

Allegheny Electric Cooperative, Inc., based in Harrisburg, Pa., is a generation and transmission (G&T) cooperative owned and operated by the 14 rural electric cooperatives in Pennsylvania and New Jersey. Allegheny acts as the wholesale power supplier for the cooperatives. Through them, it serves more than 600,000 rural residents.

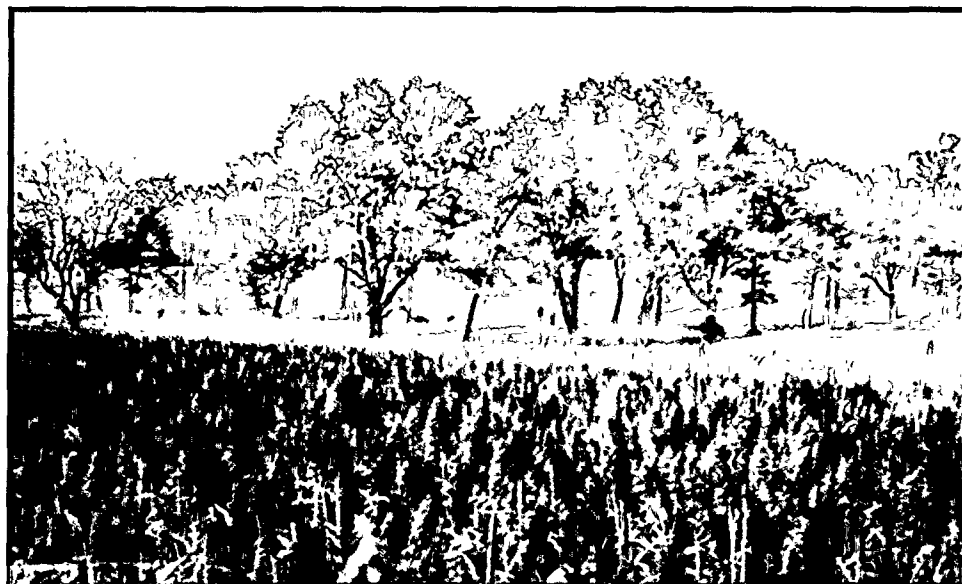
Allegheny's 14-member board of directors — one director elected from each of its member co-ops — conducts Allegheny's business to best serve the consumer-members of the cooperatives.

Allegheny's member cooperatives own and maintain about 16 percent of the electric distribution lines in Pennsylvania, covering nearly one-third of the state's land area in 41 counties. The majority of that service area is comprised of some of the most rugged — and beautiful — areas to be found in America today. And Allegheny believes that beauty deserves protection.

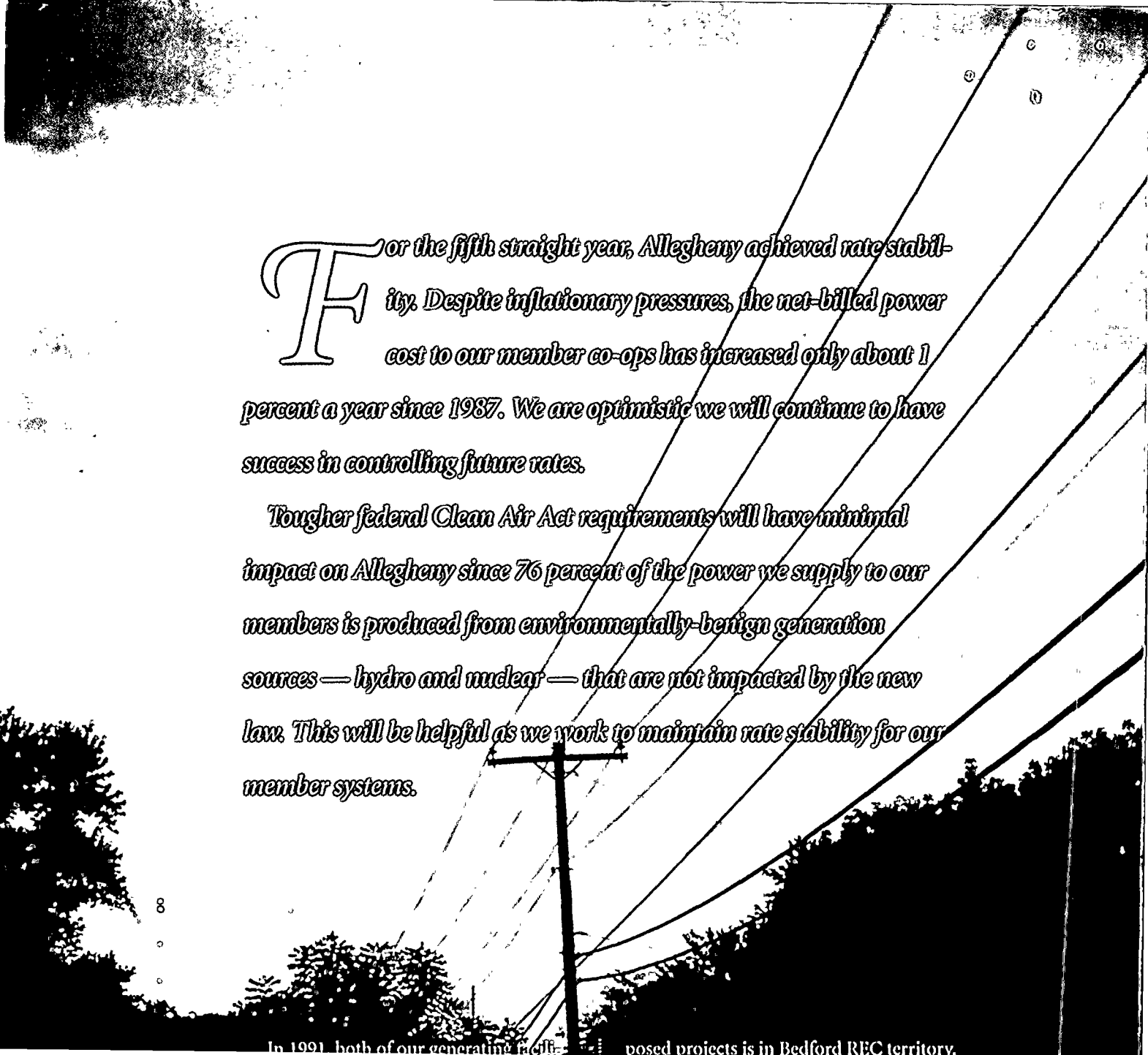
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Allegheny is proud of its long-standing environmental record. Through this annual report, we are happy to share our commitment and concern for our rural environs.



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For the fifth straight year, Allegheny achieved rate stability. Despite inflationary pressures, the net-billed power cost to our member co-ops has increased only about 1 percent a year since 1987. We are optimistic we will continue to have success in controlling future rates.

Tougher federal Clean Air Act requirements will have minimal impact on Allegheny since 76 percent of the power we supply to our members is produced from environmentally-benign generation sources — hydro and nuclear — that are not impacted by the new law. This will be helpful as we work to maintain rate stability for our member systems.

In 1991, both of our generating facilities proposed projects is in Bedford REC territory.

Allegheny with a level playing field to obtain economical power and to become a full participant in the bulk power market. Transmission access language drafted in part by Allegheny was picked up in national energy strategy legislation.

Attacks on the non-profit, consumer-owned rural electric program continued in 1991. Allegheny responded to the sensationalistic, inaccurate assaults as they occurred. The year, however, resulted in a major political victory for rural electric cooperatives. President Bush on October 28 signed the 1992 Agricultural Appropriations bill that restored the 25 percent cut in Rural Electrification Administration (REA) insured loan levels made in the 1990 federal budget compromise. Allegheny assisted in the restoration effort.

During the year, REA approved Allegheny's request to refund \$623,150 in capital credits to our member cooperatives. It was the second such capital credit retirement by Allegheny, following a \$367,072 retirement in 1989.

Unfortunately, Pennsylvania's budget crisis impacted the cooperative. Allegheny, like all electric utilities in Pennsylvania, was hit by a provision in the state budget to establish five dedicated funding sources for big city mass transit. One of those five is a special 12 mill hike in the public utility realty tax. The tax — which will provide no benefits to rural electric co-op consumer-members — will cost Allegheny members an additional \$1.2 million in fiscal year 1992.

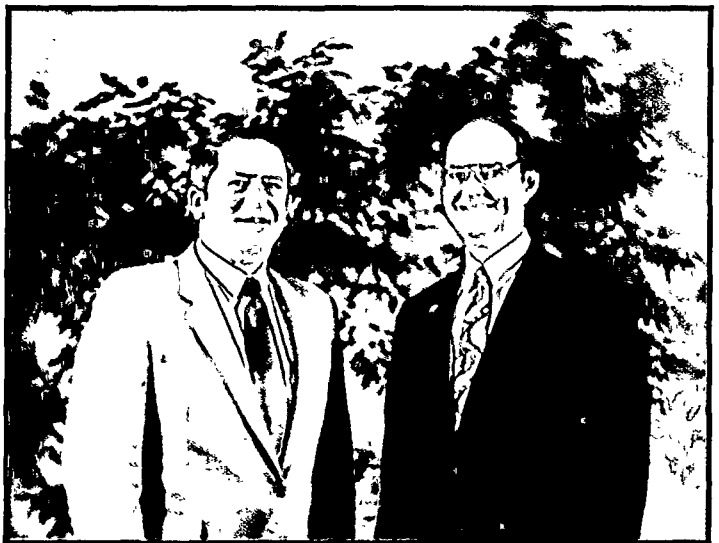
A major goal of Allegheny is ensuring the economic health of our member cooperatives' service areas. During the year, the cooperative initiated new programs to assist its members to retain existing businesses and industries and attract new

employers. Aggressive efforts by Allegheny and its member cooperatives resulted in four member systems obtaining six zero-interest REA rural development loans for businesses in their service areas. These economic development activities not only help provide job opportunities, they also stabilize the economic base of rural Pennsylvania and New Jersey.

The decade ahead looks bright for Allegheny. A Power Requirements Study for 1991-2000 predicts Allegheny's energy requirements will grow at an annual rate of 2.1 percent through the year 2000. Our 10 percent share of SSES will grow in value as Mid-Atlantic power markets tighten; our demand-side management efforts will continue to provide benefits well into the next century.

Once again, real progress is being made toward the organization's long-term goal — providing rural electric cooperative consumer-members with adequate and reliable supplies of reasonably-priced electricity.

Jesse C. Tilton III, president (right)
and Dave E. Turner, chairman



*R*ural Pennsylvania and New Jersey today — vast and changing. Providing the resources and a high-quality labor force for industrial and commercial growth; providing a new home for crowd-weary people; providing food and fiber to feed the nation and the world.

All because there is electricity.

Soon after the creation of the Rural Electrification Administration (REA) in 1935, rural electric cooperatives began springing up as rural residents banded together to set poles and string wire to bring electricity to their homes, farms and businesses.

But once the poles were set, rural people still needed a source of power. That source was the same private electric companies whose

refusal to serve rural America

prompted formation of the co-ops.

BULK POWER SALES

During 1991, Allegheny continued to establish itself as a player in the wholesale power market, with beneficial sales to Baltimore Gas & Electric Company, Atlantic City Electric Company, Public Service Electric & Gas Company of New Jersey and Niagara Mohawk Power Corporation in New York state. The sale to Public Service Electric & Gas Company marked Allegheny's entry into the daily power market; the Niagara Mohawk sale was the co-op's first transaction outside of the Pennsylvania-New Jersey-Maryland power pool.

Anticipated and realized savings from these transactions are significant.

The sales allow Allegheny to market its projected excess summer energy from the Susquehanna Steam Electric Station and provide net benefits to its member co-ops. Bulk sales helped Allegheny keep the lid on rates for the fifth consecutive year.





By 1944, leaders of Pennsylvania's budding rural electric cooperatives realized that, as individual groups, they were still at the mercy of the private companies in buying electricity. An REA report that year noted Pennsylvania's rural residents served by co-ops were paying electric rates higher than those enjoyed by most co-ops across the nation. Something had to be done.

To negotiate for acceptable rates for their consumer-members, Pennsylvania's cooperatives formed Allegheny Electric Cooperative in 1945 to serve as their wholesale power supplier. With the bargaining power of all the co-ops behind it, Allegheny was able to negotiate rates that immediately saved the co-ops 20 percent on their power bills. By achieving a competitive rate for power on a short-term basis, Allegheny could allow its member co-ops to expand, bringing the benefits of electricity to the 75,000 rural families still without electricity.

TRANSMISSION PROJECTS

Allegheny Electric Cooperative, Inc. marked another transmission milestone in 1991 with the energization of the Donegal-Seven Springs transmission project. The effort — 7.5 miles of 138 kV transmission and a 138/24.9 kV distribution substation — provides additional service to Somerset Rural Electric Cooperative. Adequacy of power from previous transmission facilities, coupled with rapid load growth in the Seven Springs Ski Resort area (which includes parts of Somerset, Fayette and Westmoreland counties), necessitated the project.

The line is the second transmission project built by Allegheny. The first, the 5.6-mile, 69 kV Fairfield-Mill Creek project in Lycoming County, was completed in July 1990.

Also completed during the year was installation of a 46 kV motor-operated switch at the Claysburg Substation in Valley Rural Electric Cooperative's service area. The work at Claysburg will provide increased reliability for new and existing residential and commercial customers along the U.S. Route 220 North corridor. Recent improvements to Route 220 are expected to accelerate development in the area, leading to even more load growth in the future.

At its April board meeting, the Allegheny Board of Directors authorized the construction of five additional transmission projects to serve load requirements in co-op service areas.

The largest of the proposed projects is in Bedford Rural Electric Cooperative territory. There a 12-mile, 115 kV transmission line and a 115/24.9 kV substation will service a Texas Eastern gas pipeline pumping station load of approximately 5,000

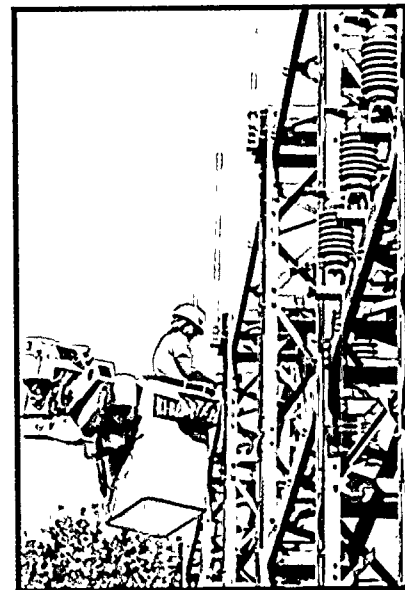
to 10,000 kilowatts. Engineering design and right-of-way acquisition for the Bedford project was underway as the year ended.

The other proposed projects are currently in planning and engineering stages. They include:

- a 9-mile, 46 kV transmission line with 12 kV underbuild from the West Penn Austin delivery point to the site of a new substation near the existing Elk Lick metering point in Tri-County Rural Electric Cooperative's territory in Potter County, Pa. The Austin project will extend service for increased commercial and industrial load development now occurring near the Elk Lick metering point and provide a strong electricity source for existing Tri-County members.
- a 13-mile, 46 kV line from a new West Penn delivery point at Lobo, Clinton County, Pa. to serve both existing commercial load at Cammal, Pa. and a dragline operation of the Fisher Mining Company in Lycoming County, Pa. The new delivery point and 13 miles of new transmission line are currently under design.

The first five miles of line from Lobo to Cammal will improve service to the existing load in the southern portion of Tri-County's service territory as well as help serve future load in the area. The second phase calls for an additional eight miles of 46 kV line from Cammal to the Fisher Mining Company operation, which will serve both Fisher's needs and future load requirements in the southcentral section of Tri-County's system.

- a 14.2-mile 25 kV line from Atwell to the Scrubgrass Power Plant in Central Electric Cooperative's territory. This project is contingent upon sufficient load development in the area neighboring the Scrubgrass Power Plant.



The cooperative form of business is a tradition among rural Americans. It exists in enterprises ranging from electric cooperatives and large farm marketing groups to the more simple, but equally effective, barn raisings and shared chores at harvest time.

Another equally strong — and older — rural tradition is respect for nature. That respect is rooted in the immediate dependence of many rural people on the fruits of the land.

Particularly in the 1990s, a “back to nature” attitude prevails. Many municipalities have instituted recycling programs as mandated by law.

Both city and rural residents are realizing the importance of preserving our natural countryside.

One of the biggest assets of Pennsylvania’s countryside is agriculture. Farming contributes to both the state’s rural landscape and its economy. In fact, agriculture is Pennsylvania’s largest industry. Farms occupy about 28 percent of Pennsylvania’s land area and contribute 22 percent of the Commonwealth’s annual economic production.

The concern for our rich natural environment also extends to the vast forests and streams that prompted the state's early name of Penn's Woods. Nearly 57 percent of Pennsylvania is covered in forest. Those wooded acres fuel a large wood products industry and provide recreation for state residents and the thousands of visitors who make tourism Pennsylvania's second largest industry.

Those farms and woodlands — and the people who enjoy and depend upon them — need clean air and water. That's why Allegheny and its member cooperatives share the environmental concerns of their consumer-members.

Allegheny's member cooperatives own and maintain about 16 percent of the electric utility lines in Pennsylvania, covering nearly one-third of the state's land area in 41 counties. The majority of that service area is comprised of some of the most rugged — and beautiful — areas to be found in America today. Allegheny believes that beauty deserves protection.

POWER AUTHORITY OF THE STATE OF NEW YORK

For the third consecutive year, Allegheny received good news regarding its allocation of electricity produced at the Niagara Power Project by the Power Authority of the State of New York (PASNY).

In early October, the U. S. Supreme Court halted the six-year effort by "paper" municipal electric systems in New York and Vermont to receive preference power generated by PASNY.

The High Court refused to review a December 1990 Second Circuit U.S. Court of Appeals decision that rejected the paper municipals' effort to overturn an earlier Federal Energy Regulatory Commission (FERC) ruling. In that ruling, FERC held that the paper municipals were not "public bodies" under the Niagara Redevelopment Act. FERC noted that the New York paper municipals were ineligible for preference power because they did not sell and distribute power directly to consumers. Vermont's appeal was rejected because it was incapable of selling and distributing power directly to electric consumers at the retail level.

The Appeals Court decision further reaffirmed provisions in the federal Niagara Redevelopment Act that non-profit rural electric cooperatives and legitimate municipal electric systems — within economical transmission distance — have first right, or preference, to 50 percent of the electric power produced at the Niagara Power Project.

The "paper muni" case began in July 1985 when PASNY started channeling large amounts of low-cost Niagara power to private power companies in New York.

PASNY legitimized those transactions by encouraging New York local governments to create municipal electric systems that existed only on paper. These paper munis then entered into lease operating agreements with private power companies, which used the preference power directly.

Like the New York agencies, the Vermont Department of Public Service fronted as a preference customer and turned power over to private utilities in that state.

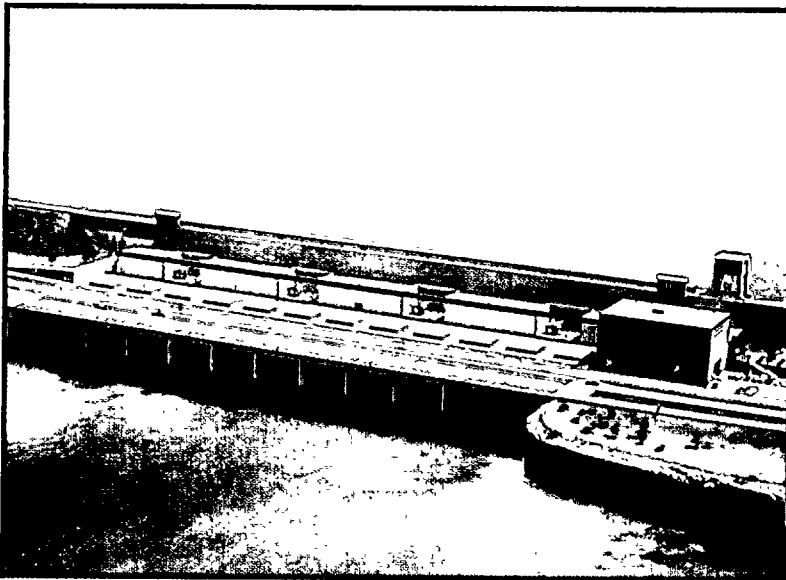
In an effort to regain a greater share of PASNY power, Allegheny joined real New York municipal electric systems and other true out-of-state preference customers in a suit against PASNY.

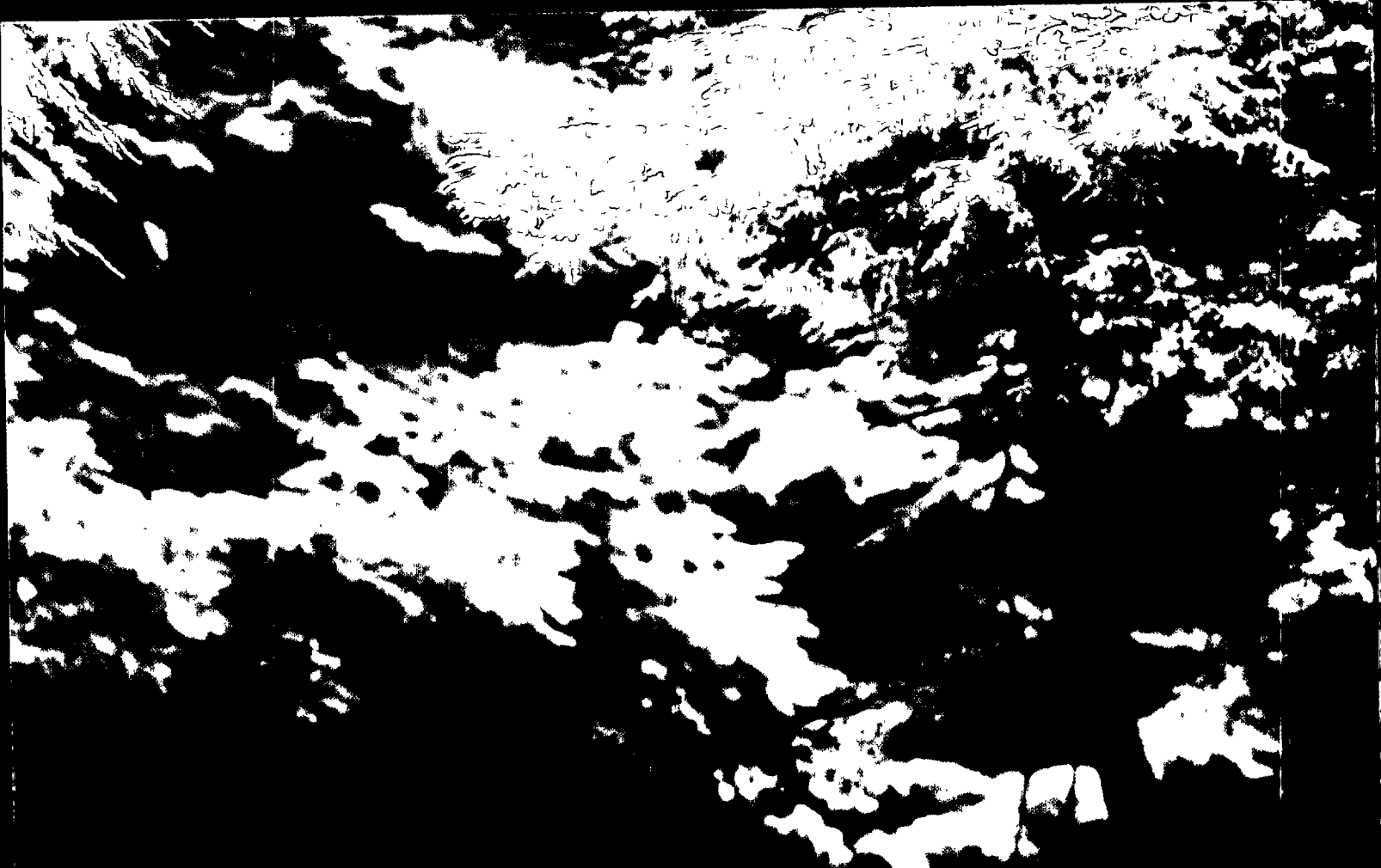
Allegheny's right to an additional 7,700 kilowatts of Niagara power — which the cooperative received while the appeal process played out — remains intact. Allegheny's total share of PASNY power stands at 43.9 megawatts.

The Supreme Court rejection was the the final, non-appealable step and successfully concludes the issue in favor of Allegheny.

The Niagara project produces electricity at a low cost; in fact, it is among the least expensive in the U.S. Since Allegheny began buying it in 1966, PASNY power has saved the cooperative more than \$214 million, compared to the cost of purchasing the same amount of electricity from private power companies.

In 1991, Allegheny's PASNY savings amounted to \$7.4 million. The extra 7.7 megawatt allocation alone shaves \$1.6 million annually from Allegheny's purchased power costs, based on current rates.





As cooperatives owned by those they serve, rural electric systems were founded to improve the quality of life for rural people by providing affordable, dependable electricity. But other factors also contribute to quality of life. That is why many co-ops also foster economic growth and community programs to meet rural needs — such as water and sewer improvements, transportation and medical care.

Allegheny extends these efforts by pursuing clean, non-polluting energy sources and promoting programs and policies designed to reduce the need to construct additional fossil-fuel fired power plants.



SUSQUEHANNA STEAM ELECTRIC STATION

The Susquehanna Steam Electric Station (SSES) a 2,100 megawatt, two-unit, nuclear plant in Luzerne County, Pa., added to its already exceptional operating and safety performance in 1991. Allegheny owns 10 percent of SSES. Pennsylvania Power & Light Company (PP&L), a private power company based in Allentown, Pa., is the operator and 90 percent owner of the boiling water reactor facility.

SSES broke its all-time operating records in 1991. The annual capacity factor for Unit 1 was 95.3 percent, ranking the unit first in the world during the year among 50 reactors of its type. For Unit 2, capacity factor was 75.8 percent (without refueling, Unit 2 operated at a 91 percent capacity factor). When combined, this resulted in a composite capacity factor of 85.5 percent. This figure was well above budget expectations. In comparison, the average capacity factor for boiling water nuclear reactor plants in the United States is approximately 67 percent, according to the Utility Data Institute.

By the end of fiscal year 1991, SSES had produced 15.9 billion kilowatt-hours of electricity, far surpassing its previous record of 14.8 billion kilowatt-hours set in 1987. SSES provides 56.4 percent of Allegheny's total system energy requirements.

The Cowanesque Reservoir, a water source reserved for use in times of drought, proved its value during 10 dry days in September. If the water from the Cowanesque had not been available, SSES may have had to severely reduce power, resulting in additional costs to cooperative consumer-members. The reservoir was completed and declared in service in July 1990.

Once again, the Nuclear Regulatory Commission (NRC) ranked SSES among the best operated nuclear plants in the nation. In its Systematic Assessment of Licensee Performance (SALP) report, covering the period August 1, 1990 through November 30, 1991, the NRC gave SSES the highest possible rating in five of seven categories.

The results of the SALP report are very impressive. SSES performance currently ranks eighth out of 72 plants nationally and second among 27 boiling water reactors. SSES has never received a rating below Category 2 — the second highest grade possible in the report.

SSES also scored the second-highest possible rank in an Institute of Nuclear Power Operations (INPO) evaluation completed in October. INPO is an industry group which promotes safety and efficiency at nuclear power plants.

INPO gave the plant high marks for the performance of its personnel, the stable, experienced plant staff, the excellent morale, and the cooperation between work groups. On a scale of 1 to 5, with 1 being the highest, SSES was awarded a 2.

INPO noted five "Good Practices" during its inspection. A Good Practice is circulated to other utilities to help improve other plants' performance. Most evaluations only turn up one or two Good Practices per plant.



In Allegheny's early years, long-range power supply was not a top item for the relatively-new cooperatives. However, as rural areas grew, so did the need to better ensure an adequate power supply not dependent on purchases from private power companies.

