues from wholesale energy and trading activities was attributable to the following:

June 30, 1998 vs. June 30, 1997  
Three Months Ended    Six Months Ended  
(Millions of Dollars)

Market-based transactions	\$ 95	\$181
PJM	18	35
Cost-based contracts	(11)	(17)
Reservation/capacity credits	9	23
Oil & gas sales	13	17
Other	<u>(1)</u>	<u>(2)</u>
	<u>\$123</u>	<u>\$237</u>

Revenues from wholesale energy and trading activities increased by \$123 million and \$237 million for the three and six months ended June 30, 1998, respectively, when compared to the same periods in 1997. Revenues in both periods increased despite the phase-down of the capacity and energy agreement with JCP&L and the end of the capacity and energy agreement with Atlantic. This increase reflects PP&L's continued emphasis on competing in wholesale markets.

In recent months, the national energy trading market has experienced high prices and increased volatility. PP&L is actively managing its portfolio to attempt to capture the opportunities and limit its exposure to these volatile prices. Reference is made to "Electricity Trading Activities" for more information.

## Energy-Related Businesses

Energy-related businesses contributed \$6 million and \$2 million to the operating income of PP&L Resources for the three months ended June 30, 1998 and 1997, respectively. For the six-month periods ended June 30, 1998 and 1997, these businesses contributed a total of \$11 million and \$8 million to operating income, respectively. These results are primarily from PP&L Global's investments in world-wide energy projects. Energy-related businesses -- i.e., PP&L Global, PP&L Spectrum, H.T. Lyons and McClure -- are expected to provide an increasing share of PP&L Resources' future earnings.

## Fuel Expense

Fuel expense increased by \$13 million and \$15 million for the three and six months ended June 30, 1998, respectively, when compared to the same periods in 1997. This reflects increased generation at the coal and oil/gas-fired stations. These units were needed due to the extension of the Susquehanna Unit 1 refueling outage and the unplanned maintenance outage of Susquehanna Unit 2. Also, higher generation was necessary to meet the increased trading activities of the Energy Marketing Center.

## Energy Purchases

Energy purchases increased by \$114 million and \$212 million for the three and six months ended June 30, 1998, respectively, when compared to the same periods in 1997. This increase was primarily due to greater quantities of energy purchased from others to meet the increased trading activities of the Energy Marketing Center and to offset the planned and unplanned outages at the Susquehanna station.

## Other Operating Expenses

Other operating expenses increased by \$22 million for both the three and six months ended June 30, 1998 when compared to the same periods in 1997. The increase reflects additional costs associated with computer information systems, and additional payroll, consultant services and other expenses to meet the requirements of retail competition. The increase also reflects higher overtime costs, a bonus paid to bargaining unit employees in ratifying the recent labor agreement, and additional provisions for uncollectible accounts. These increases were partially offset by credits recorded in connection with the competition pilot program. The PUC has authorized PP&L to seek future recovery of the revenue lost on the pilot program. PP&L has established a regulatory asset for the excess of the shopping credits provided to pilot customers over the market price of this generation. These credits totaled \$4 million and \$8 million for the three months and six months ended June 30, 1998, respectively, and were recorded as offsets to "Other Operating Expenses."

## Power Plant Operations

In an effort to reduce operating costs and position itself for the competitive marketplace, PP&L, in August 1998, announced the closing of its Holtwood coal-fired generating station, effective May 1, 1999. The adjacent hydroelectric plant will continue to operate. At the same time, PP&L announced that it would attempt to sell its Sunbury coal-fired generating station. As a result of these plant closings and other previously announced staffing reductions, PP&L expects the size of its workforce to decrease by approximately 250 over the next year.

## Financial Condition

Refer to Financial Notes 3, 4 and 6 for information concerning the PUC restructuring charge, PP&L's financial goals and strategies, the reduction of PP&L Resources' dividend and the Tender Offer for PP&L Resources' common stock.

### Financing Activities

The following financing activities have occurred to date in 1998:

- o From January through July 1998, PP&L Resources issued \$47 million of common stock through the DRIP.
- o In March 1998, the 364-day revolving credit agreement for PP&L and PP&L Capital Funding was increased from \$150 million to \$350 million. This increase, when added to the \$300 million five-year revolving credit agreement of PP&L and PP&L Capital Funding, brings to \$650 million the total amount of revolving credit available to PP&L and PP&L Capital Funding under these joint agreements. Additionally, in July 1998, PP&L Capital Funding entered into five separate \$80 million, 364-day credit facilities with five banks. As of June 30, 1998, no borrowings were outstanding under any revolving credit agreements.
- o In March 1998, PP&L Capital Funding sold \$60 million of medium-term notes having a five-year term.
- o In March 1998, PP&L Capital Funding established a commercial paper program. At June 30, 1998, \$270 million of commercial paper was outstanding.
- o In April 1998, PP&L retired \$150 million principal amount of First Mortgage Bonds, 5-1/2% series that matured on that date.
- o In May 1998 PP&L issued \$200 million First Mortgage Bonds, 6-1/8% Reset Put Securities Series due 2006. In connection with this issuance, PP&L assigned to a third party the option to call the bonds from the holders on May 1, 2001. These bonds will mature on May 1, 2006, but will be required to be surrendered by the existing holders on May 1, 2001 either through the exercise of the call option by the callholder or, if such option is not exercised, through the automatic exercise of a mandatory put by the trustee on behalf of the bondholders. If the call option is exercised, the bonds will be remarketed and the interest rate will be reset for the remainder of their term to the maturity date. If the call option is not exercised, the mandatory put will be exercised and PP&L will be required to repurchase the bonds at 100% of their principal amount on May 1, 2001.

Refer to Financial Note 6 for additional information on credit arrangements, financing activities and the Tender Offer for PP&L Resources' common stock.

### Financing and Liquidity

The change in cash and cash equivalents for PP&L Resources for the six months ended June 30, 1998 increased \$42 million from the comparable period in 1997. The reasons for this change were:

- o A \$25 million decrease in cash provided by operating activities, partially due to a revenue loss associated with the energy credits mandated for competition pilot program customers, higher operating and maintenance expenses and payments for a buyout of a contract with a NUG.
- o A \$378 million increase in cash used in investing activities, primarily due to an increase in the amount of investment in electric energy projects by PP&L Global. In addition, there were fewer sales and maturities of available-for-sale securities, as well as other financial investments in 1998 compared with 1997.
- o A \$446 million increase in cash provided by financing activities, primarily due to PP&L Resources' purchase of PP&L preferred stock in 1997. In addition, the increase in short-term debt was \$113 million greater for the six months ended June 30, 1998 than in the comparable period in 1997.

PP&L's projected internally generated funds are expected to be sufficient to permit PP&L to retire about \$275 million of its long-term debt during 1999-2002.

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

#### Financial Indicators

The ratio of PP&L Resources pre-tax income to interest charges was 3.5 and 3.8 for the six months ended June 30, 1998 and 1997, respectively, excluding extraordinary items. The annual per share dividend rate on common stock remained unchanged during the first six months of 1998 at \$1.67 per share. Refer to Financial Note 6 for information regarding the reduction of PP&L Resources' dividend and the Tender Offer for PP&L Resources' common stock. The ratio of the market price to book value of common stock was 199% at June 30, 1998, compared with 116% at June 30, 1997. Excluding extraordinary items, the ratio of market price to book value of common stock at June 30, 1998 was 133%.

#### Unregulated Investments

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

As of June 30, 1998, PP&L Global had investments and commitments of approximately \$638 million in distribution, transmission and generation facilities in the United Kingdom, Bolivia, Peru, Argentina, Spain, Portugal, Chile and El Salvador. PP&L Global's major investments to date are SWEB, Emel and DelSur.

During the first six months of 1998, PP&L Global acquired an additional 561,000 shares of Emel at a cost of approximately \$10 million, increasing its ownership interest to 28.9%. In February 1998, PP&L Global and Emel acquired a 75% interest in DelSur, an electric distribution company serving 193,000 customers in El Salvador, for approximately \$180 million. Under the purchase agreement, PP&L Global directly acquired 37.5% of DelSur and Emel acquired the other 37.5%. DelSur is one of five electricity distribution companies in El Salvador that are being privatized by the government. During the second quarter of 1998, PP&L Global also

acquired an additional 26% interest in SWEB for 170 million, increasing its equity interest to 51% and its voting interest to 49%.

## Acquisitions

In July 1998, the PUC approved the acquisition of Penn Fuel Gas by PP&L Resources. In addition, in August 1998, the SEC approved the acquisition under the PUHCA. As a result, this acquisition is currently expected to close by August 31, 1998.

In July 1998, PP&L Resources acquired McClure, a heating, ventilating and air-conditioning firm, in a cash transaction for an amount that is not material.

## 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 1997 Form 10-K.

## 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.

### Pennsylvania Activities

Reference is made to "PUC Restructuring Proceeding" for a discussion of the disposition of PP&L's restructuring plan under the Customer Choice Act.

In February 1997, PP&L filed a proposed retail access pilot program with the PUC in accordance with the applicable provisions of the Customer Choice Act and PUC guidelines. A number of the major parties, including PP&L, entered into a joint settlement agreement resolving all of the issues in the Pennsylvania utilities' pilot proceedings. In August 1997, the PUC issued an order modifying this settlement and modifying and approving PP&L's pilot program. In October 1997, PP&L submitted its pilot program compliance filing to the PUC. Retail customers participating in the PP&L and other pilot programs began to receive power from their supplier of choice in November 1997. Under its pilot program, approximately 60,000 PP&L residential, commercial and industrial customers have chosen their electric supplier. PP&L will continue to provide all transmission and distribution, customer service and back-up energy supply services to participating customers in its service area.

Only those alternative suppliers licensed by the PUC and in compliance with the state tax obligations set forth in the Customer Choice Act may participate in the pilot programs. To date, approximately 60 suppliers have obtained such licenses to participate in the pilot programs.

In June 1997, the PUC approved PP&L's application for a license to act as an electric generation supplier. This license permits PP&L to participate in the various retail access pilot programs of PP&L and of the

other Pennsylvania utilities, and PP&L currently is offering electric supply to the participating customers of those utilities throughout the state. At this time, PP&L has determined not to pursue additional residential customers in the competitive marketplace based on economic considerations.

### Federal Activities

Reference is made to Financial Note 4 for a discussion of PP&L's settlement with 15 small utilities.

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

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

In March 1997, the FERC issued Orders 888-A and 889-A. Among other things, these orders required utilities to make certain changes to the non-rate terms and conditions of their open access transmission tariffs. In compliance with Order 888-A, in July 1997 PP&L filed a revised open access transmission tariff.

In December 1996, the PJM companies submitted a compliance filing with the FERC, which proposed a pool-wide pro forma transmission tariff and a revised interconnection agreement and transmission owners agreement designed to accommodate open, non-discriminatory participation in the pool. The FERC accepted the PJM tariff and proposed rates, subject to refund, and they went into effect on March 1, 1997. In June 1997, all of the PJM companies except PECO (the PJM Supporting Companies) filed proposals with the FERC to amend the PJM tariff and restructure the PJM pool. PECO filed a separate request with the FERC to amend the PJM tariff. Furthermore, PECO and certain electric marketers submitted significantly different proposals to restructure the PJM pool.

In November 1997, the FERC approved, with certain modifications, the PJM Supporting Companies' proposals for transforming the PJM into an ISO. In summary, the FERC order: (i) approved the PJM's open access transmission rates based on geographic zones, but required PJM to file a single PJM system-wide rate proposal by 2002; (ii) accepted the PJM Supporting Companies' methodology to price transmission when the system is congested and to charge these congestion costs to system users in addition to the open access transmission rates, but ordered PJM to file an

additional proposal to address concerns raised over price certainty for buyers and sellers during periods of congestion; (iii) determined that the ISO is to operate both the transmission system and the power exchange which provides for the purchase and sale of spot energy within the PJM market; and (iv) accepted the PJM Supporting Companies' proposal regarding mandatory installed capacity obligations for all entities serving firm retail and wholesale load within PJM, but rejected their proposal for allocating the capacity benefits which result from PJM's ability to import power from other regional power pools.

The PJM Supporting Companies and numerous other parties have filed requests for amendment and/or rehearing of virtually every portion of the FERC's PJM ISO order. PP&L also has filed its own request for amendment and/or rehearing. The FERC has not yet taken action on these filings. PP&L's primary issue with the FERC's order relates to a requirement that existing wholesale contracts for sales service and transmission service be modified to have the new PJM transmission tariff applied to service under these existing contracts and the requirement that PP&L modify these contracts to ensure that customers are not assessed multiple transmission charges. If PP&L were required to modify these existing contracts, PP&L could lose as much as \$3-4 million in transmission revenues in 1998 -- but a lesser amount in the following years -- from several wholesale sales and transmission service contracts that were negotiated prior to the establishment of the PJM ISO. In an order issued in May 1998, the FERC allowed PP&L to request an increase in the revenue requirement applicable to transmission service over PP&L's transmission facilities to the extent that PP&L has otherwise unrecovered transmission costs as a result of the contract modifications. PP&L filed the proposed increase to its transmission revenue requirement in July 1998. Settlement discussions are currently underway with the FERC.

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

In September 1997, PP&L filed a request with the FERC to lower the applicable PP&L revenue requirement currently set forth in the PJM open access transmission tariff. The new revenue requirement results from PP&L's use of the same test year and cost support data used in the PUC restructuring proceeding. PP&L requested that the new revenue requirement take effect on November 1, 1997. In February 1998, the FERC accepted the proposed rates, subject to refund, and set the amount of the decrease in the revenue requirement for hearing. Settlement discussions are currently underway with the FERC.

In September 1997, PP&L also filed a request with the FERC to approve new revenue requirements and rates for the PP&L open access transmission tariff under FERC Order 888. No customers currently take service under that tariff. As with the PJM tariff filing, the new revenue requirements and rates requested by PP&L are based on the same test year and cost support data used by PP&L in its PUC restructuring proceeding. In February 1998, the FERC rejected PP&L's tariff as unnecessary, in light of the PJM open access transmission tariff.

In January 1998, the United States Department of Energy approved PP&L's application for an export license to sell capacity and/or energy to electric utilities in Canada. This export license allows PP&L to sell

either its own capacity and energy not required to serve domestic obligations or power purchased from other utilities.

#### Year 2000 Computer Issue

PP&L Resources and its subsidiaries utilize computer-based systems throughout their businesses. In the year 2000, these systems will face a potentially serious problem with recognizing calendar dates. Without corrective action, this problem could result in computer shutdown or erroneous calculations causing less than optimal operation of the generating stations; diminished ability to monitor, control and coordinate generation with the transmission and distribution systems; and impact the operation of various monitoring and metering equipment utilized throughout PP&L. A company-wide Year 2000 coordination committee was formed to raise the awareness of the Year 2000 issue, share information and review the progress. A seven-step approach was developed to achieve Year 2000 compliance by assessing and remediating the problem in application software, hardware, plant control systems and devices containing embedded microprocessors. The seven steps in the plan include awareness, inventory, assessment, remediation, testing, implementation, and contingency planning. Efforts are also underway with respect to compliance by critical suppliers and business partners.

As of June 30, 1998, approximately 50% of the critical mainframe applications and approximately 60% of the non-critical mainframe applications that will remain in production have been determined as being Year 2000 compliant. It is anticipated that this project will be completed on a timely basis, with all mission-critical mainframe computer applications to be compliant by March 31, 1999 and all mainframe computer systems to be fully Year 2000 compliant by mid-1999.

PP&L has contingency plans to address issues such as blackouts on the electrical grid, cold starts of generating facilities and disaster recovery procedures for the computing environment. PP&L recognizes that additional contingency plans are necessary and, as part of the seven-step remediation process, is currently working on identifying additional contingency plans that may be needed.

In May 1998, the NRC issued a notification requirement under which nuclear utilities are required to inform the commission, in writing, that they are working to solve the Year 2000 computer problem. In addition, nuclear utilities have until July 1, 1999 to inform the NRC that their computers are Year 2000 compliant or to submit a status report summarizing the on-going work. PP&L filed its written response to the NRC in August 1998.

In July 1998, the PUC ordered an investigation to be conducted by the Office of Administrative Law Judge "to accurately assess any and all steps taken and proposed to be taken to resolve the Year 2000 compliance issue by all jurisdictional fixed utilities and mission-critical service providers such as the PJM Interconnection." The PUC is requiring all jurisdictional utilities to file a written response to a list of questions concerning Year 2000 compliance; and that, if mission-critical systems cannot be made Year 2000 compliant on or before March 31, 1999, to file a detailed contingency plan. PP&L filed its written response to these questions in August 1998.

Based upon present assessments, PP&L Resources estimates that it will incur approximately \$15 million in Year 2000 remediation costs. These costs are being expensed as incurred.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Reference is made to "Increasing Competition" in the Review of the Financial Condition and Results of Operation for information concerning proceedings before the FERC.

In December 1995, PP&L filed a petition with the PUC for a declaratory order that it had acted properly in curtailing purchases from SER and other NUGs during minimum generation emergencies on the PJM system. The PUC has stayed a determination in this case pending a FERC decision regarding PP&L's request to decertify SER as a "qualifying cogeneration facility" (see discussion below).

In November 1995, PP&L initiated a civil action against SER in the Lehigh County Court of Common Pleas. The principal issue is whether SER and an affiliate of SER properly used the steam generated by the plant in accordance with the terms of the contract. Under the contract, if the steam was used properly, SER is entitled to a rate of 6.6 cents/kWh; if not, it is entitled to a rate of only 5.3 cents/kWh. The total annual difference in PP&L's payment under the two rates is about \$9 million. In April 1996, the Court concluded that PP&L must seek a determination by the FERC prior to reducing the rate paid to SER.

Accordingly, in July 1996 PP&L filed a motion with the FERC to revoke SER's status as a "qualifying cogeneration facility". PP&L's motion alleges that SER has engaged in a conscious and continuing scheme to mislead PP&L and the FERC and that SER has never complied with the FERC's requirements for a qualifying cogeneration facility under PURPA.

In May 1998, the FERC granted PP&L's motion to revoke SER's status as a qualified cogeneration facility for the years 1990-1995. Accordingly, in May 1998 the Lehigh County Court of Common Pleas permitted PP&L to reduce the rate paid to SER to 5.0 cents/kWh from 6.6 cents/kWh. SER is seeking rehearing and a stay of the FERC order. The total amount in dispute for past payments to SER (i.e., from 1990-1998) at the higher rate, including interest, equals approximately \$97 million.

SER also intervened in PP&L's restructuring proceeding before the PUC under the Customer Choice Act (see Financial Note 3). In conjunction with the settlement of that proceeding, PP&L, in August 1998, executed an agreement with SER providing that, effective January 1, 1999, the PP&L/SER power purchase agreement will be amended to provide that SER will receive 6.6 cents/kWh for generation up to 79.5 MW, as long as SER operates a "qualifying facility" under FERC rules. Generation in excess of 79.5 MW will continue to be sold at rates in the existing power purchase agreement. Subject to regulatory requirements, SER will be permitted, but not required, to sell generation above 80.5 MW to third parties.

In a related matter, in June 1996 SER filed a lawsuit against PP&L in the Court of Common Pleas of Lehigh County, Pennsylvania. In this lawsuit, SER restates its allegations concerning PP&L's procedures for curtailing power deliveries from SER during periods of minimum generation emergencies declared by the PJM. SER's claims include breach of contract, fraud, negligent misrepresentation and breach of duty of good faith and fair dealing. In addition, SER claims that public statements by PP&L were libelous. In January 1997, the Court stayed SER's state law claims against PP&L pending consideration by the PUC of PP&L's minimum generation petition and dismissed SER's libel claims.

The EPA has issued an order to PP&L and 12 other parties (mainly utilities) under Section 106 of Superfund requiring clean-up of PCBs at the Metal Bank Superfund site near Philadelphia. PP&L is complying with the order by joining the owner/operator of the site in performing the remedial design. A group of utilities has also offered to conduct the remedial design, but PP&L has not yet joined that group.

PP&L challenged the DEP's right to collect air emission fees for hazardous air pollutants (HAPs) from PP&L's coal-fired units and air emission fees for emissions from PP&L's Phase I affected units from 1995 through 1999. (Phase I affected units are those units designated by the Clean Air Act, or which voluntarily opt into the requirement, to make certain reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions by 1995; all others must make these reductions by 2000.) The HAPs emissions fees are approximately \$200,000 per year. The emission fees for Phase I affected units from 1995 through 1999 are estimated at \$1.6 million. PP&L and the DEP have negotiated a settlement in principle of this litigation. PP&L expects the settlement to be finalized by year end.

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

At PP&L Resources' Annual Meeting of Shareowners held on April 24, 1998, the shareowners:

(1) Elected all three nominees for the office of director. The vote for all nominees was 125,932,145. The votes for individual nominees were as follows:

	<u>Number of Votes</u>	
	<u>For</u>	<u>Withhold Authority</u>
William F. Hecht	125,932,145	5,937,190
Stuart Heydt	126,961,339	4,907,996
Marilyn Ware Lewis	126,863,001	5,006,334

The vote to withhold authority for all nominees was 4,796,496.

(2) Ratified the appointment of Price Waterhouse LLP as independent auditors for year ended December 31, 1998. The vote was 129,570,102 in favor and 1,062,482 against, with 1,236,751 abstaining.