In 1966, Allegheny took a major stride toward this goal when, as a preference customer, it began purchasing non-polluting hydropower generated at the publicly-owned Niagara Power Project from the Power Authority of the State of New York (PASNY). In addition to its environmental benefits, this extremely low-cost hydropower has saved Allegheny more than \$200 million compared to the cost of power it would have needed to buy from private utilities.

In 1977, Allegheny continued developing reliable, non-polluting energy sources when it contracted for 10 percent ownership in the Susquehanna Steam Electric Station (SSES). SSES is a 2,100 megawatt, two-unit nuclear power plant located near Berwick, Pa. The facility supplies 56 percent of Allegheny's power supply needs.

Allegheny furthered its commitment to low-cost, environmentally-benign generation with the Raystown Hydroelectric Project, William F. Matson Generating Station, which began commercial operation on June 15, 1988. Named for the first president of Allegheny, Matson Station is the cooperative's first wholly developed and operated generating plant. It supplies 4.5 percent of the energy delivered by Allegheny, enough for about 8,500 average rural homes.

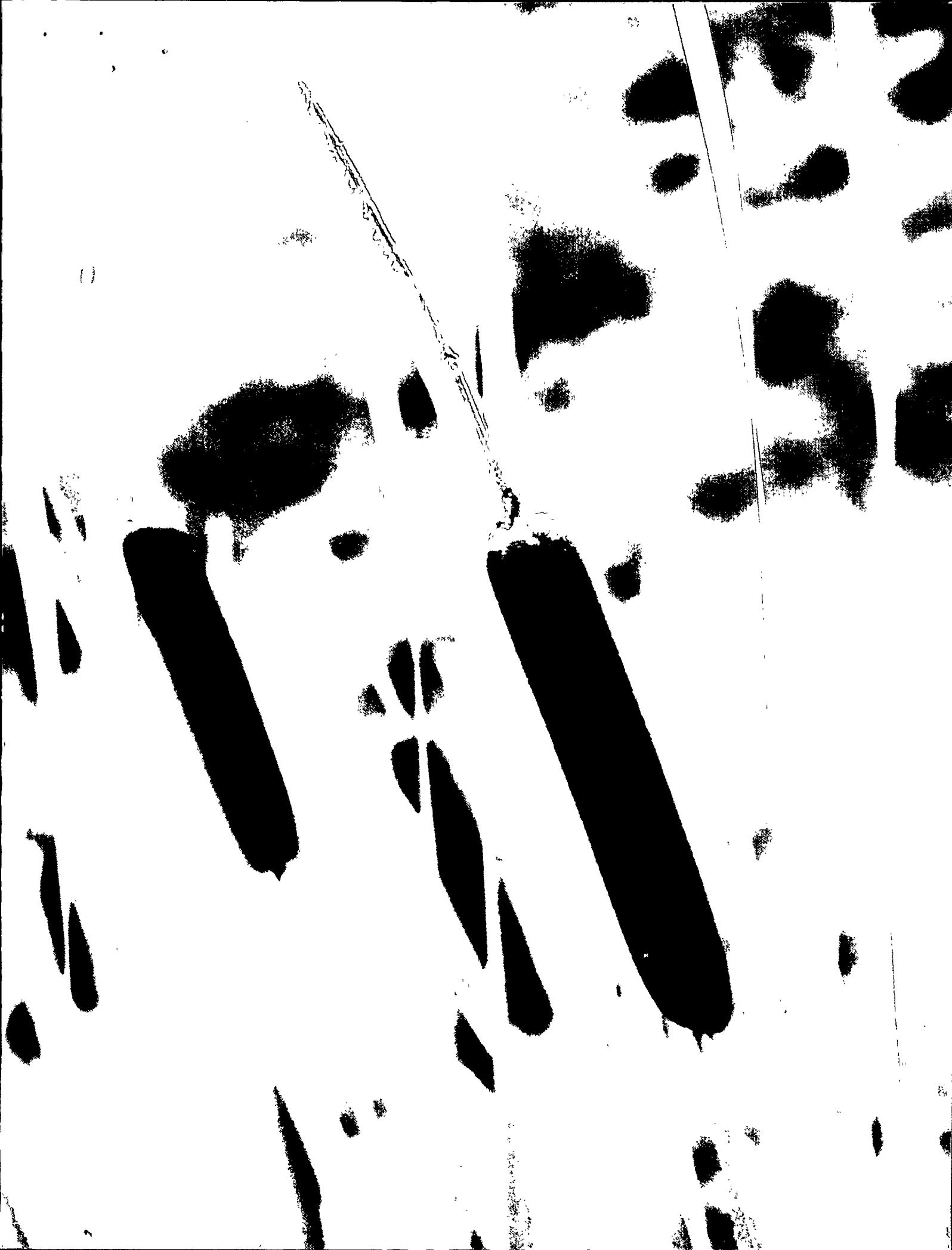
LOAD MANAGEMENT

By shifting electricity use of residential water heaters, electric thermal storage (ETS) units and dual fuel home heating systems from peak demand periods to times of lesser demand, the Coordinated Load Management System improves system efficiency, lessens the costly demand charges Allegheny must pay for purchased power and reduces the need for new generating capacity.

Allegheny and its member cooperatives launched the load management program in late 1986, using load management equipment to reduce peak demand at individual substations. By the end of the 1991 fiscal year, more than 23,000 load control receivers (which switch off the heating element in water heaters during peak hours) had been installed in the homes of volunteer consumer-members. Participating cooperatives reported gross power cost savings of over \$2.3 million during the year and a total savings to date of more than \$6.3 million in the five years since the program began.

In October 1989, load management coordinating system computers were installed in Allegheny headquarters. The coordinating system receives electric use and climate data from cooperative member systems and uses it for load forecasting and systemwide load control.

Since then, Allegheny has worked with its wholesale power suppliers to develop data links to allow Allegheny to monitor the suppliers' load conditions as well as conditions on the member systems. Such refinements will enhance the ability to control purchased power costs and will help Allegheny maintain rate stability for its members.



RAYSTOWN HYDROELECTRIC PROJECT

The Raystown Hydroelectric Project, William F. Matson Generating Station is a 21-megawatt, run-of-the-river hydroelectric plant licensed by the Federal Energy Regulatory Commission. The facility is located at the Raystown Lake and Dam in Huntingdon County, Pa. and generates about 4.5 percent of the energy supplied by Allegheny.

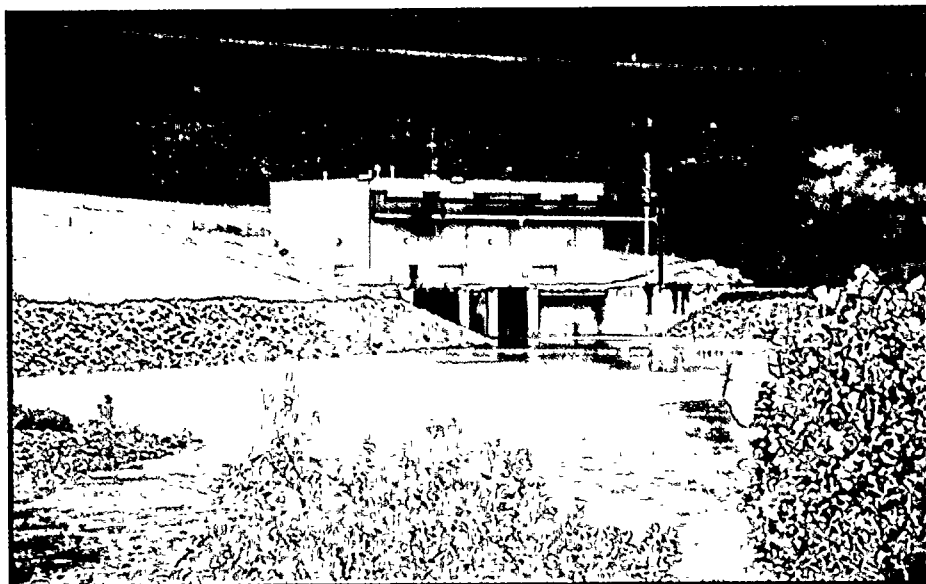
Allegheny operates the plant in close cooperation with the U.S. Army Corps of Engineers, which controls water releases from Raystown Lake, the largest in Pennsylvania.

Despite unusually low flow conditions from May until the end of the year, the Raystown Hydroelectric Project continued successful operation during fiscal 1991. The plant produced in excess of 96.3 million kilowatt-hours of electricity through the period, 12.8 percent above expected generation.

The two-unit plant operated 103 days at maximum output of 21 megawatts compared to 89 days in fiscal 1990.

Record high plant availability of 99 percent was recorded, 2 percent greater than the 97 percent goal and well above the small hydro industry average of 88 percent. Outages were reduced from 62 in fiscal year 1990 to 51 this year. In terms of cost effectiveness, the plant's operating expenses were a little over \$2.5 million, or a cost of 2.6 cents per kilowatt-hour.

During the year, the Corps continued studying the feasibility of releasing water from the lake during extreme drought conditions. Allegheny and the Corps have worked together to detail the alternatives and assess the impact on plant operation. The Corps has pledged its cooperation in developing and assessing all alternatives with hydropower in mind. A draft report is due in March 1992.



Thanks to PASNY, SSES and Raystown, a full 76 percent of the energy Allegheny supplies to its member cooperatives today doesn't pollute the air.

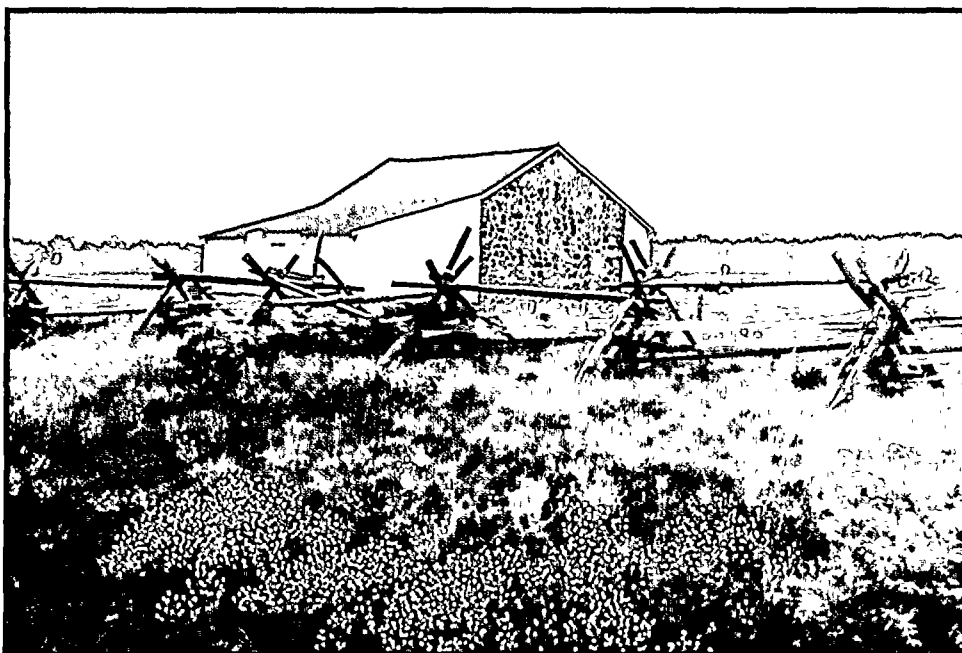
While Allegheny invests in clean, non-polluting power sources, the co-op continues to advocate and defend statutes and regulations to benefit the state's rural residents. One such state law, the Unincorporated Area Certified Territory Law, originally enacted in 1975 and codified in 1990, assigns exclusive territories for all of Pennsylvania's rural electric cooperatives and private power companies. The law stipulates that each electric supplier has the exclusive right and duty to provide service within its own territory.





This law helps avoid costly duplication of facilities, waste of materials and further protects natural resources. It also allows Allegheny's member co-ops to retain large loads, such as businesses, factories and retail centers that move into cooperative territory. This promotes the orderly planning of new systems and reduces long-term costs for all consumers, limits the environmental impact of providing electric service and assures reliability of supply.

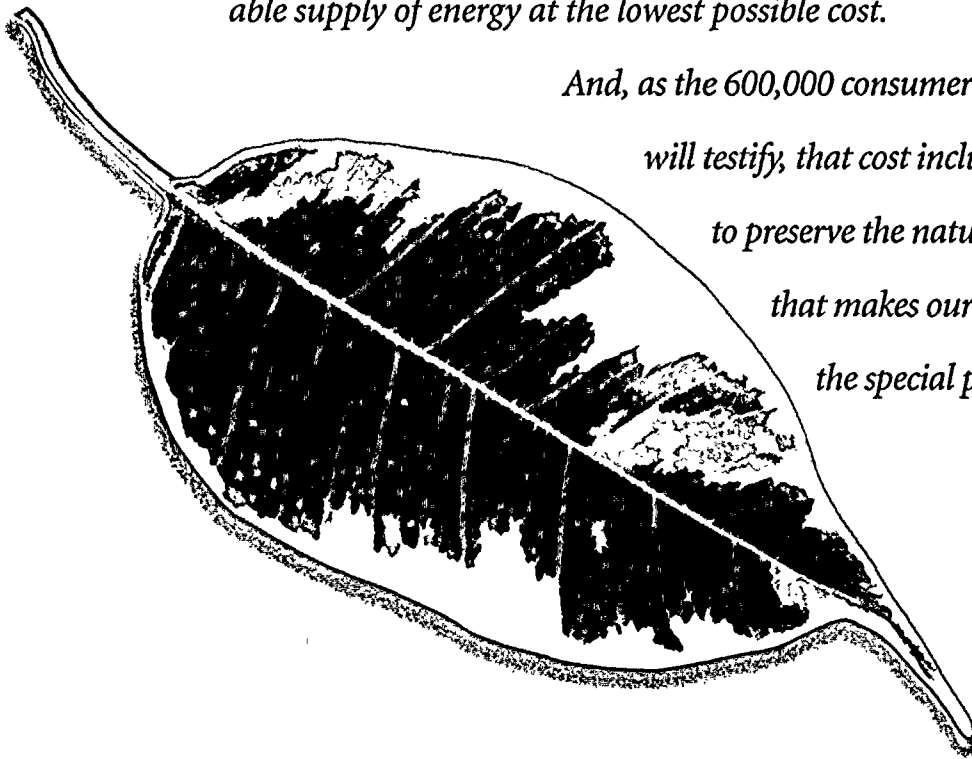
Energy management, conservation and research are top priorities for Allegheny. Through the Coordinated Load Management System, Allegheny and its members cut down expensive peaks in demand placed on the electrical system, leading to long-term savings and reduced need for new power plants.



The Coordinated Load Management System allows member cooperatives to monitor electric load conditions at 80 substations. When demands occur, power to water heaters of volunteer consumer-members is briefly curtailed. Since a water heater will store heated water for a long time, there is virtually no inconvenience. To date, the system has saved member cooperatives more than \$6.3 million in gross power costs.

For nearly 50 years, Allegheny has pursued a balanced energy supply program. By doing so, it is achieving the goal it set in 1945: to provide rural electric cooperative consumers with an adequate and reliable supply of energy at the lowest possible cost.

And, as the 600,000 consumers of our co-ops will testify, that cost includes taking steps to preserve the natural environment that makes our rural landscape the special place it is. 🌿







Dave Turner
Warren EC



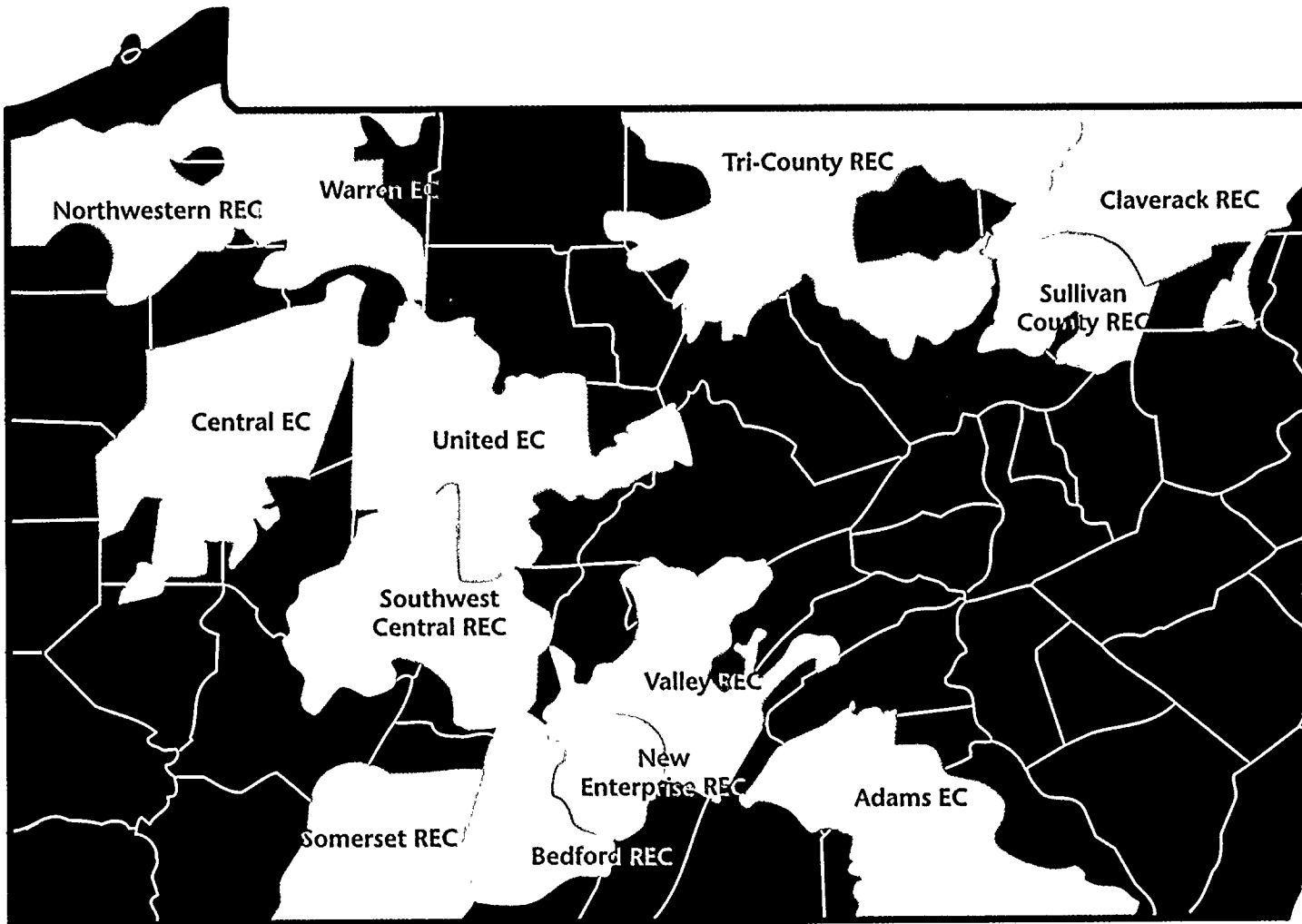
John Looser
Adams EC



Alston Teeter
Tri-County REC



Lowell Friedline
Somerset REC





Ralph Fischer
Bedford REC



Winston Donaldson
Central EC



John Drake
Claverack REC



John Ritchey
New Enterprise REC



Harold Hines
Northwestern REC



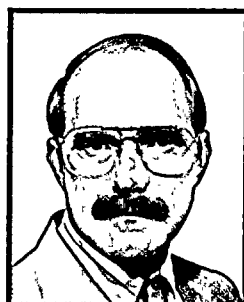
Donald Streams
Southwest Central REC



John Anstadt
Sullivan County REC



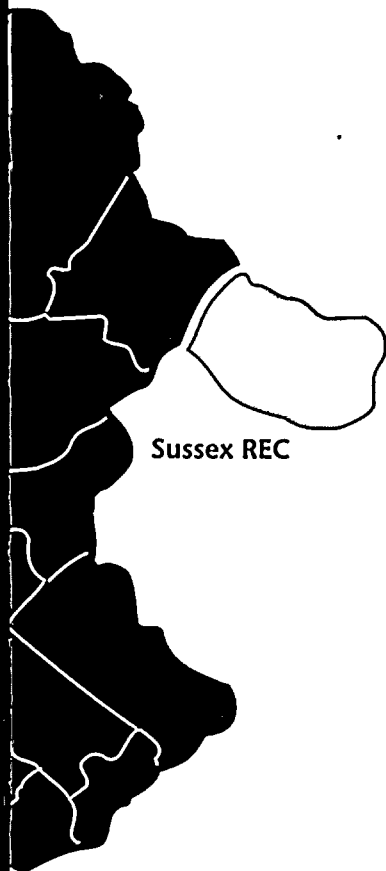
James Henderson
Sussex REC



Anson Brosius
United EC



Harold Ritchey
Valley REC



Sussex REC



From left: Rob A. Seide: Director of Communications ▪ Anthony C. Adonizio: General Counsel ▪ Frank M. Betley: Director of Power Supply & Engineering ▪ Laurence V. Bladen: Director of Finance and Administrative Services ▪ William E. Mowatt: Vice President and Director of Governmental Affairs ▪ Jesse C. Tilton III: President ▪ Robert S. Horn: Risk Manager (not pictured)

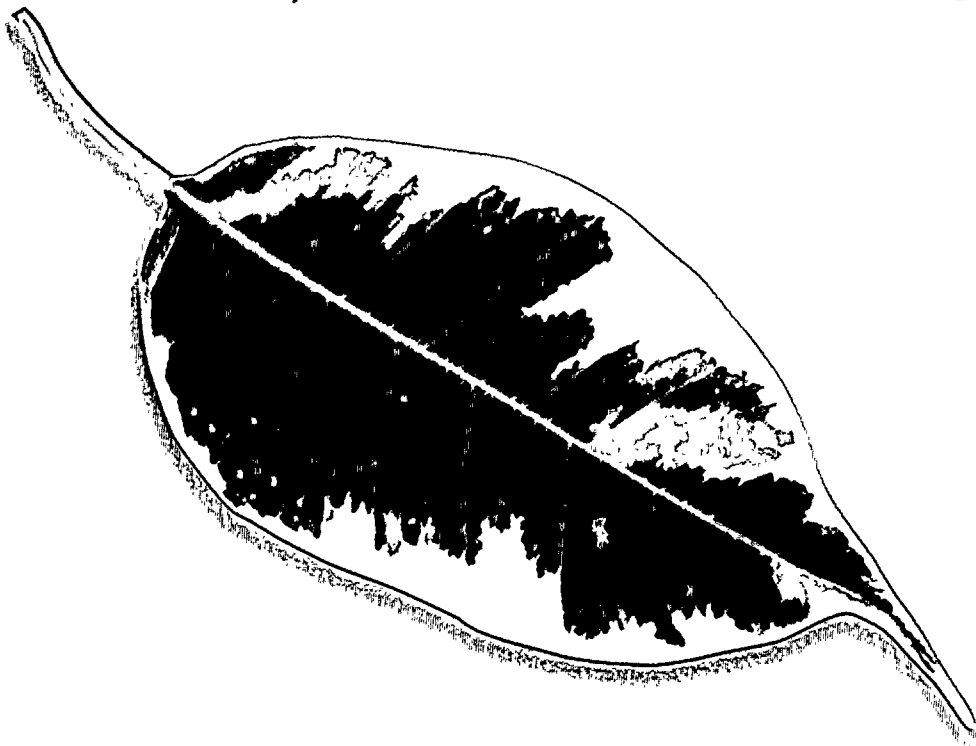


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During fiscal year 1991 both the rural electrification program in general, and Allegheny Electric Cooperative, Inc. specifically, faced and met a number of difficult challenges.

On the national level, the cooperatives focused on the 25 percent reduction in Rural Electrification Administration (REA) insured loan levels included in the 1991 federal budget and on REA's proposed regulation establishing an eight-part "means test" for allocating available insured loan funds. Allegheny actively participated in the rule-making process by filing specific comments. Additionally, Allegheny supported the legislative efforts of the National Rural Electric Cooperative Association which were ultimately successful in getting the loan funds restored and the means test blocked.

At the same time, Allegheny faced the expiration of the Letters of Credit supporting its 1984 Series A and its 1984 Series B Pollution Control Bond issues. REA had to provide mortgage security to Rabobank Nederland in the form of a lien accommodation or the Letters of Credit would have matured in mid-1991.

After much effort, numerous discussions with Rabobank, and meetings with REA, the agency on March 31 approved lien accommodations to Rabobank in the amount of \$18.2 million. With these lien accommodations in place, Allegheny successfully obtained extensions on the Letters of Credit to October 1995. This ensures Allegheny's continuing ability to utilize variable rate, short-term tax-exempt bonds to finance a portion of the pollution control facilities at the Susquehanna Steam Electric Station (SSES).

Other Allegheny financial achievements during fiscal year 1991 included obtaining REA approval to retire 1974 capital credits in the amount of \$623,150; obtaining from REA an additional 18 months to draw down unadvanced Federal Financing Bank loan funds in connection with SSES; and the first deposit into the Nuclear Regulatory Commission's mandated trust account for decommissioning SSES.

During the year, working with CoBank, Allegheny began to more actively manage the debt portion of the Raystown Hydroelectric Project leveraged lease. Each week, Allegheny receives interest rate information from CoBank. Then, at each interest rate resetting date, based upon this and other financial information, Allegheny selects the length of rollover periods it desires, and the dollar amount of leveraged lease debt that will be repriced for each period. This enables Allegheny to periodically fix the interest rates on the leveraged lease debt and to more effectively manage interest rate exposure.

In June, the Allegheny Board of Directors directed the Audit, Finance, Accounting and Allegheny Building Committee to develop and issue a Request for Proposals for auditing services. The committee received a number of proposals from accounting firms and, after evaluation, the board of directors, in accordance with the requirements set forth in 7 CFR 1773, selected the accounting firm of Coopers & Lybrand to perform the 1991 audit.

MARGINS

To conform to Financial Accounting Standards Board (FASB) Statement No. 92, Allegheny changed the method of depreciation for SSES in 1990. This change necessitated the recognition of depreciation expense deferred through 1989. To accomplish this, the Allegheny board wrote-off the entire \$31 million deferral in 1990. As a result of this write-off Allegheny incurred a \$28 million net loss for 1990.

The 1991 margins of \$2,539,149 met Allegheny's Times Interest Earned Ratio (TIER) goal of 1.06. Additional margins of \$2,539,845 earned during 1991 in excess of this TIER requirement will flow back to member cooperatives in 1992 through Allegheny's cost of service billing adjustment.

FINANCING

One of the largest expense items for Allegheny is interest on long-term debt. During 1991, it accounted for more than 28 percent of total Allegheny expenses. Since 1978, Allegheny has borrowed over \$559 million from REA, repaid \$82 million and paid more than \$524 million in interest.

To control interest costs, Allegheny makes every effort to use the lowest-cost financing vehicles available. These have included pollution control bonds, commercial paper, lines of credit, REA insured and guaranteed loans, and leveraged leasing. As of October 31, 1991 Allegheny's dollar weighted average interest rate on outstanding debt (excluding leveraged lease debt) was 7.95973 percent.

POLLUTION CONTROL BONDS: Allegheny has been able to achieve very attractive interest rates by using variable rate tax-exempt pollution control revenue bonds to finance a portion of the pollution control facilities at SSES. In 1991, the average yield on the bonds, which bear interest at weekly and monthly variable rates, was 4.9 percent. These bonds issued through the Lehigh County Industrial Development Authority are backed by irrevocable letters of credit issued by Rabobank Nederland.

COMMERCIAL PAPER: Allegheny maintains a commercial paper program to supplement short-term project financing. In 1990 Moody's Investors Services reviewed and confirmed its Prime-2 rating of Allegheny's commercial paper. No commercial paper was issued or outstanding during 1991.

LINE OF CREDIT: In fiscal year 1991, Allegheny had a \$21.4 million line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC). When needed, this line of credit is used to supplement project financing. The cooperative did not draw on these funds in 1991.

REA INSURED AND GUARANTEED LOANS: A traditional blend of REA insured and REA guaranteed loans makes up the vast majority of Allegheny's debt portfolio and continues to be Allegheny's most important source of financing. REA guaranteed loans made by the Federal Financing Bank (FFB) have been used to finance additions to SSES. Approximately 18 percent of the \$487.2 million of outstanding FFB loans to Allegheny continue to bear short term interest rates of two years. The remaining FFB loans have 35 year maturities and bear a weighted average interest rate of 8.23 percent. Allegheny has utilized REA insured loans to finance transmission and load management projects. Bearing interest at 5 percent, these loans offer one of the lowest sources of financing available to Allegheny. During 1991, \$3.9 million in REA insured and guaranteed loans were advanced to the cooperative.

LEVERAGED LEASE: Leveraged leasing the Raystown Hydroelectric Project lowered the cost of power produced by the project to below the cost of the purchased power it replaced. This provided an immediate savings to Allegheny's member cooperatives.

Under the lease agreement, Allegheny retains control over placement of the \$23 million debt portion of the lease. As stated above, in 1991 Allegheny began to more actively manage the lease debt. Under this program, which began in July, debt was split between 30-day and two-year maturities. By placing 60 percent of the debt

in 30-day maturities, Allegheny was able to take advantage of the decline in interest rates experienced during the year. When compared to placing the total lease debt in a two-year maturity, the 30-day maturities resulted in an interest savings of over \$65,000 for the remainder of the fiscal year.

CFC: In addition to providing Allegheny with a line of credit, CFC has provided financing for the Locust Court Building (Allegheny's offices) and a loan in the amount of \$4.4 million for load management facilities and transmission projects.

TAXABILITY: Allegheny has a private letter ruling from the Internal Revenue Service providing for the cooperative to remain taxable until an application is made to become a tax-exempt organization again. Allegheny expects to have tax losses to carry forward to offset estimated tax liability for the foreseeable future.

REGULATION: Unlike for-profit, investor-owned utilities, Allegheny and its member cooperatives are consumer-owned and non-profit. They are regulated by their consumer-members acting through a member-elected board of directors and are not under the jurisdiction of the Pennsylvania Public Utility Commission or the New Jersey Board of Public Utilities. However, REA does review the cooperative's rate making and operating practices.

Allegheny's board of directors are democratically elected. One director is selected from each of Allegheny's member cooperatives. The board governs all policies, including the establishment of rates. Board review of the rate-making process and approval of each rate change assures the member cooperatives that the price they pay for electricity is fair and reasonable.

ALL-REQUIREMENTS CONTRACT: Each of the 14 cooperatives served by Allegheny has entered into a Wholesale Power and Power Cost Pooling Contract, commonly referred to as an All-Requirements Contract. As a condition for approval of loans to Allegheny, REA required Allegheny's members to execute these contracts. All generation and transmission cooperatives borrowing money from REA are required to have substantially similar contracts signed by their member distribution cooperatives.

By signing this contract, Allegheny's member distribution cooperatives agree to purchase all their power supply needs from Allegheny. They also agree to adjust their retail rates to meet all costs and TIER requirements.

In January 1977, each of Allegheny's member cooperatives executed an amendment to the original 1965 contract to cover Allegheny's purchase of 10 percent of the Susquehanna Steam Electric Station. The amendment extended the contract to December 31, 2025 to cover the life of the plant.

TERRITORIAL INTEGRITY: The Unincorporated Area Certified Territory Law of 1990, originally signed into law in July 1975 and codified in 1990, assigns exclusive territories for all of Pennsylvania's rural electric cooperatives and private power companies. The law states that each electric supplier has the exclusive right and duty to provide service within its own territory.

This law helps avoid costly duplication of facilities, waste of materials and natural resources, plus improves efficiency. It also allows cooperatives to retain large loads such as businesses, factories and retail centers that move into co-op territory. These additional loads help the cooperatives, which primarily serve sparsely populated areas, to moderate rates by spreading their costs over greater sales.

SUMMARY OF OPERATIONS —

	Adams	Bedford	Central	Claverack	New Enterprise	Northwestern	Somerset
Operating revenue	\$27,277,267	\$7,450,022	\$18,502,595	\$14,918,639	\$3,176,275	\$16,767,788	\$12,807,933
OPERATING EXPENSES							
Purchased power	\$17,642,696	\$5,013,696	\$10,947,041	\$8,601,820	\$2,226,633	\$10,163,859	\$9,174,999
Operations & maintenance	\$5,045,379	\$1,572,049	\$4,346,986	\$3,656,048	\$766,204	\$3,967,499	\$1,944,322
Depreciation	\$1,561,533	\$358,980	\$943,751	\$1,013,880	\$162,000	\$878,420	\$566,857
Taxes	\$225,787	\$68,243	\$144,146	\$214,251	\$28,970	\$230,091	\$133,108
Interest	\$1,698,927	\$337,224	\$1,093,936	\$872,464	\$0	\$852,626	\$727,931
Cost of Electric Service	\$26,174,321	\$7,350,191	\$17,475,860	\$14,358,463	\$3,183,807	\$16,092,494	\$12,547,217
Operating Margins	\$1,102,946	\$99,831	\$1,026,735	\$560,176	(\$7,532)	\$675,294	\$260,716
Non-operating margins & capital credits	\$206,110	\$101,284	\$273,731	\$95,776	\$50,201	\$164,564	\$263,612
Net margins	\$1,309,056	\$201,115	\$1,300,466	\$655,952	\$42,670	\$839,858	\$524,328
ASSETS							
Total Utility plant	\$49,729,924	\$14,071,442	\$35,776,156	\$33,814,297	\$3,376,317	\$33,475,348	\$22,225,602
Less accumulated depreciation	\$11,608,869	\$4,384,500	\$9,257,291	\$8,315,128	\$1,924,504	\$9,355,700	\$5,015,775
Net utility plant	\$38,121,054	\$9,686,942	\$26,518,865	\$25,499,169	\$1,451,813	\$24,119,647	\$17,209,827
Other property & investments	\$7,519,539	\$2,253,485	\$5,301,122	\$4,007,774	\$938,330	\$5,842,541	\$4,187,733
Current & accrued assets	\$5,795,405	\$2,135,880	\$4,321,382	\$1,488,767	\$305,136	\$2,449,645	\$4,197,975
Deferred debits	\$117,749	\$65,040	\$4,370	\$148,139	\$0	\$476,416	\$3,107
Total assets	\$51,553,747	\$14,141,347	\$36,145,739	\$31,143,849	\$2,695,279	\$32,888,250	\$25,598,642
LIABILITIES							
Margins & equities	\$19,631,251	\$6,599,056	\$14,963,703	\$11,457,053	\$196,329	\$14,159,126	\$11,063,673
Long-term debt	\$29,672,277	\$6,488,921	\$18,205,290	\$18,452,934	\$0	\$16,169,825	\$13,200,478
Current & accrued liabilities	\$2,238,395	\$758,599	\$2,660,280	\$1,316,946	\$2,498,949	\$2,556,174	\$1,209,639
Other credits & reserves	\$11,824	\$294,770	\$316,466	(\$83,084)	\$0	\$3,126	\$124,852
Total Liabilities	\$51,553,747	\$14,141,347	\$36,145,739	\$31,143,849	\$2,695,279	\$32,888,250	\$25,598,642
OTHER STATISTICS							
Miles of Line	2,464	1,148	2,932	2,407	326	2,343	1,841
Consumers served	22,094	7,736	21,838	15,154	2,486	16,301	11,108
Consumers per mile	9.0	6.7	7.4	6.3	7.6	7.0	6.0
Kwh sold per consumer	13,069	10,520	8,102	9,033	13,713	10,477	12,397
Mwh sales	288,738	81,385	176,923	136,884	34,091	170,786	137,705
Annual revenue per consumer	\$1,235	\$963	\$847	\$984	\$1,278	\$1,029	\$1,153
Plant investment per consumer	\$1,725	\$1,252	\$1,214	\$1,683	\$584	\$1,480	\$1,549
Revenue per mile of line	\$11,070	\$6,490	\$6,311	\$6,198	\$9,743	\$7,158	\$6,957

Above figures adjusted to reflect fiscal year ending October 31, 1991.

ALLEGHENY MEMBER SYSTEMS

Southwest	Sullivan	Sussex	Tri-County	United	Valley	Warren	TOTAL
\$22,088,220	\$3,718,952	\$12,003,347	\$12,877,637	\$13,076,667	\$16,914,220	\$5,294,407	\$186,873,969
\$15,681,557	\$2,357,551	\$6,320,622	\$7,304,227	\$7,689,353	\$10,748,768	\$3,075,348	\$116,948,170
\$3,301,375	\$748,149	\$2,384,983	\$3,381,563	\$2,897,738	\$3,038,512	\$1,020,725	\$38,071,531
\$892,237	\$259,026	\$722,326	\$852,594	\$874,520	\$970,434	\$307,420	\$10,363,977
\$139,008	\$37,687	\$1,381,897	\$150,461	\$83,829	\$140,374	\$48,686	\$3,026,539
\$1,067,245	\$229,845	\$760,423	\$1,084,798	\$1,164,799	\$734,086	\$142,285	\$10,766,590
\$21,081,422	\$3,632,258	\$11,570,251	\$12,773,643	\$12,710,239	\$15,632,175	\$4,594,464	\$179,176,807
\$1,006,798	\$86,693	\$433,096	\$103,994	\$366,428	\$1,282,045	\$699,942	\$7,697,162
\$148,805	\$51,716	\$205,653	\$207,328	\$195,507	\$240,783	\$88,370	\$2,293,441
\$1,155,603	\$138,409	\$638,749	\$311,322	\$561,935	\$1,522,828	\$788,313	\$9,990,603
\$33,766,993	\$8,955,802	\$22,386,828	\$33,398,088	\$34,364,522	\$35,194,403	\$11,347,198	\$371,882,920
\$5,705,945	\$2,942,695	\$5,279,636	\$8,329,558	\$9,086,858	\$9,800,672	\$3,816,181	\$94,823,313
\$28,061,048	\$6,013,107	\$17,107,192	\$25,068,530	\$25,277,664	\$25,393,731	\$7,531,017	\$277,059,606
\$6,150,524	\$1,230,308	\$2,656,476	\$3,663,090	\$4,844,624	\$4,615,528	\$1,591,303	\$54,802,378
\$2,482,761	\$531,585	\$3,169,925	\$2,219,603	\$2,888,829	\$4,139,105	\$1,290,876	\$37,416,874
\$62,170	\$767	\$347,640	\$26,306	\$293,666	\$19,300	\$480,021	\$2,044,691
\$36,756,503	\$7,775,767	\$23,281,233	\$30,977,529	\$33,304,783	\$34,167,664	\$10,893,217	\$371,323,549
\$17,687,854	\$2,934,790	\$8,002,485	\$11,518,349	\$10,949,842	\$18,292,913	\$7,149,354	\$154,605,778
\$17,218,010	\$4,501,996	\$12,691,147	\$18,609,209	\$20,699,069	\$13,483,501	\$3,151,994	\$192,544,651
\$1,788,977	\$338,832	\$2,533,533	\$789,942	\$1,193,410	\$2,033,154	\$327,565	\$22,244,396
\$61,662	\$149	\$54,068	\$60,029	\$462,462	\$358,097	\$264,304	\$1,928,724
\$36,756,503	\$7,775,767	\$23,281,233	\$30,977,529	\$33,304,783	\$34,167,664	\$10,893,217	\$371,323,549
2,424	798	609	2,856	2,615	2,384	1,013	26,159
19,494	4,957	9,822	15,966	15,961	20,679	8,516	192,112
8.0	6.2	16.1	5.6	6.1	8.7	8.4	7.3
12,323	7,453	10,279	6,700	7,182	8,198	5,629	9,597
240,221	36,945	100,963	106,979	114,631	169,525	47,940	1,843,717
\$1,133	\$750	\$1,222	\$807	\$819	\$818	\$622	\$973
\$1,439	\$1,213	\$1,742	\$1,570	\$1,584	\$1,228	\$884	\$1,442
\$9,112	\$4,659	\$19,700	\$4,509	\$5,001	\$7,095	\$5,228	\$7,144

ALLEGHENY ELECTRIC COOPERATIVE, INC.

ASSETS	1991	1990	1989	1988	1987
General Plant	\$640,405,919	\$633,120,217	\$616,987,394	\$609,034,277	\$602,287,851
Construction Work in Progress	\$11,495,759	\$5,903,441	\$9,240,232	\$6,938,574	\$26,112,471
TOTAL PLANT	\$651,901,679	\$639,023,658	\$626,227,626	\$615,972,851	\$628,400,322
Accumulated provision for depreciation & amortization	\$154,581,169	\$137,581,537	\$88,725,714	\$70,828,954	\$55,661,532
NET PLANT	\$497,320,510	\$501,442,121	\$537,501,912	\$545,143,897	\$572,738,790
Non-Utility property - net	\$5,010,441	\$4,970,628	\$5,055,971	\$5,083,843	\$5,201,705
Capital Credits - NRUCFC	\$125,292	\$296,167	\$322,609	\$344,133	\$330,510
Investments in associated organizations	\$3,879,055	\$3,879,261	\$3,879,452	\$3,811,153	\$3,810,055
Other Investments	\$4,628,698	\$4,012,303			
Cash - general funds	\$640,291	(\$887)	(\$457,634)	\$1,296,372	\$543,990
Cash - construction fund	\$1,889	\$12,103	\$1,483	\$251,664	\$1,000
Temporary investments	\$36,895,537	\$47,019,705	\$35,078,414	\$39,577,723	\$22,518,536
Special funds	\$1,889,548	\$1,901,112	\$1,903,823	\$2,071,952	\$2,173,210
Notes receivable	\$3,695,755	\$4,148,632			
Accounts receivable	\$13,766,227	\$11,549,690	\$13,734,646	\$14,411,035	\$11,915,466
Materials and Supplies-Other	\$4,694,020				
Prepayments	\$1,133,323	\$1,113,921	\$1,052,028	\$1,030,083	\$988,752
Other current & accrued assets	\$1,047,743	\$574,342	\$342,028	\$333,278	\$109,812
Deferred debits	\$2,643,004	\$499,200	\$1,350,929	\$848,811	\$1,396,250
TOTAL ASSETS	\$577,371,333	\$581,418,298	\$599,765,661	\$614,203,944	\$621,728,076
LIABILITIES					
Memberships	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800
Patronage capital	\$12,012,827	\$9,921,071	\$38,941,810	\$36,387,453	\$34,174,253
Donated capital	\$50,730	\$50,730	\$50,730	\$50,730	\$49,632
Long-term debt - REA	\$7,413,005	\$5,623,571	\$4,010,892	\$501,601,153	\$502,382,263
Long-term debt - other	\$508,537,784	\$516,407,133	\$522,511,395	\$30,318,791	\$30,563,478
Notes payable				\$5,180,000	\$19,300,000
Accounts payable	\$16,830,638	\$18,923,576	\$4,287,707	\$8,801,704	\$8,923,598
Cost of service adjustment	\$2,541,259	\$6,416,815	\$4,893,235	\$5,330,430	\$2,469,273
Accrued taxes	\$1,815,246	\$545,874	\$551,844	\$346,221	\$513,800
Accrued interest	\$3,509,277	\$3,502,011	\$3,348,615	\$3,577,179	\$3,693,592
Other current & accrued liabilities	\$507,177	\$683,332	\$664,308	\$12,751	\$85,971
Deferred credits	\$18,130,598	\$15,187,468	\$20,502,325	\$22,594,732	\$19,569,416
Operating Reserves	\$6,019,991	\$4,153,917			
TOTAL LIABILITIES	\$577,371,333	\$581,418,298	\$599,765,661	\$614,203,944	\$621,728,076
MEMBER REVENUES					
Adams	\$18,201,477	\$16,920,011	\$16,459,643	\$15,450,524	\$13,940,070
Bedford	\$5,180,139	\$4,948,332	\$4,934,084	\$4,717,574	\$4,525,952
Central	\$11,410,378	\$11,170,252	\$11,123,585	\$10,795,933	\$10,339,008
Claverack	\$8,901,042	\$8,739,960	\$8,678,763	\$8,348,586	\$7,971,779
New Enterprise	\$2,301,401	\$2,214,818	\$2,183,582	\$2,066,695	\$1,994,346
Northwestern	\$10,484,591	\$10,323,184	\$10,375,739	\$9,994,179	\$9,721,237
Somerset	\$9,106,826	\$8,737,337	\$8,772,896	\$8,351,506	\$7,683,396
Southwest Central	\$16,166,475	\$14,825,514	\$14,548,709	\$14,005,635	\$13,512,528
Sullivan	\$2,390,777	\$2,345,952	\$2,344,198	\$2,193,827	\$2,105,638
Sussex	\$6,534,524	\$6,312,906	\$6,333,850	\$6,004,249	\$5,530,934
Tri-County	\$7,450,527	\$7,199,562	\$7,194,547	\$6,887,205	\$6,525,977
United	\$7,948,551	\$7,664,418	\$7,814,898	\$7,709,440	\$7,422,506
Valley	\$11,123,000	\$10,650,759	\$10,555,639	\$9,955,957	\$9,177,231
Warren	\$3,180,783	\$3,084,646	\$3,114,060	\$3,051,498	\$2,974,793
TOTAL MEMBER REVENUES	\$120,380,490	\$115,137,651	\$114,434,195	\$109,532,808	\$103,425,395

NC. FIVE-YEAR FINANCIAL STATEMENT

	1991	1990	1989	1988	1987
ELECTRIC ENERGY SALES:					
Members	\$120,380,490	\$115,137,651	\$114,434,195	\$109,532,808	\$103,425,395
Non-members	\$24,966,421	\$14,109,954	\$16,057,630	\$24,347,984	\$31,974,501
TOTAL RECEIPTS	\$145,346,911	\$129,247,605	\$130,491,825	\$133,880,792	\$135,399,896
Cost of power	\$43,054,251	\$32,085,914	\$33,358,887	\$40,119,659	\$41,231,647
Wheeling	\$8,880,653	\$9,249,841	\$8,345,773	\$7,441,025	\$6,668,817
RAYSTOWN:					
Generation					
Operation & Maintenance	\$2,320,600	\$2,560,147	\$2,346,261	\$736,696	
Interest	\$0	\$0	\$0	\$116,970	
Transmission	\$206,809	\$183,550	\$200,521	\$0	
Taxes	\$23,293	\$19,385	\$16,884	\$0	
OTHER PROJECTS:					
Operation & Maintenance	\$300,322	\$123,663			
Transmission	\$15,401	\$24,052			
Depreciation	\$509,847	\$466,190			
Taxes	\$3,352				
SSES:					
Generation					
Operation & Maintenance	\$20,958,143	\$18,024,408	\$18,518,905	\$19,490,190	\$14,987,966
Fuel	\$8,452,974	\$9,512,667	\$9,413,177	\$8,634,341	\$10,320,233
Depreciation	\$9,967,034	\$9,034,865	\$9,376,144	\$8,694,096	\$7,576,680
Taxes	\$4,243,498	\$3,437,242	\$3,429,845	\$3,608,751	\$3,390,699
Transmission					
Maintenance	\$293,213	\$216,007	\$317,266	\$207,431	\$194,345
Depreciation	\$804,907	\$804,907	\$804,768	\$804,477	\$800,450
Interest	\$42,319,156	\$43,018,285	\$42,724,066	\$44,147,039	\$45,839,094
Interest charged to					
Construction - Credit	(\$1,041,514)	(\$909,146)	(\$1,233,918)	(\$2,318,873)	(\$2,407,405)
General & administrative	\$5,559,603	\$5,315,694	\$5,153,748	\$3,980,637	\$4,421,341
TOTAL OPERATION EXPENSE	\$146,871,542	\$133,167,671	\$132,772,327	\$135,662,439	\$133,023,867
Depreciation	\$159,064	\$131,397	\$134,988	\$120,533	\$113,532
Taxes	\$141,582	\$136,143	\$109,750	\$102,094	\$97,266
Other deductions	(\$662,593)	\$30,417,247	(\$701,433)	(\$672,383)	(\$633,214)
TOTAL EXPENSES	\$146,509,594	\$163,852,458	\$132,315,632	\$135,212,683	\$132,601,451
Operating margins	(\$1,162,683)	(\$34,604,853)	(\$1,823,807)	(\$1,331,891)	\$2,798,445
Interest income	\$3,691,751	\$4,636,182	\$4,328,040	\$2,924,868	\$1,522,193
Other - profit/(loss) net	\$10,081	\$1,462,261	\$28,940	\$596,398	\$245,604
Other capital credits	\$0	\$29,912	\$21,184	\$23,825	\$17,668
NET MARGINS	\$2,539,149	(\$28,476,498)	\$2,554,357	\$2,213,200	\$4,583,910

Coopers
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors

Allegheny Electric Cooperative, Inc.

We have audited the accompanying balance sheet of Allegheny Electric Cooperative, Inc. (Allegheny) as of October 31, 1991 and the related statements of operations, equities, and cash flows for the year then ended. These financial statements are the responsibility of Allegheny's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Allegheny Electric Cooperative, Inc. for the year ended October 31, 1990 were audited by other auditors, whose report, dated January 11, 1991, expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described the change in accounting principle discussed in Note 13 to the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Electric Cooperative, Inc. at October 31, 1991, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, Allegheny changed its method of accounting for inventories in 1991. As discussed in Note 13 to the financial statements in 1990, Allegheny adopted Financial Accounting Standards Board Statement No. 92, "Regulated Enterprises - Accounting for Phase-in Plans."

5 North Fifth Street
Harrisburg, Pennsylvania
January 17, 1992

Coopers & Lybrand

BALANCE SHEETS

as of October 31, 1991 and 1990

(in thousands)

	<u>1991</u>	<u>1990</u>
ASSETS		
Electric Utility Plant:		
In service	\$632,559	\$624,880
Construction work in process	11,496	5,903
Nuclear fuel in process	<u>7,847</u>	<u>8,240</u>
	651,902	639,023
Less accumulated depreciation and amortization	<u>154,581</u>	<u>137,581</u>
	<u>497,321</u>	<u>501,442</u>
OTHER ASSETS AND INVESTMENTS:		
Nonutility property, at cost (net of accumulated depreciation of \$1,656 in 1991 and \$1,483 in 1990)	5,010	4,971
Investments in associated organizations	4,068	4,250
Other investments	6,427	5,812
Other noncurrent assets	<u>3,934</u>	<u>1,352</u>
	<u>19,439</u>	<u>16,385</u>
CURRENT ASSETS:		
Cash and cash equivalents	37,117	47,031
Accounts receivable from members	13,374	11,045
Other accounts receivable	4,088	4,653
Inventories	4,694	—
Other current assets	<u>1,340</u>	<u>862</u>
	<u>60,613</u>	<u>63,591</u>
	<u>\$577,373</u>	<u>\$581,418</u>
EQUITIES:		
Memberships	\$ 3	\$ 3
Donated capital	51	51
Patronage capital	37,952	38,574
Other margins and equities	(25,937)	(28,476)
Unrealized loss on marketable equity securities	<u>—</u>	<u>(177)</u>
	<u>12,069</u>	<u>9,975</u>
LONG-TERM DEBT, LESS CURRENT PORTION	<u>513,218</u>	<u>522,031</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	13,645	10,095
Accounts payable and accrued expenses	11,550	13,435
Accounts payable to members	<u>2,741</u>	<u>6,540</u>
	<u>27,936</u>	<u>30,070</u>
OTHER LIABILITIES AND DEFERRED CREDITS:		
Accrued nuclear decommissioning	6,020	4,154
Deferred income tax benefits from safe harbor lease	11,454	12,166
Other deferred credits	<u>6,676</u>	<u>3,022</u>
	<u>24,150</u>	<u>19,342</u>
	<u>\$577,373</u>	<u>\$581,418</u>

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS

for the years ended
October 31, 1991 and 1990
(in thousands)

	<u>1991</u>	<u>1990</u>
Operating revenue, including sales to members of \$120,380 in 1991 and \$115,138 in 1990	\$145,347	\$129,277
OPERATING EXPENSES:		
Purchased power	43,054	32,086
Transmission	9,388	9,646
Production	23,287	20,612
Fuel	8,453	9,513
Depreciation, net	11,441	10,437
Taxes	4,279	3,484
Administrative and general	5,994	5,596
	<u>105,896</u>	<u>91,374</u>
Operating margin before interest and other deductions	39,451	37,903
INTEREST AND OTHER DEDUCTIONS:		
Interest expense	42,319	43,018
Allowance for funds used during construction	(1,042)	(909)
Other deductions, net	14	52
	<u>41,291</u>	<u>42,161</u>
Operating deficit	(1,840)	(4,258)
NONOPERATING MARGINS:		
Net nonoperating rental income (loss)	(72)	2
Interest income	3,657	4,602
Other	82	1,460
	<u>3,667</u>	<u>6,064</u>
Margin before income taxes and cumulative effect of change in accounting principle	1,827	1,806
Deferred income tax benefits from safe harbor lease	712	776
Margin before cumulative effect of change in accounting principle	2,539	2,582
Cumulative effect of change in accounting principle	—	(31,058)
Net margin (deficit)	<u>\$ 2,539</u>	<u>\$(28,476)</u>

See accompanying notes to financial statements.

STATEMENTS OF EQUITIES

for the years ended
October 31, 1991 and 1990
(in thousands)

	Memberships	Donated Capital	Patronage Capital	Other Margins and Equities	Unrealized Loss on Marketable Equity Securities	Total
Balance at November 1, 1989	\$3	\$51	\$38,940			\$38,994
Change in unrealized loss on marketable equity securities					(177)	(177)
Net deficit				(28,476)		(28,476)
Retirement of capital credits			(366)			(366)
Balance at October 31, 1990	3	51	38,574	(28,476)	(177)	9,975
Change in unrealized loss on marketable equity securities					177	177
Net margin				2,539		2,539
Retirement of capital credits			(622)			(622)
Balance at October 31, 1991	\$3	\$51	\$37,952	\$(25,937)	—	\$12,069

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

for the years ended
October 31, 1991 and 1990
(in thousands)

	<u>1991</u>	<u>1990</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin (deficit)	\$ 2,539	\$(28,476)
Adjustments to reconcile net margin (deficit) to net cash provided by operating activities:		
Depreciation and fuel amortization	19,218	18,628
Amortization of gain on sale of electric utility plant	(58)	(58)
Amortization of discount on other investments	(89)	—
Gain on sale of other investments	(116)	—
Deferred income tax benefits from safe harbor lease	(712)	(776)
Cumulative effect of change in accounting principle	—	31,058
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Noncurrent assets	(2,582)	(463)
Accounts receivable from members	(2,329)	(1,716)
Other accounts receivable	565	416
Inventories	(4,694)	—
Other current assets	(478)	(124)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,885)	4,028
Accounts payable to members	(3,799)	1,537
Other liabilities and deferred credits	5,578	(327)
Net cash provided by operating activities	<u>11,158</u>	<u>23,727</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric utility plant	(15,136)	(12,565)
Reduction in investments in associated organizations	182	27
Purchase of other investments	(12,514)	(13,191)
Proceeds from sale of other investments	12,281	9,002
Proceeds from sales of utility and nonutility property	—	58
Net cash used in investing activities	<u>(15,187)</u>	<u>(16,669)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	3,933	13,944
Payments on long-term debt	(9,196)	(8,340)
Retirement of capital credits	(622)	(366)
Net cash provided by (used in) financing activities	<u>(5,885)</u>	<u>5,238</u>
Increase (decrease) in cash and cash equivalents	(9,914)	12,296
Cash and cash equivalents at beginning of year	47,031	34,735
Cash and cash equivalents at end of year	<u>\$ 37,117</u>	<u>\$ 47,031</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Allegheny Electric Cooperative, Inc. (Allegheny) is a rural electric cooperative utility established under the laws of the Commonwealth of Pennsylvania. Financing assistance is provided by the U.S. Department of Agriculture, Rural Electrification Administration (REA) and, therefore, Allegheny is subject to certain rules and regulations promulgated for rural electric borrowers by REA. Allegheny is a generation and transmission cooperative, providing power supply to fourteen owner/members who are rural electric distribution cooperative utilities providing electric power to consumers in certain areas of Pennsylvania and New Jersey.