At PP&L's Annual Meeting of Shareowners held on April 24, 1998 the shareowners:

(1) Elected all three nominees for the office of director. The vote for all nominees was 161,618,532. The votes for individual nominees were as follows:

	<u>Number of Votes</u>	
	<u>For</u>	<u>Withhold Authority</u>
William F. Hecht	161,618,532	3,533
Stuart Heydt	161,618,644	3,421
Marilyn Ware Lewis	161,618,606	3,459

The vote to withhold authority for all nominees was 3,421.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10 - Form of severance agreement entered into between PP&L Resources and officers.

27 - Financial Data Schedule

(b) Reports on Form 8-K

Report dated April 7, 1998

Item 5. Other Events

Information regarding the recommended decision of the Administrative Law Judge on PP&L's restructuring plan.

Report dated April 28, 1998

Item 5. Other Events

Information regarding the issuance of PP&L's First Mortgage Bonds, 6-1/8% Reset Put Securities Series Due 2006.

Report dated May 14, 1998

Item 5. Other Events

Information regarding the PUC's nonbinding motion approving a restructuring plan for PP&L.

Report dated June 15, 1998

Item 5. Other Events

Information regarding the PUC's June 15, 1998 order in PP&L's restructuring proceeding. Also, information regarding PP&L Global's acquisition of an additional ownership stake in SWEB.

## GLOSSARY OF TERMS AND ABBREVIATIONS

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

**Atlantic** - Atlantic City Electric Company

**CERCLA** - Comprehensive Environmental Response, Compensation and Liability Act

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

**CTC** - Competitive transition charge

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

**DelSur** - *Distribuidora de Electricidad del Sur*, an electric distribution company in El Salvador

**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.

**ECAR** - East Central Area Reliability Council

**EITF** - Emerging Issues Task Force

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

**Energy Marketing Center** - organization within PP&L responsible for marketing and trading wholesale energy

**EPA** - Environmental Protection Agency

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

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

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

**H.T. Lyons** - H.T. Lyons, Inc., a PP&L Resources unregulated subsidiary specializing in heating, ventilating and air conditioning.

**IBEW** - International Brotherhood of Electrical Workers

**ISO** - Independent System Operator

**ITC** - Investment tax credits

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

**McClure** - McClure Company, a PP&L Resources unregulated subsidiary specializing in heating, ventilating and air-conditioning.

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

**NPDES** - National Pollutant Discharge Elimination System

**NRC** - Nuclear Regulatory Commission

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

**OCA** - Pennsylvania Office of Consumer Advocate

**OTS** - PUC Office of Trial Staff

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

**PECO** - PECO Energy Company

**Penn Fuel Gas** - Penn Fuel Gas, Inc., a PP&L Resources regulated subsidiary, specializing in natural gas distribution, transmission and storage services, and the sale of propane.

**PJM** (PJM Interconnection, L.L.C.) - operates the electric transmission network and electric energy market in the mid-Atlantic region of U.S.

**PP&L** - PP&L, Inc.

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

**PP&L Global** - PP&L Global, Inc., a PP&L Resources unregulated subsidiary which invests in and develops world-wide power projects.

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

**PP&L Spectrum** - PP&L Spectrum, Inc., a PP&L Resources unregulated subsidiary which offers energy-related products and services.

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

**PUHCA** - Public Utility Holding Company Act of 1935

**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.

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

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

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

**Year 2000** - A set of date-related problems that may be experienced by a software system or application.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiary.

PP&L Resources, Inc.

(Registrant)

PP&L, Inc.

(Registrant)

Date: August 14, 1998

/s/ John R. Biggar

John R. Biggar

Senior Vice President - Financial

(PP&L Resources, Inc. and PP&L, Inc.)

/s/ Joseph J. McCabe

Joseph J. McCabe

Vice President & Controller

(PP&L Resources, Inc. and PP&L, Inc.)

2000 One Logan Square  
Philadelphia, PA 19103-6993  
215-963-5000  
Fax: 215-963-5299

Morgan, Lewis  
& Bockius LLP

C O U N S E L O R S   A T   L A W

125 years  
1873 1998

David B. MacGregor  
215-963-5448

October 20, 1998

ORIGINAL DOCUMENT  
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BY FEDERAL EXPRESS

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
North Office Building  
New Filing Section, Room B-20  
Commonwealth Avenue & North Streets  
Harrisburg, PA 17120

OCT 20 1998

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

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

In Re. Pennsylvania Power & Light Company Request for Section 33(a) Certification;  
Docket No. M-00940535

Dear Secretary McNulty:

Enclosed for filing is an original and three copies of the Petition of PP&L, Inc. for Amendment of Orders in the above-captioned proceedings. Also enclosed is an additional copy of the Company's Petition which we request that you date stamp and return to us in the envelope provided as evidence of filing.

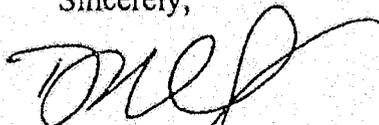
As shown on the express delivery receipt, these documents were deposited with Federal Express on October 20, 1998, and are deemed to be filed on that date pursuant to 52 Pa. Code § 1.11.

As indicated on the attached Certificate of Service, copies of the Petition have been served on the Office of Consumer Advocate, the Office of Small Business Advocate and the Office of Trial Staff.

James J. McNulty, Secretary  
October 20, 1998  
Page 2

If you have any questions, please call.

Sincerely,

A handwritten signature in cursive script, appearing to read 'DMG', written in black ink.

David B. MacGregor

DBM/jta

Enclosures

cc: Certificate of Service

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing **Petition of PP&L, Inc. for Amendment of Orders** has been served upon the person listed below, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

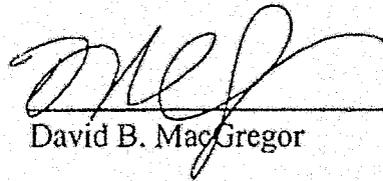
**BY FIRST CLASS MAIL**

Tanya McCloskey, Esquire  
Assistant Consumer Advocate  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Flr.  
Harrisburg, PA 17101-1921

Bernard A. Ryan, Jr., Esquire  
Office of Small Business Advocate  
Suite 1102 Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

Charles Hoffman, Esquire  
Office of Trial Staff  
Pennsylvania Public Utility Commission  
Pitnick Building -3rd Floor  
901 N. 7th Street -Rear  
Harrisburg, PA 17102

Dated: October 20, 1998



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David B. MacGregor

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

Application of Pennsylvania Power & Light :  
Company for Approval, Pursuant to Chapter 11 :  
of the Public Utility Code of Certain : Docket No. A-110500F.0206  
Transactions in Connection with the Utility's :  
Establishment of a Holding Company :  
Structure :  
:  
:  
In Re: Pennsylvania Power & Light Company : Docket No. M-00940535  
Request for Section 33(a) Certification :

DOCKETED

NOV 03 1998

RECEIVED

PETITION OF PP&L, INC. FOR  
AMENDMENT OF ORDERS

OCT 20 1998

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

PP&L, Inc. ("PP&L")<sup>1/</sup> hereby petitions the Pennsylvania Public Utility Commission ("Commission"), pursuant to Section 703(g) of the Public Utility Code, 66 Pa. C.S. § 703(g), and 52 Pa. Code §§ 5.572(a) and (d) - (e), for amendment of the Order entered on February 10, 1995, at Docket No. A-110500F.0206, and the Order entered on April 22, 1996, at Docket No. M-00940535. In support thereof, PP&L states the following:

I. SUMMARY AND STATEMENT OF RELIEF SOUGHT

1. The Commission's Order entered on February 10, 1995, at Docket No. A110500F.0206 ("Application Order"), issued certificates of public convenience evidencing its approval of certain transactions related to a reorganization of the PP&L corporate system in which, *inter alia*, a holding company, PP&L Resources, Inc. ("PP&L Resources"), was formed, and PP&L became a wholly-owned subsidiary of the holding company. Pursuant to a related

<sup>1/</sup> Prior to a name change, PP&L was known as Pennsylvania Power & Light Company.

DOCUMENT  
FOLDER

Order entered on April 22, 1996, at Docket No. M-00940535 ("Certification Order"), the Commission, at PP&L's request, certified to the United States Securities and Exchange Commission ("SEC"), pursuant to Section 33(a) of the Public Utility Holding Company Act of 1935 ("PUHCA"), 15 U.S.C.A. § 79z-5b(a)(1997), that the Commission has the authority and resources to protect PP&L's ratepayers subject to the Commission's jurisdiction and that the Commission intends to exercise such jurisdiction.

2. In these Orders, the Commission placed limitations on PP&L's right to acquire diversified assets, limitations on the rights of PP&L's affiliates to acquire non-utility assets without notification, conditions concerning PP&L's relationships with its affiliates and conditions regarding certain regulatory matters. These limitations and conditions are no longer appropriate, primarily in light of the Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. Ch. 28 ("Competition Act"), under which electricity generation is being deregulated and under which PP&L will no longer have a monopoly over the provision of electricity generation to retail customers in its service territory. The limitations and conditions imposed by the Commission now impede the ability of PP&L to acquire diversified assets, the ability of PP&L's unregulated affiliates to acquire foreign electricity generation assets and the ability of PP&L's unregulated affiliates to participate in a competitive electricity generation market with other companies which do not operate under similar constraints. Therefore, as explained more fully below, the Commission's Application Order and the Certification Order should be amended to eliminate the above-referenced conditions and limitations.

## II. BACKGROUND

3. PP&L is a regulated public utility, furnishing electric services in Pennsylvania subject to the regulatory jurisdiction of the Commission. PP&L provides retail electric service to approximately 1.25 million customers throughout a 10,000-square mile certificated service territory covering all or portions of twenty-nine counties in central and eastern Pennsylvania.

4. PP&L's principal office is located at Two North Ninth Street, Allentown, Pennsylvania 18101-1179.

5. PP&L is a wholly-owned subsidiary of PP&L Resources. PP&L Resources, a Pennsylvania corporation, was organized in 1995, as part of a reorganization of the PP&L corporate system, the jurisdictional components of which were approved by the Commission in the Application Order.

6. Because PP&L Resources owns all of the issued and outstanding stock of PP&L, PP&L Resources is a holding company under PUHCA. PP&L Resources, however, qualifies for an exemption under PUHCA because PP&L Resources and its electric utility subsidiary carry on their businesses primarily in the state where they are organized.<sup>2/</sup> The exemption is provided at Section 3 of PUHCA, 15 U.S.C.A. § 79c (1997).

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<sup>2/</sup> On August 21, 1998, PP&L Resources acquired Penn Fuel Gas, Inc. ("Penn Fuel"). Penn Fuel owns two natural gas distribution companies, PFG Gas, Inc. and North Penn Gas Company. The acquisition of Penn Fuel and its subsidiaries by PP&L Resources did not alter PP&L Resources' exempt status under PUHCA because Penn Fuel and its public utility subsidiaries are Pennsylvania corporations which conduct their businesses primarily in Pennsylvania. Penn Fuel, like PP&L Resources, qualifies for the exemption under PUHCA for holding company systems that are primarily intrastate in nature.

7. In addition to PP&L and Penn Fuel, PP&L Resources owns other subsidiaries, including:

- a. PP&L Global (formerly Power Markets Development Company), which invests in energy projects in the United States and foreign countries;
- b. PP&L Spectrum, Inc. which markets energy-related services and products;
- c. PP&L Capital Funding, Inc., which provides financing services;
- d. H.T. Lyons, Inc., which provides energy management and HVAC services; and
- e. McClure Co., which also provides energy management and HVAC services.

8. PP&L Global was formed in 1994. Primarily through PP&L Global, the PP&L corporate system is evolving from a regional Pennsylvania supplier of electricity to a more broadly based national and international energy company. PP&L Global has investments in South Western Electricity plc, a British regional electric utility company, and additional investments in Argentina, Bolivia, Peru, Spain and Portugal. Certain of the limitations and conditions that are summarized above and explained more fully below affect PP&L Global.

9. On March 18, 1994, PP&L filed the above-captioned Application, pursuant to Chapter 11 of the Public Utility Code, 66 Pa.C.S. Ch. 11, seeking the Commission's approval of jurisdictional components of a corporate reorganization under which PP&L Resources was formed and PP&I. became a wholly-owned subsidiary of PP&L Resources. In addition, PP&L filed a Services Agreement between PP&L and PP&L Resources. The Services Agreement was filed under Chapter 21 of the Public Utility Code, 66 Pa.C.S. Ch. 21, governing relationships

between affiliated interests and was docketed at G-00940388. PP&L also filed a request that the Commission certify to the SEC that the Commission has the authority and resources to protect ratepayers subject to its jurisdiction from possible adverse effects of investments in foreign utility companies and that it intends to exercise such authority. Such certification is provided for under Section 33(a)(2) of PUHCA, 15 U.S.C. § 79z-5b. PP&L's request for a certification to the SEC was docketed at M-00940535.

10. In the Application proceeding, PP&L notified its customers, the Office of Trial Staff, the Office of Consumer Advocate ("OCA") and Office of Small Business Advocate of the proposed corporate reorganization.

11. On May 16, 1994, OCA protested PP&L's Application. No other protests, objections or interventions were filed.

12. In accordance with the Commission's regulations at 52 Pa. Code §§ 5.221 and 5.231, PP&L and OCA entered into settlement discussions to determine whether OCA's concerns could be satisfied without the need for litigation.

13. In an effort to facilitate review, PP&L requested that the Commission defer its consideration of PP&L's request for certification under Section 33(a) of PUHCA. Certification Order, p. 2.

14. As a result of the settlement discussions, PP&L and OCA reached an agreement as to OCA's Protest in the Application proceeding. The agreement between OCA and PP&L is reflected in Appendix "A" to the Commission's Application Order. A complete copy of the Application Order, including Appendix "A" thereto, is provided as Exhibit No. 1 hereto. The

limitations and conditions set forth in Appendix "A" to the Application Order satisfied OCA's concerns as to the Application proceeding.

15. PP&L and OCA entered into further discussions with regard to PP&L's request to the Commission for a certification pursuant to Section 33(a) of PUHCA. As a result of these discussions, PP&L and OCA agreed to certain further conditions that resolved the OCA's concerns. These conditions are set forth at page 3 of the Certification Order, a copy of which is provided as Exhibit No. 2 hereto.

### **III. CHANGES IN THE ELECTRIC UTILITY INDUSTRY SINCE THE APPLICATION ORDER AND THE CERTIFICATION ORDER**

16. Since adoption of the Commission's Application and Certification Orders, fundamental changes have occurred and are continuing to occur in the electric utility industry in Pennsylvania. Pennsylvania is on the eve of implementing customer choice to create a competitive retail market for electricity generation, which will replace the historical electricity generation monopolies of PP&L and other electric utilities in their certificated service territories. This change is taking place pursuant to the Competition Act.

17. Significantly, the Competition Act and the emergence of a competitive electricity generation retail market in Pennsylvania were not contemplated in the negotiations leading to or in the Application Order or the Certification Order. The possibility of retail competition in electricity generation is not mentioned in any of the documents filed by PP&L or OCA, and was not addressed in either the Application Order or Certification Order.

18. As a result of the Competition Act and other fundamental changes in the industry set forth below, the conditions in the Application Order and Certification Order should be removed.

#### IV. LIMITATIONS AND CONDITIONS

19. The limitations and conditions in the Application Order and the Certification Order fall into three broad categories:

- a. restrictions and conditions on investments by PP&L and its unregulated affiliates;
- b. restrictions on PP&L's relations with its unregulated affiliates; and
- c. other regulatory restrictions.

20. Limitations on investments include:

- a. a limitation that the total amount of PP&L's investments in non-energy diversified businesses will not exceed 7.5 percent of the total assets of the holding company system without prior Commission approval; and
- b. a limitation that the total amount of PP&L's investments in all diversified businesses (including energy-related businesses) will not exceed 15 percent of the total assets of the holding company system without prior Commission approval.

21. Investment restrictions include the requirements that:

- a. PP&L notify the Commission and the OCA if total investments of the PP&L corporate system in foreign utility company projects exceed 7.5 percent of the total holding company system assets; and

- b. PP&L notify the Commission and the OCA if any single investment by the PP&L corporate system in a foreign utility company project exceeds 5 percent of the total assets of the consolidated holding company system.

22. Restrictions on relations with affiliates include:

- a. restrictions on unregulated affiliates' bidding to provide generating capacity being procured by PP&L;
- b. provisions for submission of records and personnel of PP&L's unregulated affiliates;
- c. provisions for access to financial statements and reports concerning PP&L's unregulated affiliates; and
- d. restrictions on transactions between PP&L and its affiliates.

23. Regulatory restrictions include:

- a. a requirement that PP&L's cost of capital for Pennsylvania jurisdictional ratemaking purposes be calculated on a stand-alone "divisional" basis; and
- b. a requirement that the Commission's approval of the creation of a holding company system will not affect PP&L's obligations under the Public Utility Code, including Chapter 11 related to Commission approval for the transfer of utility assets and Chapter 21 related to Commission approval of contracts between affiliated interests.

24. The summary of conditions and restrictions set forth above and the discussion that follows address these matters in general terms. PP&L has not attempted to summarize or discuss each condition and each restriction individually. Nevertheless, the rationale for elimination

applies to all of the conditions and restrictions and, in this petition, PP&L is requesting that the Commission modify its Application and Certification Orders to eliminate all of them.

**V. LIMITATIONS AND CONDITIONS IN THE APPLICATION ORDER AND THE CERTIFICATION ORDER SHOULD BE ELIMINATED**

24. As explained below, these limitations and conditions should be eliminated because: (a) they unreasonably inhibit PP&L and its unregulated affiliates in their attempts to participate effectively in electricity generation markets, (b) they create an uneven and unfair competitive "playing field," (c) they are duplicative of regulatory restrictions on PP&L that have been imposed more recently in conjunction with implementation of the Competition Act, (d) they may unreasonably limit the Commission's discretion in future regulatory proceedings, and/or (e) they simply repeat existing regulatory requirements.

**A. LIMITATIONS ON INVESTMENTS AND INVESTMENT RESTRICTIONS ARE UNFAIR, CONTRARY TO THE PUBLIC INTEREST AND CONTRARY TO THE COMPETITIVE SCHEME ENVISIONED IN THE COMPETITION ACT**

25. Restrictions on investments by PP&L in diversified businesses are no longer appropriate as a result of the Competition Act. The Competition Act clearly envisions the creation of an open competitive marketplace for electricity generation. However, as a result of the settlement of its restructuring proceeding, PP&L, the Electric Distribution Company ("EDC"), will not be an active participant in the electricity generation market because the Electric Generation Supplier ("EGS") function of the PP&L corporate system has been transferred to an affiliated company. Under these circumstances, PP&L should be allowed to diversify its investments into other businesses without the conditions and restrictions discussed herein.

26. Significantly, as a result of the Competition Act and the restructuring of the electric industry, it is difficult to interpret the exact meaning of the investment restriction on PP&L. The Application Order restricts investments in "diversified businesses." Since the traditional electric utility furnishing bundled generation, transmission and distribution services no longer exists, it is not clear what the term "diversified" now means: Diversified from the traditional electric utility business which no longer exists, diversified from the EDC function, diversified from the combined EDC and EGS functions, or diversified from electricity generation in PJM? Each of these interpretations would produce a different limitation on PP&L.

27. The investment limitations on PP&L are unfair for the additional reason that they do not apply to PP&L's competitors.

- a No such limitations apply to non-utility EGSs, even large marketers such as Enron.
- b No such limitations apply to utilities whose affiliates were created without the necessity for obtaining Commission approval. Such affiliates, generally, were created as wholly-owned subsidiaries of utilities, without the need for Commission approval.
- c Other electric utilities, e.g., Duquesne Light Company, formed holding companies before adoption of the Commission's policy statement that the creation of a holding company required a certificate of public convenience, 52 Pa. Code § 69.901, 24 Pa. Bulletin 5328 (October 21, 1994), and thereby avoided the imposition of limitations and conditions.

To PP&L's knowledge, it is the only EDC in Pennsylvania that is subject to investment restrictions imposed by the Commission. It is simply unjustified and unfair for PP&L alone to be subject to such investment restrictions.

28. The 15 percent limitation on diversified investments is not realistic. PP&L's primary business as an EDC will be the transmission and distribution of electric energy. However, PP&L's transmission and distribution system effectively saturates its service territory, and no significant expansion of its transmission and distribution system are contemplated in the foreseeable future. Consequently, the primary opportunities for growth for PP&L lie outside the transmission and distribution business in its certificated service territory. If PP&L is to grow and prosper, it must have the ability to do so in businesses other than regulated transmission and distribution systems. PP&L must be permitted to make competitive investments in unregulated businesses.

29. It is acknowledged that the investment restrictions in the Application Order permit acquisitions upon the Commission's prior approval. The opportunity to obtain exemption from the restriction through Commission prior approval, however, is not effective in today's competitive markets. In the present competitive marketplace, transactions move very rapidly. It has been PP&L's observation that, if it must condition an offer or bid upon Commission prior approval of the transaction, the regulatory lag and uncertainty in obtaining such an approvals may effectively disqualify PP&L from participating in the transactions.