Allegheny maintains its accounting records in accordance with the Federal Energy Regulatory Commission's chart of accounts as modified and adopted by REA.

Electric Utility Plant and Depreciation:

Electric utility plant is stated at cost, which includes an allowance for funds used during construction. Depreciation for nuclear utility plant and production assets is provided on the modified sinking fund method under the amended phase-in plan adopted to conform to Financial Accounting Standards Board (FASB) Statement No. 92, "Regulated Enterprises - Accounting for Phase-in Plans" (Statement No. 92). This statement is further discussed in Note 13. The straight-line method is used for all other assets, except nuclear fuel. The cost of units of property retired or replaced is removed from utility plant accounts and charged to accumulated depreciation.

Nuclear Fuel:

Nuclear fuel is charged to fuel expense based on the quantity of heat produced for electric generation. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. Allegheny currently pays to Pennsylvania Power & Light Company (PP&L), co-owner of Susquehanna Steam Electric Station (SSES), its portion of DOE fees for such future disposal services.

Cost of Decommissioning Nuclear Plant:

The estimated cost of decommissioning Allegheny's portion of SSES is approximately \$35.0 million and is being accrued over the estimate useful life of the plant. Decommissioning costs are included in rates to the extent required to meet the funding schedule approved by the Nuclear Regulatory Commission (NRC). Differences between amounts accrued and amounts collected in current rates are deferred for future recovery in accordance with the funding schedule. At October 31, 1991, other noncurrent assets included \$1.8 million of deferred decommissioning costs.

As required by the NRC in 1990 Allegheny established a Decommissioning Trust Fund (Trust) which is restricted for use to ultimately decommission SSES. In accordance with the NRC funding schedule, \$0.8 million was funded to the Trust for the year ended October 31, 1991 and included in other investments at October 31, 1991 and 1990 is \$3.8 million and \$4.1 million, respectively, of funds which Allegheny's Board of Directors has restricted for future payments to the Trust. Accrued nuclear decommissioning at October 31, 1991 and 1990 was \$6.0 million and \$4.1 million, respectively.

Allowance for Funds Used During Construction:

Allowance for funds used during construction represents the cost of directly related borrowed funds used for construction of or additions to an electric utility plant. The allowance is capitalized as a component of the cost of electric utility plant while under construction.

1. Summary of Significant Accounting Policies, continued:**Investments in Associated Organizations:**

Investments in associated organizations are carried at cost.

Preliminary Surveys:

Costs of preliminary surveys for potential development projects are recorded as deferred charges in other noncurrent assets. If construction of a project results from such surveys, the deferred charges are transferred to the cost of the facilities. If a preliminary survey is abandoned, the costs incurred are written off.

Cash Equivalents:

For purposes of the statements of cash flows, Allegheny considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, plus accrued interest, which approximates market value.

Inventories:

Effective January 1, 1991, Allegheny began to account for certain power plant spare parts using a deferred (inventory) method. Under this method, purchases of spare parts under inventory control are included in an inventory account and then charged to the appropriate capital or expense accounts when the parts are used or consumed. Prior to 1991, power plant spare parts were generally either capitalized or charged to expense at the time of purchase.

The January 1, 1991 value of these spare parts was \$4.5 million and was recorded as an increase in inventory on the balance sheet. The associated income statement effect was deferred and will be amortized as a credit to expense over a three-year period consistent with the ratemaking treatment.

Allegheny filed an application with the Internal Revenue Service in September 1990 requesting permission to use this method of accounting for income tax purposes. If approved, Allegheny would include the value of these spare parts as of November 1, 1990 in taxable income over several years.

Inventories are carried at the lower of cost or market value, cost being determined on the average cost method.

Other Investments:

Other investments include U.S. government obligations, corporate obligations, and common stocks (marketable equity securities). The U.S. government and corporate obligations are stated at amortized cost which approximates market value. Marketable equity securities are carried at the lower of their aggregate cost or market value. Changes in net unrealized losses on noncurrent marketable equity securities are recorded directly in a separate equities' account and are not included in the determination of net margin. Realized gains and losses are determined on a specific identification basis.

Patronage Capital and Other Margins and Equities:

In 1990 Allegheny established an unallocated equity account, Other Margins and Equities, as a result of a charge against income for the cumulative effect of a change in accounting principle (see Note 13). This charge against income has been recorded as a deficiency in an unallocated equity account as of October 31, 1990, since the amount is not allocable to Allegheny's members. Beginning in 1990, all margins recognized by Allegheny are required by REA to be used to reduce this deficiency. In addition the 1990 margin stabilization plan adjustment (see Note 1) was calculated prior to the cumulative effect adjustment.

Rates:

The Board of Directors of Allegheny has full authority to establish electric rates subject to approval by the REA.

Revenues:

Revenues from the sale of electricity are recorded based on billings to members and on contracts and scheduled power usages, as appropriate.

Income Taxes:

Net operating losses for financial and tax reporting purposes differ as a result of timing differences relating primarily to depreciation. Investment tax credits, other than those sold through the safe harbor lease arrangement, are accounted for under the flow-through method whereby credits are recognized as a reduction of income tax expense in the year in which the credit is utilized for tax purposes.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (Statement No. 96), as amended by Statements No. 100, No. 103, and No. 108, which require a change, effective for the fiscal year beginning November 1, 1993, from the current method of accounting for income taxes pursuant to Accounting Principles Board Opinion No. 11, to the liability method. Management expects that the adoption of Statement No. 96 will not have a material impact on Allegheny's net margin or financial position.

Margin Stabilization Plan:

Allegheny established a margin stabilization plan which has been approved by REA. Under the provisions of the plan, Allegheny develops a budgeted margin each year based on a targeted Times Interest Earned Ratio (TIER) of 1.06. If the actual margin realized is in excess of the TIER, Allegheny records the difference as a reduction of the current year's operating revenue and as a liability to its members. Conversely, if the actual margin realized is less than the TIER, Allegheny records the difference as an addition to the current year's operating revenue and as a receivable from its members. The liability or receivable recorded at the end of each year is incorporated into Allegheny's rate structure for the following year through a cost-of-service billing adjustment made by Allegheny to its members. For the years ended October 31, 1991 and 1990, operating revenues were reduced by \$2.5 million and \$6.4 million, respectively, due to actual margins exceeding the TIER. These amounts are included in accounts payable to members at October 31, 1991 and 1990.

In accordance with REA requirements the aforementioned margin stabilization plan ceased as of October 31, 1991, with credits to members for the October 31, 1991 liability continuing through October 31, 1992.

Reclassifications:

The 1990 financial statements have been reclassified to conform with the current year presentation.

2. Electric Utility Plant In Service:

Electric utility plant in service consists of the following at October 31, 1991 and 1990:

	Depreciation/ Amortization, Lives/Rates	1991 (In thousands)	1990 (In thousands)
<hr/>			
Nuclear Utility Plant:			
Production	39 years	\$516,391	\$513,408
Transmission	2.75%	32,193	32,201
General plant	3% -12.5%	859	825
Nuclear fuel	Heat production	76,314	71,921
		<hr/>	<hr/>
		625,757	618,355
Non-Nuclear Utility Plant	3% -33%	6,802	6,525
		<hr/>	<hr/>
Total		\$632,559	\$624,880

3. Susquehanna Steam Electric Station:

Allegheny owns a 10% undivided interest in SSES. PP&L owns the remaining 90%. Both participants provide their own financing. Allegheny's portion of SSES' assets totalled \$639 million and \$629 million at October 31, 1991 and 1990, respectively. Allegheny's share of anticipated costs for ongoing construction and nuclear fuel for SSES is estimated to be approximately \$60 million over the next five years. Allegheny receives a portion of the total SSES output equal to its percentage ownership. The balance sheets and statements of operations reflects Allegheny's respective share of assets, liabilities and operations associated with SSES.

4. Investments in Associated Organizations:

Investments in associated organizations, at cost, consist of the following at October 31, 1991 and 1990:

	1991 (In thousands)	1990 (In thousands)
<hr/>		
NATIONAL RURAL UTILITIES COOPERATIVE FINANCE Corporation Subordinated Term Certificates, bearing interest from 0% to 4%, maturing January 1, 2014 through October 1, 2080	\$3,860	\$3,860
NATIONAL RURAL UTILITIES COOPERATIVE FINANCE Corporation Capital Term Certificates	125	296
NATIONAL BANK FOR COOPERATIVES:		
C Stock	33	44
E Stock	30	30
OTHER	20	20
	<hr/>	<hr/>
	\$4,068	\$4,250

Allegheny is required to maintain these investments pursuant to certain loan and guarantee agreements.

5. Other Investments:

Allegheny's investments are invested in a variety of financial instruments, the related values as presented in the financial statements are subject to various market fluctuations which include changes in the equity markets, interest rate environment and the general economic conditions. Other investments consisted of the following at October 31, 1991 and 1990:

	1991		1990	
	Cost (in thousands)	Market	Cost (in thousands)	Market
DECOMMISSIONING TRUST FUND A:				
Money market funds	\$ 64	\$ 64	\$ 32	\$ 32
U.S. Government securities	1,824	1,874	2,414	2,420
Corporate bonds	913	935	759	755
Common stocks	990	1,095	984	807
	3,791	3,968	4,189	4,014
Allowance from unrealized loss on common stocks	—	—	(177)	—
	3,791	3,968	4,012	4,014
NRC MANDATED DECOMMISSIONING TRUST FUND B:				
Money market funds	33	33		
U.S. Government securities	779	793		
	812	826	—	—
DEBT SERVICE RESERVE FUND:				
U.S. Government securities	1,775	1,775	1,775	1,775
Accrued interest receivable	49	49	25	25
	\$6,427	\$6,618	\$5,812	\$5,814

The gross unrealized gains and losses in the value of common stocks were \$144 and \$39, respectively, at October 31, 1991 and \$11 and \$188, respectively, at October 31, 1990.

6. Long-Term Debt:

Long-term debt consists principally of advances under mortgage notes payable for electric utility plant to REA and to the United States of America acting through the Federal Financing Bank (FFB) and guaranteed by REA. Substantially all the assets of Allegheny are pledged as collateral. Long-term debt consists of the following:

	1991	1990
	(In thousands)	
Advances under mortgage notes payable to FFB at interest rates varying from 6.418% to 13.820% in 1991 and 7.338% to 13.820% in 1990, due in varying amounts through 2021	\$487,276	\$493,860
Pollution control revenue bonds, payable semi-annually, including interest through 2014. Variable rates ranged from 3.75% to 6.0% in 1991 and 5.5% to 7.1% in 1990	27,000	27,400
Mortgage loan payable to CFC, payable in various quarterly installments, including interest through January 2015. Variable rates ranged from 6.625% to 9.125% in 1991 and 9.125% to 9.75% in 1990	1,973	2,004
Notes payable to CFC, payable in various quarterly installments, including interest through October 2019. Variable rates ranged from 6.625% to 9.125% in 1991 and 9.125% to 9.75% in 1990	3,101	3,123
5% mortgage notes payable to REA due in varying amounts through 2019	7,513	5,719
Other	—	20
	<hr/> 526,863	<hr/> 532,126
Less current portion	13,645	10,095
	<hr/> \$513,218	<hr/> \$522,031

Allegheny has the option on advances under long-term mortgage notes payable to FFB to elect (subject to REA approval) a short-term interest rate with an interim maturity date of two years after the date of the advance. At the date of the advance or on the maturity of an interim advance, Allegheny may also designate that it desires a long-term interest rate with a long-term maturity up to a maximum of 34 years from the end of the calendar year in which the note was issued. At October 31, 1991 and 1990, Allegheny had elected short-term interest rates and interim maturities on advances under these mortgage notes payables to FFB of \$92.2 million and \$92.2 million, respectively. The remaining advances under mortgage notes payable to FFB have previously been converted to long-term interest rates and maturities. At October 31, 1991, Allegheny had \$59.3 million of advances which are scheduled to mature and have interest rates reset within one year. Allegheny intends to roll these advances over for additional two-year periods or to extend them to long-term maturities, in accordance with the mortgage agreement.

Long-term Pollution Control Revenue Bonds (Bonds) were issued by an industrial development authority on Allegheny's behalf. The Bonds are subject to purchase on demand of the holder and remarketing on a "best efforts" basis until the Bonds are converted to a fixed interest rate at Allegheny's option. If a fixed interest rate is established for the Bonds, the Bonds will cease to be subject to purchase by the remarketing agent or the trustee. The Bonds are collateralized by irrevocable letters of credit from Rabobank Nederland which are backed by a five-year credit facility in the event the bondholders tender the Bonds prior to the conversion to a fixed interest rate and the Bonds cannot be remarketed. The stated amount of the letters of credit are equal to the amount of outstanding Bonds plus an amount equal to sixty-five days' interest accrued on the Bonds at 12%. The indenture agreement contains various redemption provisions with redemption prices ranging from 100% to 103%. Included in other investments, at both October 31, 1991 and 1990 are \$1.8 million of investments which relate to a debt service reserve fund required under the bond indenture.

FUTURE MATURITIES OF LONG-TERM DEBT FOR THE NEXT FIVE YEARS ARE AS FOLLOWS (IN THOUSANDS):

1992	\$13,645
1993	\$9,800
1994	\$10,237
1995	\$10,543
1996	\$10,899

The above maturity schedule reflects management's intent to convert advances under mortgage notes payable to FFB with interim maturity dates to long-term debt. Included in 1992's future maturities is a \$4.3 million advance under mortgage notes payable which is required to be retired pursuant to a June 30, 1988 letter from REA to Allegheny issued in connection with the Raystown leveraged lease.

Allegheny has a short-term line of credit available with CFC of \$21.4 million. There were no amounts outstanding at October 31, 1991 or 1990. The interest rate is generally at prime plus 1%. Restrictions are imposed under the line of credit arrangement including, among other things, maintenance of ratio requirements under existing long-term debt arrangements and limitation of total short-term indebtedness outstanding to an amount not to exceed the remaining unadvanced portion of certain existing REA guaranteed FFB long-term commitments of \$38.6 million at October 31, 1991.

At October 31, 1991, Allegheny had unadvanced portions of certain existing REA and CFC long-term commitments of \$4.3 million.

6. Long-Term Debt, continued:

Allegheny is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. Allegheny was in compliance with such requirements at October 31, 1991 and 1990.

Certain of Allegheny's long-term debt is at variable interest rates and is therefore subject to various market and interest rate fluctuations.

During 1991 and 1990, Allegheny incurred interest costs of \$42.3 million and \$43.0 million, respectively, of which \$1.0 million and \$0.9 million, respectively, was capitalized as part of the construction of the electric utility plant. Interest paid, net of amounts capitalized, was \$41.3 million and \$41.9 million, respectively.

7. Income Taxes:

At October 31, 1991, Allegheny had available nonmember net operating loss carryforwards of \$17.0 million for financial reporting purposes and \$161.4 million for tax reporting purposes expiring through 2005 and investment tax credit carryforwards of approximately \$34.0 million for both financial and tax reporting purposes, expiring through 2003. Under the Tax Reform Act of 1986, the amount of investment tax credit allowable as a result of a carryforward must be reduced by 35%. Allegheny also had operating loss carryforwards attributable to member activities of \$19.8 million for financial reporting purposes and \$155.3 million for tax reporting purposes which may be carried forward indefinitely.

8. Related Party Transactions:

Allegheny has an arrangement with an associated organization, Pennsylvania Rural Electric Association (PREA), under which PREA provides Allegheny with certain management, general, and administrative services on a cost reimbursement basis. Total costs for the services provided for the year ended October 31, 1991 and 1990 were approximately \$3.6 million and \$3.1 million, respectively.

9. Commitments and Contingencies:**Insurance:**

Allegheny and PP&L are members of certain insurance programs which provide coverage for property damage to members' nuclear generating plants. Allegheny's portion of the facilities at SSES is insured against property damage losses up to \$232.5 million under these programs. Allegheny is also a member of an insurance program which provides 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, Allegheny could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. The maximum amount Allegheny could be assessed under these programs during the current policy year is \$0.7 million.

Allegheny's public liability for claims resulting from a nuclear incident is currently limited to \$780.7 million under provisions of the Price-Anderson Amendments Act of 1988 (Act), which extended the Price-Anderson Act to August 1, 2002. Allegheny is protected against this potential liability by a combination of commercial insurance and an industry retrospective assessment program.

In the event of a nuclear incident at any of the facilities owned by others and covered by the Act, Allegheny could be assessed up to \$12.6 million per incident, but not more than \$2 million in a calendar year.

Safe Harbor Leases:

Allegheny previously sold certain investment and energy tax credits and depreciation deductions pursuant to a safe harbor lease. The proceeds from the sale, including interest earned thereon, have been deferred

and are being recognized on the statements of operations over the 30-year term lease. The net proceeds and related interest were required by REA to be used to retire outstanding FFB debt.

Under the term of the safe harbor lease, Allegheny is contingently liable in varying amounts in the event the lessor's tax benefits are disallowed and in the event of certain other occurrences. The maximum amount for which Allegheny was contingently liable at October 31, 1991 was approximately \$19 million. Payment of this contingent liability has been guaranteed by CFC.

Litigation:

In the normal course of business, there are various claims and suits pending against Allegheny. In the opinion of Allegheny's management, the amount of such losses that might result from these claims and suits, if any, would not affect materially the financial statements.

10. Sale/Leaseback Arrangement:

Allegheny previously completed a sale and leaseback of its hydroelectric generation facility at the Raystown Dam (the Facility). The Facility was sold to a trustee bank representing Ford Motor Credit Company (Ford) for \$32 million in cash. Under terms of the arrangement, Allegheny is leasing the Facility from Ford's trustee for an initial term of 30 years. Payments under the lease are due in semi-annual installments which commenced January 10, 1989. At the end of the 30-year term, Allegheny will have the option to purchase the Facility for an amount equal to the Facility's fair market value or for a certain amount fixed by the transaction documents (determined by 1988 appraisal of the then foreseeable residual value at the end of the lease term), whichever is less.

Allegheny also has the option to renew the lease for a five-year fixed rate renewal and three fair market renewal periods, each of which may not be for a term of less than two years. Payments during the fixed rate renewal period are 30% of the average semi-annual installments during the initial lease term. Allegheny will retain co-licensee status for the Facility throughout the term of the lease. The gain of \$1.9 million related to the sale is being recognized over the lease term in the same proportion that the annual rental payments relate to total rental payments.

The payments by Allegheny under this lease were determined in part on the assumption that Ford will be entitled to certain income tax benefits as a result of the sale and leaseback of the Facility. In the event that Ford were to lose all or any portion of such tax benefits, Allegheny would be required to indemnify Ford for the amount of the additional federal income tax payable by Ford as a result of any such loss.

The leaseback of the Facility is accounted for as an operating lease by Allegheny. As of October 31, 1991, future minimum lease payments under this lease, which can vary based on the interest paid on the debt used by Ford to finance the transaction, are estimated as follows (in thousands):

1992	\$ 1,932
1993	2,361
1994	2,361
1995	2,361
1996	2,237
Thereafter	52,815
Total minimum lease payments	\$64,067

The future minimum lease payments shown above are for the initial lease term and the five-year renewal period. These payments are based on an assumed interest rate of 8.8% and may fluctuate based on differences between the future interest rate and the assumed interest rate.

10. Sale/Leaseback Arrangement, continued:

Rental expense for this lease totalled \$1.8 million and \$2.1 million for the years ended October 31, 1991 and 1990, respectively.

11. Pennsylvania Electric Company Settlement:

In July 1991, a settlement was reached between Pennsylvania Electric Company (Penelec) and Allegheny for excess energy wheeled through and used by the Penelec System. Under the settlement agreement Penelec will reimburse Allegheny \$2.5 million for the excess energy received. Allegheny recognized the full amount of the settlement during 1991.

12. Concentrations of Credit Risk:

Allegheny is comprised of member rural electric cooperatives, whose operations are located in Pennsylvania and New Jersey. The member cooperatives' primary service areas are small communities located throughout much of rural Pennsylvania and New Jersey.

13. Change in Accounting Principle:

Effective November 1, 1989, Allegheny adopted Financial Accounting Standards Board Statement No. 92, "Regulated Enterprises - Accounting for Phase-in Plans" (Statement No. 92). Under Statement No. 92, a utility may capitalize on its balance sheet the costs deferred under a rate phase-in plan if the plan meets specific criteria including the requirement that such costs are recovered within 10 years of the date the deferrals began. Otherwise, the deferred must be charged to expense in the period incurred.

Under the method of depreciation used by Allegheny for nuclear utility plant production assets prior to November 1, 1989, which was previously approved by REA, the amount of depreciation included in electric rates during the first 10 years of the related assets' lives was substantially less than the amount that would have been included using straight-line depreciation. Accordingly, this method of depreciation used for such assets was considered to be a phase-in plan under Statement No. 92 that did not meet the 10-year recovery period established by Statement No. 92.

In order to comply with Statement No. 92, Allegheny amended its phase-in plan. Under the amended phase-in plan, which received REA approval, depreciation of nuclear utility plant production assets is based on a modified sinking fund method over a 10-year period commencing with 1990 and ending in 1999. The modified sinking fund method will result in the cumulative depreciation for the 10-year period being equal to straight-line depreciation over the same 10-year period. Commencing in the year 2000, the straight-line method will be used by Allegheny for the remaining life of the assets. The net amount of costs deferred at October 31, 1991 and 1990 under the phase-in plan amended to comply with Statement No. 92 was \$3.8 million and \$4.5 million, respectively.

Allegheny was also required to record a charge against income in 1990 for the cumulative effect of a change in accounting principle in the amount of \$31.1 million representing the difference in depreciation for nuclear utility plant production assets used by Allegheny under its previous phase-in plan and the straight-line method of depreciation.



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COVER

Through the decades, PP&L people have enjoyed a reputation for being deeply involved in the communities where they live and work. Indeed, PP&L's well-being is strongly tied to the well-being of the communities it serves. The cover and the photo essay beginning on page 10 highlight some of that involvement. Cover photo, top: Richard Beasley (center), Scranton area manager, is co-chair of the Scranton Plan — the marketing arm of the Greater Scranton Chamber of Commerce. With him are Cynthia Yevich, Scranton Plan administrator, and Michael Washo, executive director of Scranton's Office of Economic and Community Development. The group's main goal is to bring new jobs to the Scranton/Lackawanna County area. Bottom right: Bill Hetherington (facing camera), a utility man at the company's Sunbury power plant, chats with George Kinney, Selinsgrove borough manager. Bill is serving in his third four-year term as the unsalaried president of borough council — his first elective office. Bottom left: Jacque Creamer Jr., safety and health consultant in the company's Harrisburg Division, uses a Resuc-Air dummy to demonstrate proper resuscitation techniques to several fellow employees. Creamer has been a community Red Cross instructor for 12 years. He estimates that several hundred area citizens have participated in his classes.

ABOUT THIS REPORT



those shareowners who closely follow PP&L annual reports

from year to year will notice some changes from recent years. This report features black and white photographs rather than the full-color reports utilized since 1983. In the mid- and late-'80s, our full-color report reflected the nation's business climate. PP&L chose to match the annual report character of those we competed with in the energy marketplace. This report reflects new realities in today's business world. Electric utilities — like many businesses — are implementing ways to be more cost-effective, and re-evaluating what messages their publications are sending to their audiences. At PP&L, every department, every employee, is being asked to redouble efforts to re-evaluate priorities and look at the way jobs and projects are performed and how goals are met. This report is our effort to give you all the information you need to evaluate PP&L as an investment and as a good corporate citizen, in a package that reflects our culture of being cost-effective in all we do.

You also may note the "recyclable" logo on this page. Full-color printing on gloss-coated paper is difficult or impossible to process for re-use. This report meets common standards for recycling. As part of our re-evaluation, we also considered printing this report on recycled paper. While recycled paper for "low-end" uses is generally available, reasonably priced higher grades that look acceptable and perform reliably on high-speed printing presses are not available in the quantity demanded by the market. The company agrees in principle with the use of recycled paper, and uses it in a number of applications. We will expand our use of recycled paper as appropriate, and as market availability allows.



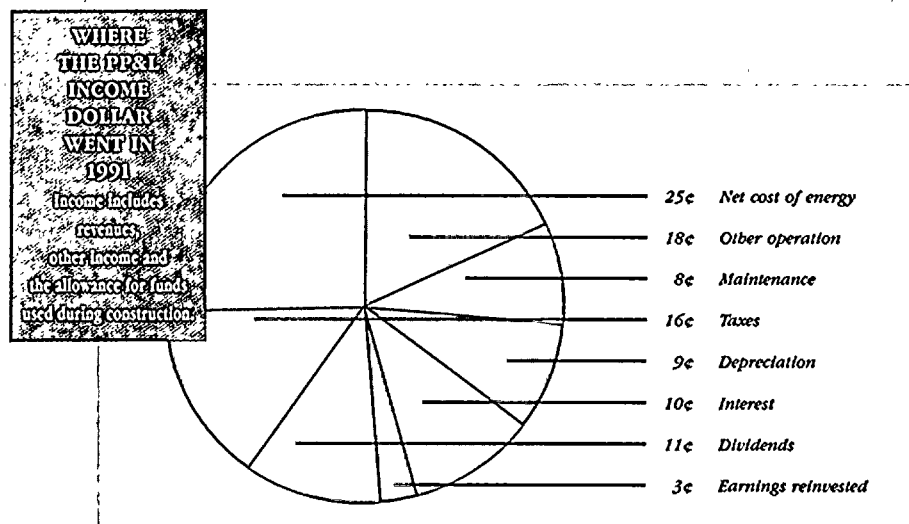
1992 Annual Meeting

PP&L's 1992 annual meeting will be held April 22 at the Williamsport Scottish Rite Auditorium, 348 Market St., Williamsport, Pa. See page 46 for details.

HIGHLIGHTS (Consolidated)

	1991	1990	1990-1991 % Change	1989
Operating Data (in thousands)				
Total Energy Sales, Kilowatt-hours (a)	36,218,811	35,700,394	1.5	35,358,236
System Energy Sales, Kilowatt-hours (b)	29,036,169	28,672,040	1.3	28,402,145
Interchange Power Sales, Kilowatt-hours (a)	7,553,348	8,970,961	(15.8)	9,233,538
Electricity Generated, Kilowatt-hours	41,551,242	41,942,040	(0.9)	43,658,166
Net System Capacity, Kilowatts (c) (d)	7,797	7,912	(1.5)	7,864
Winter Peak Demand, Kilowatts (e)	5,974	5,661	5.5	6,000
Financial Data (in thousands)				
Operating Revenues (a)	\$2,559,696	\$2,419,717	5.8	\$2,376,455
Operating Income	\$582,331	\$590,366	(1.4)	\$618,850
Net Income	\$348,414	\$343,906	1.3	\$353,436
Common Dividends Declared	\$234,626	\$224,850	4.3	\$215,386
Common Equity (c)	\$2,298,010	\$2,221,759	3.4	\$2,139,338
Capital Provided by Investors (c)	\$5,623,378	\$5,573,360	0.9	\$5,526,408
Construction Expenditures	\$336,741	\$288,278	16.8	\$279,765
Construction Work in Progress (c)	\$183,242	\$143,084	28.1	\$115,799
Property, Plant and Equipment—Net (c)	\$6,929,578	\$6,894,221	0.5	\$6,866,642
Total Assets (c)	\$7,934,595	\$7,735,442	2.6	\$7,598,968
Per Common Share				
Earnings	\$4.01	\$3.95	1.5	\$4.05
Dividends Declared	\$3.10	\$2.98	4.0	\$2.86
Market Price (c)	\$52 ⁵ / ₈	\$43 ³ / ₄	20.3	\$42 ⁷ / ₈
Book Value (c)	\$30.30	\$29.36	3.2	\$28.36
Other Information				
Return on Average Common Equity	13.42%	13.65%	(1.7)	14.62%
Times Interest Earned Before Income Taxes	3.06	2.86	7.0	2.78
Number of Customers—Electric (a) (c)	1,173,679	1,161,231	1.1	1,143,592
Common Shares Outstanding (c)	75,827,634	75,648,970	0.2	75,422,739
Number of Common Shareowners (c)	127,272	130,719	(2.6)	132,197
Number of Employees—Electric (c)	8,144	8,149	(0.1)	8,108

- (a) Years prior to 1991 have been restated to reflect the reclassification of distinct sales of energy to certain utilities from interchange power sales to energy sales and operating revenues. See Financial Note 17 for further discussion of interchange power sales.
- (b) Excludes contractual sales to other utilities.
- (c) At year-end.
- (d) Total generating capacity plus firm capacity purchases less firm capacity sales.
- (e) Except for 1989, winter peaks were reached early in the subsequent year.





or Pennsylvania Power & Light Co., 1991 was a

year of accomplishment in the face of ever-increasing challenges.