30. The requirement that the PP&L corporate system notify the Commission and the OCA when investments by PP&L Resources and its consolidated subsidiaries in foreign utility company projects exceed 7.5 percent of the total assets of the consolidated holding company

system and when investments in any one foreign public utility project exceeds 5 percent of the total assets of the consolidated holding company system unnecessarily complicates foreign investments. For example, the assets of the PP&L consolidated holding company system were, as of June 30, 1998, approximately \$9.2 billion. Seven and one half percent of that amount is approximately \$0.7 billion, and 5 percent of that amount is only \$0.46 billion. Although that is a substantial amount of money, it should be noted, in this context, that the Homer City Generating Station was recently auctioned, and the winning bid was approximately \$1.8 billion. Thus, the notice requirements in the Certification Order on investments in foreign utility projects would apply to the acquisition of only a portion of one coal-fired generating station.

31. As PP&L's primary unregulated affiliate, PP&L Global seeks to become a broadly based energy company. PP&L Global is in the process of making investments in Europe and South America, as well as in the United States. The notification requirement adds one more burden on PP&L Global's ability to participate effectively in a world-wide energy market. To PP&L's knowledge, none of PP&L Global's competitors are subject to similar requirements.

**B. CONDITIONS IMPOSING RESTRICTIONS ON PP&L'S RELATIONSHIPS WITH ITS AFFILIATES ARE DUPLICATIVE OF OTHER EXISTING REQUIREMENTS**

32. Conditions imposing restrictions on PP&L's relationships with its affiliates are unnecessary due to the Commission's authority under Chapter 21 of the Public Utility Code and the adoption of numerous codes of conduct applicable to PP&L. Therefore, the conditions in Appendix "A" to the Application Order imposing restrictions on PP&L's relationships with its affiliates are substantially duplicative and would tend to create a number differing, and perhaps conflicting, requirements on relationships between PP&L and its affiliates.

33. Restrictions and conditions on PP&L's relationship with its affiliates are unnecessary because these relationships are and will continue to be comprehensively regulated by the Commission under Chapter 21 of the Public Utility Code. Under Chapter 21, contracts between a public utility and its affiliates are not valid until approved by the Commission. 66 Pa. C.S. § 2102. Even after approving such a contract, the Commission retains continuing supervisory control over it so far as necessary to protect the public interest. 66 Pa. C.S. § 2103. Pursuant to its authority under Chapter 21, the Commission has approved a Services Agreement governing relationships between PP&L and its various affiliates. Affiliated Interest Agreement Between Pennsylvania Power & Light Company and PP&L Resources, Inc., Docket No. G-00940388, Order entered March 30, 1995. That agreement remains fully effective and additional conditions or restrictions simply are not necessary.

34. Since the entry of the Application Order and the Certification Order, numerous Codes of Conduct specifically applicable to transactions and relationships between PP&L and its affiliates have been adopted. They include the following:

- a. the Generation Company Code of Conduct (Appendix G to the Settlement of PP&L's restructuring proceeding);
  - b. the Interim Code of Conduct for PP&L, Inc. (Appendix H to the Settlement of PP&L's restructuring proceeding);
  - c. the Standards of Conduct for Compliance with FERC Order No. 889 for PP&L effective January 3, 1997;
  - d. the FERC Order No. 889 Standards of Conduct for PJM Interconnection;
- and

e. the PJM Interconnection, L.L.C., Code of Conduct.

35. Under these circumstances, where PP&L is already subject to numerous codes of conduct that have been specifically developed to address issues and potential issues arising under the electricity generation retail marketplace contemplated by the Competition Act, it is unreasonable that duplicative and unnecessary additional restrictions contained in the Application Order continue to apply to PP&L, but only to PP&L.

36. The restriction in the Application Order and in the Certification Order on the right of PP&L's affiliates to participate in generating capacity resources procurement by PP&L is unreasonable and contrary to the public interest. Under PP&L's settlement of its restructuring proceeding, PP&L's electricity generation supplier function has been transferred from PP&L to an affiliate. Consequently, under the Competition Act and the settlement of PP&L's restructuring proceeding, PP&L's only supplier function in the electricity generation market will be as the Provider of Last Resort ("PLR"). Under Section 2807(e) of the Competition Act, as long as PP&L is collecting a Competitive Transition Charge, which under the Settlement is through December 31, 2009, PP&L must offer to be a PLR of electric energy. In the future, from time to time, in order to ensure its ability to be the PLR, PP&L may need to obtain electricity generation capacity on the open competitive market. If PP&L's affiliates can offer such capacity at the price most favorable to customers, it would not be in customers' interest for PP&L's affiliates to be barred from participating in PP&L's electricity generation procurement as the condition requires. In order to offer PLR service in the most economically efficient manner, PP&L should have the ability to seek electricity generation in the open competitive market under the most favorable terms and conditions available. The condition barring PP&L's affiliates from

participating in PP&L's procurement of electricity generation capacity is inconsistent with the open competitive market for electric generation envisioned by the Competition Act.

C. THE REGULATORY RESTRICTIONS CONTAINED IN THE APPLICATION ORDER ARE UNNECESSARY AND OUTDATED

37. One regulatory restriction in the Application Order addresses cost of capital for ratemaking purposes:

"PP&L's cost of capital for Pennsylvania jurisdiction of 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 rate base proceedings."

This restriction is no longer meaningful as applied to PP&L. It is anticipated that, over time, the capital structure of PP&L, a wholly-owned subsidiary, will change. In the future, the capital structure of PP&L may be changed as a result of PP&L's reliance upon intra-corporate system borrowings in lieu of issuances of securities to the public. The actual capital structure of PP&L also may be influenced by the amount of electricity generation facilities are continue to be held by PP&L in a division that is separate from the EDC Division of PP&L.

Further, it may be more appropriate in the future, depending upon changing circumstances in the EDC portion of the industry, to base rate of return capital structure and cost rates upon barometer groups of other EDCs or other industries, or it may become appropriate for EDCs to establish fair rate of return using entirely different mechanisms, such as operating ratios.

PP&L, at this time, is not advocating any specific alternative. Instead, PP&L is noting only that this restriction on its presentations to the Commission in future rate proceedings is inappropriate, given the uncertainties in the financial marketplace arising from the

restructuring of the electric industry under the Competition Act. Moreover, this restriction is unfair because it imposed upon PP&L alone among all of the other EDCs that will continue to operate in Pennsylvania.

18. Similarly, Condition 9 in Appendix "A" to the Application Order is unnecessary. This restriction simply restates that PP&L continues to be subject to the applicable portions of the Public Utility Code, including Chapters 11 and 21. This restriction neither augments nor diminishes the Commission's jurisdiction and, therefore, is simply superfluous.

WHEREFORE, for all the foregoing reasons, PP&L, Inc. respectfully requests that the Pennsylvania Public Utility Commission amend the Application Order and the Certification Order by deleting the conditions and restrictions contained therein.

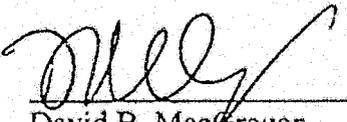
Respectfully submitted,

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Pennsylvania Power & Light Company  
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Of Counsel:

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October 20, 1998



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Attorneys for PP&L, Inc.

AFFIDAVIT

STATE OF PENNSYLVANIA :  
COUNTY OF Philadelphia : SS.

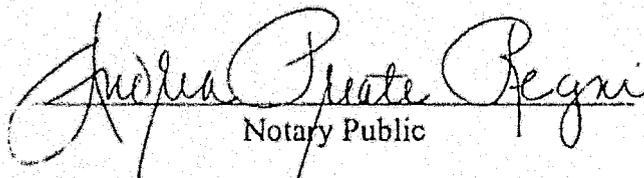
Paul E. Russell, being duly sworn according to law, deposes and states that he is Associate General Counsel of PP&L, Inc., that he is authorized to and does make this affidavit for it; and that the facts set forth above are correct to the best of his knowledge, information and belief and that he expects PP&L, Inc., to be able to prove the same at any hearing hereof.

  
Paul E. Russell  
Associate General Counsel

SWORN TO AND SUBSCRIBED

before me this 20<sup>th</sup> day

of October, 1998

  
Notary Public

Notarial Seal  
Andrea Preate Regni, Notary Public  
Philadelphia, Philadelphia County  
My Commission Expires June 11, 2001  
Member, Pennsylvania Association of Notaries

**EXHIBIT 1**

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

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

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  
APPROVAL OF CERTAIN TRANSACTIONS  
IN CONNECTION WITH THE UTILITY'S  
ESTABLISHMENT OF A HOLDING  
COMPANY STRUCTURE

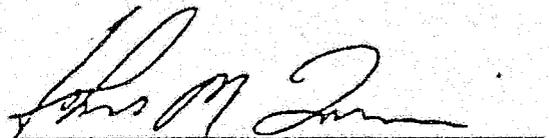
PUBLIC MEETING  
FEBRUARY 9, 1995  
FEB-95-08A-1218\*  
DOCKET NO. A-110500 F.206

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

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

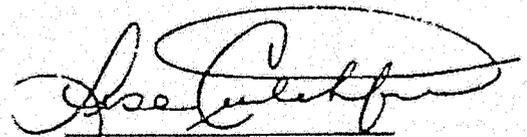
STATEMENT OF COMMISSIONER LISA CRUTCHFIELD

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

**EXHIBIT 2**

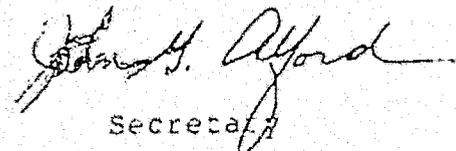
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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COMMONWEALTH OF PENNSYLVANIA, SS:

I, John G. Alford, Secretary of the Pennsylvania Public Utility Commission, do hereby certify that the attached is a full, true and correct copy of the Order, adopted by the Commission on April 11, 1996, in the matter of the Request of Pennsylvania Power & Light Company for the Commission's Certification of the Authority to the Securities and Exchange Commission pursuant to Section 33(A) of the Public Utility Holding Company Act of 1935, as same remains of record and on file in this office.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the seal of Pennsylvania Public Utility Commission to be affixed, this TWENTY SECOND day of APRIL, 1996.

  
Secretary

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, Pennsylvania 17105  
Public Meeting held April 11, 1996

Commissioners Present:

John M. Quain, Chairman  
Lisa Crutchfield, Vice Chairman  
John Hanger  
David W. Rolka  
Robert K. Bloom

In Re:  
Pennsylvania Power and  
Light Company Request for Section  
33(a) Certification

Docket No.  
M-00940535

CORRECTED OPINION AND ORDER

BEFORE THE COMMISSION:

Before the Commission for consideration is Pennsylvania Power and Light Company's Request for Section 33(a) Certification, filed at the above-captioned docket. The Request for Section 33(a) Certification is a component of a two pronged application and affiliated interest filing of Pennsylvania Power & Light Company ("PP&L"), filed March 18, 1994, under which PP&L has established a holding company structure for the conduct of regulated and unregulated operations.

Background

On March 18, 1994, PP&L filed an application pursuant to Chapter 11 of the Public Utility Code, 66 Pa. C.S. §1101, et seq., seeking approval of certain transactions in connection with the establishment of a holding company structure. See Application of Pennsylvania Power & Light Company for approval, pursuant to Chapter 11 of the Pennsylvania Public Code, of certain transactions in connection with the utility's establishment of a holding company

structure, ("Application" hereafter) Docket No. A-1100500 F.206 (Order entered February 10, 1995). The Office of Consumer Advocate ("OCA") filed the sole protest to the application.

In conjunction with the Application, PP&L also filed a Services Agreement between PP&L and its affiliated interest, PP&L Resources, Inc. Further, as part of the transaction to establish a holding company structure, PP&L filed a request 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.<sup>1</sup> See Docket Nos. G-00940388 (Order entered March 30, 1995) ("Affiliated Interest" filing hereafter), and Docket No. M-00940535, ("Request for Section 33(a) Certification"), respectively.

PP&L and the OCA, after negotiations, reached certain stipulations which satisfied the OCA's objections to the transaction. See Docket No. A-1100500 F.206 (Order entered February 10, 1995), Slip. Op. at 2. PP&L, in a letter dated January 11, 1995, asked that the Commission include in its deliberations on the merits of the Application, those conditions to which it agreed. A total of seven stipulations were reached which stipulations resulted in satisfaction of the OCA protest. Docket No. A-1100500 F.206 (Order entered February 10, 1995) at page 6.

Significantly, and in an effort to facilitate the review process, PP&L also requested that the Commission sever and defer decision on PP&L's request for Section 33(a) certification under the Public Utility Holding Company Act of 1935 filed at the above-cited docket. Id.

Based on the foregoing and pursuant to the proposed holding company structure, PP&L has created PP&L Resources, Inc.

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<sup>1</sup> 15 U.S.C. §79, 79z-6.

("Resources"), (incorporated on March 15, 1994 under the Pennsylvania Business Corporation Law of 1988, 15 Pa. C.S. § 1101, et seq.), to own PP&L stock. Resources, upon receiving requisite shareholder approvals and other regulatory approvals, became the holding company parent of PP&L.

As noted, this Commission has approved the Application and the affiliated interest portions of the transaction whereby PP&L converted its organizational structure to the holding company model.

#### Discussion

The Commission's consideration of PP&L's Section 33(a) request was deferred at the request of the utility. This is the matter which is now before the Commission for disposition.

By letter dated March 6, 1996, PP&L has advised the Commission that it has reached additional notice requirements regarding investments in foreign utility company projects. Those requirements are:

(a) If the total amount of investments by PP&L Resources, Inc. and its consolidated subsidiaries in foreign utility company projects exceeds 7.5% of the total assets of the holding company and its consolidated subsidiaries, PP&L will notify the Commission and the OCA at the time the investments reach that amount.

(b) If a single investment by PP&L Resources, Inc. and its consolidated subsidiaries in a foreign utility company project exceeds 5% of the total assets of the holding company and its consolidated subsidiaries, PP&L will notify the Commission and the OCA at the time of that investment.

(c) If requested by PP&L, the Commission and the OCA will treat these notifications on a confidential basis until information regarding the investments has been released to the public.

Based on the adoption of the above conditions by PP&L, it is represented that the OCA will not oppose the request for Section 33(a) certification. See March 6, 1996 Letter.

We note that by letter dated March 8, 1996, the OCA has advised the Commission that PP&L's letter of March 6, 1996, accurately represents the agreement reached among the active parties (PP&L and the OCA) in this matter.

In support of its request for Section 33(a) certification, PP&L, in the March 18, 1994 Application, cites the passage of the Public Utility Regulatory Policies Act of 1978 ("PURPA"), and the Energy Policy Act of 1992 ("Energy Act"). PP&L states that the electric utility industry in general and PP&L, in particular, have experienced a significant increase in the level of competition in the market for the generation and sale of electricity. In order to respond effectively to this increased competition, PP&L has determined that it must position itself to explore and take advantage of potential business opportunities outside of its present markets in central eastern Pennsylvania. See March 18, 1994 Application, pp. 4-5.

PP&L is in the process of investigating a variety of business opportunities, both in domestic and international markets. PP&L states that as of the filing of the Application, it has not yet determined what specific investments it will pursue, but is currently focusing on those opportunities which relate to its present core business i.e. the generation, transmission and distribution of electric energy. See Application, p. 5.

On the basis of the foregoing, it is PP&L's intent to conduct certain unregulated business activities through a subsidiary, Power Markets Development Company ("Power Markets"). As of the filing of the Application, Power Markets was a wholly-owned subsidiary of CEP Group, Inc. ("CEP"), which in turn is a

wholly-owned subsidiary of PP&L. Following the formation of the holding company structure, Power Markets became a wholly owned subsidiary of Resources.

Power Markets was formed on March 9, 1994 and was initially funded with a \$50 million capital contribution from PP&L's internally generated funds in order to take advantage of business opportunities.

It is the position of PP&L that the amount invested in unregulated business activities may increase over time and it anticipates that pursuit of these expanded activities may require the creation of additional subsidiaries. See Application, p. 5. PP&L, rather than pursue unregulated business opportunities through Power Markets and other subsidiaries, as second-tier subsidiaries of PP&L, prefers to, in the long run, conduct these unregulated activities through a holding company structure. See Application, at 6.

It is based on the foregoing reasons that PP&L seeks Commission certification under Section 33(a) of the Holding Company Act. Section 33(a) provides, in pertinent part, that an exempt holding company which owns or operates generation, transmission or distribution facilities in a foreign country will not lose its exemption if the Commission certifies to the SEC that: (1) the Commission has the authority and resources to protect jurisdictional ratepayers; and (2) the Commission intends to exercise that authority.

SEC certification is needed as Power Markets will likely own or operate generation, transmission or distribution facilities in a foreign country. Therefore, PP&L requests that we issue a certification pursuant to Section 33(a) so that exempt holding company status can be maintained. See Application, p. 15.

On consideration of the Request for Section 33(a) Certification we shall, hereby, grant said request and direct that a copy of the form Secretarial Letter and this Opinion and Order be certified for PP&L's transmittal to the SEC. This Opinion and Order expressly incorporates by reference, the stipulations reached between PP&L and the OCA, finding said stipulations to be in furtherance of the public interest.

Title 15 U.S.C. § 79z-5b, states in pertinent part:

(2) State commission certification  
Section (a)(1) shall not apply or be effective unless every State commission having jurisdiction over the retail electric or gas rates of a public utility company that is an associate company or an affiliate of a company otherwise exempted under section (a)(1) (other than a public utility company that is an associate company or an affiliate of a registered holding company) has certified to the Commission that it has the authority and resources to protect ratepayers subject to its jurisdiction and that it intends to exercise its authority. Such certification, upon the filing of a notice by such State commission, may be revised or withdrawn by the State commission prospectively as to any future acquisition. The requirement of State certification shall be deemed satisfied if the relevant State commission had, prior to October 24, 1992, on the basis of prescribed conditions of general applicability, determined that ratepayers of a public utility company are adequately insulated from the effects of diversification and the diversification would not impair the ability of the State commission to regulate effectively the operations of such company.

This Commission is able to certify to the SEC, in compliance with Section 33(a) of the Holding Company Act, that we have the authority and resources to protect ratepayers subject to our jurisdiction and fully intend to so exercise that authority. PP&L, in its Application, and further, in a November 28, 1995 letter to the Commission, has cited the relevant provisions of the

Public Utility Code, 66 Pa. C.S. §§101-3315, under which we are given broad authority to regulate the rates and services of utilities subject to our jurisdiction. This authority would include the protection of Pennsylvania jurisdictional ratepayers from potential adverse consequences of foreign investment by PP&L and its affiliates/subsidiaries; THEREFORE,

IT IS ORDERED:

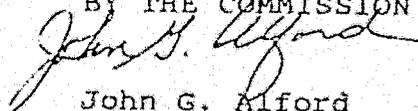
1. That the Request for Section 33(a) Certification of Pennsylvania Power and Light Company, filed March 18, 1994, be and is, hereby, granted.

2. That upon the entry of this Opinion and Order, the Secretarial Letter attached hereto as Appendix A shall issue to PP&L for service upon and certification to the Securities Exchange Commission.

3. That the stipulations reached between Pennsylvania Power & Light Company and the Office of Consumer Advocate are, hereby, incorporated in this Opinion and Order.

4. That the above-captioned docket shall be marked closed.

BY THE COMMISSION



John G. Alford  
Secretary

(SEAL)

ORDER ADOPTED: April 11, 1996

ORDER ENTERED: April 22, 1996

COMMONWEALTH OF PENNSYLVANIA

DATE: November 2, 1998  
SUBJECT: A-110500F0206, M-00940535  
TO: Office of Special Assistants  
FROM: *WJB* James J. McNulty, Secretary

*KJK*

**DOCKETED**  
NOV 03 1998

APPLICATION OF PENNSYLVANIA POWER AND LIGHT COMPANY FOR APPROVAL, PURSUANT TO CHAPTER 11 OF THE PUBLIC UTILITY CODE OF CERTAIN TRANSACTIONS IN CONNECTION WITH THE UTILITY'S ESTABLISHMENT OF A HOLDING COMPANY STRUCTURE.  
DOCKET NO. A-110500F0206

PENNSYLVANIA POWER & LIGHT COMPANY REQUEST FOR SECTION 33(a) CERTIFICATION.  
DOCKET NO. M-00940535

Attached is copy of a Petition for Amendment of Orders of PP&L, Inc. filed in connection with the above docketed proceeding.

This matter is assigned to your Office for appropriate action.

Attachment

cc: BFUS

wjz

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FOLDER



ORIGINAL

OFFICE OF CONSUMER ADVOCATE

555 Walnut Street 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048

IRWIN A. POPOWSKY  
Consumer Advocate

FAX (717) 783-7152  
E-Mail paoca@ptd.net

November 9, 1998

James J. McNulty, Secretary  
Secretary's Bureau  
PA Public Utility Commission  
Room B-20, North Office Bldg.  
Harrisburg, PA 17105-3265

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SECRETARY'S BUREAU

Re: Application of Pennsylvania Power & Light Co.  
for Approval, Pursuant to Chapter 116 of the Public  
Utility Code of Certain Transactions in Connection  
with the Utility's Establishment of a Holding Company  
Structure  
Docket No. A-110500F.0206

In Re: Pennsylvania Power & Light Company's  
Request for Section 33(a) Certification  
Docket No. M-00940535

Dear Secretary McNulty:

Enclosed please find for filing an original and three (3) copies of the Office of  
Consumer Advocate's Answer to the Petition of PP&L, Inc. For Amendment of Orders in the  
above-captioned proceeding

Copies have been served upon all parties of record as shown on the attached  
Certificate of Service

Sincerely,

Tanya J. McCloskey  
Assistant Consumer Advocate

Enclosures  
cc: All parties of record

70

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania Power & Light Co. :  
For Approval, Pursuant To Chapter 11 of the :  
Public Utility Code of Certain Transactions : Docket No. A-110500F.0206  
In Connection With The Utility's Establishment :  
Of A Holding Company Structure :

In Re: Pennsylvania Power & Light Company's : Docket No. M-00940535  
Request for Section 33(a) Certification :

**DOCKETED**

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ANSWER OF THE  
OFFICE OF CONSUMER ADVOCATE  
TO THE PETITION OF PP&L, INC. FOR  
AMENDMENT OF ORDERS

---

The Office of Consumer Advocate is in receipt of the Petition of PP&L, Inc. (PP&L) in the above-captioned proceeding for amendment of the Commission's Orders entered on February 10, 1995 at Docket No. A-110500F.0206 and on April 22, 1996 at Docket No. M-00940535. In those Orders, the Commission approved PP&L's Application to reorganize its corporate system in which an exempt holding company, PP&L Resources, Inc. was formed and PP&L, Inc. became a wholly-owned subsidiary of the holding company. In its Orders approving PP&L's request to establish a holding company structure, the Commission placed certain conditions on PP&L's operation under this structure. PP&L now seeks to have these conditions removed in light of the enactment of the Electricity Generation Customer Choice and Competition Act (Customer Choice Act). Although the OCA does not disagree that certain of these conditions may need to be revisited

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in light of the Customer Choice Act, the OCA submits that deletion of the conditions based on the information provided by PP&L in its Petition is not justified.

Initially, it is important to note that the conditions related to the approval of PP&L's Application for a Holding Company Structure were conditions that were negotiated among the parties to the proceeding to address the concerns raised by the parties about PP&L's proposed holding company structure. The objective of these conditions was to (1) protect the regulated utility entity from financial impairment that could result from activities of the unregulated affiliate, (2) prevent improper cost shifting between the utility and non-utility affiliates, (3) guard against self-dealing abuses in the competitive bidding for generation, and (4) assure that the Commission has access to the necessary employees, records and information to uphold its responsibilities under the Public Utility Code. Both the Company and the OCA agreed to these conditions in order to achieve these goals.

The Company now argues that these conditions should be removed, primarily because of changes in the structure of the electric utility industry in Pennsylvania. In addition, the Company raises concerns that the conditions may inhibit its unregulated affiliates, may be duplicative of or inconsistent with other conditions contained in its Codes of Conduct, and create an unlevel playing field for PP&L since other competitors are not subject to the same conditions. In addition, the Company argues that the condition regarding the determination of PP&L's cost of capital may limit the Commission's authority.

As noted above, the OCA recognizes that it may be appropriate to revisit some of these conditions in light of the changes in the electric utility industry. The OCA would note, however, that increasing competition in the electric utility industry was well known in 1995. In fact,

in her accompanying Statement, Commissioner Crutchfield recognized that PP&L's proposal to establish a holding company structure was a response to the significant increase in competition in the market for electricity. In light of this, the OCA submits that a complete elimination of the conditions based on the Customer Choice Act is unwarranted.

In addition, the OCA submits that the Company's other arguments for elimination of the conditions are not persuasive. For example, the Company argues that some of the provisions may be duplicative of, or inconsistent with the Codes of Conduct adopted in its Restructuring Settlements. As to duplicative provisions, the OCA submits that some redundancy should not pose a problem and it may be useful to have the applicable conditions stated in the Order even if duplicative. If PP&L can point to a condition is inconsistent with the Codes of Conduct, the OCA agrees that it should be revisited. PP&L's Petition, however, fails to identify any instances where the present holding company conditions pose such a conflict or inconsistency.

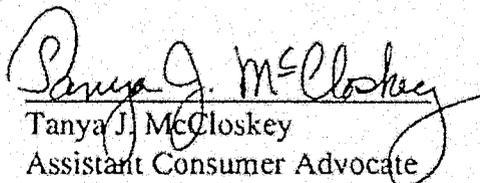
PP&L also argues that the conditions should be eliminated because no other competitor is subject to the same conditions. PP&L, however, overlooks the fact that several other utilities in Pennsylvania are part of a registered holding company structure, not exempt from the Holding Company Act, and therefore must comply with all SEC requirements including all SEC regulations.

Finally, the Company argues that the provision regarding the determination of PP&L's cost of capital may restrict the Commission's authority in determining PP&L's regulated rate of return. The OCA submits, however, that the condition does not restrict the Commission's consideration of a fair rate of return or prescribe a specific methodology. In fact, the conditions specifically provides that it does not limit the Commission's authority and discretion to consider

whatever evidence it deems relevant in establishing a fair rate of return. The purpose of this provision was to assure that a determination of PP&L's cost of capital would not be based on the business and financial risks of its unregulated affiliates.

WHEREFORE, the OCA submits that the conditions established as part of the Commission's Orders of February 10, 1995 at Docket No. A-110500F 0206 and April 22, 1996 at Docket No. M-00940535 should not be deleted at this time. The OCA recognizes that certain of these conditions may need to be revisited in light of electric restructuring in Pennsylvania, particularly those conditions regarding limitations on investment in diversified businesses and those regarding bidding for generating capacity resources. The OCA is willing to work with the Company to establish appropriate conditions governing its holding company structure in light of the present competitive environment, but cannot agree that total elimination of these conditions is justified at this time.

Respectfully submitted,

  
Tanya J. McCloskey  
Assistant Consumer Advocate

Counsel for  
Irwin A. Popowsky  
Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street 5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
(717) 783-5048

Dated: November 6, 1998  
500354

CERTIFICATE OF SERVICE

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

In Re: Pennsylvania Power & Light Company's Request for Section 33(a) Certification  
Docket No. M-00940535

I hereby certify that I have this day served a true copy of the foregoing document,  
Office of Consumer Advocate's Answer upon parties of record in this proceeding in accordance  
with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and  
upon the persons listed below:

Dated this 9th day of November, 1998.

SERVICE BY INTER-OFFICE MAIL

Charles Hoffman, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
North Office Bldg.  
P. O. Box 3265  
Harrisburg, PA 17105-3265

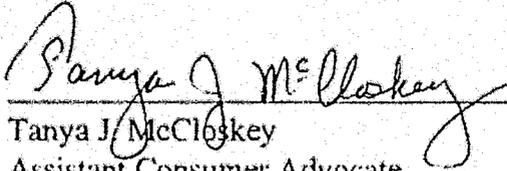
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David B. MacGregor, Esq.  
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Harrisburg, PA 17101-1904

Bernard A. Ryan, Jr., Esq.  
Office of Small Business Adv.  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

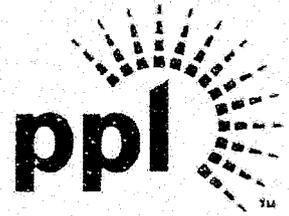
  
Tanya J. McCloskey  
Assistant Consumer Advocate

Counsel For  
Office of Consumer Advocate  
555 Walnut Street, Forum Place, 5th Floor  
Harrisburg, PA 17101-1923  
(717) 783-5048

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SECRETARY'S BUREAU

**Paul E. Russell**  
Associate General Counsel  
Tel 610 774-4254 Fax 610 774 6726  
E-mail: porussell@papi.com

**PP&L, Inc.**  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel 610.774 5151  
http://www.pap.com/



**ORIGINAL**  
VIA FEDERAL EXPRESS

December 1, 1998

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

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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

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

Dear Mr. McNulty,

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

- Form 10-Q Quarterly Report to the Securities and Exchange Commission for the Quarter Ended September 30, 1998 for PP&L Resources, Inc. and PP&L, Inc.

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

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

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

Very truly yours,

Paul E. Russell

Enclosures

cc Irwin A. Popowsky, Esquire

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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

## Form 10-Q

Quarterly Report to the  
Securities and Exchange Commission

For the Quarter Ended  
September 30, 1998

**DOCKETED**  
DEC 03 1998

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**PP&L Resources, Inc.**  
**PP&L, Inc.**

United States  
Securities and Exchange Commission  
Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 1998

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	PP&L, Inc. (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  No

PP&L, Inc. Yes  No

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

PP&L Resources, Inc.	Common stock, \$.01 par value, 157,164,916 shares outstanding at October 31, 1998, excluding 17,001,100 shares held as treasury stock
PP&L, Inc.	Common stock, no par value, 157,300,382, shares outstanding and all held by PP&L Resources, Inc. at October 31, 1998

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

FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 1998

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PP&L, Inc.

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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 September 30, 1998 and December 31, 1997, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended September 30, 1998 and 1997. PP&L Resources is the parent holding company of PP&L, PP&L Global, PP&L Spectrum, PP&L Capital Funding, H. T. Lyons, Penn Fuel Gas and McClure. PP&L constitutes substantially all of PP&L Resources' assets, revenues and earnings.

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(Millions of Dollars, except per share data)

	Three Months		Nine Months	
	Ended September 30, 1998	1997	Ended September 30, 1998	1997
<b>Operating Revenues</b>				
Electric operations.....	\$647	\$586	\$1,822	\$1,790
Gas operations.....	6		6	
Wholesale energy and trading activities.....	483	192	987	459
Energy related businesses.....	30	14	69	31
<b>Total Operating Revenues</b> .....	<b>1,166</b>	<b>792</b>	<b>2,884</b>	<b>2,280</b>
<b>Operating Expenses</b>				
Operation				
Cost of electric fuel.....	147	133	378	349
Cost of natural gas and propane.....	2		2	
Energy purchases.....	415	138	846	358
Other operating.....	174	125	434	363
Maintenance.....	39	46	130	130
Depreciation and amortization.....	68	94	257	279
Taxes, other than income.....	34	50	136	156
Energy related businesses.....	25	5	54	14
<b>Total Operating Expenses</b> .....	<b>904</b>	<b>591</b>	<b>2,237</b>	<b>1,649</b>
<b>Operating Income</b> .....	<b>262</b>	<b>201</b>	<b>647</b>	<b>631</b>
Other Income and (Deductions).....	16	(36)	26	(31)
<b>Income Before Interest and Income Taxes</b> .....	<b>278</b>	<b>165</b>	<b>673</b>	<b>600</b>
<b>Interest Expense</b> .....	<b>58</b>	<b>53</b>	<b>164</b>	<b>163</b>
<b>Income Before Income Taxes and Extraordinary Items</b> .....	<b>220</b>	<b>112</b>	<b>509</b>	<b>437</b>
Income Taxes.....	78	64	200	197
<b>Income Before Extraordinary Items</b> .....	<b>142</b>	<b>48</b>	<b>309</b>	<b>240</b>
Extraordinary Items (net of \$666 income taxes) (Note 4).....			(948)	
<b>Income(Loss) Before Dividends on Preferred Stock</b> ...	<b>142</b>	<b>48</b>	<b>(639)</b>	<b>240</b>
Preferred Stock Dividend Requirements.....	6	6	19	17
<b>Net Income(Loss)</b> .....	<b>\$136</b>	<b>\$42</b>	<b>(\$658)</b>	<b>\$223</b>
<b>Earnings Per Share of Common Stock</b>				
Basic and Diluted (a):				
Income Before Extraordinary Items.....	\$0.81	\$0.25	\$1.74	\$1.36
Extraordinary Items (net of tax).....			(5.68)	
<b>Net Income(Loss)</b> .....	<b>\$0.81</b>	<b>\$0.25</b>	<b>\$(3.94)</b>	<b>\$1.36</b>
Dividends Declared per Share of Common Stock.....	\$0.2500	\$0.4175	\$1.085	\$1.2525
(a) Based on average number of shares outstanding (thousands).....	166,652	164,961	166,871	164,110

See accompanying Notes to Financial Statements.

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

	Nine Months	
	Ended September 30, 1998	1997
Net Cash Provided by Operating Activities.....	\$435	\$579
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(204)	(200)
Proceeds from sale of nuclear fuel to trust.....	16	24
Purchases of available-for-sale securities.....	(14)	(61)
Sales and maturities of available-for-sale securities.....	16	100
Investment in electric energy projects .....	(279)	(149)
Purchases and sales of other financial investments - net.....	4	76
Other investing activities - net.....	(19)	(1)
Net cash used in investing activities.....	(480)	(211)
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	320	10
Issuance of common stock.....	48	53
Purchase of treasury stock .....	(419)	
Issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely parent debentures.....		250
Retirement of long-term debt.....	(268)	(210)
Purchase of subsidiary's preferred stock (net of premium and associated costs).....		(369)
Payments on capital lease obligations.....	(42)	(50)
Common and preferred dividends paid.....	(228)	(223)
Net increase in short-term debt.....	629	139
Other financing activities - net .....	(2)	(20)
Net cash provided by (used in) financing activities.....	38	(420)
Net Decrease In Cash and Cash Equivalents .....	(7)	(52)
Cash and Cash Equivalents at Beginning of Period .....	50	101
Cash and Cash Equivalents at End of Period .....	\$43	\$49
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$169	\$152
Income taxes.....	\$185	\$194

See accompanying Notes to Financial Statements.

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

**CONSOLIDATED BALANCE SHEET**

(Millions of Dollars)

September 30, December 31,  
1997 1996  
(Unaudited) (Audited)

**ASSETS**

**Property, Plant and Equipment**

Electric utility plant in service - at original cost....	\$9,949	\$9,824
Accumulated depreciation .....	(3,502)	(3,337)
	<u>6,447</u>	<u>6,487</u>
Construction work in progress - at cost.....	163	172
Nuclear fuel owned and leased - net of amortization ....	146	170
Other leased property - net of amortization .....		76
	<u>6,756</u>	<u>6,905</u>
Electric utility plant - net.....		
Other property - (net of depreciation, amortization and depletion 1997, \$57; 1996, \$54).....	54	55
	<u>6,810</u>	<u>6,960</u>

**Investments**

Investment in and advances to electric energy projects - at equity .....	357	224
Affiliated companies - at equity .....	17	17
Nuclear plant decommissioning trust fund .....	156	128
Financial investments.....	49	133
Other - at cost or less .....	11	18
	<u>590</u>	<u>520</u>

**Current Assets**

Cash and cash equivalents .....	49	101
Current financial investments .....	32	73
Accounts receivable (less reserve: 1997, \$17; 1996, \$25)		
Customers .....	182	196
Other.....	29	19
Unbilled revenues.....	72	85
Fuel, materials and supplies - at average cost.....	200	201
Deferred income taxes .....	24	21
Other.....	69	53
	<u>657</u>	<u>749</u>

**Regulatory Assets and Other Noncurrent Assets .....**

1,428 1,407

\$9,485 \$9,636

See accompanying Notes to Financial Statements.

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

	September 30, 1998 (Unaudited)	December 31, 1997 (Audited)
<b>LIABILITIES</b>		
<b>Capitalization</b>		
Common equity		
Common stock .....	\$2	\$2
Capital in excess of par value .....	1,852	1,669
Treasury stock.....	(419)	
Earnings reinvested (Note 4) .....	323	1,164
Capital stock expense and other .....	(21)	(26)
	<u>1,737</u>	<u>2,809</u>
Preferred stock		
With sinking fund requirements .....	47	47
Without sinking fund requirements .....	50	50
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures.....	250	250
Long-term debt .....	<u>2,835</u>	<u>2,585</u>
	<u>4,919</u>	<u>5,741</u>
<b>Current Liabilities</b>		
Short-term debt.....	777	135
Long-term debt due within one year .....	1	150
Capital lease obligations due within one year .....	57	58
Liability for above market NUG purchases due within one year (Note 4) .....	105	
Accounts payable .....	200	140
Taxes and interest accrued .....	109	102
Dividends payable .....	50	76
Other .....	124	108
	<u>1,423</u>	<u>769</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes and investment tax credits .....	1,579	2,221
Liability for above market NUG purchases (Note 4) .....	775	
Capital lease obligations .....	89	113
Other .....	746	641
	<u>3,189</u>	<u>2,975</u>
<b>Commitments and Contingent Liabilities</b>		
	<u>\$9,531</u>	<u>\$9,485</u>

See accompanying Notes to Financial Statements.

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

In the opinion of PP&L, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of September 30, 1998 and December 31, 1997, and the Consolidated Statement of Income and Consolidated Statement of Cash Flows for the periods ended September 30, 1998 and 1997. All nonutility operating transactions are included in "Other Income and (Deductions)" in PP&L's Consolidated Statement of Income.

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

	Three Months		Nine Months	
	Ended September 30, 1998	1997	Ended September 30, 1998	1997
<b>Operating Revenues</b>				
Electric operations.....	\$647	\$586	\$1,822	\$1,790
Wholesale energy and trading activities.....	483	192	987	459
Energy related businesses.....	1		2	1
<b>Total Operating Revenues</b>	<b>1,131</b>	<b>778</b>	<b>2,811</b>	<b>2,250</b>
<b>Operating Expenses</b>				
Operation				
Cost of electric fuel.....	147	133	378	349
Energy purchases.....	415	138	846	358
Other operating.....	170	125	431	363
Maintenance.....	39	46	130	130
Depreciation and amortization.....	67	94	256	279
Taxes, other than income.....	33	50	135	156
Energy related businesses.....	1	1	2	2
<b>Total Operating Expenses</b>	<b>872</b>	<b>587</b>	<b>2,178</b>	<b>1,637</b>
<b>Operating Income</b>	<b>259</b>	<b>191</b>	<b>633</b>	<b>613</b>
Other Income and (Deductions).....	11	(1)	32	7
<b>Income Before Interest and Income Taxes</b>	<b>270</b>	<b>190</b>	<b>665</b>	<b>620</b>
Interest Expense.....	49	51	147	157
<b>Income Before Income Taxes and Extraordinary Items</b>	<b>221</b>	<b>139</b>	<b>518</b>	<b>463</b>
Income Taxes.....	84	58	208	192
<b>Income Before Extraordinary Items</b>	<b>137</b>	<b>81</b>	<b>310</b>	<b>271</b>
Extraordinary Items (net of \$666 income taxes) (Note 4) .....			(948)	
<b>Net Income(Loss) Before Dividends on Preferred Stock</b>	<b>137</b>	<b>81</b>	<b>(638)</b>	<b>271</b>
Dividends on Preferred Stock.....	12	12	36	28
<b>Earnings Available to PP&amp;L Resources, Inc.</b>	<b>\$125</b>	<b>\$69</b>	<b>\$(674)</b>	<b>\$243</b>

See accompanying Notes to Financial Statements.

PP&L, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Millions of Dollars)

	Nine Months	
	Ended September 30,	
	1998	1997
Net Cash Provided by Operating Activities.....	\$483	\$576
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment expenditures.....	(202)	(200)
Proceeds from sales of nuclear fuel to trust.....	16	24
Purchases of available-for-sale securities .....	(14)	(61)
Sales and maturities of available-for-sale securities .....	15	78
Purchases and sales of other financial investments - net.....	4	76
Loan to parent.....		(375)
Other investing activities - net .....	2	(2)
Net cash used in investing activities.....	<u>(179)</u>	<u>(460)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt.....	200	10
Issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures .....		250
Retirement of long-term debt.....	(266)	(210)
Payments on capital lease obligations.....	(42)	(50)
Common and preferred dividends paid.....	(245)	(264)
Net increase in short-term debt.....	69	84
Other financing activities - net .....	(1)	(9)
Net cash used in financing activities.....	<u>(285)</u>	<u>(189)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents.....</b>	<b>19</b>	<b>(73)</b>
Cash and Cash Equivalents at Beginning of Period.....	15	95
Cash and Cash Equivalents at End of Period.....	<u>\$34</u>	<u>\$22</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$152	\$145
Income taxes.....	\$189	\$197

See accompanying Notes to Financial Statements.

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

	September 30, 1998 <u>(Unaudited)</u>	December 31, 1997 <u>(Audited)</u>
<b>ASSETS</b>		
<b>Property, Plant and Equipment</b>		
Electric utility plant in service - net (Notes 2 and 4)		
Transmission and distribution .....	\$2,175	\$2,160
Generation .....	1,613	4,022
General and intangible .....	216	232
	<u>4,004</u>	<u>6,414</u>
Construction work in progress - at cost .....	108	185
Nuclear fuel owned and leased - net .....	140	167
Electric utility plant - net .....	<u>4,252</u>	<u>6,766</u>
Other property net .....	50	54
	<u>4,302</u>	<u>5,820</u>
<b>Investments</b>		
Loan to parent .....	375	375
Nuclear plant decommissioning trust fund .....	183	163
Financial investments .....	51	52
Affiliated companies - at equity .....	17	17
Other .....	12	13
	<u>638</u>	<u>620</u>
<b>Current Assets</b>		
Cash and cash equivalents .....	34	15
Accounts receivable (less reserve: 1998, \$16; 1997, \$16)		
Customers .....	167	188
Other .....	159	64
Unbilled revenues		
Customers .....	102	90
Other .....	79	36
Fuel, materials and supplies .....	180	200
Prepayments .....	44	26
Other .....	61	51
	<u>826</u>	<u>670</u>
<b>Regulatory Assets and Other Noncurrent Assets (Note 4)</b>		
Recoverable transition costs .....	2,819	
Other .....	345	1,362
	<u>3,164</u>	<u>1,362</u>
	<u>\$8,930</u>	<u>\$9,472</u>

See accompanying Notes to Financial Statements.