It was a year of achievement:

- We achieved an earnings level needed to maintain financial health.
- For the sixth year in a row, we made good on our objective not to increase base rates.
- Our Susquehanna nuclear plant shattered its single-year record for generating electricity, breaking the old mark by more than 1 billion kilowatt-hours in producing 15.9 billion kwh.
- PP&L had the lowest consumer complaint rate among Pennsylvania's major electric utilities.
- Through consolidation of division activities, more than 900,000 customers are now being served by our new centralized customer contact facility.
- Through an aggressive collection program, we reduced the amount of our overdue customer bills by \$14 million.
- Our land management programs were honored as the best in the nation.

But 1991 also was a year in which we responded to the challenges that come with doing business in today's world:

- Central Eastern Pennsylvania, along with the rest of the nation, is enduring a recession. As a result, total sales to our service-area customers — when adjusted for weather — were essentially flat. Industrial sales were down by 3 percent.
 - The recession also meant that housing starts were down, putting a dent in our marketing and economic development results.
 - For the second year in a row, milder-than-normal weather also slowed the rate of increase in our sales.
 - A state business tax increase drove up our rates while dampening the atmosphere for economic development and business retention.
- The past year served to further con-

firm what we have acknowledged for some time: Change is really the only thing that is constant in today's world.

We will succeed only if we manage the change that is coming our way from all directions. In an increasingly competitive atmosphere, those who manage change will win. Those who don't, will lose. That's why we spend an increasing amount of our time planning for the future — a future that will be markedly different from what we've known.

Competition. That one word — more than any other — defines the future of PP&L as well as the electric utility industry. We already are seeing the influence of deregulation on our industry. Today, we are not only competing with oil and gas as energy sources, we are competing with other suppliers of electricity.

This is not just a regional concern. The "global" marketplace is having — and will continue to have — important impacts on our success as a company. A look at the transportation and steel industries gives us a clear picture of how global competition translates into regional economic fallout. And, if American industry is not strong, our business will suffer.

That's why we are working to shape the future, while we keep close tabs on the essential day-to-day challenges of doing business.

What are we doing about our future?

Articulating Our Vision

One important step is articulating a vision, our aspiration for PP&L as we near the next century. After extensive discussions throughout the year, we distilled our vision to eight concise words: **PP&L will be the energy supplier of choice.** Our vision means PP&L will position itself so that our customers can make a clear choice in selecting us to provide the energy to heat their homes and offices, to power their industrial facilities, to make their lives more productive and enjoyable.

Striving toward that vision will require an additional commitment from each PP&L employee and the continued support of our shareowners. It

requires the best in customer service, excellence in operation and sensitivity to all our publics. It requires a continuing commitment to keep our rates stable.

As a companion to our vision, we also have articulated a set of corporate values, which are the collective principles and ideals that guide our actions. These values define the character of our organization. They describe what the corporation stands for.

Defining a vision and establishing values were important initiatives of the past year, but they weren't the only ones. We also surveyed our customers and the results were very positive. In fact, 92 percent of those surveyed have a favorable impression of PP&L.

But a more competitive future ensures that we cannot be satisfied with the positive impressions that customers have of us today. We know that the expectations of our customers will continue to rise and that we must improve our service accordingly. We are examining closely the results of this survey to identify opportunities to more effectively position PP&L in a competitive environment.

To have our vision become reality, we must offer the highest quality service to our customers at competitive rates. As we mentioned earlier, we cannot achieve that level of service without improving. That's the concept behind our continuous performance improvement process. CPIP, as we call this endeavor, is PP&L's total quality effort.

CPIP will set the tone for PP&L in the future. At its heart is the conviction that there are better — and more effective — ways to do everything that we do and that, after we find those better ways, we begin to search for even better ones. CPIP will involve all employees; everyone will be part of the team. CPIP means we are committed to listening to our employees, to our customers, to others in our industry, to anyone else who might hold the keys to a "quality way."

The successful companies of the future will have a "restless" culture. They will encourage aggressive questioning of the status quo. They will



Kauffman

Hecht

not be static. They will manage change rather than be buffeted by it.

We began CPIP by asking all our employees what they think about the company, about the way we operate the business, about the way they are involved in our operations, about ways we can improve. The results of that baseline study will provide us with a good starting point for CPIP.

We then will move on to the next part of the process, which will involve the drawing up of a "game plan" to improve our performance at PP&L. The game plan will identify ways to more involve all PP&L people in managing costs and improving our products, work methods and services. Our ultimate objective: complete customer satisfaction.

Emphasizing Our Strategies

While we set our sights on the future, however, we cannot afford to short-change the present. That's why we continue to emphasize the important strategies we followed to achieve success in the '80s and the early part of the '90s.

Our four-pronged strategy:

- Aggressive marketing and economic

development programs

- Effective cost management
- Operational excellence
- Sensitivity to people

Let's take a look at how we did in these areas during 1991.

During 1991, we narrowly achieved our *marketing and economic development* goals. We think this is a remarkable achievement in light of the challenges of a recession, combined with a state tax increase that eroded Pennsylvania's stature as a pro-business state. During the summer of 1991, to resolve a state budget deficit, Pennsylvania increased business taxes substantially, making it one of the highest business tax states in the nation.

While we were successful in creating new sales through marketing, those efforts were diminished by declines in all customer sectors, so our overall sales were flat. When adjusting for differences in weather between the two years, our 1991 sales increased over 1990 sales by just 0.2 percent. This, of course, is significantly less than the 3.5 percent annual increases experienced through the 1988 to 1990 period.

Sales to residential customers increased only slightly when adjusted for weather. Industrial sales were down by

3 percent and commercial sales growth was not as strong as in previous years. This flattening of sales is directly attributable to economic conditions in our service territory.

Rates Remain Stable

Even as we deal with the prospect of a reduced rate of sales growth, we are continuing to meet our objective of not increasing base rates until at least the 1994-95 period. Unfortunately, our customer bills increased by 3 percent during 1991 because of the state tax increases. Despite that increase, as we entered 1992, our average price per kilowatt-hour was still at about the level it was in 1986. We still believe that a key to our success is our ability to keep rates competitive. Clearly, rate stability is the key component of our marketing and economic development efforts.

Because we need to keep rates stable and continue to improve our earnings and dividends, we are placing additional emphasis on our *effective cost management* strategy. Following through on our effort to better plan for the future, we are including all areas and levels of the company in an integrated planning process.

This process provides a long-range outlook, so that we can work toward our objectives with a coordinated approach.

One of the benefits of our long-term planning has always been to provide advance warning where reallocation of resources is necessary. One area where we have concluded change is appropriate is in the number of full-time employees.

We decided that it is necessary to return to the declining trend that we had established in the latter half of the 1980s. For that reason, we have established a plan that will decrease the number of full-time employees to about 7,500 by the mid-1990s.

We have talked with all our employees about our long-range planning process, about the competitive requirements of the future, about the need to contain costs and the resulting staffing reductions, which we expect

to come primarily through normal attrition.

Another important strategy is *operational excellence*. Superior performance of our power plants is necessary if we are to keep costs to customers down and earnings up. During 1991, our fossil fuel, nuclear and hydro units generated more than 41.5 billion kilowatt-hours.

The Susquehanna nuclear plant led the way, breaking its previous station record by generating nearly 16 billion kwh. Susquehanna Unit 1 generated electricity for all but six and one-half days during the year, running up a 95 percent capacity factor, the best in the world for General Electric boiling water reactors. Unit 2 at Susquehanna operated at a capacity factor of 76 percent, despite a refueling outage during the year.

The superior performance of Susquehanna and our other power plants not only allows us to sell more kwh in a given year, but also earns us a reputation that paves the way for our aggressive effort to sell capacity to other utilities.

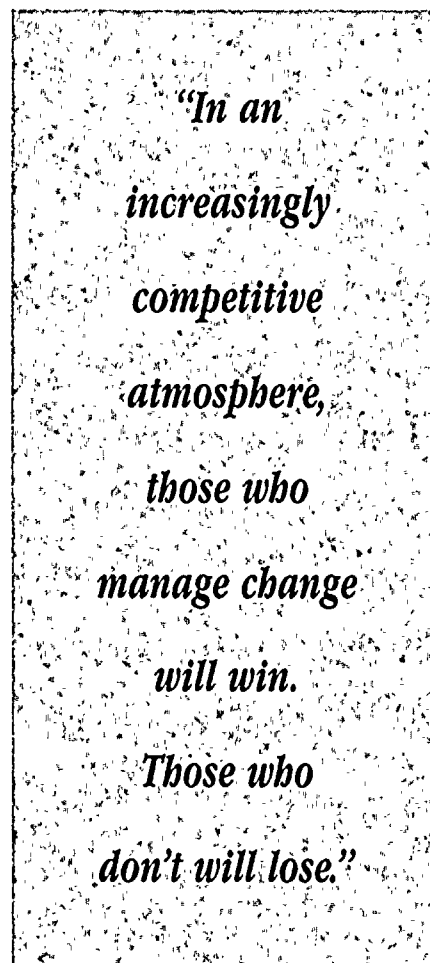
Superior Customer Service

Operational excellence, however, does not end with our power plants. Our commitment to excellence in service to our customers is equally important if we are to be the supplier of choice. That commitment again was clearly translated into action during 1991.

By the end of the year, more than 900,000 of our 1.2 million customers were being served by our new system-wide Customer Contact Center. Opened in June 1990, the center gives customers wider access to service 24-hours-a-day, seven-days-a-week. In its first full year of operation, the center handled about 844,000 customer calls.

The center offers new features, including the Power Assistance Line, which goes into action if there is a storm that leads very quickly to a large volume of customer calls. While we are staffing up our contact center to deal with the emergency, the Power

Assistance Line enables large numbers of customers to tell a computer what their problem is. We are using PAL, however, only for brief periods when our customer contact representatives are overwhelmed. We firmly believe that our customers want to talk with a real person and it is our goal to provide that kind of responsiveness, except in the most severe circumstances.



The center is just one example of our continuing commitment to providing the best in services to our customers — an example of our *sensitivity to people*. Our sensitivity to the concerns of our customers also is exemplified by the fact that, for the sixth year in a row, PP&L had the lowest customer complaint rate of ma-

jor electric utilities in Pennsylvania.

Our sensitivity to people also is reflected in our relationship with our employees. The superior performance of PP&L people resulted in the company achieving seven of our nine employee incentive goals in 1991. The company's compensation package — which includes comprehensive benefits — is meant to encourage that continued pursuit of excellence.

We have not ignored you, the shareowner, in our people sensitivity strategy. We think our record of annual dividend increases since 1979 is an example of our keen awareness of the needs of the people who own this business.

PP&L's four basic strategies have served us well and they remain very important to our daily operations. We will, however, continue to assess their effectiveness as we plan to meet the competition that the future holds.

Also, these strategies have played an important role in maintaining the company's financial health. Our earnings for 1991 were \$4.01 per share of common stock, 6 cents higher than in 1990. And, if we had experienced normal weather in 1991, earnings would have been 12 cents per share higher.

Despite the impact of mild weather and the recession, the \$4.01 per share earned in 1991 represents an annual growth rate in earnings of 5.3 percent since the end of 1986.

Several factors have played an important part in that earnings improvement. These include aggressive marketing and economic development programs, effective cost management, and a reduction in interest expense and dividends on preferred and preference stock. Also, our strong generating capacity enabled us to add another dimension of revenue, beginning in 1989, by entering into innovative capacity-related transactions with other utilities.

In December, we announced our intention to split our common stock. The split would bring the price of our stock, which has doubled since the mid-1980s, in line with other electric utilities. Shareowners will be asked to approve the split at the annual meeting in April.

Environmental Commitment

Even as we do our best to maintain strong financial performance in a more competitive future, we are addressing the ongoing challenge to protect the environment as we provide an essential service to the people of Central Eastern Pennsylvania.

As we clearly point out in the environmental values statement that we developed in 1991, we are committed to serving our customers in a manner that protects the environment for present and future generations. We manage our business to minimize wastes and emissions that affect the environment. As a company, we manage and conserve natural resources, we protect environmental diversity and we promote energy efficiency.

Because we've done more than simply comply with previous laws on sulfur dioxide emissions, we expect only a small increase in customer costs — about 1 percent — will be needed to comply with the first phase of the Clean Air Act amendments passed last year by Congress. Because we have been making substantial improvements over the years, the early reductions at our plants will come, in part, from the burning of lower-sulfur coal.

The later reductions, however, will involve the installation of "scrubbers" on some of our generating units. While the Clean Air Act amendments will result in a cleaner environment for all of us, PP&L has been working toward this goal for some time.

Our actions continue to demonstrate our clear commitment to the environment. Our land management programs have earned awards, but more importantly, they have increased environmental awareness among people in our service area. The Montour Preserve, Susquehanna Riverlands, the Holtwood recreation areas and Lake Wallenpaupack are excellent examples of environmental commitment at work today in our communities.

We are adding to our environmental programs in 1992. In the spring we will be giving away more than 120,000 fir seedlings in a program called "Trees for the Future." The program will stress the importance of environmental

awareness and education.

Another environmental concern among some of the people in our service area is the question of EMFs — the electric and magnetic fields present near electrical appliances and our facilities. Although the current scientific evidence does not demonstrate a health problem, we are sensitive to the concerns of our customers. For that reason, we are meeting with customers, offering to measure EMF levels in their homes and businesses and provide them with information. We're even taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities.

We are responding to the perceptions of our customers as well as to the cold scientific "facts."

Deregulation Issues

In a way, perception also is the challenge we face as Congress considers legislation that would change the very nature of our business. In light of the deregulation that has occurred in other major industries over the years, there is a perception by some in the federal government that the nation would be better served with a deregulated electric utility industry.

While this is a complicated question, we must be careful not to put the long-term best interests of the nation at risk. Our position on the deregulation issue is clear: we support action that will maintain competitive, stable rates for PP&L customers while maintaining the reliability of electric supply. None of the electric utility deregulation proposals now being discussed adequately deal with the challenge of maintaining system reliability.

The decisions on these matters must result in the highest long-term economic productivity of the nation. Some of the deregulation schemes being discussed would benefit certain special interest users of the electric supply system while putting the average customer, particularly residential customers, at an economic disadvantage.

In addition, some of the deregulation scenarios would allow indepen-

dent power suppliers to enter and leave the electric business as they see fit, without regard to any obligation to serve customers. This is not in the best interest of the nation and the general public because electricity is a service that is essential to the very survival of our way of life.

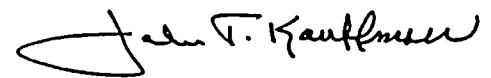
You can be sure that we will continue to be active in helping to shape the future of the utility industry.

As we step forward in the 1990s, the world is changing and so is PP&L. We are concentrating on our competitive situation, we are looking beyond today's operational concerns and assessing what we need to do to realize our vision for the future.

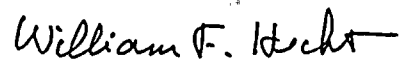
Thanks to your continuing support, PP&L is a healthy company, a company that can effectively plan for the future with the confidence that our 72 years of success have given us.

We have a vision. We have the leadership in place to get us there. We have the strategies to provide the pathway.

We will succeed because we're not shrinking from the uncertain future. We're planning to manage the future in a way that will assure continued success for your company.



John T. Kauffman



William F. Hecht

March 1, 1992



January

- E. Allen Deaver, executive vice president and a member of the board of directors of Armstrong World Industries, Lancaster, and Dr. Stuart Heydt, president and chief operating officer of the Geisinger Foundation, Danville, join PP&L's board, effective Jan. 1.
- Year-end figures show 1990 earnings of \$3.95 per share of common stock as energy sales for the year are depressed by extremely mild weather. With normal weather, per share earnings would have been \$4.20.

February

- The quarterly dividend on common stock is increased by 4 percent, from 74.5 cents to 77.5 cents per share. This continues the record of dividend increases every year since 1979.
- The company's Susquehanna nuclear plant earns the highest possible grade

in five of seven performance areas in an assessment by the Nuclear Regulatory Commission. The second highest mark was earned in the other two categories.

- "Working Toward a Brighter Tomorrow" is chosen from among 3,000 employee entries as the new company slogan.

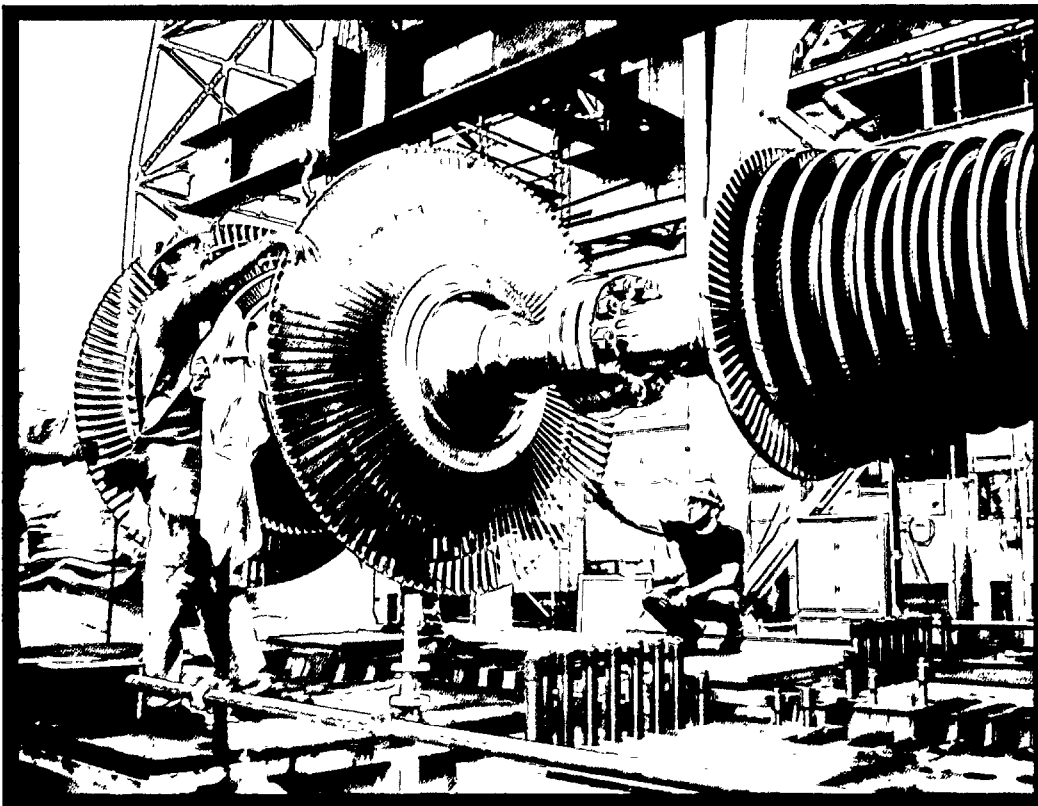
March

- 143 line and support employees are sent to Niagara Mohawk Co.'s service area to help restore electric service to thousands of customers affected by a severe ice storm in New York State.
- Unit 2 at the Susquehanna nuclear plant begins its fourth refueling and inspection outage.
- PP&L asks the Federal Energy Regulatory Commission to approve a 9.65 percent, \$4.1 million, increase for the 17 municipalities and one investor-owned utility which comprise

the company's wholesale customer group.

April

- An agreement calling for sharing of nuclear-related information is signed by PP&L and top officials of the Kursk nuclear power plant in Russia. The agreement follows an exchange of delegations between Kursk and the Susquehanna nuclear plant in 1990.
- PP&L undertakes initiatives to respond to customer concerns about the effects of electric and magnetic fields. These initiatives include design changes in some of its new transmission and distribution facilities, a customer field measurement program and support of additional EMF research.
- An agreement is reached between PP&L and the General Electric Co. settling an outstanding contract claim against G.E. which arose during construction of the Susquehanna plant.



A new rotor for the Unit 1 high-pressure and low-pressure turbine at the Martins Creek power plant is carefully guided into place. Replacement of the turbine on the coal-fired unit, along with installation of new control-room panels, during a well-planned, four-month outage, will help the unit run better and increase its efficiency. Furnace and boiler refurbishment and installation of allied equipment round out the \$45 million project.

PP&L customers and Allegheny Electric Cooperative will share in the benefits of the settlement. Allegheny is a 10 percent owner of Susquehanna

May

- PP&L's dedication to exemplary customer service is evident as company residential consultants win six of eight marketing awards in the annual competition sponsored by the Pennsylvania Electric Association.
- Susquehanna Unit 2 returns to service after safely completing its fourth refueling and inspection outage. The outage was completed in 60 days, the shortest refueling outage in the plant's history.

June

- PP&L is one of 25 utilities across the country to sponsor a nationwide study of the magnetic fields that exist in and around people's homes. A randomly

selected group of 36 residential customers are asked to participate in the 1,000-home study conducted by the Electric Power Research Institute. Measuring devices will record the strength of magnetic fields in the homes for a six-month period.

July

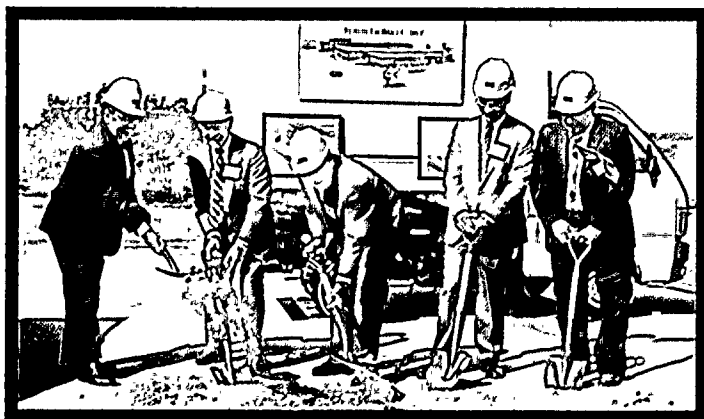
- The company's stewardship of its land holdings earns a first-place "Take Pride in Pennsylvania" award and a semi-finalist spot in national competition sponsored by the U.S. Department of the Interior.
- PP&L sells \$150 million of first mortgage bonds to an underwriting group and retires short-term debt that was incurred to provide interim financing for the company's capital requirements.
- Hot, muggy weather and heavy use of air conditioners combine to drive customer demand for electricity to three new record summer peaks with that

mark reaching 5,398,000 kilowatts.

- The Public Utility Commission announces that — for the sixth straight year — PP&L has the lowest consumer complaint rate among Pennsylvania utilities.

August

- A group of 20 oil dealers files an anti-trust suit against PP&L, alleging the company has acquired a major share of the residential home heating market through an electric thermal-storage rate and an incentive program tied to the installation of electric heat pumps. The company believes its marketing programs are lawful and is vigorously defending the litigation.
- A substantial increase in state taxes forces the company to file for a \$38 million increase in the State Tax Adjustment Surcharge on customer bills. The surcharge is allowed to go into effect, but the new taxes are seen as



Chairman John Kauffman (center) and former PP&L director Edgar Dessen (to Kauffman's right), who is chairman of CANDO, a Hazleton-area economic development group, were among officials presiding at the October 1991 groundbreaking of the company's new System Facilities Center. To be completed in 1994, the 282,000-square-foot main building and storage areas will replace facilities that date back to the company's origin in the 1920s.

Michele Klucarski is one of 142 customer service representatives and service dispatchers now providing round-the-clock staffing at the company's new centralized Customer Contact Center in Allentown. The center provides greater efficiency and faster response to customer inquiries and problems. More than 844,000 customer calls were responded to in 1991.





Two new electric G-vans — GMC vans converted to battery power — were purchased in April 1991 and introduced at the company's annual meeting in Lancaster. One van was put in service at the Susquehanna Energy Information Center and the other is used for exhibition and general business purposes to demonstrate their viability for urban transportation use.

having a dampening effect on the company's economic development activities in its service area.

- About 140 employees are sent to help utility crews in New York, Connecticut and Massachusetts restore service to hundreds of thousands of customers left without power after Hurricane Bob rips throughout the Northeast.
- The company's land management activities win additional national recognition from the Edison Electric Institute.

September

- Members of two locals of the International Brotherhood of Electric Workers, representing about 5,000 PP&L employees, ratify new labor agreements with the company after rejecting an offer earlier in the year.
- As one of nine utilities that own the mine-mouth Conemaugh Electric Generating Station in western Pennsylvania, PP&L commits more than \$41 million as its share of new pollution control equipment there. Conemaugh will be one of the first plants in the country to install flue gas scrubbers to comply with the 1990 Clean Air Act amendments.
- William F. Hecht is named PP&L's president and chief operating officer as John T. Kauffman relinquishes the title of president, while continuing as chairman and chief executive officer. The board of directors chooses the 27-year PP&L veteran as the company's seventh president after a year-

long search both inside and outside the company.

- Drought conditions in both the Susquehanna and Delaware River basins prompt first-ever releases from Cowanesque Reservoir in Tioga County, and Merrill Creek Reservoir in New Jersey, to help replace cooling water used by PP&L power plants along both rivers. These reservoirs provide water during periods of low river flow to replace water used by utilities in producing electricity.

October

- Alden F. Wagner Jr., vice president of the company's Lancaster Division, retires after 35 years with PP&L. He is succeeded by John H. Saeger, vice president-Marketing & Customer Services, and former vice president of the company's Susquehanna Division.
- Edward M. Nagel, vice president-Federal Policy, retires after 39 years with PP&L.
- The Nuclear Regulatory Commission gives PP&L's nuclear emergency response organization high marks for its performance in an exercise held in cooperation with state and county emergency groups and the 27 municipalities in the Susquehanna plant emergency planning zone.

November

- Chairman John T. Kauffman visits Chugoku Electric Power Co. of Hiroshima,

Japan. His tour of Chugoku facilities strengthens the relationship begun by the two companies in 1990.

- Susquehanna earns the second highest of five possible ratings for plant performance in an evaluation by the Institute for Nuclear Power Operations. The evaluations are conducted every 18 to 24 months for every nuclear power plant in the country.

December

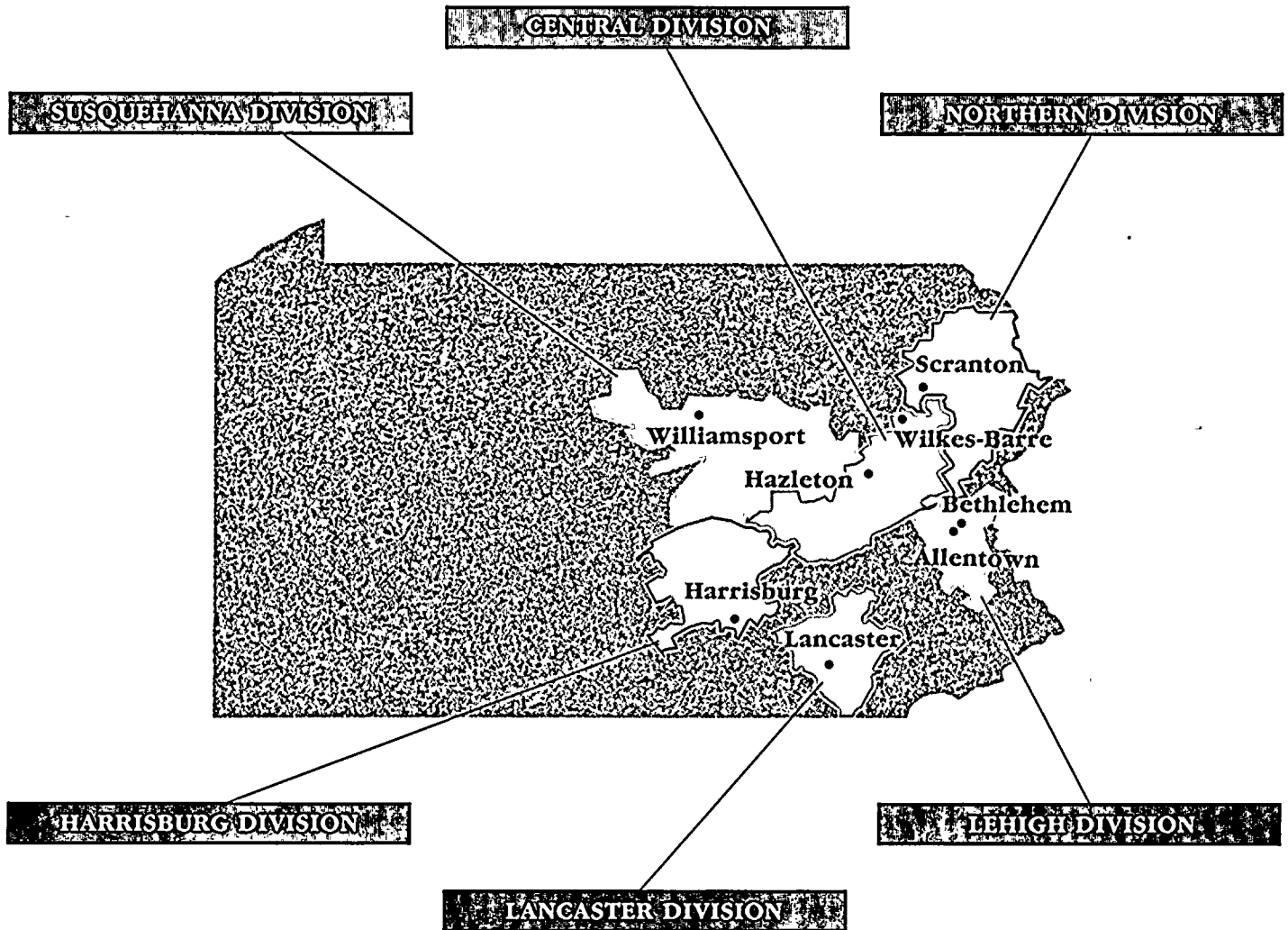
- PP&L's board authorizes a two-for-one common stock split. The split would take place in May 1992, if approved by the Pennsylvania Public Utility Commission and by shareholders at the 1992 annual meeting in April.
- Robert J. Shovlin is appointed vice president-Power Production & Engineering, effective Jan. 1, 1992.
- Federal Energy Regulatory Commission gives final approval to a \$4.1 million increase for PP&L wholesale customers.
- Clifford L. Alexander Jr., a PP&L director for 15 years, submits his resignation, effective Dec. 31, 1991.
- Susquehanna's two units generate a net 15.86 billion kilowatt-hours of electricity during 1991, a plant record.
- Despite a rash of generator problems that affected three major units in the last quarter of the year, PP&L's fossil-fuel generating units exceed their availability goal for the year.

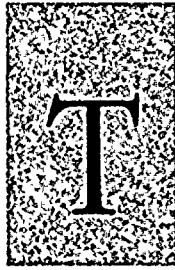
SERVICE AREA PROFILE



ennsylvania Power
& Light Co., head-
quartered in Allen-

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





hroughout its nearly 72 years of corporate life, PP&L has been a leader in the communities it serves. As part of their jobs — and as a big part of their off-work hours — thousands of PP&L people have sought ways to improve the quality of life in Central Eastern Pennsylvania.

As Chairman John Kauffman has said so many times while attending community events, “The well-being of PP&L is closely tied to the well-being of the communities we serve. We cannot be a strong, prosperous business organization unless we operate in a strong, prosperous environment. The perception of the quality of life in our 10,000-square-mile service area goes a long way in attracting people, business and new jobs to our area. The people who live and work here are special. They will determine what this area will be like generations from now.”

PP&L people are committed to sharing their time, their experience, their leadership and

Thomas Reese, a material handler at the Pocono Service Center, has been involved with the Scott Township volunteer fire, rescue and ambulance squads for 35 years. He was a founding member of the water rescue unit, which is the certified regional Pennsylvania State Police dive team. He is the winner of the 1991 company-wide community service award.



Robert "Bert" Daday (center) is Chairman John Kauffman's special assistant for community affairs. His legendary involvement in community affairs in the Allentown/Lehigh Valley area spans nearly three decades. With him are (left) Bruce Hutchison, principal at Allentown's South Mountain Middle School, and Dr. Richard Cahn, superintendent of the Allentown School District.



Camilo Angeles, building custodian at the company's Central Division facilities in Hazleton, was the recipient of the division's 1991 community service award in recognition of his work helping newly arrived members of the Hispanic community find shelter and employment and learn the language of their adopted land.

Larry Feirick is a system right-of-way agent. Two weeks of his vacation each year, and many weekends, are spent as a volunteer cook for troubled adolescents involved in local activities of the national Teen Haven organization.



John Talaber, demand meter inspector in PP&E's Harrisburg Division, serves the Special Olympics organization as a speaker and fundraiser. He chats here with Derrick Collins, of Harrisburg, who has distinguished himself on a national level as a Special Olympics gymnast.

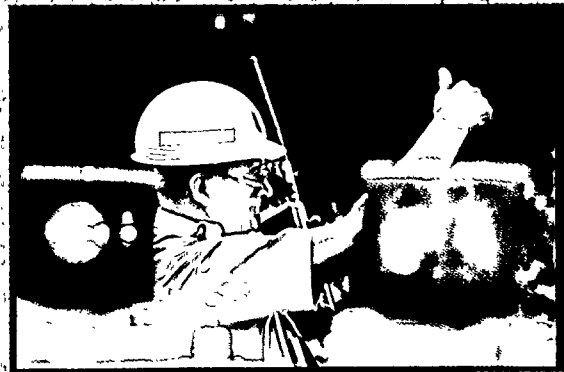
Edwin Ebersole (dark suit), manager-Industrial & Commercial Marketing at the company's General Office, is chairman of the Waste System Authority of Northern Montgomery County. Inspecting a load of recyclable material with him are contractor Richard Godshall of Waste Management of Indian Valley and Carol Kracht of the authority.





Nydia Ramos is a stenographer in the General Office. She has been ministering to the needs of female offenders in the Lehigh County Prison, Allentown, for 10 years. Here she leads Sunday services at the prison.

Harold Minnick, station mechanic at the Montour power plant, has been a fire police officer with the Washingtonville volunteer fire department for nearly 20 years. He also volunteers as a driver for a Danville ambulance service.



George Goshert, operating manager at the Susquehanna Division Service Center, Montoursville, sorts foodstuffs with Barbara Marsh, executive director of the North Central Pennsylvania Food Bank in Williamsport. The food bank provided agencies with a million pounds of food for distribution to 36,000 needy families during 1991.

Melvin Latem, senior drafter at the General Office, is a frequent visitor to Allentown's Day-break Center for the homeless and disadvantaged. He offers friendship, conversation and words of encouragement. Melvin's outreach also includes seasonal migrant workers. His involvement with the disadvantaged spans 15 years.

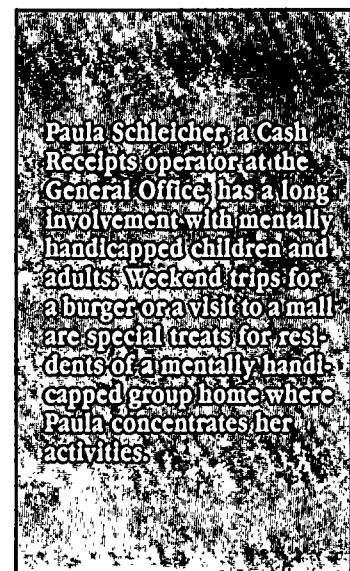


John Brenner, station mechanic at the Brunner Island power plant, is active as coach or referee in various youth sports activities that keep him busy in every sport season of the year. Here he explains a basketball drill to his team.

themselves — in hundreds of organizations — to enhance both economic prosperity and quality of life in our communities. PP&L people are an integral part of the economic, political and social structure of Central Eastern Pennsylvania.

At PP&L, community involvement means being a responsible and responsive corporate citizen. It means caring about cultural and civic values in our communities, and operating our business in harmony with those values.

Community involvement means corporate monetary contributions to organizations serving those who live where we serve. It means PP&L people providing leadership roles in United Way campaigns and other community fund-raisers; it means making useful community service a part of the job descriptions of those who work closely with community leaders and economic development partners; it means encouraging employees to be involved during their off-work hours; and it



Paula Schleicher, a Cash Receipts operator at the General Office, has a long involvement with mentally handicapped children and adults. Weekend trips for a burger or a visit to a mall are special treats for residents of a mentally handicapped group home where Paula concentrates her activities.

means setting a good example by making community service and involvement a corporate value.

Each year company employees nominate their fellow employees for one of six division community service awards. One of those six is chosen for company-wide recognition. Part of those awards include contributions to organizations of the winners' choice. Pictured on these pages are many employees who have won, or have been nominated for, those awards. Some have served quietly — without recognition or fanfare — taking their satisfaction in having made a contribution toward making someone's day brighter.

These people are the human face of a corporate entity. They certainly aren't all the people who serve. They are a small representative handful. For every one shown, there are scores more who make important contributions every day of their lives. These people are the essence of community involvement at Pennsylvania Power & Light Co.

Grayson McNair, vice president of the Lehigh Division, Allentown, has been involved with Boy Scouting since 1973. He has been involved at the individual scouting level as well as in high-level Minsi Trail Council leadership activities in camping, advancement and leader training.



Larry Diehl, shift supervisor at the Martins Creek power plant, and his wife, Joanne, have been foster parents for eight years. Pictured with him are his son, Joseph, and foster children, Nicole and Tiffany, who have been in the Diehls' long-term care since they were infants.



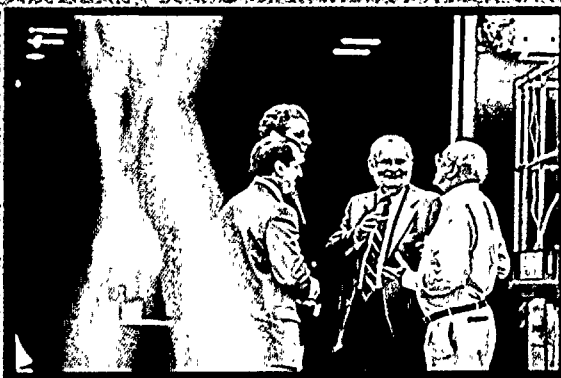
Cameron Ferdinand, supervisor of Administrative Services at the Holtwood power plant, has been a volunteer in the St. Joseph's Hospital Chemical Dependency Unit, in Lancaster, since 1987. Here he discusses program activities with hospital unit supervisors.

Stanford Davis, power production engineer and site fire protection engineer at the Susquehanna nuclear plant, is a hazardous materials responder/trainer for the Sweet Valley volunteer fire department. Here he helps fit self-contained breathing apparatus to a fellow responder.



Karen Hampton, residential consultant at the Lancaster Division Service Center, works with Lancaster's Organization for the Responsible Care of Animals. ORCA provides service to pets in distress. The organization's animal alert hotline answers about 250 calls a week.

Thomas Kinty (facing camera), Bloomsburg area manager, has been a familiar face on a long list of community organizations during his 30 years with PP&L. Here he discusses an industrial property with several of PP&L's economic development partners in the Columbia County area.



Results of Operations

Earnings

Earnings per share of common stock were \$4.01 in 1991, \$3.95 in 1990 and \$4.05 in 1989. Milder-than-normal weather for the second year in a row, coupled with the additional pressures in 1991 of the recession, had an adverse effect on earnings. Energy sales experienced during extremely hot weather this past summer were not sufficient to offset the impact of mild temperatures that occurred during the first quarter and in December. Earnings would have been 12 cents per share higher had there been normal weather. Earnings for 1990 were affected by extremely mild weather and would have been 25 cents per share higher had there been normal weather in the Company's service area. Although there were weather extremes during 1989, weather ended up being measured as essentially normal for the entire year.

Despite the impact of mild weather and the recession, the \$4.01 per share earned for 1991 represents an annual growth rate in earnings of 5.3% since 1986. Several factors have played an important part in that earnings improvement. These include aggressive marketing and economic development programs, effective cost management, and a reduction in interest expense and dividends on preferred and preference stock.

In addition, the Company's strong generating capacity enabled it to add another dimension of revenue, beginning in 1989, by entering into several capacity-related transactions with other utilities. These transactions resulted in net additional revenues in 1991 of about \$3.1 million, or higher earnings of about 2 cents per share of common stock, when compared to 1990. These transactions increased 1990 earnings per share by about 7 cents over 1989 and increased 1989 earnings per share by about 19 cents.

Electric Energy Sales

System, or service area, sales were 29.0 billion kwh in 1991, an increase of 364 million kwh, or 1.3%, over 1990. Two major factors adversely affected sales growth in 1991 — the weather and the recession. Extremely mild weather depressed system sales in both 1991 and 1990 primarily due to reduced use of electricity for heating by residential and commercial customers. System sales were down an estimated 287 million kwh in 1991 and 604 million kwh in 1990 due to milder-

than-normal weather. The Company estimates that if normal weather had been experienced in both years, system sales for 1991 would have increased by 47 million kwh over 1990.

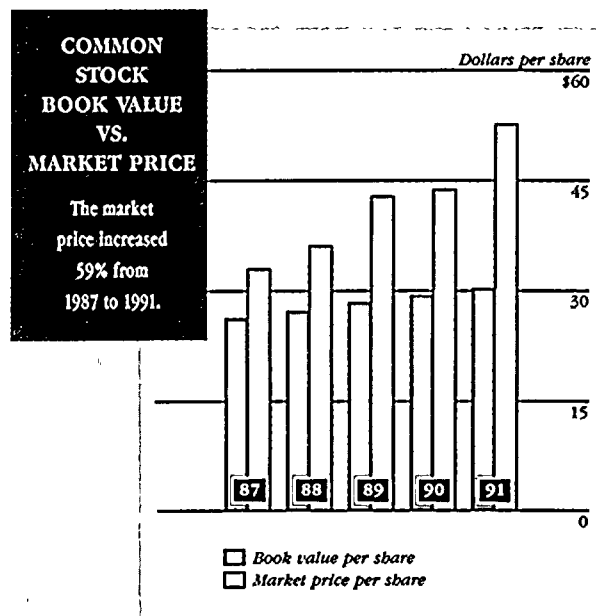
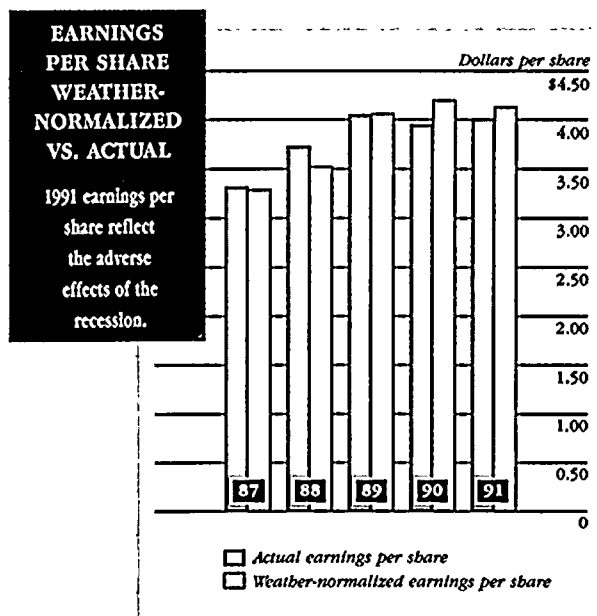
Actual sales to residential and commercial customers in 1991 increased 282 million kwh, or 2.8%, and 323 million kwh, or 3.8%, respectively, over 1990. However, as previously noted, sales performance in both 1991 and 1990 were adversely affected by milder-than-normal weather, with 1990 sales being depressed more than 1991 due to the weather. The Company estimates that under normal weather conditions for both years, sales to residential and commercial customers in 1991 would have increased 60 million kwh, or 0.6%, and 238 million kwh, or 2.8%, respectively, over 1990.

The economic recession depressed growth in sales to all categories of customers. New single-family home construction in the Company's service territory was down 21.5% in 1991 compared to 1990. Certain categories of commercial customers have shown the effects of the economic uncertainty. However, the largest impact of the recession was in reduced sales to industrial customers, which declined 260 million kwh, or 3.0%, in 1991 compared to 1990.

The Company currently expects that the economic recession will continue to adversely affect energy sales in 1992. System sales in 1992 are currently forecasted to be approximately 29.8 billion kwh, an increase of 734 million kwh, or 2.5%, over 1991 actual system sales, but only a 447 million kwh, or 1.5%, increase over 1991 weather-normalized sales. The 1.5% expected increase in 1992 system sales over 1991 weather-normalized sales is substantially below the comparable percentage increases experienced in 1990 and 1989, which were 3.0% and 3.7%, respectively.

Although slow economic growth is anticipated in 1992, marketing and economic development continues to be a key corporate initiative. One of the Company's goals is to achieve a specified annual level of additional energy sales from its marketing and economic development programs. These additional sales generally will be realized over at least a two-year period, and possibly longer if a major commercial or industrial customer is involved. The level of additional sales estimated from these programs in 1991 was 436.5 million kwh.

The Company's 1992 marketing and economic development goal is to achieve annual net sales growth of 435 million kwh. The 1992 goal reflects the expectation that there will continue to be slow economic growth in the Company's service territory during 1992. During 1991,



Pennsylvania enacted legislation that substantially increased the tax burden of companies doing business in the state. The Company is concerned that the current tax structure will impede economic development in the state and may adversely affect related energy sales growth. The Company is unable to predict to what extent, if any, the current tax structure may ultimately be changed to lessen the current tax burden on businesses.

Competition from other fuel sources for certain energy applications has increased in recent years. The Company's electric heat market share in new residential construction has dropped from 74% in 1989 to 69% in 1991. The Company's goal for 1992 is a 70% electric heat market share in new residential construction.

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

Total electric energy sales, which include contractual sales to other utilities, were 36.2 billion kwh in 1991, an increase of 519 million kwh, or 1.5%, compared to 1990. Contractual sales to other utilities primarily represent energy sold to Atlantic City Electric Company (Atlantic), Baltimore Gas & Electric Company (BG&E) and Jersey Central Power & Light Company (JCP&L) pursuant to bulk power contracts whereby these utilities purchase a specified percentage of the capacity and related energy from Company-owned generating units. Contractual sales to other utilities were about 7.2 billion kwh in 1991, or 2.2% higher than 1990.

Capacity-Related and Transmission Entitlement Transactions

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

Revenues from the sale of capacity credits, the reservation of output

from the Martins Creek units and the sale of transmission entitlements, net of foregone interchange savings which are included in the Company's Energy Cost Rate (ECR), totaled \$35.4 million in 1991, \$32.3 million in 1990 and \$23.3 million in 1989. The Company currently expects about \$33 million of revenues from these transactions during 1992.

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

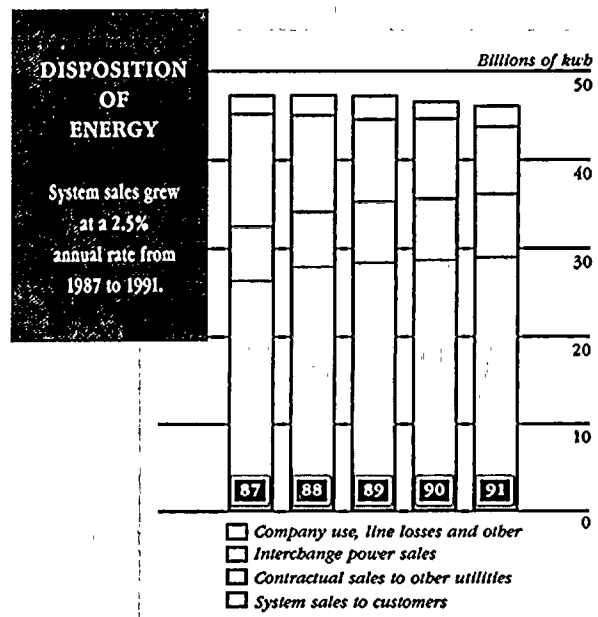
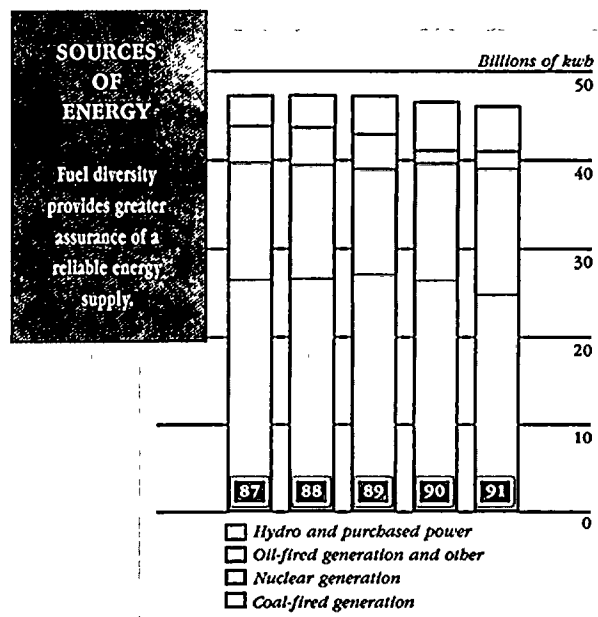
Operating Revenues

Total operating revenues increased \$140.0 million, or 5.8%, in 1991 over 1990. Details of changes in operating revenues from the prior year are shown in the schedule below.

Changes in Operating Revenues

	1991	1990	1989
	(Millions of Dollars)		
Wholesale rate increase	\$ 2.4		\$ 3.3
Depreciation changes			(8.6)
State tax adjustment			
surcharge	22.0		2.0
Special base rate credit			
adjustment	(16.7)		
Recovery of fuel and			
energy costs	79.9	\$55.3	45.7
Change in customer			
usage	38.2	(14.4)	50.6
Contractual sales to			
other utilities	9.1	(3.3)	38.5
Capacity-related and			
transmission entitlement			
transactions—net	3.1	8.9	23.3
Other	2.0	(3.2)	(5.5)
Total	<u>\$140.0</u>	<u>\$43.3</u>	<u>\$149.3</u>

Tariffs subject to Pennsylvania Public Utility Commission (PUC) jurisdiction accounted for approximately 84% of the Company's



revenues from energy sales in 1991. The remaining 16% of such revenues resulted from sales regulated by the Federal Energy Regulatory Commission (FERC). The FERC also regulates interchange power sales, which are classified as a credit to operating expenses.

Billings to customers under PUC jurisdiction include: (i) base rate charges; (ii) the ECR which is a supplemental charge or credit for fuel and other energy costs over or under the levels included in base rates; (iii) a state tax adjustment surcharge (STAS) which adjusts retail customers' bills for the effects of changes in state tax rates; and (iv) beginning in 1991, a special base rate credit adjustment (SBRCA) that flows through to customers the effects of certain nonrecurring items. See Financial Note 3 for additional information regarding rate matters.

The Company has an objective of not increasing PUC jurisdictional base rates for electricity until at least the 1994-1995 period. This price stability will help foster prosperity among communities served and, at the same time, enhance the Company's financial strength through increased energy sales. The last base rate increase for PUC jurisdictional customers went into effect in April 1985.

Billings to FERC jurisdictional customers, excluding contractual sales to other utilities and capacity-related and transmission entitlement transactions, include base rate charges and a supplemental charge or credit for energy costs over or under the levels included in base rates. In March 1991, the Company filed with the FERC a base rate increase request of about \$4.1 million, or 9.65%, on an annual basis for FERC jurisdictional customers, which became effective May 19, 1991. The last base rate increase for FERC jurisdictional customers went into effect in December 1988.

Contractual sales to other utilities are regulated by the FERC. Sales to Atlantic, BG&E and JCP&L are made at a price covering the Company's cost of service, including a return on investment. Energy sales relating to the reservation of output from the Martins Creek units and energy sales to certain utilities are generally made at a price equal to the cost of fuel plus an amount to reflect foregone interchange savings. Capacity-related and transmission entitlement transactions are also regulated by the FERC and are made at prices negotiated by the Company and the purchaser, subject to a price cap accepted by the FERC.

Net Cost of Energy

Energy sales to certain utilities, previously included in interchange power sales, have been reclassified as operating revenues, effective as of

January 1, 1991. Prior periods have been restated to conform to the current presentation. See Financial Note 17 for additional information concerning the reclassification and information concerning the future reclassification of all interchange power sales to operating revenues.

In 1991, the net cost of energy was \$662 million, an increase of \$72 million over 1990. The increase was due to additional purchases of energy from non-utility generating companies and less energy sold to interconnected utilities resulting from an increase in the availability of nuclear generating capacity of interconnected utilities. The increase was partially offset by a decrease in short-term power purchased from other utilities and the termination on February 1, 1991 of an agreement whereby the Company purchased a portion of Allegheny Electric Cooperative's share of the output of the Susquehanna nuclear-fueled station.

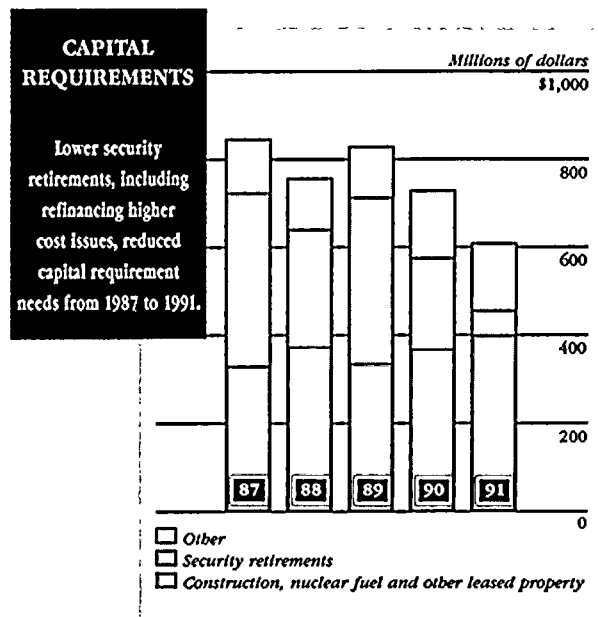
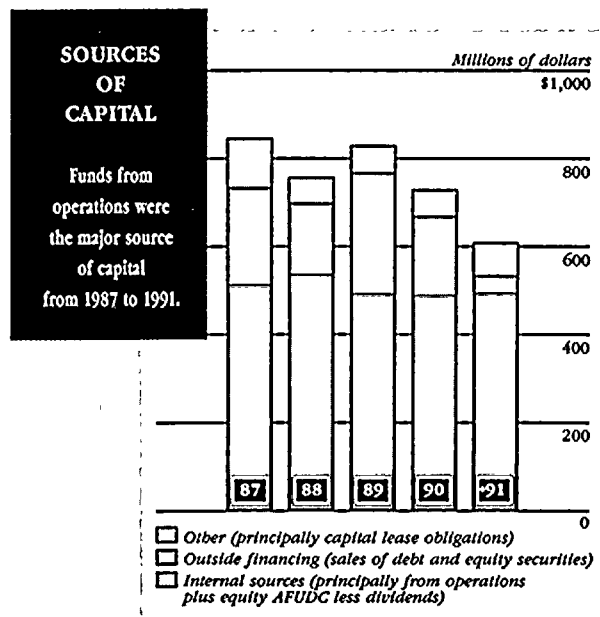
Output from the Company's generating units in 1991 was 41.6 billion kwh, a decrease of 0.4 billion kwh compared with 1990. The decrease was due principally to reduced output from the Company's coal-fired units caused by extended outages at several large units, partially offset by the record output from the Susquehanna station. The Company's share of Susquehanna's generation was 14.3 billion kwh, an increase of 1.0 billion kwh, or 7.7%, over the 1987 record.