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

	September 30, 1998 <u>(Unaudited)</u>	December 31, 1997 <u>(Audited)</u>
<b>LIABILITIES</b>		
<b>Capitalization</b>		
Common equity		
Common stock .....	\$1,476	\$1,476
Additional paid-in capital .....	64	64
Earnings reinvested (Note 4) .....	231	1,092
Capital stock expense and other .....	(20)	(20)
	<u>1,751</u>	<u>2,612</u>
Preferred stock		
With sinking fund requirements .....	295	295
Without sinking fund requirements .....	171	171
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures.....	250	250
Long-term debt .....	2,569	2,483
	<u>5,036</u>	<u>5,811</u>
<b>Current Liabilities</b>		
Short-term debt.....	114	45
Long-term debt due within one year .....		150
Capital lease obligations due within one year .....	57	58
Liability for above market NUG purchases due within one year (Note 4) .....	105	
Accounts payable .....	190	148
Taxes and interest accrued .....	108	99
Dividends payable .....	59	81
Other .....	108	107
	<u>741</u>	<u>688</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes and investment tax credits.....	1,566	2,221
Liability for above market NUG purchases (Note 4) .....	775	
Capital lease obligations .....	89	113
Other .....	723	639
	<u>3,153</u>	<u>2,973</u>
<b>Commitments and Contingent Liabilities .....</b>		
	<u>\$8,930</u>	<u>\$9,472</u>

See accompanying Notes to Financial Statements.

**PP&L Resources, Inc. and PP&L, Inc.**  
**Notes to Consolidated 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, 1997.

Certain amounts in the September 30, 1997 and December 31, 1997 financial statements have been reclassified to conform to the presentation in the September 30, 1998 financial statements. The most significant reclassifications have been made in the Consolidated Statement of Income. This Statement has been modified to better reflect the changing nature of the business from a regulated electric utility to a full-service provider of retail and wholesale energy and related products and services. The revenues and expenses of PP&L Global, PP&L Spectrum, Penn Fuel Gas, McClure, and H.T. Lyons are now reflected in "Operating Income." Previously, the results of non-regulated affiliates were included in "Other Income and (Deductions)" in PP&L Resources' Statement of Income. In addition, the revenues generated by PP&L's wholesale energy and trading activities are now separately disclosed. Finally, income taxes are no longer reflected as "Operating Expense," which was the traditional disclosure used by utilities. On the Consolidated Balance Sheet, "Electric utility plant in service - net" at December 31, 1997 has been reclassified to separately disclose generation plant, which is no longer subject to the regulatory accounting provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." See Notes 2 and 4 for further information.

**2. Summary of Significant Accounting Policies**

As a result of the outcome of PP&L's PUC restructuring proceeding (see Notes 3 and 4), as well as changes in accounting standards and business conditions, certain accounting policies of PP&L Resources and PP&L have been changed. Following are updates to the "Summary of Significant Accounting Policies" as detailed in PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1997.

**Management's Estimates**

These financial statements have been prepared using information which represents management's best estimates of existing conditions. Actual results could differ from these estimates.

Significant estimates were required in recording the effect of the PUC restructuring outcome. The impairment write-down of certain generation plant was dependent on projections of future cash flows and capacity factors. Cash flow projections and the resulting impact on the fair value determination of these generating facilities are subject to future re-

evaluation. In addition, the liabilities recorded for above-market purchases from NUGs were based on estimated generation by the NUG facilities and estimated future market prices for this generation. Again, these recorded amounts are subject to revision if the underlying estimates change.

### Regulation

Historically, PP&L accounted for its operations in accordance with the provisions of SFAS 71, which requires rate-regulated entities to reflect the effects of regulatory decisions in their financial statements. PP&L discontinued application of SFAS 71 for the generation portion of its business effective June 30, 1998.

### Utility Plant

Following are the classes of Electric Utility Plant in Service, with associated accumulated depreciation reserves, at September 30, 1998 and December 31, 1997:

	Transmission & Distribution	Generation	General & Intangible	Electric Utility Plant In Service
September 30, 1998:				
Original Cost	\$3,374	\$6,342	\$375	\$10,091
Accumulated Depreciation Reserve	<u>(1,199)</u>	<u>(4,729)</u>	<u>(159)</u>	<u>(6,087)</u>
	<u>\$2,175</u>	<u>\$1,613</u>	<u>\$216</u>	<u>\$4,004</u>
December 31, 1997:				
Original Cost	\$3,309	\$6,306	\$369	\$9,984
Accumulated Depreciation Reserve	<u>(1,149)</u>	<u>(2,284)</u>	<u>(137)</u>	<u>(3,570)</u>
	<u>\$2,160</u>	<u>\$4,022</u>	<u>\$232</u>	<u>\$6,414</u>

Generation plant is reflected at the lower of cost or market value at September 30, 1998. As noted in the "Regulation" section of this note, PP&L discontinued application of SFAS 71 for the generation portion of its business effective June 30, 1998. In accordance with SFAS 101, "Regulated Enterprises-Accounting for the Discontinuation of Application of FASB Statement No. 71," impairment tests were performed on the individual generating facilities. These impairment tests used the provisions of SFAS 121, "Accounting For the Impairment of Long-Lived Assets and For Long-Lived Assets to Be Disposed Of." As a result, generation plant assets were written down by \$2.357 billion in June 1998.

The other classes of Electric Utility Plant in Service continue to be subject to SFAS 71 and are carried at historical cost.

### Capitalized Interest

Effective June 30, 1998, PP&L stopped capitalizing AFUDC on generation-related construction projects, since these assets are no longer subject to the provisions of SFAS 71. Instead, interest is being capitalized on generation-related projects in accordance with SFAS 34, "Capitalizing Interest Costs."

## Premium on Reacquired Long-Term Debt

In accordance with SFAS 71, PP&L in the past deferred the premiums and expenses to redeem long-term debt and amortized these costs over the life of the new debt. If no new debt was issued to refinance the retired debt, these costs were amortized over the remaining life of the retired debt. Effective June 30, 1998, losses on reacquired debt attributable to the generation portion of PP&L's business are being recorded in accordance with SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt."

## Comprehensive Income

During 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income." This statement required disclosure of "comprehensive income," defined as changes in equity other than from transactions with shareowners. Comprehensive income consists of net income, as well as holding gains and losses of certain assets (such as available-for-sale securities) and foreign currency translation adjustments. The comprehensive income of PP&L Resources and PP&L is not materially different from net income for the three and nine months ended September 30, 1998 or the corresponding periods in 1997.

## Stock Repurchase Program

In September 1998, PP&L Resources purchased approximately 17 million shares of its common stock in a self-tender offer (refer to Note 6.) These treasury shares are reflected on the September 30, 1998 Consolidated Balance Sheet of PP&L Resources as an offset to common equity. The cost of the treasury shares was \$419 million (\$24.50 per share plus transaction costs.) Management has no definitive plans for the future use of these shares. These treasury shares are not considered outstanding in calculating earnings per share on the Consolidated Statement of Income of PP&L Resources for the three and nine months ended September 30, 1998.

## 3. PUC Restructuring Proceeding

Reference is made to PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1997, and the Quarterly Reports on Form 10-Q for the quarter ended June 30, 1998, regarding PP&L's restructuring proceeding before the PUC pursuant to the Customer Choice Act.

In August 1998, the PUC entered a Final Order approving a "Joint Petition for Full Settlement of PP&L, Inc.'s Restructuring Plan and Related Court Proceedings" (Joint Settlement Petition). The following are the major elements of this settlement:

1. PP&L is permitted to recover \$2.97 billion (on a net present value basis) in transition costs over 11 years -- i.e., from January 1, 1999 through December 31, 2009. PP&L is permitted a return of 10.86% on the unamortized balance of these transition costs.

2. PP&L will reduce rates to all retail customers by 4% effective January 1, 1999 through December 31, 1999.

3. One-third of PP&L customers will be able to choose their electric supplier on January 1, 1999, one-third on January 2, 1999, and the remainder on January 2, 2000.

4. Beginning on January 1, 1999, PP&L will unbundle its retail electric rates to reflect separate prices for the transmission and distribution charges, the CTC (and, if applicable, the ITC), and a "shopping credit" for customers choosing an alternate electric supplier. These shopping credits vary among customer classes and will increase over the transition period to reflect decreases in the CTC. The settlement provided for the following unbundled rates over the transition period:

**SCHEDULE OF SYSTEM AVERAGE RATES  
CENTS/KWH**

<u>Effective Date</u>	<u>Transmission &amp; Distribution</u>	<u>CTC(a)</u>	<u>Shopping Credit</u>	<u>Generation Rate Cap(b)</u>	<u>Total Rate(c)</u>
Jan. 1, 1999	1.74	1.57	3.81	5.38	7.12
Jan. 1, 2000	1.74	1.55	4.13	5.68	7.42
Jan. 1, 2001	1.74	1.52	4.16	5.68	7.42
Jan. 1, 2002	1.74	1.45	4.23	5.68	7.42
Jan. 1, 2003	1.74	1.41	4.27	5.68	7.42
Jan. 1, 2004	1.74	1.35	4.33	5.68	7.42
Jan. 1, 2005	(d)	1.27	4.41	5.68	(d)
Jan. 1, 2006	(d)	1.27	4.78	6.05	(d)
Jan. 1, 2007	(d)	1.21	4.84	6.05	(d)
Jan. 1, 2008	(d)	1.14	4.91	6.05	(d)
Jan. 1, 2009(e)	(d)	1.03	5.02	6.05	(d)

(a) Average CTC rates are fixed, subject to reconciliation for actual CTC collection. Reconciliation of the CTC will be reflected in a rider, which will be a separate credit or a separate charge to the CTC (up to the Generation Rate Cap which is the sum of the CTC and the Shopping Credit contained in the tariff).

(b) The Generation Rate Cap equals the sum of the CTC and Shopping Credit. The generation portion of bills for customers who continue to be supplied by PP&L as the supplier of last resort will not, on average, exceed the figures in this column.

(c) The bundled rate equals the sum of Transmission & Distribution plus Generation Rate Cap. Customers who continue to be supplied by PP&L as the provider of last resort will, on average, pay the total rate shown in the last column. The 1999 rate represents a 4% reduction from the existing rate cap of 7.42 cents/kWh.

(d) The cap on PP&L's transmission and distribution rates under the Customer Choice Act is extended from June 30, 2001 through 2004.

(e) Effective until December 31, 2009.

In addition, the settlement resulted in the following schedule for amortization of the transition costs over the transition period:

**ANNUAL STRANDED COST  
AMORTIZATION AND RETURN (a)**

<u>Year</u>	<u>Annual Sales MWh</u>	<u>CTC Cents/kWh</u>	<u>Revenue Excluding Gross Receipts Tax</u>		
			<u>Total (\$000)</u>	<u>Return (\$000)</u>	<u>Amortization (\$000)</u>
1999	33,108,701	1.57	\$497,938	\$310,396	\$187,542
2000	33,605,332	1.55	498,027	290,796	207,231
2001	34,109,412	1.52	496,671	269,138	227,532
2002	34,621,053	1.45	481,095	245,359	235,736
2003	35,140,369	1.41	473,995	220,722	253,273
2004	35,667,474	1.35	461,682	194,252	267,430
2005	36,202,486	1.27	438,637	166,303	272,334
2006	36,745,524	1.27	447,326	137,841	309,485
2007	37,296,707	1.21	433,106	105,497	327,610
2008	37,856,157	1.14	411,419	71,258	340,161
2009 (b)	38,424,000	1.03	377,373	35,708	341,665

(a) Subject to reconciliation for actual CTC collections.

(b) Through December 31, 2009.

5. The cap on the generation component of rates is extended from December 31, 2005 until December 31, 2009. The cap on the transmission and distribution component of rates is extended from June 30, 2001 until December 31, 2004.

6. PP&L will recover its nuclear plant decommissioning costs through the CTC. PP&L may seek an exception to the rate cap from customers for increases in these decommissioning costs, but agrees not to recover more than 96% of such increased amount.

7. PP&L is authorized to securitize up to \$2.85 billion in transition and related costs, and a PUC Qualified Rate Order authorizing this securitization is included in the settlement. The settlement requires 75% of the savings from securitization to be passed back to customers, while 25% would be retained by PP&L. The costs of issuing the transition bonds and refinancing outstanding debt and equity will be reflected in the ITC charged to all customers. As with the CTC, the ITC must terminate by the end of the transition period; also, the ITC will offset the CTC on customer bills.

8. On January 1, 2002, 20% of all PP&L's residential customers will be assigned to a provider of last resort other than PP&L or an affiliate of PP&L. These customers will be selected at random, and the supplier will be selected on the basis of a PUC-approved bidding process.

9. Subject to a review by the PUC Bureau of Audits, effective on January 1, 1999, alternate electric generation suppliers can provide advanced metering and billing service to PP&L's commercial and industrial customers. Effective on January 1, 1999, such alternate suppliers can provide certain advanced metering service to PP&L's residential customers.

Effective on January 1, 2000, PP&L's residential customers can choose their billing service as well from such alternate suppliers.

10. PP&L will transfer its retail marketing function to a separate, affiliated corporation by September 15, 1998.

11. PP&L is permitted, but not required, to transfer ownership and operation of its generating facilities to a separate corporate entity at book value; all applicable PUC approvals for such transfer are granted in the settlement.

12. PP&L will spend approximately \$16 million annually on assistance and energy conservation for low-income customers.

Pursuant to the Joint Settlement Petition, PP&L transferred its retail marketing function to a new subsidiary, PP&L EnergyPlus, on September 14, 1998. In September 1998, the PUC approved PP&L EnergyPlus's application to act as a Pennsylvania electric generation supplier (EGS). This license permits PP&L EnergyPlus to offer retail electric supply to participating customers in PP&L's service territory and in the service territories of other Pennsylvania utilities. In 1999, PP&L EnergyPlus will offer such supply to industrial and commercial customers throughout the state. At this time, PP&L EnergyPlus has determined not to pursue residential customers in the competitive marketplace based on economic considerations.

In September 1998, the PUC issued an Order which, in part, directed Pennsylvania utilities which are members of PJM, including PP&L, to offer their installed capacity at a price of \$19.72 per kilowatt-year (Capacity Order). PP&L brought an action in the District Court seeking an injunction against the Capacity Order on the basis, among other things, that it attempted to regulate matters within exclusive federal jurisdiction. In October 1998, PP&L entered into a settlement agreement with the PUC under which (i) PP&L will offer to sell capacity credits to EGS's licensed by the PUC at the equivalent of \$19.72 per kilowatt-year in 1999 for service to PP&L residential customers; (ii) all PP&L residential customers will be permitted to select an EGS in January 1999; (iii) the PUC will withdraw the Capacity Order as to PP&L; and (iv) PP&L will withdraw its federal court action against the Capacity Order.

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

PP&L prepares its financial statements for its regulated operations in accordance with SFAS 71, which requires rate-regulated companies to reflect the effects of regulatory decisions in their financial statements. PP&L has deferred certain costs pursuant to rate actions of the PUC and FERC and is recovering, or expects to recover, such costs in electric rates charged to customers.

The FASB's EITF has addressed the appropriateness of the continued application of SFAS 71 by entities in states that have enacted restructuring legislation similar to Pennsylvania's Customer Choice Act. The EITF issued its statement No. 97-4, "Deregulation of the Pricing of Electricity - Issues Related to the Application of FASB Statements 71 and 101," which concluded that an entity should cease to apply SFAS 71 when a deregulation plan is in place and its terms are known. For PP&L, with respect to the generation portion of its business, this occurred effective June 30, 1998 based upon the outcome of the PUC restructuring proceeding.

PP&L has adopted SFAS 101 for the generation side of its business. SFAS 101 requires a determination of impairment of plant assets under SFAS 121, and the elimination of all effects of rate regulation that have been recognized as assets and liabilities under SFAS 71.

PP&L performed impairment tests of its electric generation assets on a plant specific basis and determined that \$2.388 billion of its generation plant was impaired as of June 30, 1998. Impaired plant is the excess of the net plant investment at June 30, 1998 over the present value of the net cash flows during the remaining lives of the plants. Annual net cash flows were determined by comparing estimated generation sustenance costs to estimated regulated revenues for the remainder of 1998, market revenues for 1999 and beyond, and revenues from bulk power contracts. The net cash flows were then discounted to present value.

In addition to the impaired generation plant, PP&L estimated that there were other stranded costs totaling \$1.989 billion at June 30, 1998. This primarily included generation-related regulatory assets and liabilities and an estimated liability for above-market purchases under NUG contracts. The total estimated impairment to these assets was \$4.377 billion. The PUC's Final Order in the restructuring proceeding, entered on August 27, 1998, permitted the recovery of \$2.819 billion through the CTC on a present value basis, excluding amounts for nuclear decommissioning and consumer education, resulting in a net under-recovery of \$1.558 billion. PP&L recorded an extraordinary charge for this under-recovery in June 1998.

Under FERC Order 888, 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. Subject to certain conditions, FERC-approved settlement agreements executed with 15 of these customers provide for continued power supply by PP&L through January 2004. As a result of these settlements, PP&L, in the second quarter of 1998, recorded an extraordinary charge in the amount of \$56 million.

The extraordinary items related to the PUC restructuring proceeding and the FERC settlement are reflected on the Statement of Income, net of income taxes.

Details of amounts written-off in June 1998 are as follows (millions of dollars):

Impaired generation-related assets	\$2,388
Above-market NUG contracts	854
Generation-related regulatory assets and other	<u>1,135</u>
Total	4,377
Recoverable transition costs (a)	<u>(2,819)</u>
Extraordinary item pre-tax - PUC	1,558
- FERC	<u>56</u>
	1,614
Tax effects	<u>(666)</u>
Extraordinary items	<u>\$ 948</u>

(a) Excluding recoveries for nuclear decommissioning and consumer education expenditures.

PP&L believes that the electric transmission and distribution operations continue to meet the requirements of SFAS 71 and that regulatory assets associated with these operations will continue to be recovered through rates from customers. At September 30, 1998, \$335 million of regulatory assets, other than the recoverable transition costs, remain on the books. The majority of these regulatory assets will continue to be recovered through regulated transmission and distribution rates over periods ranging from one to 31 years.

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

PP&L provided Atlantic with 125,000 kilowatts of capacity (summer rating) and related energy from its wholly owned coal-fired stations. Sales to Atlantic under that agreement expired in March 1998. PP&L will provide JCP&L with 378,000 kilowatts of capacity and related energy from all of its generating units during 1998. This amount will decline to 189,000 kilowatts in 1999. The agreement with JCP&L will terminate on December 31, 1999. PP&L expects to be able to resell the returning capacity and energy through its Energy Marketing Center.

Under a separate agreement, PP&L is providing additional capacity and energy to JCP&L. This capacity and energy increased from 150,000 kilowatts to 200,000 kilowatts in June 1998, and will increase to 300,000 kilowatts in June 1999 through the end of the agreement in May 2004. Prices for this capacity and energy are market-based.

#### **6. Credit Arrangements and Financing Activity**

From January through October 1998, PP&L Resources issued \$55 million of common stock through the DRIP.

In March 1998, the 364-day revolving credit agreement for PP&L and PP&L Capital Funding was increased from \$150 million to \$350 million. This increase, when added to the \$300 million five-year revolving credit agreement of PP&L and PP&L Capital Funding, brings to \$650 million the total amount of revolving credit available to PP&L and PP&L Capital Funding under these joint agreements. Additionally, in July 1998, PP&L Capital Funding entered into five separate \$80 million, 364-day credit facilities with five banks. As of September 30, 1998, no borrowings were outstanding under any revolving credit agreements.

In March 1998, PP&L Capital Funding sold \$60 million of medium-term notes having a five-year term. The proceeds from this sale were used to repay \$60 million of short-term borrowings which had provided interim financing for investments made by PP&L Global.

PP&L Capital Funding established a commercial paper program in March 1998. As with all PP&L Capital Funding debt, this commercial paper is guaranteed by PP&L Resources. As of September 30, 1998, PP&L Capital Funding had \$656 million of commercial paper outstanding. Proceeds were primarily used to fund PP&L Resources' Tender Offer and provide interim financing for PP&L Global's investment activities.

In April 1998, PP&L retired \$150 million principal amount of First Mortgage Bonds, 5-1/2% series that matured on that date.

In May 1998, PP&L issued \$200 million First Mortgage Bonds, 6-1/8% Reset Put Securities Series due 2006. In connection with this issuance, PP&L assigned to a third party the option to call the bonds from the holders on May 1, 2001. These bonds will mature on May 1, 2006, but will be required to be surrendered by the existing holders on May 1, 2001 either through the exercise of the call option by the callholder or, if such option is not exercised, through the automatic exercise of a mandatory put by the trustee on behalf of the bondholders. If the call option is exercised, the bonds will be remarketed and the interest rate will be reset for the remainder of their term to the maturity date. If the call option is not exercised, the mandatory put will be exercised and PP&L will be required to repurchase the bonds at 100% of their principal amount on May 1, 2001. Proceeds from the sale of the bonds were used by PP&L to retire \$116 million of its unsecured term loans and to reduce its outstanding commercial paper balances.

From August through October 1998, PP&L Capital Funding issued a total of \$235 million of medium-term notes with maturities varying from two to seven years. The proceeds of these notes were generally used to reduce commercial paper balances. As of October 31, 1998, \$397 million of medium-term notes were outstanding.

In August 1998, PP&L Resources announced a Tender Offer to purchase up to 17 million shares of its common stock, or approximately 10% of the outstanding shares at that time, from existing shareowners. The price paid for the shares was not to be in excess of \$27 nor less than \$24.50 per share. PP&L Resources made this Tender Offer through the use of a procedure commonly referred to as a "Dutch Auction." This procedure allowed the shareowners to select a specific price within the price range at which they were willing to sell their shares and submit (Tender) these shares to PP&L Resources for possible sale at their designated price. On September 11, 1998, PP&L Resources evaluated all Tenders received up until that date and determined that \$24.50 was the lowest price within the price range that would enable PP&L Resources to purchase approximately 17 million shares (the Purchase Price). This Purchase Price was then paid for all shares purchased pursuant to this Tender Offer.

Effective with the dividend payable October 1, 1998 to owners of record on September 10, 1998, PP&L Resources' quarterly Common Stock dividend was reduced to \$.25 per share (\$1.00 annualized rate) from the previous level of \$.4175 per share (\$1.67 annualized rate).

Declaration of dividends on common stock are made at the discretion of the Boards of Directors of PP&L Resources and PP&L. PP&L Resources and PP&L will continue to consider the appropriateness of these dividend levels, taking into account the respective financial positions, results of operations, conditions in the industry and other factors which the respective Boards deem relevant.

## 7. Financial Instruments

The fair market value of PP&L Resources' long-term debt, excluding changes from issuances and redemptions, increased by \$83 million from December 31, 1997 to September 30, 1998. The increase is due to much lower interest rates in 1998 when compared to 1997.

## 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 1997 Form 10-K, other than the environmental remediation contingencies of Penn Fuel Gas, which was acquired in August 1998.

For discussion pertaining to PP&L Resources' and PP&L's credit arrangements and financing activities, see Note 6.

### 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. At October 1, 1998, the maximum amount PP&L could be assessed under these programs was about \$25 million.

PP&L's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about \$9.9 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 \$168 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 1995 Phase I acid rain provisions by installing continuous emission monitors on all units, burning lower sulfur coal and installing low NO<sub>x</sub> burners on most units. To comply with the year 2000 Phase II 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 1995 ambient ozone requirements of the Clean Air Act by reducing NO<sub>x</sub> emissions by nearly 50% through the use of low NO<sub>x</sub> burners. Further seasonal (i.e., 5 month) NO<sub>x</sub> reductions to 55% and 75% of 1990 levels for 1999 and 2003, respectively, are specified under the Northeast Ozone Transport Region's Memorandum of Understanding. The DEP has finalized regulations which require PP&L to reduce its ozone seasonal NO<sub>x</sub> by 57% beginning in 1999. PP&L plans to comply with this reduction with operational initiatives that rely, to a large extent, on the existing low NO<sub>x</sub> burners.

The EPA has finalized new national standards for ambient levels of ground-level ozone and fine particulates. Based in part on the new ozone standard, the EPA has finalized NO<sub>x</sub> emission limits for 22 states, including Pennsylvania, which in effect require approximately an 80% reduction from the 1990 level in Pennsylvania by May 2003; the state is required by September 1999 to develop plans for implementing this reduction. Pursuant to Section 126 of the Clean Air Act, several Northeast states have petitioned the EPA to find that major sources of NO<sub>x</sub> emissions, including PP&L's power plants, are significantly contributing to non-attainment in those states. The EPA has proposed to find such contribution and require emissions reductions at those sources if the states in which those sources are located fail to develop plans by September 1999 to implement the proposed 2003 limits. PP&L estimates that compliance with these emissions reduction requirements could require installation of NO<sub>x</sub> emissions removal systems on PP&L's three largest coal-fired units, at a capital cost of approximately \$35 million per unit. The new particulates standard may require further reductions in SO<sub>2</sub> and may expand the planned seasonal NO<sub>x</sub> reductions to year round in the 2010-2012 timeframe.

Under the Clean Air Act, the EPA has been studying the health effects of hazardous air emissions from power plants and other sources, in order to determine whether those emissions should be regulated. Recently, the EPA released a technical report of its findings to date. The EPA concluded that mercury is the power plant air toxic of greatest concern, but that more evaluation is needed before it can determine whether regulation of air toxics from fossil fuel plants is necessary. In addition, the EPA has announced a new enforcement initiative against older coal-fired plants. Several of PP&L's coal-fired plants could fall into this category. These EPA initiatives could result in compliance costs for PP&L in amounts which are not now determinable but which could be material.

Expenditures to meet the 2000 acid rain and 1999 NO<sub>x</sub> reduction requirements are included in the table of projected construction expenditures in the section entitled "Financial Condition - Capital Expenditure Requirements" in the Review of the Financial Condition and Results of Operations in the 1997 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 2002 in amounts which are not now determinable but which could be material.

#### Water and Residual Waste

PP&L has installed dry fly ash handling systems at most of its power stations, which reduces waste water discharge. In other cases, PP&L has modified the existing facilities to allow continued operation of the ash basins under a DEP permit. Any groundwater contamination caused by the basins must also be addressed.

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 related to oil leakage is substantially completed at two generating stations. At this time, the only other remedial work being planned is to abate a localized groundwater degradation problem associated with a waste disposal impoundment at the Montour plant.

The final NPDES permit for the Montour plant contains stringent limits for iron and chlorine discharges. Depending on the results of a toxic reduction study, additional water treatment facilities or operational changes may be needed at this plant.

Capital expenditures through the year 2002 to correct groundwater degradation at fossil-fueled generating stations, and to address waste water control at PP&L facilities are included in the table of construction expenditures in the section entitled "Financial Condition - Capital Expenditure Requirements" in the Review of the Financial Condition and Results of Operations in the 1997 Form 10-K. In this regard, PP&L currently estimates that \$5.5 million of additional capital expenditures may be required in the next four years to close some of the ash basins and address other ash basin issues at various generating plants. Additional capital expenditures could be required beyond the year 2002 in amounts which are not now determinable but which could be material. Actions taken to correct groundwater degradation, to comply with the DEP's regulations and to address waste water control are also expected to result in increased operating costs in amounts which are not now determinable but which could be material.

#### Superfund and Other Remediation

In 1995, PP&L entered into 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. As of September 30, 1998, PP&L has completed work on slightly more than half of the sites included in the consent order.

In 1996, Penn Fuel Gas entered into a similar consent order with the DEP to address a number of its sites where Penn Fuel Gas may be liable for remediation of contamination. The sites primarily include former coal gas manufacturing facilities. Prior to PP&L Resources acquiring Penn Fuel Gas on August 21, 1998, Penn Fuel Gas had obtained a "no further action" determination from the DEP for two of the 20 sites covered by the order.

At September 30, 1998, PP&L had accrued approximately \$7 million and Penn Fuel Gas had accrued \$19 million, representing the respective amounts PP&L and Penn Fuel Gas can reasonably estimate they will have to spend to remediate sites involving the removal of hazardous or toxic substances, including those covered by each company's consent orders 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 for PP&L or Penn Fuel Gas, which neither company can 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 or Penn Fuel Gas, held responsible for cleanup of such sites. Such natural resource damage claims against PP&L or Penn Fuel Gas could result in material additional liabilities.

## General

Due to the environmental issues discussed above or other environmental matters, PP&L may be required to modify, replace or cease operating certain facilities to comply with statutes, regulations and actions by regulatory bodies or courts. In this regard, PP&L also may incur capital expenditures, operating expenses and other costs in amounts which are not now determinable but which could be material.

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

In the second quarter of 1998, PP&L guaranteed a portion of a subsidiary's borrowings. As of September 30, 1998, \$12 million of such borrowings were guaranteed by PP&L.

PP&L Resources has guaranteed up to \$10 million for energy purchases to PJM to certify PP&L EnergyPlus's creditworthiness.

### **Source of Labor Supply**

On June 29, 1998, IBEW members ratified a new labor agreement with PP&L. This new agreement expires on May 12, 2002. Among other things, the agreement provides for wage increases for IBEW members of 3.25% in 1998 (effective as of May 18) and 3% in each of the three remaining years. In addition, IBEW members received a lump-sum ratification bonus equal to 2% of base pay, or approximately \$4 million.

### **9. New Accounting Standards**

In February 1998, the FASB issued SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which is effective for fiscal years beginning after December 15, 1997. The adoption of this statement does not have a material impact on the financial statements of PP&L Resources or PP&L.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. PP&L Resources and PP&L intend to adopt this statement as of January 1, 2000. The impact of the adoption of this statement on the net income of PP&L Resources and PP&L is not yet determinable but may be material. The EITF is currently evaluating Issue 98-10 "Accounting for Energy Trading and Risk Management Activities" and is expected to reach a consensus prior to year-end.

### **10. Acquisitions**

In 1998, PP&L Resources acquired H.T. Lyons and McClure, heating, ventilating and air-conditioning firms, in cash transactions for amounts that were not material.

In August 1998, PP&L Resources acquired Penn Fuel Gas. The transaction was treated as a purchase for accounting and financial reporting purposes. PP&L Resources issued approximately 5.6 million shares of common stock with a value of approximately \$135 million, to acquire all Penn Fuel Gas common and preferred stock. Under the terms of the merger agreement, shareowners of Penn Fuel Gas received 6.968 common shares of PP&L Resources for each common share of Penn Fuel Gas that they owned and 0.682 common shares of PP&L Resources for each preferred share of Penn Fuel Gas that they owned.

#### 11. Subsequent Event

In November 1998, PP&L Global signed definitive agreements with Montana Power Company, Portland General Electric Company and Puget Sound Energy, Inc. to acquire 13 Montana power plants, with 2,614 MW of generating capacity, for a purchase price of \$1.586 billion. The acquisition is subject to several conditions, including the receipt of required state and federal regulatory approvals and third-party consents. PP&L Global expects to complete the acquisition by the end of 1999. About 65% of the acquisition cost is expected to be financed on a project credit-basis, non-recourse to PP&L Global and PP&L Resources. The balance of the acquisition cost is expected to be financed through a combination of debt and equity issued by PP&L Resources, or with funds that PP&L Resources derives from PP&L's securitization of transition costs. The agreements also provide for PP&L Global's acquisition of related transmission assets for \$182 million, subject to certain conditions, including federal regulatory approval.

PP&L Resources, Inc. and PP&L, Inc.

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

The financial condition and results of operations of PP&L are currently the principal factors affecting the financial condition and results of operations of PP&L Resources. Unless specifically noted, fluctuations are primarily due to activities of PP&L. 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 PP&L, Inc." in PP&L Resources' and PP&L's Annual Report to the SEC on Form 10-K for the year ended December 31, 1997.

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

**Forward-looking Information**

Certain statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts, are "forward-looking statements" within the meaning of the federal securities laws. Although PP&L Resources and PP&L believe that the expectations reflected in these statements are reasonable, there can be no assurance that these expectations will prove to have been correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: state and federal regulatory developments; new state or federal legislation; national or regional economic conditions; market demand and prices for energy and capacity; weather variations affecting customer energy 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; operating performance of plants and other facilities; environmental conditions and requirements; system conditions (including actual results in achieving Year 2000 compliance by PP&L Resources, its subsidiaries and others) and operating costs; performance of new ventures; political, regulatory or economic conditions in foreign countries where PP&L Global makes investments; foreign 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.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PP&L Resources nor PP&L to predict all of such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and neither PP&L Resources nor PP&L undertakes any obligation to update the information contained in such statement to reflect subsequent developments or information.

## Results of Operations

The following discussion explains material changes in principal items on the Consolidated Statement of Income comparing the three months and nine months ended September 30, 1998, to the comparable periods ended September 30, 1997.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any indication of the results of future operations. Future results of operations will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods are not necessarily indicative of results or trends for the year.

### Earnings

	<u>Comparison of Earnings - September 30</u>			
	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Earnings per share - excluding weather variances, one-time adjustments and other impacts of restructuring	\$0.54	\$0.48	\$1.60	\$1.63
Weather variances		(0.02)	(0.13)	(0.06)
One-time adjustments:				
PUC restructuring charge (see Note 4)			(5.49)	
FERC municipalities settlement (see Note 4)			(0.19)	
Penn Fuel Gas acquisition costs (see "Other Income and (Deductions)")	0.03	(0.03)	0.03	(0.03)
Windfall profits tax		(0.24)		(0.24)
U.K. tax rate reduction	0.06	0.06	0.06	0.06
Other impacts of restructuring	<u>0.18</u>	<u>          </u>	<u>0.18</u>	<u>          </u>
Earnings(loss) per share as reported	<u>\$0.81</u>	<u>\$0.25</u>	<u>\$(3.94)</u>	<u>\$1.36</u>

The reported earnings of PP&L Resources and PP&L were impacted by milder-than-normal weather and several one-time adjustments.

In the third quarter of 1998, PP&L Global recorded a \$9.5 million, or 6 cents per share, one-time benefit from a reduction in the U.K. corporate income tax rate from 31% to 30%. This was related to PP&L Global's investment in SWEB. PP&L Global recorded a windfall profits tax in the third quarter of 1997, which was partially offset by the benefits of another U.K. tax cut. These one-time adjustments were discussed in PP&L Resources' Annual Report to the SEC on Form 10-K for the year ended December 31, 1997. The other one-time adjustments are discussed in the Financial Notes as referenced.

The PUC restructuring adjustments provided a favorable impact of about \$.18 per share on the third quarter earnings of 1998. This reflects lower depreciation on generation assets, reduced accruals for taxes other than income and a regulatory adjustment to the accounting for unbilled revenues. These favorable earnings impacts were partially offset by the expensing of computer software costs.

Excluding the effects of weather, one-time adjustments and the other impacts of restructuring, earnings were \$.06 per share higher for the three months ended September 30, 1998 when compared with the same period in 1997. The adjusted earnings for the nine months ended September 30, 1998 were \$.03 lower than the comparable period in 1997. These earnings changes were primarily the net effect of the following:

September 30, 1998 vs. September 30, 1997  
Three Months Ended    Nine Months Ended  
(Earnings per share)

o Higher revenues from electric sales to retail customers, reflecting higher weather-normalized sales in all customer classes, particularly in the third quarter;	\$0.09	\$0.11
o Higher revenues from other electric operations and the change in regulatory treatment of energy costs;	0.02	0.09
o Net reduction in earnings due to the phase-down of the contract with JCP&L and the end of the contract with Atlantic;		(0.05)
o Higher operating expenses, primarily due to costs associated with meeting retail competition requirements, higher transmission costs, and expenses related to computer information systems. The increase in operating expenses for the nine-month ended period is also reflects write-offs of excess or obsolete inventory, and additional provisions for uncollectible accounts; and	(0.05)	(0.20)
o Other	<u>          </u>	<u>0.02</u>
Earnings Change	<u>\$ 0.06</u>	<u>\$(0.03)</u>

Refer to the Report to the SEC on Form 8-K filed October 19, 1998 for information regarding PP&L Resources' projected earnings for 1998 through 2000.

#### PUC Restructuring Proceeding

Refer to Financial Notes 3 and 4 for information regarding the PUC restructuring proceeding.

#### Electric Energy Sales

Electricity sales for the three months and nine months periods ending September 30, 1997 and 1998 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1998	1997	1998	1997
	(Millions of kWh)			
Electricity delivered to retail customers by PP&L, Inc. (a)	8,429	7,806	24,204	24,113
Less: Electricity supplied during pilot by others	<u>520</u>	<u>-</u>	<u>1,494</u>	<u>-</u>
Electricity supplied to retail customers by PP&L, Inc.	7,909	7,806	22,710	24,113
Electricity supplied to retail customers by PP&L EnergyPlus during the pilot	<u>469</u>	<u>-</u>	<u>1,139</u>	<u>-</u>
Total electricity supplied to retail customers (a)	<u>8,378</u>	<u>7,806</u>	<u>23,849</u>	<u>24,113</u>
Wholesale Energy Sales	12,258	6,516	29,302	14,752

(a) kWh for customers residing in PP&L's service territory who are receiving energy from PP&L will be reflected in both of these categories.

Under Pennsylvania's competition pilot program, customers are allowed to choose the supplier of their electricity. Pilot customers will continue to have the utility that serves their territory deliver electricity from the supplier of choice. "Electricity delivered to retail customers by PP&L, Inc." is the amount of electricity delivered by PP&L to customers in its service territory. "Electricity supplied to retail customers by PP&L, Inc." represents the amount of electricity supplied to PP&L service territory customers who are not participating in the pilot program. "Electricity supplied to retail customers by PP&L EnergyPlus" is electricity supplied to customers within and outside PP&L service territory who are participating in the pilot program and have chosen PP&L as their energy supplier.

Electricity delivered to retail customers increased for both the three and nine months ended September 30, 1998 from the comparable periods in 1997. For the three months ended September 30, 1998, electricity delivered to retail customers was up 8% over the prior year. Weather-normalized sales for this same period were 6.9% higher than 1997. This increase is attributable to strong third quarter sales to all customer classes.

For the nine months ended September 30, 1998, electricity delivered to retail customers increased 0.4%. If normal weather had been experienced in both periods, year-to-date electricity delivered to retail customers would have been 2.0% higher than 1997.

Electricity supplied to retail customers increased 7.3% for the three months ended September 30, 1998. This increase reflects the stronger sales experienced in the third quarter but is partially offset by the impact of

the competition pilot program. For the nine months ended September 30, 1998, electricity supplied to retail customers decreased 1.1% from the prior year. This decrease was due to the mild weather experienced during the first half of the year and the impact of the competition pilot program.

The increase in wholesale energy sales, which includes sales to other utilities and energy marketers through contracts, spot market transactions or power pool arrangements, was primarily the result of increased activity of the Energy Marketing Center.

### Electricity Trading Activities

PP&L, through its Energy Marketing Center, purchases and sells electric capacity and energy at the wholesale level under its FERC market-based tariff. PP&L has entered into agreements to sell firm capacity or energy under its market-based tariff to certain entities located inside and outside of the PJM power pool. If PP&L were unable to meet its obligations under these agreements to sell firm capacity and energy, under certain circumstances it would be required to pay damages equal to the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be material. Events that could affect PP&L's ability to meet its firm capacity or energy obligations or cause significant increases in the market price of replacement capacity and energy include the occurrence of extreme weather conditions, unplanned generating plant outages, transmission disruptions, non-performance by counterparties with which it has power contracts and other factors affecting the wholesale energy markets. Although PP&L attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty non-performance in the future.

PP&L's efforts to mitigate risks associated with open contract positions include maintaining generation capacity to deliver electricity to satisfy its net firm sales contracts and purchasing firm transmission service. In addition, the Energy Marketing Center adheres to established credit policies in evaluating counterparty credit risk. PP&L has not experienced any material non-performance by counterparties to date.

The EITF is evaluating Issue 98-10, "Accounting for Energy Trading and Risk Management Activities," which addresses the increased use, by utility and other energy companies, of contracts for the purchase and sale of energy, not necessarily as hedges or inventory management, but to generate profits. The EITF agreed that much of this activity appeared to be trading and should be accounted for as such. The EITF also agreed that settlement accounting would not be appropriate for these activities. The EITF commissioned a working group to further study this issue and develop an operational definition of "trading." The working group's recommendations included a group of indicators designed to assist in determining what constitutes "trading activities." The indicators could be applied not only to separate legal entities or subsidiaries but also to divisions or pieces thereof. The EITF reached tentative consensus that mark-to-market (fair value) accounting should apply to activities meeting the trading definition and that any final consensus that may occur should be applied for fiscal years beginning after December 15, 1998. The EITF agreed that this consensus would not change the accounting for those contracts that qualify for hedge accounting and are designated as hedges. A final consensus is expected at the November meeting. The consensus was labeled as "tentative" in order to allow for additional input from the industry. PP&L enters into

contracts for the sale and purchase of energy commodities and practices accrual accounting. Should any of these sales and purchases ultimately meet the EITF's definition of trading activities, it appears likely that a change in those entities' accounting practices will be required. The ultimate impact of this change in accounting cannot immediately be determined, but such impact may be significant.

**Operating Revenues: Electric Operations**

The increase (decrease) in revenues from electric operations was attributable to the following:

	<u>September 30, 1998 vs. September 30, 1997</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
	(Millions of Dollars)	
Retail Electric Revenues		
Weather effect	\$ 6	\$(29)
Sales volume and sales mix effect	34	32
Unbilled revenues	23	28
Pilot shopping credit above market price	(4)	(12)
Other, net		4
Other Electric Revenues	<u>2</u>	<u>9</u>
	<u>\$61</u>	<u>\$ 32</u>

During the third quarter of 1998, PP&L recognized increased revenues of \$23 million due to the impact on unbilled revenue resulting from a change in the regulatory treatment of energy costs. Excluding this benefit, revenues from electric operations would have increased \$38 million and \$9 million, respectively, for the three and nine months ended September 30, 1998.

The revenue increase for both periods can be attributed to strong retail electric sales in the third quarter of 1998. Electricity delivered and electricity supplied to residential, commercial and industrial customers increased from the prior year. Milder than normal weather experienced during the first quarter of 1998 partially offset the strong sales experienced during the third quarter of 1998.