Other Operation, Maintenance and Depreciation

Other operation costs increased \$30.5 million, or 7.1%, over 1990 primarily reflecting increases in wages and benefits and higher costs associated with operating the Susquehanna station. The Company, in addressing the increases in wages and benefits, has plans to reduce the number of full-time employees by approximately 7.0% to about 7,500 by the mid-1990s. This reduction is expected to come primarily from normal attrition.

The amortization of the deferred cost of power plant spare parts is credited to maintenance expense on the Consolidated Statement of Income (see Power Plant Spare Parts on page 19). Excluding this amortization, maintenance expenses increased by \$1.1 million in 1991, or 0.5%, compared to 1990.

Higher depreciation in 1991 reflects the scheduled annual increase associated with the method of depreciating the Susquehanna station and the depreciation of new property, plant and equipment placed in



service. As approved by the PUC and the FERC, the depreciation expense for the Susquehanna station will increase annually through the year 1998. Beginning in 1999, depreciation is scheduled to switch to the straight-line method at a level substantially less than the amount expected in 1998.

Taxes

In August 1991, Pennsylvania enacted legislation that increased the Company's state taxes by approximately \$38 million on an annual basis. The Company is recovering substantially all of the increased state taxes through application of a surcharge on billings to retail customers and through billings for the contractual sale of capacity and related energy to other utilities.

The Tax Reform Act of 1986 repealed the investment tax credit. During 1991, the Company utilized the remaining \$16 million of previously unused tax credits to reduce its federal income tax liability.

Financing Costs

The Company has continued to take advantage of opportunities to reduce its financing costs during the years 1989-1991 by the retirement of long-term debt and preferred and preference stock with cash from operations and refinancing at a lower cost. Interest on long-term debt and dividends on preferred and preference stock have decreased by \$43 million from \$320 million in 1988 to \$277 million in 1991.

Power Plant Spare Parts

Effective January 1, 1991, the Company began to account for certain power plant spare parts using a deferred (inventory) method. Under this method, purchases of spare parts under inventory control are included in an inventory account and then charged to the appropriate capital or expense accounts when the parts are used or consumed. Prior to 1991, power plant spare parts were generally either capitalized or charged to expense at the time of purchase.

The January 1, 1991 cost of these spare parts was \$116.8 million. This amount was recorded as an increase in the materials and supplies inventory account on the balance sheet at January 1, 1991. The associated income statement effect was deferred and is being amortized as a credit to expense over a five-year period. The annual amortization applicable to retail customers is included in the SBRCA credit applied to cus-

tomers' bills effective April 1991, and the annual amortization applicable to wholesale customers is reflected in the base rate increase effective May 1991.

Financial Condition

Capital Expenditure Requirements

The schedule below shows the Company's actual capital expenditures for electric utility operations for the years 1989-1991 and current projections for the years 1992-1994. Construction expenditures during the years 1989-1991 totaled about \$905 million and are expected to be about \$1.2 billion during the years 1992-1994.

Financing and Liquidity

For the years 1989-1991, the Company issued \$525 million of long-term debt and about \$25 million of common stock and also incurred \$180 million of obligations under capital leases (primarily nuclear fuel). During 1991, the Company's primary source of capital was from internally generated funds. The Company also sold \$150 million principal amount of first mortgage bonds in a public offering and issued \$8 million of common stock to the Employee Stock Ownership Plan. During the year, the Company retired \$119 million of short-term debt, \$37 million of long-term debt and \$19 million of preferred stock.

After the payment of dividends, internally generated funds during the years 1992-1994 are currently expected to provide approximately 85% of the Company's construction expenditures.

Sales of securities will be undertaken during the 1992-1994 period as needed to meet the Company's capital requirements to retire maturing long-term debt and preferred stock sinking fund requirements and to provide funds for the early retirement of high-cost securities if such retirements are determined to be appropriate in the light of market conditions and other factors.

The Company's ability to issue securities during the next three years is not expected to be limited by earnings or other issuance tests. To enhance financing flexibility, a \$167 million revolving credit arrangement is maintained with a group of banks and is used principally as a back-up for commercial paper issued by the Company. The Company also maintains a \$5 million bank line of credit. A subsidiary maintains a \$100 million revolving credit arrangement. No borrowings were outstanding at the end of 1991 under these arrangements.

Capital Expenditure Requirements (a)

	Actual		Projected		
	1989	1990	1991	1992	1993 1994
	(Millions of Dollars)				
Construction expenditures					
Generating facilities	\$109	\$101	\$124	\$123	\$ 95 \$ 95
Transmission and distribution facilities	131	148	165	186	194 200
Environmental	15	16	11	16	52 98
Other	25	23	37	56	50 42
	<u>280</u>	<u>288</u>	<u>337</u>	<u>381</u>	<u>391 435</u>
Nuclear fuel owned and leased	33	53	41	45	59 45
Other leased property	12	18	17	23	21 22
Total	<u>\$325</u>	<u>\$359</u>	<u>\$395</u>	<u>\$449</u>	<u>\$471 \$502</u>

(a) Capital expenditure plans are revised from time to time to reflect changes in conditions. Actual expenditures may vary from those projected because of changes in plans, cost fluctuations, environmental regulations and other factors. Construction expenditures include AFUDC which is expected to be less than \$21 million in each of the years 1992-1994.

In December 1991, the Company's Board of Directors authorized a two-for-one split of the Company's common stock and an increase in the authorized number of shares from 85,000,000 to 170,000,000, subject to shareowner and PUC approval. The Company will seek PUC approval in early 1992 and shareowner approval at the annual share-owners' meeting in April 1992. If approved, it would be the Company's first stock split since May 1959 and will bring the price of the Company's stock more in line with the current stock prices in the electric utility industry.

Current Financial Condition

The Company's overall financial condition remained strong in 1991. Earnings per share of common stock of \$4.01 exceeded last year's earnings by 6 cents per share. Earnings performance for 1991 and 1990 was adversely affected 12 cents and 25 cents, respectively, by mild weather. The decline in the growth rate of weather-normalized energy sales reflects the effects of the recession, particularly on sales to industrial customers, and also adversely affected the Company's earnings. The Company earned a 13.42% return on average common equity during 1991. The allowance for funds used during construction (AFUDC), a non-cash credit to income, accounted for only about 4% of earnings. AFUDC is expected to remain low through the mid-1990s. During the latter part of the 1990s, when the Company will be making capital expenditures to comply with the recently enacted clean air legislation, the amount of AFUDC is expected to increase. The amount of AFUDC recorded will depend on the timing and level of construction work in progress as well as the rate treatment afforded the capital expenditures required to comply with the clean air legislation. Pennsylvania law currently allows construction work in progress to be claimed in rate base for such expenditures.

The ratio of the Company's pretax income to interest charges increased slightly from 2.9 times in 1990 to 3.1 times in 1991. The Company has increased common stock dividends each year from an annual per share rate of \$2.86 in 1989 to \$3.10 in 1991. The ratio of the market price to book value of common stock was 174% at the end of 1991 compared to 149% at the end of 1990.

Termination of Coal-Mining Operations

The Company is closing its subsidiary coal-mining operations due principally to the depletion of coal reserves and the high cost of mined coal as compared to the price of coal purchased on the open market. One of the three operating mines was shut down at the end of June 1991, and the other two are scheduled to close by the middle of 1992. The investment in coal, mining equipment and other facilities amounted to about \$10 million at December 31, 1991, a decrease of about \$20 million from the end of 1990. The Company expects that at the time the mines are shut down, the subsidiaries' remaining investments in coal, mining equipment and other facilities will have been included in the cost of coal purchased by the Company and recovered through energy costs collected from customers. However, the Company cannot predict whether regulatory action, proposed legislation related to health care benefits for miners or other events could have an adverse impact on the Company's earnings.

The Company will replace the coal produced by its subsidiaries with coal acquired through new contracts with non-affiliated suppliers and open market purchases.

Clean Air Legislation and Other Environmental Matters

In November 1990, federal clean air legislation was enacted that deals, in part, with acid rain and attainment of federal ambient ozone standards. Under the acid rain provisions of the legislation, sulfur dioxide emissions must meet specified Phase I levels by January 1, 1995 and

must meet more stringent Phase II emission levels by January 1, 2000. In addition, the legislation specifies the timing for compliance with the nitrogen oxide emission limitations set forth in the acid rain provisions.

About 55% of the Company's coal-fired generating capacity must meet the Phase I sulfur dioxide standards. The Company expects that it will be able to meet those standards by the use of low sulfur coal, additional processing through coal cleaning plants and the installation of scrubbers at the Conemaugh station, in which the Company has an 11.39% ownership interest. In addition, the Company expects to install low-nitrogen oxide burners on the units that must meet Phase I standards. The Company may also choose to limit the capacity factors of certain of its affected units and, to the extent permitted by the legislation, take advantage of trading emission allowances among its generating units or with other utilities.

The Company currently estimates that the cost of compliance with the Phase I acid rain standards will require an increase in customer rates of about 1% (based on 1991 revenue levels).

To meet the Phase II standards, the Company expects to install scrubbers on about 65% of its coal-fired generating capacity as well as to continue its Phase I compliance activities for the balance of its coal-fired generating capacity. In addition, the Company expects to install low-nitrogen oxide burners on the balance of its coal-fired generating capacity. The cost of compliance with the Phase II standards is currently estimated to require an increase in customer rates (based on 1991 revenue levels) of about 4% above the increase expected to result from Phase I compliance with the acid rain provisions of the legislation.

The Company currently expects that capital expenditures of about \$130 million (in 1991 dollars) will be required through the beginning of 1995 to comply with the Phase I acid rain requirements and that an additional \$670 million (also in 1991 dollars) will be required in the mid-to-late 1990s to comply with Phase II acid rain requirements. Under current Pennsylvania law, construction work in progress for non-revenue producing assets, such as capital expenditures for pollution control equipment, can be claimed in rate base.

The 1990 legislation also addresses geographical areas that do not meet federal ambient ozone standards. The legislation provides that all states within the Northeast Ozone Transport Region (from New England to areas of Virginia adjacent to the District of Columbia) must require reasonably available control technology (RACT) on all stationary sources of nitrogen oxides within the Region by May 1995. It is expected that Pennsylvania will define this as low-nitrogen oxide burners similar to those already planned by the Company to meet the acid rain requirements of the legislation. If such a determination is made by Pennsylvania, the Company would have to advance the installation of the low-nitrogen oxide burners, with a currently estimated capital cost of about \$110 million (in 1991 dollars) and planned for Phase II compliance, to meet the May 1995 deadline. The Company estimates that the cost of compliance with the RACT provisions could require an increase in customer rates of about one-half of 1% (based on 1991 revenue levels). These estimated costs are based on the Company's preliminary evaluation of the ambient ozone provisions of the legislation and would be in addition to the increase discussed above for compliance with the Phase I acid rain provisions.

The legislation also requires modeling studies concerning the impact of nitrogen oxide emissions from power plants located in the Northeast Ozone Transport Region. If the results of those modeling studies indicate that further nitrogen oxide emission reductions are required to meet federal ambient ozone standards, the Company may be required to install in the last half of the 1990s additional equipment to reduce nitrogen oxide emissions. If it should be determined that the installation of such additional equipment is required, the Company's preliminary estimates indicate that the cost of compliance could require capital expenditures of up to \$580 million (in 1991 dollars) and an in-

crease in customer rates of as much as 4% (based on 1991 revenue levels). These estimated costs would be in addition to the amounts discussed above for compliance with the acid rain and the RACT ozone provisions of the legislation.

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

The Company has discovered groundwater degradation at the Brunner Island steam electric station. The degradation is attributable to fuel oil which has leaked from underground facilities and to seepage from coal refuse and disposal areas and from the station's coal storage pile. The Company also discovered in 1990 that bag-filters, used to trap fly ash from the plant and previously deposited in an ash basin, leach out cadmium in sufficient quantities under laboratory conditions to classify them as hazardous waste under Pennsylvania Department of Environmental Resources (DER) regulations. The Company is currently negotiating a Consent Order with the DER to address these issues and is proceeding to develop and implement various remedial action plans intended to address these different degradation sources. Similar but less substantial groundwater degradation may exist at some of the other power plants.

Since 1980, the DER has been considering a program for the handling and disposal of industrial (or residual) solid waste. The DER has proposed regulations for this purpose, which are expected to be final by mid-1992. The final regulations are currently expected to require the Company to submit detailed information on waste generation, minimization and disposal practices. The final regulations are also expected to require that the Company repermit existing ash basins at all of its coal-fired generating stations by applying updated standards for waste disposal. In lieu of installing liners and leachate collection systems for ash impoundments, the regulations would allow the Company to continue to operate an existing ash basin if it can meet the regulatory criteria for demonstrating that the facility is not polluting groundwater. Any ash basins that cannot be repermited will be required either to close within five years or to file an abatement plan. Any new ash basin must meet the rigid site and design standards expected to be set forth in the final regulations. In addition, the siting of future facilities and waste handling methods at Company facilities could also be affected.

The Company currently estimates that about \$155 million of capital expenditures could be required to correct groundwater degradation problems at the Brunner Island station and to meet the residual waste disposal regulations in the form currently proposed by the DER. Changes to the final regulations may lower these costs. Such expenditures during the years 1992-1994 could total about \$52 million of which about \$9 million is included in the Company's estimate of 1992-1994 construction expenditures shown in the tabulation on page 19. Actions taken to correct the Brunner Island groundwater degradation problems and to comply with the DER's proposed regulations are also expected to result in increased operating costs in amounts which are not now determinable but could be substantial.

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

The Company does not anticipate that the costs, which will be charged to operating expense, for work currently planned to clean up or remediate known sites involving the removal of hazardous or toxic substances will be material in amount. However, future clean-up or

remediation work at sites currently under review, or at sites currently unknown, may result in substantial operating costs which the Company cannot reasonably estimate at this time.

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

Industry Restructuring Initiatives

The Department of Energy in developing a national energy strategy, the FERC, the U.S. Congress and others are considering certain issues which could significantly affect the structure and competitive business environment of the electric utility industry. These issues include, among others, transmission system access, voluntary bidding arrangements for providing new generating capacity and amendment of the Public Utility Holding Company Act of 1935 (PUHCA), mainly to create a new class of independent power producers that would be exempt from PUHCA regulation. The Company is unable to predict the ultimate outcome or the impact, if any, that these initiatives may have on the Company's operations. However, the Company believes that its strong generating capacity position, competitively priced electricity and good customer service place it in a position to adapt to changes that may arise from these initiatives.

Accounting Statements Not Yet Adopted

The Financial Accounting Standards Board (FASB) has issued three accounting statements that the Company has not yet adopted. The effective date of one of these statements, Statement of Financial Accounting Standards (SFAS) 96, "Accounting for Income Taxes," which was to become effective for fiscal years beginning after December 15, 1991, has been deferred until fiscal years beginning after December 15, 1992 because the FASB has issued a proposed statement that would supersede SFAS 96 and modify certain of its provisions. Under both the original statement and the proposed statement, the Company would have to record an additional deferred tax liability for tax benefits previously flowed through to customers and for other temporary tax differences. The increased tax liability would be offset by a corresponding asset representing the future revenue expected through the ratemaking process to pay for the taxes.

The second statement, SFAS 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions," effective for fiscal years beginning after December 15, 1992, involves new requirements for accounting for the costs of postretirement benefits other than pensions. The statement requires accrual, during the years that the employees render the necessary service, of the expected cost of providing those benefits. In 1991, caps were established on the amount the Company will pay for retiree health care cost for all employees who retire on or after April 1, 1993. Based on preliminary actuarial studies, the Company estimates that its accrued cost for postretirement benefits other than pensions will be approximately \$25 million in 1993. This compares to an estimated cash payment of about \$8 million for those benefits in 1993. These amounts are preliminary estimates and are subject to change as more definitive analyses are performed.

The third statement, SFAS 107, "Disclosures about Fair Value of Financial Instruments," effective for years ending after December 15, 1992, requires disclosure of the fair value of financial instruments.

The Company does not intend to adopt these new statements until their effective dates.

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INDEPENDENT AUDITORS' REPORT

**Deloitte &
Touche**



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

We have audited the accompanying consolidated balance sheets and statements of preferred and preference stock and long-term debt of Pennsylvania Power & Light Company and its subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income, shareowners' common equity, and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Pennsylvania Power & Light Company and its subsidiaries at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Deloitte & Touche
Parsippany, New Jersey
February 3, 1992

MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

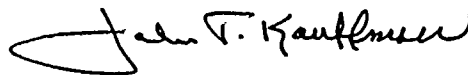
The Company's consolidated financial statements have been audited by Deloitte & Touche, independent certified public accountants, whose report with respect to the financial statements appears on page 22 of this report. Deloitte & Touche's appointment as auditors was previously ratified by the shareowners. Management has made available to Deloitte & Touche all the Company's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Management believes that all representations made to Deloitte & Touche during its audit were valid and appropriate.

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

Fundamental to the control system is the selection and training of qualified personnel, an organizational structure that provides appropriate segregation of duties, the utilization of written policies and procedures and the continual monitoring of the system for compliance. In addition, the Company maintains an internal auditing program to evaluate the Company's system of internal control for adequacy, application and compliance. Management considers the internal auditors' and Deloitte & Touche's recommendations concerning its system of internal control and has taken actions which are believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that the Company's system of internal control is adequate to accomplish the objectives discussed in this report.

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

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



John T. Kauffman,
Chairman and Chief Executive Officer



C. E. Russoli,
Executive Vice President and Chief Financial Officer

CONSOLIDATED STATEMENT OF INCOME

	1991	1990	1989
	(Thousands of Dollars)		
Operating Revenues (Notes 1, 2, 3 and 17)	<u>\$2,559,696</u>	<u>\$2,419,717</u>	<u>\$2,376,455</u>
Operating Expenses			
Operation			
Fuel	586,325	579,272	625,993
Power purchases	256,320	228,336	171,437
Interchange power sales (Note 17)	<u>(180,231)</u>	<u>(217,546)</u>	<u>(255,987)</u>
Net cost of energy	662,414	590,062	541,443
Other	461,133	430,681	411,525
Maintenance	206,861	223,528	234,063
Depreciation (Notes 1 and 4)	246,212	234,252	222,536
Deferred depreciation (Notes 1 and 4)	(7,047)	(15,707)	(23,475)
Income taxes (Note 8)	217,366	196,301	207,189
Taxes, other than income (Note 8)	<u>190,426</u>	<u>170,234</u>	<u>164,324</u>
	<u>1,977,365</u>	<u>1,829,351</u>	<u>1,757,605</u>
Operating Income	<u>582,331</u>	<u>590,366</u>	<u>618,850</u>
Other Income and (Deductions)			
Allowance for equity funds used during construction (Note 1)	2,961	3,512	2,728
Income tax credits (Note 8)	903	2,174	3,514
Other—net	<u>7,616</u>	<u>5,903</u>	<u>4,227</u>
	<u>11,480</u>	<u>11,589</u>	<u>10,469</u>
Income Before Interest Charges	<u>593,811</u>	<u>601,955</u>	<u>629,319</u>
Interest Charges			
Long-term debt	232,092	239,250	255,223
Short-term debt and other	22,254	27,559	31,799
Allowance for borrowed funds used during construction and interest capitalized (Note 1)	<u>(8,949)</u>	<u>(8,760)</u>	<u>(11,139)</u>
	<u>245,397</u>	<u>258,049</u>	<u>275,883</u>
Net Income	<u>348,414</u>	<u>343,906</u>	<u>353,436</u>
Dividends on Preferred and Preference Stock	44,687	46,125	48,418
Earnings Applicable to Common Stock	<u>\$ 303,727</u>	<u>\$ 297,781</u>	<u>\$ 305,018</u>
Earnings Per Share of Common Stock (a)	<u>\$ 4.01</u>	<u>\$ 3.95</u>	<u>\$ 4.05</u>
Average Number of Shares Outstanding (thousands)	75,691	75,462	75,314
Dividends Declared Per Share of Common Stock	<u>\$ 3.10</u>	<u>\$ 2.98</u>	<u>\$ 2.86</u>

(a) Based on average number of shares outstanding.

See accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	1991	1990	1989
	(Thousands of Dollars)		
Cash Flows From Operating Activities			
Net income	\$ 348,414	\$ 343,906	\$ 353,436
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	261,180	242,661	220,375
Amortization of property under capital leases	96,565	90,704	82,138
Amortization of deferred cost of power plant spare parts	(17,818)		
Deferred income taxes and investment tax credits	52,118	81,509	106,693
Equity component of AFUDC	(2,961)	(3,512)	(2,728)
Change in current assets and current liabilities			
Accounts receivable	(14,380)	15,627	(1,788)
Unbilled and refundable electric revenues	(45,725)	(5,042)	(22,927)
Materials and supplies (Note 16)	1,200	1,793	499
Fuel inventories	25,887	(85,379)	6,445
Accounts payable	(11,835)	9,397	(6,457)
Accrued interest and taxes	17,858	(14,086)	13,862
Other	8,012	33,015	(38,776)
Other operating activities—net	49,432	42,760	40,186
Net cash provided by operating activities	<u>767,947</u>	<u>753,353</u>	<u>750,958</u>
Cash Flows From Investing Activities			
Property, plant and equipment expenditures	(374,397)	(337,995)	(307,688)
Proceeds from sales of nuclear fuel to trust	48,914	30,014	31,809
Financial investments	(50,876)	(43,052)	(3,513)
Other investing activities—net	4,191	7,093	5,715
Net cash used in investing activities	<u>(372,168)</u>	<u>(343,940)</u>	<u>(273,677)</u>
Cash Flows From Financing Activities			
Issuance of long-term debt	150,000		375,000
Issuance of common stock	8,401	9,371	6,884
Retirement of long-term debt	(37,460)	(182,335)	(350,300)
Retirement of preferred and preference stock	(19,100)	(26,300)	(28,300)
Payments on capital lease obligations	(100,227)	(94,461)	(85,697)
Dividends paid	(277,323)	(269,186)	(262,401)
Net increase (decrease) in short-term debt	(118,770)	170,511	(106,223)
Costs associated with issuance and retirement of securities	(2,136)	(13,347)	(27,308)
Other financing activities—net	(160)	95	(280)
Net cash used in financing activities	<u>(396,775)</u>	<u>(405,652)</u>	<u>(478,625)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(996)	3,761	(1,344)
Cash and Cash Equivalents at Beginning of Period	<u>8,508</u>	<u>4,747</u>	<u>6,091</u>
Cash and Cash Equivalents at End of Period	<u>\$ 7,512</u>	<u>\$ 8,508</u>	<u>\$ 4,747</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for			
Interest (net of amount capitalized)	\$ 229,066	\$ 252,325	\$ 255,425
Income taxes	\$ 154,136	\$ 117,597	\$ 87,016

See accompanying Notes to Financial Statements.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31

Assets

Property, Plant and Equipment

	1991	1990
	<i>(Thousands of Dollars)</i>	
Electric utility plant in service—at original cost	\$8,300,914	\$8,095,363
Accumulated depreciation (Notes 1 and 4)	(2,304,266)	(2,147,603)
Deferred depreciation (Notes 1 and 4)	299,848	292,848
	<u>6,296,496</u>	<u>6,240,608</u>
Construction work in progress—at cost	183,242	143,084
Nuclear fuel owned and leased—net of amortization (Note 11) ...	197,794	238,360
Other leased property—net of amortization (Note 11)	76,351	76,576
Electric utility plant—net	<u>6,753,883</u>	<u>6,698,628</u>
Other property—net of depreciation, amortization and depletion (1991, \$135,050; 1990, \$142,188)	175,695	195,593
	<u>6,929,578</u>	<u>6,894,221</u>

Investments

Associated company—at equity	17,115	17,121
Nuclear plant decommissioning trust fund (Notes 1 and 6)	58,043	46,864
Financial investments (Notes 1 and 9)	113,951	61,077
Other—at cost or less	7,511	6,587
	<u>196,620</u>	<u>131,649</u>

Current Assets

Cash and cash equivalents (Note 1)	7,512	8,508
Accounts receivable (less reserve: 1991, \$27,655; 1990, \$27,198)		
Customers	183,735	177,153
Interchange power sales	18,332	15,979
Other	19,489	15,292
Unbilled revenues	72,285	70,281
Fuel (coal and oil)—at average cost	159,371	185,258
Materials and supplies—at average cost (Note 16)	148,431	32,845
Common stock held for dividend reinvestment plan—at cost (Note 10)	12,225	11,384
Other	44,266	41,454
	<u>665,646</u>	<u>558,154</u>

Deferred Debits

Utility plant carrying charges—net of amortization (Note 1)	25,757	26,500
Unamortized debt expense and reacquired debt costs	69,321	74,167
Other	47,673	50,751
	<u>142,751</u>	<u>151,418</u>
	<u>\$7,934,595</u>	<u>\$7,735,442</u>

See accompanying Notes to Financial Statements.

Liabilities**1991****1990***(Thousands of Dollars)***Capitalization**

Common equity

Common stock

Capital stock expense

Earnings reinvested

\$1,358,091**\$1,351,046****(12,187)****(12,449)****952,106****883,162****2,298,010****2,221,759**

Preferred and preference stock

With sinking fund requirements

Without sinking fund requirements

364,590**383,690****231,375****231,375**

Long-term debt

2,575,794**2,434,143****5,469,769****5,270,967****Current Liabilities**

Commercial paper (Note 13)

Bank loans and other notes (Note 13)

Long-term debt due within one year

Capital lease obligations due within one year (Note 11)

Accounts payable

Taxes accrued

Interest accrued

Dividends payable

Energy revenues to be refunded

Other

74,000**209,000****73,170****56,940****6,439****36,453****80,489****88,533****105,211****117,046****48,521****34,521****69,450****65,592****69,615****67,626****407****44,128****118,414****101,247****645,716****821,086****Deferred Credits and Other Noncurrent Liabilities**

Deferred investment tax credits (Note 8)

Deferred income taxes (Note 8)

Capital lease obligations (Note 11)

Unamortized cost of power plant spare parts (Note 16)

Accrued nuclear plant decommissioning costs (Notes 1 and 6)

Accrued mine closing costs

Other

269,852**270,244****1,040,429****985,730****191,487****214,221****98,968****59,963****48,431****55,244****48,583****103,167****76,180****1,819,110****1,643,389****Commitments and Contingent Liabilities (Note 18)****\$7,934,595****\$7,735,442***See accompanying Notes to Financial Statements.*

CONSOLIDATED STATEMENT OF SHAREOWNERS' COMMON EQUITY*

	Common Stock Shares (a)	Outstanding Amount	Capital Stock Expense (b)	Earnings Reinvested	Total
			(Thousands of Dollars)		
Balance at December 31, 1988	75,248,455	\$1,334,424	\$(12,672)	\$ 728,079	\$2,049,831
Net income				353,436	
Cash dividends declared					
Preferred stock				(37,898)	
Preference stock				(10,520)	
Common stock (\$2.86)				(215,386)	
Stock redemption costs				(6,001)	
Employee stock ownership plan (c) . .	174,284	5,800			
Other			76		
Balance at December 31, 1989	75,422,739	\$1,340,224	\$(12,596)	\$ 811,710	\$2,139,338
Net income				343,906	
Cash dividends declared					
Preferred stock				(36,485)	
Preference stock				(9,640)	
Common stock (\$2.98)				(224,850)	
Stock redemption costs				(1,479)	
Employee stock ownership plan (c) . .	226,231	10,822			
Other			147		
Balance at December 31, 1990	75,648,970	\$1,351,046	\$(12,449)	\$ 883,162	\$2,221,759
Net income				348,414	
Cash dividends declared					
Preferred stock				(35,047)	
Preference stock				(9,640)	
Common stock (\$3.10)				(234,626)	
Stock redemption costs				(157)	
Employee stock ownership plan (c) . .	178,664	7,045			
Other			262		
Balance at December 31, 1991	75,827,634	\$1,358,091	\$(12,187)	\$ 952,106	\$2,298,010

- (a) No par value, 85,000,000 shares authorized. Each share entitles the holders to one vote on any question presented to any shareowners' meeting. In December 1991, the board of directors authorized a two-for-one split of the Company's common stock and increased the number of shares authorized from 85,000,000 to 170,000,000, subject to shareowner and Pennsylvania Public Utility Commission approval.
- (b) Includes the net unrealized loss applicable to marketable securities.
- (c) Includes employee subscriptions.