**Operating Revenues: Wholesale Energy and Trading Activities**

The increase (decrease) in revenues from wholesale energy and trading activities was attributable to the following:

	<u>September 30, 1998 vs. September 30, 1997</u>	
	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
	(Millions of Dollars)	
Market-based transactions	\$243	\$423
PJM	22	58
Cost-based contracts	(9)	(26)
Reservation/capacity credits	12	35
Oil & gas sales	22	38
Other	<u>1</u>	<u>3</u>
	<u>\$291</u>	<u>\$528</u>

Revenues from wholesale energy and trading activities increased by \$291 million and \$528 million for the three and nine months ended September 30, 1998, respectively, when compared to the same periods in 1997. Revenues have continued to increase despite the phase-down of the capacity

and energy agreement with JCP&L and the end of the capacity and energy agreement with Atlantic. This increase reflects PP&L's continued emphasis on competing in wholesale markets. Energy purchases have also increased to meet these increased sales. Refer to "Energy Purchases" for more information.

In recent months, the national energy trading market has experienced high prices and increased volatility. PP&L is actively managing its portfolio to attempt to capture the opportunities and limit its exposure to these volatile prices. Refer to "Electricity Trading Activities" for more information.

#### **Energy-Related Businesses**

Energy-related businesses contributed \$5 million and \$9 million to the operating income of PP&L Resources for the three months ended September 30, 1998 and 1997, respectively. For the nine-month periods ended September 30, 1998 and 1997, these businesses contributed a total of \$15 million and \$17 million to operating income, respectively. These results are primarily from PP&L Global's investments in SWEB and other world-wide energy projects. Energy-related businesses -- i.e., PP&L Global, PP&L Spectrum, H.T. Lyons and McClure -- are expected to provide an increasing share of PP&L Resources' future earnings.

#### **Cost of Electric Fuel**

Electric fuel expense increased by \$14 million and \$29 million for the three and nine months ended September 30, 1998, respectively, when compared to the same periods in 1997. This reflects increased generation at the coal and oil/gas-fired stations. These units, particularly Martins Creek, were needed as a result of increased trading activities of the Energy Marketing Center and to meet greater demand for electricity during the summer. This increase was partially offset by lower fuel prices for all units, especially oil/gas-fired stations.

#### **Energy Purchases**

Energy purchases increased by \$277 million and \$488 million for the three and nine months ended September 30, 1998, respectively, when compared to the same periods in 1997. These increases were primarily due to greater quantities of energy purchased from others to meet the increased trading activities of the Energy Marketing Center, which include increased purchases of gas for resale. The related sales are included in wholesale energy sales. The overall market price of purchased power has also been higher during 1998 compared to 1997 due to the market volatility.

#### **Other Operation Expenses**

Other operation expenses increased by \$49 million and \$71 million, respectively, for the three and nine months ended September 30, 1998 compared with the same periods in 1997. These increases reflect additional costs associated with computer information systems, and additional payroll, consultant services and other expenses to meet the requirements of retail competition. These increases also reflect additional software expenses and increased firm transmission costs related to the Energy Marketing Center activities.

The increase for the nine months ended September 30, 1998 also reflects a bonus paid to bargaining unit employees in ratifying the recent labor agreement, and higher uncollectible account expenses. These

increases were partially offset by credits recorded in connection with the competition pilot program. The PUC has authorized PP&L to seek future recovery of the revenue lost on the pilot program. PP&L has established a regulatory asset for the excess of the shopping credits provided to pilot customers over the market price of this energy. These credits totaled \$4 million and \$12 million for the three and nine months ended September 30, 1998, respectively, and were recorded as offsets to "Other Operation Expenses."

### Power Plant Operations

In an effort to reduce operating costs and position itself for the competitive marketplace, PP&L, in August 1998, announced the closing of its Holtwood coal-fired generating station, effective May 1, 1999. The adjacent hydroelectric plant will continue to operate. PP&L has also put its Sunbury coal-fired generating station up for sale.

### Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased by \$26 million and \$22 million, respectively, for the three and nine months ended September 30, 1998 compared with the same periods in 1997. These decreases were mainly due to the write-off of impaired generation-related assets in connection with the restructuring adjustments recorded in June 1998. See Note 4 for additional information.

### Other Income and (Deductions)

Other income of PP&L Resources increased by \$52 and \$57 million for the three and nine months ended September 30, 1998, respectively, from the comparable periods in 1997. PP&L Global's earnings for 1997 reflected a \$40 million U.K. windfall profits tax.

In addition, PP&L Resources recorded the acquisition of Penn Fuel Gas in August 1998. The transaction was originally contemplated as a pooling of interests, and estimated transaction costs of about \$6 million were charged against earnings in the third quarter of 1997. The transaction was ultimately recorded under purchase accounting, and the transaction costs were capitalized as part of the investment. Third quarter 1998 earnings were credited by \$6 million due to this change.

Lastly, the September 30, 1998 year-to-date earnings include interest income of \$6 million from a 1988 Gross Receipts Tax settlement, and a \$3 million gain from sales of property.

### Income Taxes

For the three months ended September 30, 1998, income tax expense before extraordinary items increased by \$14 million, or 22%, from the comparable period in 1997. This is primarily due to an increase in PP&L Resources' pre-tax book income before extraordinary items of \$108 million.

During the second quarter of 1998, income tax benefits of \$666 million were recognized by the PUC restructuring and FERC settlement with municipalities. These benefits relate to the pre-tax book extraordinary charges of \$1.6 billion. See Financial Note 4 which describes the extraordinary charges.

## Financial Condition

Refer to Financial Notes 3, 4 and 6 for information concerning the PUC restructuring charge and the Tender Offer for PP&L Resources' common stock.

### **Financing Activities**

The following financing activities have occurred to date in 1998:

- o From January through October 1998, PP&L Resources issued \$55 million of common stock through the DRIP.
- o In March 1998, the 364-day revolving credit agreement for PP&L and PP&L Capital Funding was increased from \$150 million to \$350 million. This increase, when added to the \$300 million five-year revolving credit agreement of PP&L and PP&L Capital Funding, brings to \$650 million the total amount of revolving credit available to PP&L and PP&L Capital Funding under these joint agreements. Additionally, in July 1998, PP&L Capital Funding entered into five separate \$80 million, 364-day credit facilities with five banks. As of September 30, 1998, no borrowings were outstanding under any revolving credit agreements.
- o In March 1998, PP&L Capital Funding sold \$60 million of medium-term notes having a five-year term.
- o In March 1998, PP&L Capital Funding established a commercial paper program. At September 30, 1998, \$656 million of commercial paper was outstanding.
- o In April 1998, PP&L retired \$150 million principal amount of First Mortgage Bonds, 5-1/2% series that matured on that date.
- o In May 1998, PP&L issued \$200 million First Mortgage Bonds, 6-1/8% Reset Put Securities Series due 2006. In connection with this issuance, PP&L assigned to a third party the option to call the bonds from the holders on May 1, 2001. These bonds will mature on May 1, 2006, but will be required to be surrendered by the existing holders on May 1, 2001 either through the exercise of the call option by the callholder or, if such option is not exercised, through the automatic exercise of a mandatory put by the trustee on behalf of the bondholders. If the call option is exercised, the bonds will be remarketed and the interest rate will be reset for the remainder of their term to the maturity date. If the call option is not exercised, the mandatory put will be exercised and PP&L will be required to repurchase the bonds at 100% of their principal amount on May 1, 2001. Proceeds from the sale of the bonds were used by PP&L to retire \$116 million of its unsecured term loans and to reduce its outstanding commercial balances.
- o In September 1998, PP&L Resources repurchased approximately 17 million shares of common stock at \$24.50 per share.
- o In August through October 1998, PP&L Capital Funding issued a total of \$235 million of medium-term notes with maturities varying from two to seven years.

PP&L Resources has developed a financial strategy that is intended to position PP&L Resources for the anticipated future competitive environment

after giving effect to the PUC's Final Order, the related restructuring charge on PP&L's books and the collection of CTC revenues during the Transition Period. PP&L Resources' financial strategy and goals include:

(a) a reduction in PP&L Resources' permanent capitalization to a level that is consistent with PP&L's restated asset values and the earning power of those assets;

(b) a Common Stock dividend level based on a targeted payout ratio of 45%-55% designed to increase PP&L Resources' future financing flexibility;

(c) the temporary use of a higher degree of leverage in PP&L Resources' capital structure during the Transition Period; and

(d) maintenance of investment grade ratings on the senior debt securities of PP&L Resources and PP&L.

As the electric utility industry transitions to a competitive environment, PP&L Resources anticipates the potential to achieve long-term returns on shareowner capital that exceed the returns that have been historically permitted in a fully regulated business environment. At the same time, PP&L Resources' business risks are expected to increase, resulting in an increase in the potential volatility in revenue and income streams. As such, PP&L Resources believes that a dividend payout ratio that is significantly lower than the 80%-90% payout ratio previously experienced by PP&L Resources and the electric utility industry in general is required to better position PP&L Resources to more effectively compete in the energy markets by increasing PP&L Resources' future financing flexibility. Accordingly, effective with the dividend payable October 1, 1998 to owners of record on September 10, 1998, PP&L Resources' quarterly Common Stock dividend was reduced to \$.25 per share (\$1.00 annualized rate) from the previous level of \$.4175 per share (\$1.67 annualized rate). In addition to providing an increase in PP&L Resources' future financing flexibility, this dividend action positions PP&L Resources' Common Stock for potential increased growth in market value by retaining a proportionately higher level of earnings in the business for reinvestment. The Shares purchased pursuant to the Tender Offer received the October 1 dividend.

The reduction in PP&L Resources' permanent capitalization, as well as the temporary increase in leverage, has been effected through this Tender Offer, which was financed by PP&L Resources through the use of short-term debt. The short-term debt used by PP&L Resources was made available through the issuance of commercial paper by PP&L Capital Funding.

Declaration of dividends on common stock are made at the discretion of the Boards of Directors of PP&L Resources and PP&L. PP&L Resources and PP&L will continue to consider the appropriateness of these dividend levels, taking into account the respective financial positions, results of operations, conditions in the industry and other factors which the respective Boards deem relevant.

Refer to Financial Note 6 for additional information on credit arrangements, financing activities and the Tender Offer for PP&L Resources' common stock.

## Financing and Liquidity

The change in cash and cash equivalents for PP&L Resources for the nine months ended September 30, 1998 increased \$45 million from the comparable period in 1997. The reasons for this change were:

- o A \$144 million decrease in cash provided by operating activities, primarily due to an increase in receivables related to wholesale trading activities, and a cash revenue loss associated with the shopping credits from the competition pilot program.
- o A \$269 million increase in cash used in investing activities, primarily due to an increase in the amount of investment in electric energy projects by PP&L Global. In addition, there were fewer sales and maturities of available-for-sale securities, as well as other financial investments in 1998 compared with 1997.
- o A \$458 million increase in cash provided by financing activities, primarily due to the commercial paper program established by PP&L Capital Funding in 1998. At September 30, 1998, \$656 million of this short-term debt was outstanding.

Outside financing, in amounts not currently determinable, may be required over the next five years to finance investments in world-wide energy projects by PP&L Global. Refer to "Unregulated Investments" for additional information.

## Financial Indicators

The ratio of PP&L Resources pre-tax income to interest charges was 3.9 and 3.4 for the nine months ended September 30, 1998 and 1997, respectively, excluding extraordinary items. The annual per share dividend rate on common stock decreased from \$1.67 per share to \$1.00 per share in the third quarter of 1998. Refer to Financial Note 6 for information regarding the reduction of PP&L Resources' dividend and the Tender Offer for PP&L Resources' common stock. The ratio of the market price to book value of common stock was 234% at September 30, 1998, compared with 130% at September 30, 1997. Excluding extraordinary items, the ratio of market price to book value of common stock at September 30, 1998 was 151%.

## Unregulated Investments

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

As of September 30, 1998, PP&L Global had investments and commitments of approximately \$725 million in distribution, transmission and generation facilities in the United Kingdom, Bolivia, Peru, Argentina, Spain, Portugal, Chile and El Salvador. PP&L Global's major investments to date are SWEB, Emel and DelSur.

In 1998, PP&L Global acquired an additional 1,813,000 shares of Emel at a cost of approximately \$32 million, increasing its ownership interest to 37.5%. In February 1998, PP&L Global and Emel acquired a 75% interest in DelSur, an electric distribution company serving 193,000 customers in El Salvador, for approximately \$180 million. Under the purchase agreement, PP&L Global directly acquired 37.5% of DelSur and Emel acquired the other 37.5%. DelSur is one of five electricity distribution companies in El

Salvador that are being privatized by the government. In June 1998, PP&L Global acquired an additional 26% interest in SWEB for \$170 million, increasing its equity interest to 51% and its voting interest to 49%.

PP&L Global will acquire most of Bangor Hydro-Electric's generating assets and certain transmission rights under an agreement reached in September 1998. PP&L Global will purchase 100 percent of Bangor Hydro's hydroelectric assets, as well as its interest in an oil-fired generation facility, for \$89 million. The closing, which is subject to the approval of the Maine Public Utilities Commission and the FERC as well as certain third-party consents, is expected to occur by mid-1999.

PP&L Global plans to build a gas-fired power plant in Arizona which will have a nominal base load capacity of 520 megawatts and a maximum output capability of 650 megawatts. An energy marketing company has agreed to purchase between 240 and 520 megawatts of the electricity produced by the facility. PP&L Global also plans to build a 500 to 500 megawatt natural gas-fired power plant adjacent to PP&L's Martins Creek plant with an estimated investment of \$250 million.

PP&L Global has signed definitive agreements with Montana Power Company, Portland General Electric Company and Puget Sound Energy, Inc. to acquire 13 Montana power plants, with 2,614 MW of generating capacity, for a purchase price of \$1.586 billion. The acquisition is subject to several conditions, including the receipt of required state and federal regulatory approvals and third-party consents. PP&L Global expects to complete the acquisition by the end of 1999. About 65% of the acquisition cost is expected to be financed on a project credit basis, non-recourse to PP&L Global and PP&L Resources. The balance of the acquisition cost is expected to be financed through a combination of debt and equity issued by PP&L Resources, or with funds that PP&L Resources derives from PP&L's securitization of transition costs. The agreements also provide for PP&L Global's acquisition of related transmission assets for \$182 million, subject to certain conditions, including federal regulatory approval.

#### Acquisitions

In 1998, PP&L Resources acquired H.T. Lyons and McClure, heating, ventilating and air-conditioning firms, in cash transactions for amounts that were not material.

In August 1998, PP&L Resources acquired Penn Fuel Gas. The transaction was treated as a purchase for accounting and financial reporting purposes. PP&L Resources issued approximately 5.6 million shares of common stock with a value of approximately \$135 million, to acquire all Penn Fuel Gas common and preferred stock. Under the terms of the merger agreement, shareowners of Penn Fuel Gas received 6.968 common shares of PP&L Resources for each common share of Penn Fuel Gas that they owned and 0.682 common shares of PP&L Resources for each preferred share of Penn Fuel Gas that they owned.

#### 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 1997 Form 10-K, other than the environmental remediation contingencies of Penn Fuel Gas, which was acquired in August 1998.

## 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.

### Pennsylvania Activities

Reference is made to Financial Note 3 "PUC Restructuring Proceeding" for a discussion of the disposition of PP&L's restructuring plan under the Customer Choice Act.

In August 1997, the PUC issued an order modifying and approving PP&L's pilot program under the applicable provisions of the Customer Choice Act and PUC guidelines. Retail customers participating in the PP&L and other Pennsylvania utilities' pilot programs began to receive power from their supplier of choice in November 1997. Under its pilot program, approximately 60,000 PP&L residential, commercial and industrial customers have chosen their electric supplier. PP&L will continue to provide all transmission and distribution, customer service and back-up energy supply services to participating customers in its service area.

Only those alternative suppliers licensed by the PUC and in compliance with the state tax obligations set forth in the Customer Choice Act may participate in the pilot programs. To date, approximately 80 suppliers have obtained such licenses to participate in the pilot programs.

Reference is made to Financial Note 3 "PUC Restructuring Proceeding" for a discussion of the settlement approved by the PUC which requires, among other things, that PP&L transfer its retail electric marketing function to a separate, affiliated corporation. In August 1998, PP&L formed a new subsidiary, PP&L EnergyPlus, for this purpose. In September 1998, the PUC approved PP&L EnergyPlus's application to act as a Pennsylvania EGS. This license permits PP&L EnergyPlus to offer retail electric supply to participating customers in PP&L's service territory and in the service territories of other Pennsylvania utilities. In 1999, PP&L EnergyPlus will offer such supply to industrial and commercial customers throughout the state. At this time, PP&L EnergyPlus has determined not to pursue residential customers in the competitive marketplace based on economic considerations.

In September 1998, the PUC issued an Order which, in part, directed Pennsylvania utilities which are members of PJM, including PP&L, to offer their installed capacity at a price of \$19.72 per kilowatt-year (Capacity Order). PP&L brought an action in the District Court seeking an injunction against the Capacity Order on the basis, among other things, that it attempted to regulate matters within exclusive federal jurisdiction. In October 1998, PP&L entered into a settlement agreement with the PUC under which (i) PP&L will offer to sell capacity credits to EGS's licensed by the PUC at the equivalent of \$19.72 per kilowatt-year in 1999 for service to PP&L residential customers; (ii) all PP&L residential customers will be permitted to select an EGS in January 1999; (iii) the PUC will withdraw the Capacity Order as to PP&L; and (iv) PP&L will withdraw its federal court action against the Capacity Order.

## Federal Activities

Reference is made to Financial Note 4 for a discussion of PP&L's settlement with 15 small utilities.

In June 1997, all of the PJM companies except PECO (the PJM Supporting Companies) filed proposals with the FERC to amend the PJM tariff and restructure the PJM pool. PECO filed a separate request with the FERC to amend the PJM tariff. Furthermore, PECO and certain electric marketers submitted significantly different proposals to restructure the PJM pool.

In November 1997, the FERC approved, with certain modifications, the PJM Supporting Companies' proposals for transforming the PJM into an ISO. In summary, the FERC order: (i) approved the PJM's open access transmission rates based on geographic zones, but required PJM to file a single PJM system-wide rate proposal by 2002; (ii) accepted the PJM Supporting Companies' methodology to price transmission when the system is congested and to charge these congestion costs to system users in addition to the open access transmission rates, but ordered PJM to file an additional proposal to address concerns raised over price certainty for buyers and sellers during periods of congestion; (iii) determined that the ISO is to operate both the transmission system and the power exchange which provides for the purchase and sale of spot energy within the PJM market; and (iv) accepted the PJM Supporting Companies' proposal regarding mandatory installed capacity obligations for all entities serving firm retail and wholesale load within PJM, but rejected their proposal for allocating the capacity benefits which result from PJM's ability to import power from other regional power pools.

The PJM Supporting Companies and numerous other parties have filed requests for amendment and/or rehearing of virtually every portion of the FERC's PJM ISO order. PP&L also has filed its own request for amendment and/or rehearing. The FERC has not yet taken action on these filings. PP&L's primary issue with the FERC's order relates to a requirement that existing wholesale contracts for sales service and transmission service be modified to have the new PJM transmission tariff applied to service under these existing contracts and the requirement that PP&L modify these contracts to ensure that customers are not assessed multiple transmission charges. If PP&L were required to modify these existing contracts, PP&L could lose as much as \$3-4 million in transmission revenues in 1998 -- but a lesser amount in the following years -- from several wholesale sales and transmission service contracts that were negotiated prior to the establishment of the PJM ISO. In an order issued in May 1998, the FERC allowed PP&L to request an increase in the revenue requirement applicable to transmission service over PP&L's transmission facilities to the extent that PP&L has otherwise unrecovered transmission costs as a result of the contract modifications. PP&L filed the proposed increase to its transmission revenue requirement in July 1998. In October 1998, PP&L filed a settlement agreement among the active parties in that proceeding, which is currently under consideration by a FERC administrative law judge.

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

In July 1998, the FERC accepted amendments to PP&L's market-based rate tariff that permit PP&L to sell, assign or transfer transmission rights and associated ancillary services. In October 1998, the FERC accepted a proposed amendment to PP&L's market-based rate tariff to permit PP&L to sell electric energy and/or capacity to its affiliates under specified conditions.

In September 1998, PP&L filed its EGS Coordination Tariff with the FERC. The EGS Coordination Tariff applies to entities licensed to serve retail electricity customers under the Commonwealth of Pennsylvania's retail access program. The purpose of the EGS Coordination Tariff is to permit PP&L to provide EGS's with certain FERC-jurisdictional services which will facilitate the ability of EGS's to meet their obligations as transmission customers and load-serving entities under the PJM Open Access Transmission Tariff and related agreements of the PJM.

In September 1997, PP&L filed a request with the FERC to lower the applicable PP&L revenue requirement currently set forth in the PJM open access transmission tariff. The new revenue requirement results from PP&L's use of the same test year and cost support data used in the PUC restructuring proceeding. PP&L requested that the new revenue requirement take effect on November 1, 1997. In February 1998, the FERC accepted the proposed rates, subject to refund, and set the amount of the decrease in the revenue requirement for hearing. In October 1998, PP&L filed a settlement agreement among the active parties in that proceeding, which is currently under consideration by a FERC administrative law judge.

In January 1998, the United States Department of Energy approved PP&L's application for an export license to sell capacity and/or energy to electric utilities in Canada. This export license allows PP&L to sell either its own capacity and energy not required to serve domestic obligations or power purchased from other utilities.

Reference is made to "Pennsylvania Activities" above for a discussion of PP&L's new retail electric marketing subsidiary, PP&L EnergyPlus. PP&L EnergyPlus filed an application with the FERC in September 1998 for authority to sell electric energy and capacity at market-based rates, and for authority to sell, assign or transfer transmission rights and associated ancillary services. The FERC has not yet ruled on PP&L EnergyPlus's application. Also, in September 1998, PP&L filed a notification of change in status with the FERC to report PP&L's affiliation with PP&L EnergyPlus. Pursuant to FERC requirements, PP&L has filed a code of conduct to govern its relationship with affiliates that engage in the sale and/or transmission of electric energy.

#### **Year 2000 Computer Issue**

PP&L Resources and its subsidiaries utilize computer-based systems throughout their businesses. In the year 2000, these systems will face a potentially serious problem with recognizing calendar dates. Without corrective action, the most reasonably worst case scenario with respect to Year 2000 issues could result in computer shutdown or erroneous calculations causing less than optimal operation of the generating stations; diminished ability to monitor, control and coordinate generation with the transmission and distribution systems; and impact the operation of various monitoring and metering equipment utilized throughout PP&L. A company-wide Year 2000 coordination committee was formed to raise the awareness of the Year 2000 issue, share information and review the progress. A seven-step approach was developed to achieve Year 2000 compliance by assessing and remediating the problem in application

software, hardware, plant control systems and devices containing embedded microprocessors. The seven steps in the plan include awareness, inventory, assessment, remediation, testing, implementation, and contingency planning. PP&L Resources has also requested assurance from all critical suppliers and business partners that they are in compliance with Year 2000 issues.

As of September 30, 1998, PP&L Resources estimates that approximately 60% of the critical mainframe applications and approximately 70% of the non-critical mainframe applications that will remain in production have been determined as being Year 2000 compliant. It is anticipated that this project will be completed on a timely basis, with all mission-critical mainframe computer applications to be compliant by March 31, 1999 and all mainframe computer systems to be fully Year 2000 compliant by mid-1999.

PP&L has contingency plans to address issues such as blackouts on the electrical grid, cold starts of generating facilities and disaster recovery procedures for the computing environment. PP&L recognizes that additional contingency plans are necessary and, as part of the seven-step remediation process, is currently working on identifying additional contingency plans that may be needed.

In May 1998, the NRC issued a notification requirement under which nuclear utilities are required to inform the commission, in writing, that they are working to solve the Year 2000 computer problem. In addition, nuclear utilities have until July 1, 1999 to inform the NRC that their computers are Year 2000 compliant or to submit a status report summarizing the on-going work. PP&L filed its written response to the NRC in August 1998.

In July 1998, the PUC ordered an investigation to be conducted by the Office of Administrative Law Judge "to accurately assess any and all steps taken and proposed to be taken to resolve the Year 2000 compliance issue by all jurisdictional fixed utilities and mission-critical service providers such as the PJM." The PUC is requiring all jurisdictional utilities to file a written response to a list of questions concerning Year 2000 compliance; and that, if mission-critical systems cannot be made Year 2000 compliant on or before March 31, 1999, to file a detailed contingency plan. PP&L filed its written response to these questions in August 1998.

Based upon present assessments, PP&L Resources estimates that it will incur approximately \$15 million in Year 2000 remediation costs. Through September 30, 1998, PP&L Resources spent approximately \$6 million in remediation costs, which included assistance from outside consultants. These costs are being funded through internally generated funds and are being expensed as incurred.

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

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Reference is made to Notes to Financial Statements for information concerning PP&L's restructuring under the Customer Choice Act.

Reference is made to "Increasing Competition" in the Review of the Financial Condition and Results of Operation for information concerning proceedings before the FERC.

The EPA has issued an order to PP&L and 12 other parties (mainly utilities) under Section 106 of Superfund requiring clean-up of PCBs at the Metal Bank Superfund site near Philadelphia. PP&L initially complied with the order by joining the owner/operator of the site in performing the remedial design. However, the EPA subsequently rejected the owner/operator's design contractor, choosing the utility group's design contractor instead. PP&L is negotiating with the utility group to join them in complying with the order.

PP&L challenged the DEP's right to collect air emission fees for hazardous air pollutants (HAPs) from PP&L's coal-fired units and air emission fees for emissions from PP&L's Phase I affected units from 1995 through 1999. (Phase I affected units are those units designated by the Clean Air Act, or which voluntarily opt into the requirement, to make certain reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions by 1995; all others must make these reductions by 2000.) The HAPs emissions fees are approximately \$200,000 per year. The emission fees for Phase I affected units from 1995 through 1999 are estimated at \$1.6 million. PP&L and the DEP have finalized a settlement of this litigation, under which PP&L will pay reduced fees for the Phase I units from 1995-1999 and will pay all HAPs fees.

Reference is made to PP&L Resources' and PP&L's Annual Reports to the SEC on Form 10-K for the year ended December 31, 1997 regarding citations issued by the U.S. Department of Labor's MSHA to one of PP&L's coal-mining subsidiaries. In August 1998, the United States Court of Appeals for the District of Columbia Circuit affirmed the ruling of the Mine Safety and Health Review Commission in favor of the mine operator in the test case in this matter. In September 1998, the Secretary of Labor moved to vacate and dismiss all of the pending cases against mine operators, including the PP&L subsidiary. MSHA has indicated that it intends to withdraw all of its citations, which would conclude all of these pending cases against the mine operators, including PP&L's subsidiary.

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

(a) Exhibits

3(ii)(a) - Bylaws of PP&L Resources, Inc.

3(ii)(b) - Bylaws of PP&L, Inc. (amended to, among other things, require shareholders to provide PP&L with at least 75 days advance notice of an intent to nominate a director or submit a proposal for consideration at a shareholder's meeting).

10(a) - Asset Purchase Agreement between PP&L Global, Inc. and The Montana Power Company

10(b) - Equity Contribution Agreement among PP&L Resources, Inc., PP&L Global, Inc. and The Montana Power Company

10(c) - Asset Purchase Agreement between PP&L Global, Inc. and Portland General Electric Company

10(d) - Equity Contribution Agreement among PP&L Resources, Inc., PP&L Global, Inc. and Portland General Electric Company

10(e) - Asset Purchase Agreement between PP&L Global, Inc. and Puget Sound Energy, Inc.

10(f) - Equity Contribution Agreement among PP&L Resources, Inc., PP&L Global, Inc. and Puget Sound Energy, Inc.

12 - Computation of Ratio of Earnings to Fixed Charges

27 - Financial Data Schedule

(b) Reports on Form 8-K

Report dated June 29, 1998

Item 5. Other Events

Information regarding the IBEW Local 1600's ratification of a new four-year bargaining agreement with PP&L.

Report dated August 20, 1998

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

Computation of Ratio of Earnings to Fixed Charges

Report dated August 21, 1998

Item 5. Other Events

Information regarding the acquisition of Penn Fuel Gas and the PUC's Final Order approving the Joint Settlement Petition.

Report dated September 28, 1998

Item 5. Other Events

Information regarding PP&L Global's acquisition of generating assets and transmission resources of Bangor Hydro-Electric Company.

## GLOSSARY OF TERMS AND ABBREVIATIONS

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

**Atlantic** - Atlantic City Electric Company

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

**CTC** - Competitive transition charge

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

**DelSur** - *Distribuidora de Electricidad del Sur*, an electric distribution company in El Salvador

**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.

**EGS** - Electric Generation Supplier

**EITF** - Emerging Issues Task Force

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

**Energy Marketing Center** - organization within PP&L responsible for marketing and trading wholesale energy

**EPA** - Environmental Protection Agency

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

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

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

**H.T. Lyons** - H.T. Lyons, Inc., a PP&L Resources unregulated subsidiary specializing in heating, ventilating and air-conditioning.

**IBEW** - International Brotherhood of Electrical Workers

**ISO** - Independent System Operator

**ITC** - Intangible transition charge

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

**McClure** - McClure Company, a PP&L Resources unregulated subsidiary specializing in heating, ventilating and air-conditioning.

**MSHA** - Mine Safety and Health Administration

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

**NPDES** - National Pollutant Discharge Elimination System

**NRC** - Nuclear Regulatory Commission

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

**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

**Penn Fuel Gas** - Penn Fuel Gas, Inc., a PP&L Resources regulated subsidiary, specializing in natural gas distribution, transmission and storage services, and the sale of propane.

**PJM** (PJM Interconnection, L.L.C.) - operates the electric transmission network and electric energy market in the mid-Atlantic region of U.S.

**PP&L** - PP&L, Inc.

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

**PP&L EnergyPlus** - PP&L Energy Plus Co., a PP&L Resources subsidiary which is involved in retail electric marketing.

**PP&L Global** - PP&L Global, Inc., a PP&L Resources unregulated subsidiary which invests in and develops world-wide power projects.

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

**PP&L Spectrum** - PP&L Spectrum, Inc., a PP&L Resources unregulated subsidiary which offers energy-related products and services.

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

**SEC** - Securities and Exchange Commission

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

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

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

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

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

**Year 2000** - A set of date-related problems that may be experienced by a software system or application.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiary.

PP&L Resources, Inc.  
(Registrant)

PP&L, Inc.  
(Registrant)

Date: November 12, 1998

/s/ John R. Biggar  
John R. Biggar  
Senior Vice President and  
Chief Financial Officer  
(PP&L Resources, Inc. and PP&L, Inc.)

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

PP&L RESOURCES, INC. AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	12 Months	12 Months Ended				
	Ended September 30, 1998(a)	1997	1996	1995	1994	1993
<b>Fixed charges, as defined:</b>						
Interest on long-term debt .....	\$198	\$196	\$207	\$213	\$214	\$226
Interest on short-term debt and other interest .....	28	25	17	18	18	13
Amortization of debt discount, expense and premium - net .....	2	2	2	2	2	2
Interest on capital lease obligations Charged to expense .....	8	9	13	15	12	9
Capitalized .....	2	2	2	2	1	1
Estimated interest component of operating rentals .....	18	15	8	8	6	5
Proportionate share of fixed charges of 50-percent-or-less-owned persons .....	1	1	1	1	1	1
<b>Total fixed charges .....</b>	<b>\$257</b>	<b>\$250</b>	<b>\$250</b>	<b>\$259</b>	<b>\$254</b>	<b>\$257</b>
<b>Earnings, as defined:</b>						
Net income .....	\$363	\$296	\$329	\$323	\$216	\$314
Preferred and Preference Stock Dividend Requirements .....	26	24	28	28	28	34
Less undistributed income of less than 50-percent-owned persons .....	-	-	-	-	-	-
	389	320	357	351	244	348
<b>Add (Deduct):</b>						
Federal income taxes .....	173	169	189	195	198	163
State income taxes .....	54	59	64	62	77	64
Deferred income taxes .....	29	29	10	15	(45)	22
Investment tax credit - net .....	(6)	(10)	(10)	(10)	(12)	(14)
Income taxes on other income and deductions - net .....	-	(9)	-	24	(38)	(1)
Amortization of capitalized interest on capital leases .....	2	2	4	5	9	12
<b>Total fixed charges as above (excluding capitalized interest on capital lease obligations) .....</b>	<b>255</b>	<b>248</b>	<b>248</b>	<b>257</b>	<b>253</b>	<b>256</b>
<b>Total earnings .....</b>	<b>\$896</b>	<b>\$808</b>	<b>\$862</b>	<b>\$899</b>	<b>\$686</b>	<b>\$850</b>
<b>Ratio of earnings to fixed charges .....</b>	<b>3.49</b>	<b>3.23</b>	<b>3.45</b>	<b>3.47</b>	<b>2.70</b>	<b>3.31</b>

(a) Excluding extraordinary items.

**Paul E. Russell**  
Associate General Counsel  
Tel. 610 774-4254 Fax 610.774 6726  
E-mail: perussell@papl.com

**PP&L, Inc.**  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel 610 774 5151  
http://www.ppl-inc.com/



**HAND DELIVERED**

December 14, 1998

James J. McNulty, Esquire  
Secretary  
Pennsylvania Public Utility Commission  
North Office Building  
North Street and Commonwealth Avenue  
Harrisburg, Pennsylvania 17105-3265

DOCUMENT  
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**ORIGINAL**

98 DEC 14 PM 1:30  
P.P.U.C.  
SECRETARY'S BUREAU

**Re: Application of Pennsylvania Power & Light Company  
For Approval, Pursuant to Chapter 11 of the  
Public Utility Code of Certain Transactions in  
Connection with the Utility's Establishment  
of a Holding Company Structure  
Docket No. A-1105000F-0206**

**In Re: Pennsylvania Power & Light Company  
Request for Section 33(a) Certification  
Docket No. M-00940535**

Dear Mr. McNulty:

Enclosed for filing in the two above-captioned proceedings are an original and three (3) copies of the "Amended Conditions to Approval of PP&L's Application for Holding Company Structure."

On October 20, 1998, PP&L, Inc. ("PP&L" or the "Company") filed a petition for amendment of the orders entered by the Pennsylvania Public Utility Commission ("PUC" or the "Commission") in the two above-captioned proceedings. In those orders, the PUC adopted conditions for approval of PP&L's application for a holding company structure and approval of PP&L's request for certification under Section 33(a) of the Public Utility Holding Company Act of 1935. The purpose of the proposed amendments was to reflect the effects of deregulation of the electricity generation market, including adoption of the Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. Chapter 28, and the terms of the settlement of PP&L's restructuring proceeding filed pursuant to that Act.

SRB

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On November 9, 1998, the Office of Consumer Advocate ("OCA") filed an answer to PP&L's petition. No other answers, protests or objections to the petition have been filed. In accordance with Commission regulations, the OCA and the Company engaged in extensive negotiations to determine if the OCA's concerns regarding PP&L's petition could be resolved. As a result of these negotiations, the OCA and the Company have agreed to nine amended conditions which supersede and replace the conditions previously adopted by the Commission in the two above-captioned proceedings. Based upon PP&L's acceptance of these amended conditions, the OCA has agreed not to oppose PP&L's petition.

Accordingly, PP&L respectfully requests that the Commission approve these amended conditions on an expedited basis. Specifically, the Company requests that this matter be considered by the Commission at its Public Meeting of December 17, 1998.

If you have any questions regarding this letter or the enclosed amended conditions, please call.

Very truly yours



Paul E. Russell

Enclosures

cc: The Hon. John M. Quain, Chairman  
The Hon. Robert K. Bloom, Vice Chairman  
The Hon. Aaron Wilson, Jr., Commissioner  
The Hon. David W. Rolka, Commissioner  
The Hon. Nora Mead Brownell, Commissioner  
Barbara Bruin, Esquire  
Cheryl Walker Davis, Esquire  
Alphonso Arnold, Esquire  
Tanya J. McCloskey, Esquire  
Bernard A. Ryan, Jr., Esquire  
Charles F. Hoffman, Esquire

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

Following are the amended conditions to the PP&L, Inc. ("PP&L") application for a holding company structure that have been agreed to by PP&L and the Office of Consumer Advocate ("OCA").

It is the intent of PP&L and the OCA that these conditions be applied prospectively and in a manner consistent with the provisions of the Joint Petition for Full Settlement of PP&L, Inc.'s Restructuring Plan and Related Court Proceedings approved by the Pennsylvania Public Utility Commission ("PUC" or the "Commission") in its order entered August 27, 1998, at Docket No. R-00973954 ("Joint Petition").

Further, it is the intent of PP&L and the OCA that these amended conditions supersede and replace the conditions adopted by the Commission in its order entered February 10, 1995, at Docket No. A-110500F.206 and its order entered April 22, 1996, at Docket No. M-00940535.

**Bidding for Generating Capacity Resources**

1. PP&L's procurement of generating capacity resources from any PP&L affiliate shall be governed by the applicable codes of conduct from the Joint Petition at Docket No. R-00973954 and other applicable codes of conduct, Commission regulations and statutory requirements.

**DOCKETED**

DEC 15 1998

SECRETARY'S BUREAU  
P.A. P.U.C.  
DEC 14 PM 1:30

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### 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 business activities not regulated by the PUC to the extent necessary for the PUC to perform its regulatory oversight of PP&L.

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 annual statements of intercompany transactions and all financial reports filed with the Securities and Exchange Commission for PP&L and PP&L Resources, Inc. ("Resources").

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. When any investment (domestic or foreign) in a business not regulated by the PUC equals or exceeds \$200 million, PP&L shall report the nature and amount of the investment and the projected closing date to the Commission and the OCA. Such notification shall occur no later than 15 days after entering into agreements regarding the investment. In addition, PP&L shall be subject to the following conditions:

(a) PP&L shall not guarantee the debt or credit instruments of either the holding company or any affiliated company not regulated by the PUC, unless first approved by the PUC.

(b) PP&L utility property shall not be used to secure any loans or credit instruments of the holding company or any affiliated company not regulated by the PUC, unless first approved by the PUC.

(c) PP&L shall not provide loans for a stated term of one year or more to the holding company or any affiliated company not regulated by the PUC, unless first approved by the PUC.

### Cost of Capital and Rate of Return

5. PP&L's cost of capital for retail ratemaking purposes shall not reflect any risk increment associated with the risks of Resources or any affiliated company not regulated by the PUC. This applies to the cost of debt, cost of preferred stock, the capital structure ratios and the cost of equity.

## Transactions Between PP&L and its Affiliates

6. PP&L will maintain 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 business activities of its affiliated companies which are not regulated by the PUC.

7. PP&L will maintain pricing protocols for determining transfer prices between utility operations and affiliated companies involved in business activities not regulated by the PUC. 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 business activities not regulated by the PUC for programs, etc., that were developed at ratepayers' expense.

8. PP&L will maintain 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. PP&L's 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).

COMMONWEALTH OF PENNSYLVANIA

DATE: December 15, 1998

SUBJECT: A-110500F0206; M-00940535

TO: Office of Special Assistants

FROM: *WJ* James J. McNulty, Secretary

DOCKETED  
DEC 15 1998

Application of Pennsylvania Power & Light Company for Approval, Pursuant to Chapter 11 of the Public Utility Code of Certain Transactions in Connection with the Utility's Establishment of a Holding Company Structure  
Docket No. A-110500F0206

Pennsylvania Power & Light Company Request for Section 33(a) Certification  
Docket No. M-00940535

Attached is a copy of the "Amended Conditions to Approval of PP&L's Application for Holding Company Structure" of PP&L filed in connection with the above docketed proceeding.

This matter is assigned to your Office for appropriate action.

Attachment

cc: BFUS

wjz

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SRB



OFFICE OF CONSUMER ADVOCATE  
555 Walnut Street 5th Floor Forum Place  
Harrisburg, Pennsylvania 17101-1925  
(717) 783-5048

ORIGINAL

IRWIN A. POPOWSKY  
Consumer Advocate

FAX (717) 783-7152  
E-Mail paoca@ptd.net

December 15, 1998

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
North Office Building  
P.O. Box 3265  
Harrisburg, PA 17105-3265

DOCKETED

DEC 22 1998

RECEIVED  
98 DEC 15 PM 4:06  
PA.P.U.C.  
SECRETARY'S BUREAU

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

EEF

In Re: Pennsylvania Power & Light Company's  
Request for Section 33(a) Certification,  
Docket No. M-00940535

Dear Secretary McNulty:

The Office of Consumer Advocate (OCA) is in receipt of the "Amended Conditions to Approval Of PP&L's Application for Holding Company Structure" filed with the Commission by Letter of PP&L, Inc. dated December 14, 1998. As noted by Mr. Russell in the Letter, PP&L filed a Petition requesting an amendment of the conditions in light of the adoption of the Electricity Generation Customer Choice and Competition Act. The OCA filed an Answer raising certain concerns about PP&L's proposed amendments. Subsequent to the filing of the OCA's Answer, the OCA and PP&L engaged in negotiations to determine if the OCA's concerns regarding PP&L's Petition for Amendment of the Conditions could be resolved. The "Amended Conditions" filed by PP&L on December 14, 1998 reflect the result of these negotiations.

The OCA agrees that these amended conditions resolve the OCA's concerns raised in its Answer to PP&L's Petition. The OCA would request that the Commission approve these "Amended Conditions" in any Order resolving PP&L's Petition.

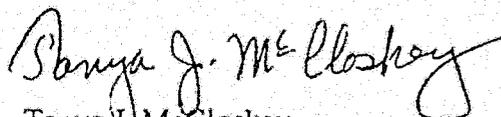
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James J. McNulty, Secretary  
December 15, 1998  
Page 2

If you have any questions regarding the "Amended Conditions" or the OCA's position, please feel free to contact me at any time.

Sincerely,



Tanya J. McCloskey  
Assistant Consumer Advocate

cc: Honorable John M. Quain, Chairman  
Honorable Robert K. Bloom, Vice Chairman  
Honorable David W. Rolka, Commissioner  
Honorable Nora Mead Brownell, Commissioner  
Honorable Aaron Wilson, Jr., Commissioner  
Barbara Bruin, Executive Director  
Cheryl Walker Davis, Director, OSA  
Alphonso Arnold, OSA  
Paul Russell, PP&L, Inc.  
Bernard A. Ryan, OSBA  
Charles F. Hoffman, OTS