CONSOLIDATED STATEMENT OF PREFERRED AND PREFERENCE STOCK AT DECEMBER 31

	Outstanding 1991	Outstanding 1990	Shares Outstanding 1991	Shares Authorized
	(Thousands of Dollars)			
Preferred Stock—\$100 par, cumulative (a)				
4½%	\$ 53,019	\$ 53,019	530,189	629,936
Series	427,946	447,046	4,279,456	10,000,000
	<u>\$480,965</u>	<u>\$500,065</u>		
Preference Stock—no par, cumulative (a)	<u>\$115,000</u>	<u>\$115,000</u>	1,150,000	5,000,000

See accompanying Notes to Financial Statements.

Details of Preferred and Preference Stock (b)

	Outstanding 1991 1990 <i>(Thousands of Dollars)</i>		Shares Outstanding 1991	Optional Redemption Price Per Share 1991	Sinking Fund Provisions (c) Shares to be Redeemed Annually Redemption Period	
With Sinking Fund Requirements						
Series Preferred						
6.875% (d)	\$ 50,000	\$ 50,000	500,000	\$106.88	100,000	1993-1997
7.00% (d)	100,000	100,000	1,000,000	107.00	200,000	1993-1997
7.375% (d)	50,000	50,000	500,000	107.38	25,000	1993-2012
7.40%	19,200	20,800	192,000	102.07	16,000	1992-2003
7.82% (d)	50,000	50,000	500,000	107.82	100,000	1993-1997
7.927%	6,000	9,000	60,000	100.00	30,000	1992-1993
8.00%	27,500	30,000	275,000	102.40	25,000	1992-2002
8.75% (d)	36,000	42,000	360,000	103.98	30,000	1992-2003
9.24% (d)(e)	25,890	31,890	258,900	101.00	30,000	1992-2000
	<u>\$364,590</u>	<u>\$383,690</u>				
Without Sinking Fund Requirements						
4½ % Preferred	\$ 53,019	\$ 53,019	530,189	\$110.00		
Series Preferred						
3.35%	4,178	4,178	41,783	103.50		
4.40%	22,878	22,878	228,773	102.00		
4.60%	6,300	6,300	63,000	103.00		
8.60%	22,237	22,237	222,370	101.00		
9.00% (e)	7,763	7,763	77,630	101.00		
Preference						
\$8.00	35,000	35,000	350,000	101.00		
\$8.40	40,000	40,000	400,000	101.00		
\$8.70	40,000	40,000	400,000	101.00		
	<u>\$231,375</u>	<u>\$231,375</u>				

Decreases in Preferred and Preference Stock (Thousands of Dollars)

	1991		1990		1989	
	Shares	Amount	Shares	Amount	Shares	Amount
Series Preferred Stock						
7.40%	(16,000)	\$(1,600)	(16,000)	\$(1,600)	(16,000)	\$(1,600)
7.927%	(30,000)	(3,000)	(30,000)	(3,000)	(30,000)	(3,000)
8.00%	(25,000)	(2,500)	(25,000)	(2,500)	(25,000)	(2,500)
8.00%, Second					(20,000)	(2,000)
8.75%	(60,000)	(6,000)	(30,000)	(3,000)	(30,000)	(3,000)
9.24%	(60,000)	(6,000)	(60,000)	(6,000)	(60,000)	(6,000)
Preference Stock						
\$8.625			(102,000)	(10,200)	(102,000)	(10,200)

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

- (a) Each share of preferred and preference stock entitles the holders to one vote on any question presented to any shareholders' meeting.
- (b) The involuntary liquidation price of the preferred and preference stock is \$100 per share. The optional voluntary liquidation price is the optional redemption price per share in effect, except for the 4½ % Preferred Stock for which such price is \$100 per share (plus in each case any unpaid dividends). Liquidation payments on preferred stock have priority to such payments on the preference stock.
- (c) The aggregate amount of sinking fund redemption requirements through 1996 are (thousands of dollars): 1992, \$11,990; 1993, \$55,600; 1994, \$52,600; 1995, \$52,600; 1996, \$52,600.
- (d) On certain sinking fund redemption dates, additional shares may be redeemed up to the number of shares required to be redeemed annually.
- (e) On February 1, 1992, the Company redeemed all outstanding shares of the 9.24% and the 9.00% Series Preferred Stocks at their optional redemption prices per share plus any unpaid dividends.

See accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF LONG-TERM DEBT AT DECEMBER 31

Company	Outstanding		Maturity (b)
	1991	1990	
	(Thousands of Dollars)		
First Mortgage Bonds (a)			
4 $\frac{5}{8}$ %		\$ 30,000	December 1, 1991
4 $\frac{5}{8}$ %	\$ 30,000	30,000	March 1, 1994
9 $\frac{5}{8}$ %	125,000	125,000	February 1, 1996
5 $\frac{5}{8}$ %	30,000	30,000	June 1, 1996
6 $\frac{3}{4}$ % to 9 $\frac{5}{8}$ %	470,000	470,000	1997-2001
7 $\frac{1}{2}$ % to 9 $\frac{3}{4}$ %	610,000	610,000	2002-2006
8 $\frac{1}{2}$ %	100,000	100,000	2007-2011
9% to 10 $\frac{7}{8}$ %	375,000	375,000	2012-2016
9 $\frac{1}{4}$ % to 10%	525,000	375,000	2017-2021
First Mortgage Pollution Control Bonds (a)			
5 $\frac{5}{8}$ % Series A (c)	15,500	16,560	(d)
7 $\frac{7}{8}$ % to 8 $\frac{1}{8}$ % Series C	20,000	20,000	(d)
11 $\frac{1}{4}$ % to 11 $\frac{1}{2}$ % Series D	70,000	70,000	(d)
10 $\frac{5}{8}$ % Series E	37,750	37,750	March 1, 2014
10 $\frac{5}{8}$ % Series F	115,500	115,500	September 1, 2014
9 $\frac{3}{8}$ % Series G	55,000	55,000	July 1, 2015
	<u>2,578,750</u>	<u>2,459,810</u>	
Miscellaneous promissory notes	155	194	1992-1995
	<u>2,578,905</u>	<u>2,460,004</u>	
Unamortized (discount) and premium—net	(20,672)	(19,822)	
	<u>2,558,233</u>	<u>2,440,182</u>	
Less amount due within one year	39	30,039	
	<u>2,558,194</u>	<u>2,410,143</u>	
Subsidiaries			
Notes (e)	24,000	30,414	1992-1996
Less amount due within one year	6,400	6,414	
	<u>17,600</u>	<u>24,000</u>	
Total long-term debt	\$2,575,794	\$2,434,143	

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

(b) Aggregate long-term debt maturities through 1996 are (thousands of dollars): 1992, \$6,439; 1993, \$6,439; 1994, \$33,338; 1995, \$3,338; 1996, \$162,300. Maximum sinking fund requirements aggregate \$29.0 million through 1996 and may be met with property additions or retirement of bonds.

(c) The Company acquired on the open market during 1991 \$1,060,000 principal amount of pollution control revenue bonds issued by the Lehigh County Industrial Development Authority which are supported by the Series A Bonds. This acquisition satisfied the May 1, 1992 maturity of \$160,000 of Series A Bonds and the May 1, 1993 maturity of \$900,000 of Series A Bonds.

(d) Bonds mature annually as follows (thousands of dollars): (i) Series A on May 1, 1994-2002, \$900; 2003, \$7,400 (ii) Series C on April 1, 2000, \$4,000; 2006-2009, \$2,000; 2010, \$8,000 (iii) Series D on November 1, 2002, \$15,000; 2012, \$55,000.

(e) Various fixed rates ranging from 9% to 12%. During 1991, subsidiary companies retired \$6.4 million of maturing notes.

See accompanying Notes to Financial Statements.

1. Summary of Significant Accounting Policies

Accounting Records

Accounting records for utility operations are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the Pennsylvania Public Utility Commission (PUC). (See Note 17.)

Principles of Consolidation

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

The investment in Safe Harbor Water Power Corporation (Safe Harbor), of which the Company owns one-third of the outstanding capital stock representing one-half of the voting securities, is recorded using the equity method of accounting. The Company's principal transaction with Safe Harbor is the purchase of electricity amounting to (millions of dollars): 1991, \$9.3; 1990, \$9.5 and 1989, \$9.6. Under equity accounting, the operations of Safe Harbor resulted in additional income to the Company of (millions of dollars): 1991, \$2.2; 1990, \$2.5 and 1989, \$2.6.

Utility Plant and Depreciation

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

For financial statement purposes, depreciation is being provided over the estimated useful lives of property and is computed using a straight-line method for all property except for property placed in service prior to January 1, 1989 at the nuclear-fueled Susquehanna steam electric station. Current PUC and FERC rate orders provide for an increasing amount of annual depreciation for property placed in service prior to January 1, 1989 at the Susquehanna station until the late 1990s, at which time depreciation is scheduled to switch to the straight-line method. Provisions for depreciation, as a percent of average depreciable property, approximated 3.1% in 1991, 2.9% in 1990 and 2.7% in 1989.

Utility Plant Carrying Charges

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

Nuclear Decommissioning and Fuel Disposal

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

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

Financial Investments

Marketable equity securities are carried at the lower of their aggregate cost or market value, determined at the balance sheet date. Marketable debt securities are carried at amortized cost. Gains and losses on the sale of marketable securities are recognized upon realization utilizing

the specific cost identification method. Investments in financial limited partnerships are accounted for using the equity method of accounting and venture capital investments are recorded at cost. (See Note 9.)

Premium on Recquired Long-Term Debt

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

Allowance for Funds Used During Construction

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

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

Capital Leases

Leased property capitalized on the Consolidated Balance Sheet is recorded at the present value of future lease payments and is amortized so that the total of interest on the lease obligation and amortization of the leased property equals the rental expense allowed for ratemaking purposes. (See Note 11.)

Revenues

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

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

The Company, in April 1991, began to apply a Special Base Rate Credit Adjustment (SBRCA) to PUC customers' bills to reflect two nonrecurring items related to (i) the use of an inventory method of accounting for certain power plant spare parts and (ii) the sale of capacity and related energy from the Company's wholly owned coal-fired stations to Atlantic City Electric Company (Atlantic). (See Note 3.)

In August 1991, Pennsylvania enacted legislation that increased the Company's state taxes. The Company's retail tariffs include a provision for a State Tax Adjustment Surcharge (STAS) which provides for the recovery of new or increased state taxes. On August 24, 1991, the Company began recovering through the STAS the increase in taxes applicable to retail customers. (See Note 3.)

Income Taxes

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

Deferred income taxes are recorded for timing differences between book and taxable income to the extent they are permitted in rate determinations by regulatory agencies. The principal item for which deferred

taxes are not currently recorded is the difference between tax depreciation and book depreciation related to property placed in service prior to 1981.

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

The Financial Accounting Standards Board (FASB) has issued new accounting rules that will affect deferred income taxes recorded by the Company. (See Note 8.)

Pension Plan

The Company has a noncontributory pension plan covering substantially all employees, and subsidiary mining companies have a noncontributory pension plan for substantially all non-bargaining full-time

employees. Funding is based upon actuarially determined computations that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974. (See Note 14.)

Cash Equivalents

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

Reclassification

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

2. Sources of Revenues

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

During 1991, about 97% of total operating revenues was derived from

electric energy sales with 35% coming from residential customers, 28% from commercial customers, 21% from industrial customers, 13% from contractual sales to other utilities and 3% from others. The Company's largest industrial customer provided about 1.6% of revenues from energy sales during 1991. Twenty-six industrial customers, whose billings exceeded \$3 million each, provided about 7.5% of such revenues. Industrial customers are broadly distributed among industrial classifications.

3. Rate Matters

Certain industrial customers have filed complaints with the PUC against the Company's ECR for the 1990-91 and 1991-92 ECR periods. The PUC permitted the ECRs to become effective, as filed, subject to the pending complaints. The industrial customers generally oppose the Company's recovery on a current basis through the ECR of the cost of output purchased from certain non-utility generating companies or question the manner in which the cost of such purchases is recovered through the ECR. The Company included the cost of output purchased from non-utility generating companies in its ECR filings on the basis of prior PUC orders that determined such costs were just and reasonable and could be recovered by the Company on a current basis through the ECR. The industrial customers have also requested a full investigation by the PUC into the Company's sale of capacity credits, reservation of output and sale of transmission entitlements (off-system sales). Certain of the industrial customers contend that the revenues from these off-system sales should be credited against the ECR. These transactions are discussed in Note 7.

In May 1991, the PUC dismissed the complaint filed by certain industrial customers against the Company's ECR for the 1989-90 period. That complaint also opposed the Company's recovery on a current basis through the ECR of the cost of output purchased from certain non-utility generating companies. Those industrial customers did not appeal the PUC's decision. Previously, in an appeal pertaining to a PUC decision dismissing a similar complaint against the ECR for the 1988-89 period, the Commonwealth Court of Pennsylvania (the Court) issued an opinion affirming the PUC order which dismissed the complaint.

In November 1991, the PUC accepted an Administrative Law Judge's (ALJ) recommended decision that, in most respects, dismissed the complaint filed by a group of industrial customers against the Company's 1991-92 ECR. This action accepts the ALJ's recommendation to hold hearings regarding capacity-related off-system sales but does not

address the complaints of certain other industrial customers currently pending against the Company's ECR. The Company filed a petition requesting that the PUC reconsider its decision to hold hearings regarding capacity-related off-system sales.

In October 1991, a group of Pennsylvania industrial customers petitioned the PUC to institute a generic investigation of the procedures and policies of jurisdictional electric utilities with respect to their ECRs and to issue appropriate regulations with respect to the ECR. The Company filed an answer in opposition to the petition in November 1991.

In June 1991, the Court issued a decision that reversed a PUC order regarding a waiver of certain fuel use standards in an agreement with Continental Energy Associates, a non-utility generating company, and remanded the case back to the PUC for further consideration. Subsequently, the Company filed a stipulation settling all issues in the case and the PUC approved that stipulation in October 1991.

In March 1991, the PUC approved the Company's request to implement a SBRCA to reduce retail customers' bills effective April 1, 1991. The SBRCA flows through to retail customers the effects of two nonrecurring items. The first involves the effect of using an inventory method of accounting for certain power plant spare parts that were previously capitalized or charged to expense when purchased. The cost of the spare parts recorded as an increase in the materials and supplies inventory account at January 1, 1991 was \$116.8 million. The corresponding credit to income was deferred and is being amortized over a five-year period with the annual amortization applicable to retail customers included in the SBRCA.

The second item in the SBRCA relates to a change in the Company's contractual sales of capacity and related energy to other utilities. On September 30, 1991, the agreement that provided Atlantic with 126,000 kilowatts of the Company's share of capacity and related energy from the Susquehanna station expired and was replaced on October 1, 1991

by a similar agreement pursuant to which the Company will sell 126,000 kilowatts of the Company's share of Susquehanna capacity and related energy to Baltimore Gas & Electric Company (BG&E) through May 2001. The costs previously recovered from Atlantic for the sale of Susquehanna capacity and related energy will now be recovered from BG&E. On October 1, 1991, Atlantic began purchasing 125,000 kilowatts of capacity (summer rating) and related energy from the Company's wholly owned coal-fired stations. However, the costs that the Company will recover from the sale of coal-fired capacity and related energy to Atlantic are currently reflected in retail base rate tariffs. Effective April 1, 1991, the Company included in the SBRCA a credit for the costs, except energy costs, recovered from the sale of coal-fired capacity and related energy to Atlantic. The change in energy costs associated with the sale is reflected in the ECR.

The SBRCA reduced revenues from retail customers by about \$16.7 million in 1991, but did not adversely affect net income.

In May 1991, the Company filed with the PUC a request for approval of a proposed settlement with the General Electric Company of outstanding contract claims arising from construction of the Susquehanna station. As part of the request, the Company has proposed to flow proceeds of the settlement back to its retail customers through the SBRCA at the rate of \$11 million per year over five years, beginning April 1, 1992. This matter remains pending before the PUC.

In August 1991, Pennsylvania enacted legislation that increased the Company's state taxes by approximately \$38 million on an annual basis. Certain of these tax increases are effective as of January 1, 1991. The Company's retail rates include a provision for a STAS, which provides for recovery of costs associated with new or increased state taxes. The

Company filed a request with the PUC on August 14, 1991 to recover through the STAS the increase in taxes applicable to retail rates. The proposed STAS rate became effective for electricity used on and after August 24, 1991 and is designed to recover the retroactive part of the increased taxes over the period ending March 31, 1992. The Company deferred approximately \$21.4 million of the increased taxes which are applicable to the period prior to August 24, 1991. The amount deferred is being amortized over the period the increased tax expense is being recovered through application of the STAS. The Office of Consumer Advocate and the Office of Small Business Advocate have filed a joint petition requesting that the PUC require a demonstration by major Pennsylvania utilities that any proposed increase in the STAS will not result in unjust and unreasonable rates. The Company filed an answer in opposition to the petition. The portion of the increased taxes applicable to the Company's contractual sales of capacity and related energy to other utilities is recovered as a cost of providing such service.

The Company cannot predict the ultimate outcome of the various rate matters pending before the PUC.

In March 1991, the Company filed with the FERC a base rate increase request of \$4.1 million, or 9.65%, for wholesale customers, effective May 18, 1991. The FERC permitted the proposed rates to become effective May 19, 1991, subject to hearings. A settlement agreement was subsequently entered into by all parties that resulted in the full amount of the increase remaining in effect and the Company agreed not to file any wholesale base rate increase request that would propose an effective date before August 1, 1994. The FERC accepted the settlement agreement for filing in December 1991.

4. Rate Phase-In Plan

The Company records the annual depreciation for the Susquehanna station in compliance with the provisions of Statement of Financial Accounting Standards (SFAS) 92, "Regulated Enterprises—Accounting for Phase-in Plans," which established accounting rules for rate phase-in plans associated with a major newly constructed generating station.

The difference between straight-line depreciation and the amount of depreciation for the Susquehanna station reflected in electric rates is shown as deferred depreciation on the Consolidated Statement of Income and the Consolidated Balance Sheet.

5. Deferral of Susquehanna Operating and Carrying Costs

In accordance with orders of the PUC, the Company deferred certain operating and capital costs, net of energy savings, associated with Units 1 and 2 at the Susquehanna station. The costs deferred were incurred from the date the units were placed in commercial operation until the effective dates of the rate increases reflecting operation of the units.

The deferred costs plus related deferred income taxes totaled \$39.2 million at December 31, 1991. The Company expects to ultimately recover this amount in rates charged to customers. Such recovery will be subject to PUC review and approval. No return is being accrued on the deferred costs.

6. Nuclear Decommissioning Costs

The Company's most recent study indicates that its share of the total estimated cost of decommissioning the radioactive portion of the Susquehanna station is approximately \$350 million in 1988 dollars.

Under current rates, the Company collects about \$6.9 million annually from customers for the cost of decommissioning the Susquehanna station. The amounts collected, less applicable taxes, are deposited in an external trust fund for investment and can be used only for future

decommissioning costs. The balance in the trust fund at December 31, 1991 was approximately \$58.0 million.

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

7. Sales To Other Electric Utilities

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

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

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

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

In addition to these bulk power contractual sales, the Company has entered into several agreements with other electric utilities in the Pennsylvania-New Jersey-Maryland Interconnection (PJM) for the sale of capacity credits from the Company's system capacity. These capacity credits are used by the other utilities to meet their installed capacity obligation in the PJM. The price received for these sales is based on a percentage of the rate the utilities would have paid to purchase installed

capacity under the PJM agreement. The length of these agreements and the amount of capacity credits sold vary. The longest agreement currently in effect is scheduled to terminate in the year 2001.

The Company has entered into arrangements with several utilities both inside and outside the PJM for the reservation of output from either the oil-fired or coal-fired units at the Martins Creek station during certain periods of time. Specific deliveries of energy are requested by the purchasing utility as needed during the reservation period. One utility has agreed to purchase a maximum of 10 megawatt hours per hour of the output the Company purchases from non-utility generating companies for the period June 1990 through May 1995. The Company includes as a credit to the ECR the revenue received for these deliveries of energy.

Arrangements also have been entered into whereby PJM utilities can purchase a portion of the Company's entitlement to use the PJM transmission system to import energy from utilities outside the PJM. These transactions may be made through monthly auctions or by negotiated prices over extended periods of time. The Company includes, as a credit to the ECR, the foregone interchange savings that were not realized when the sale of transmission entitlements reduces the amount of energy the Company imports and sells to other utilities.

Revenues from the sale of capacity credits, the reservation of output from the Martins Creek units and the sale of transmission entitlements (net of foregone interchange savings included in the ECR) totaled \$35.4 million in 1991, \$32.3 million in 1990 and \$23.3 million in 1989. For information relating to proceedings pending before the PUC with respect to capacity-related sales, see Note 3.

8. Taxes

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

During 1991, the Company utilized the remaining \$16 million of previously unused tax credits to reduce its federal income tax liability. In accordance with PUC rate treatment, the Company has not recorded deferred income taxes for certain timing differences. The cumulative net amount of such timing differences for which deferred income taxes have not been recorded approximated \$541 million at December 31, 1991. The Company would expect to recover through electric revenues the taxes when due in future years.

In December 1987, the FASB issued SFAS 96, "Accounting for Income Taxes," which established new accounting rules that will change the manner in which income tax expense is determined for accounting purposes. Prior accounting rules utilized a deferred method while SFAS 96 utilizes a liability method under which deferred tax liabilities are recorded and adjusted for the effect of a change in tax law or rates. The FASB has delayed the effective date for SFAS 96 to fiscal years beginning after December 15, 1992. In June 1991, the FASB issued a proposed statement on income taxes that would supersede SFAS 96 and

would change or modify certain provisions of SFAS 96. The proposed statement, if adopted, would be effective for fiscal years beginning after December 15, 1992. The Company does not intend to adopt the new accounting rules on income taxes until the final effective date.

It is expected that when the Company adopts the new accounting rules on income taxes, an increase in the deferred tax liability will be recorded for tax benefits previously flowed through to customers and for other temporary tax differences. The increased tax liability will be offset by a corresponding asset representing the future revenue expected to be provided through the ratemaking process to pay for the tax liability.

Because the maximum corporate federal income tax rate was lowered from 46% to 34% in 1986, most entities when adopting the new accounting rules on income taxes will be required to adjust their deferred income tax reserves to reflect the lower tax rate. However, federal legislation essentially prohibits utilities from immediately adjusting, to the 34% tax rate, certain deferred tax reserves related to depreciation. As a result, when the Company adopts the new accounting rules on income taxes, no substantial reduction in existing deferred income tax reserves is expected because of the lower federal tax rate.

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations for accounting purposes and such taxes charged to expense for the consolidated Company is as follows (thousands of dollars):

	1991	1990	1989
Income Tax Expense			
Included in operating expenses			
Provision—Federal	\$114,904	\$ 86,950	\$ 85,634
State	49,534	30,564	30,853
	<u>164,438</u>	<u>117,514</u>	<u>116,487</u>
Deferred—Federal	51,547	68,593	75,418
State	225	310	1,368
	<u>51,772</u>	<u>68,903</u>	<u>76,786</u>
Investment tax credit, net—Federal	1,156	9,884	13,916
	<u>217,366</u>	<u>196,301</u>	<u>207,189</u>
Included in other income and deductions			
Provision (credit)—Federal	(126)	(4,461)	(18,661)
State	33	(435)	(844)
	<u>(93)</u>	<u>(4,896)</u>	<u>(19,505)</u>
Deferred—Federal	(640)	2,673	15,853
State	(170)	49	138
	<u>(810)</u>	<u>2,722</u>	<u>15,991</u>
	<u>(903)</u>	<u>(2,174)</u>	<u>(3,514)</u>
Total income tax expense—Federal	166,841	163,639	172,160
State	49,622	30,488	31,515
	<u>\$216,463</u>	<u>\$194,127</u>	<u>\$203,675</u>
Detail of deferred taxes in operating expenses			
Tax depreciation	\$ 72,113	\$ 93,367	\$ 95,475
Reacquired debt costs	(1,938)	3,672	6,148
Unbilled revenues		(8,142)	(8,142)
Other	(18,403)	(19,994)	(16,695)
	<u>\$ 51,772</u>	<u>\$ 68,903</u>	<u>\$ 76,786</u>
Reconciliation of Income Tax Expense			
Indicated federal income tax on			
pretax income at statutory tax rate (34%)	<u>\$192,058</u>	<u>\$182,931</u>	<u>\$189,418</u>
Increase (decrease) due to:			
State income taxes	34,319	20,970	22,205
Depreciation differences not normalized	9,080	12,220	9,497
Amortization of investment tax credit	(15,048)	(14,261)	(13,017)
AFUDC (Note 1)	(1,007)	(1,194)	(927)
Other	(2,939)	(6,539)	(3,501)
	<u>24,405</u>	<u>11,196</u>	<u>14,257</u>
Total income tax expense	<u>\$216,463</u>	<u>\$194,127</u>	<u>\$203,675</u>
Effective income tax rate	<u>38.3%</u>	<u>36.1%</u>	<u>36.6%</u>

Taxes, other than income, consist of the following (thousands of dollars):

	1991	1990	1989
Taxes, Other Than Income			
State gross receipts	\$ 91,504	\$ 88,304	\$ 83,804
State utility realty	43,432	34,115	34,782
State capital stock	32,579	24,875	23,795
Social security and other	22,911	22,940	21,943
	<u>\$190,426</u>	<u>\$170,234</u>	<u>\$164,324</u>

9. Financial Investments

Financial investments consisted of the following investments held by subsidiary companies (thousands of dollars):

	December 31	
	1991	1990
Marketable equity securities		
At cost	\$ 9,192	\$ 6,965
Net unrealized loss		(175)
At lower of aggregate cost or market	9,192	6,790
Marketable debt securities	63,155	29,617
Financial limited partnerships	35,069	18,169
Venture capital investments	6,535	6,501
Total	<u>\$113,951</u>	<u>\$61,077</u>

The market value of marketable equity securities was \$9,364,000 at December 31, 1991. The net unrealized loss at December 31, 1990 ap-

plicable to marketable equity securities, net of applicable income taxes, is included in common equity.

10. Stock Held For Dividend Reinvestment Plan

At December 31, 1991, the Company temporarily held 240,515 shares of Common Stock which were acquired in the open market. These

shares were distributed to participants in the Dividend Reinvestment Plan in January 1992.

11. Leases

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

	December 31	
	1991	1990
Nuclear fuel, net of accumulated amortization (1991, \$238,876; 1990, \$213,755)	\$192,596	\$222,369
Vehicles, oil storage tanks and other property, net of accumulated amortization (1991, \$83,254; 1990, \$73,810)	79,379	80,385
Net property under capital leases	<u>\$271,975</u>	<u>\$302,754</u>

Capital lease obligations incurred for the acquisition of nuclear fuel and other property were (millions of dollars): 1991, \$69.5; 1990, \$54.3 and 1989, \$55.8.

Nuclear fuel lease payments, which are charged to expense as the fuel is used for the generation of electricity, were (millions of dollars): 1991, \$95.5; 1990, \$92.6 and 1989, \$86.1. Future nuclear fuel lease payments will be based on the quantity of electricity produced by the Susquehanna station. The maximum amount of unamortized nuclear fuel leasable under current arrangements is \$250 million.

Future minimum lease payments under capital leases in effect at December 31, 1991 (excluding nuclear fuel) would aggregate \$95.2

million, including \$15.8 million in imputed interest. During the five years ending 1996, such payments would decrease from \$24.3 million per year to \$9.2 million per year.

Interest on capital lease obligations was recorded as operating expenses on the Consolidated Statement of Income in the following amounts (millions of dollars): 1991, \$20.5; 1990, \$23.0 and 1989, \$25.2.

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

12. Coal-Mining Operations

The Company purchases coal from certain subsidiaries at prices equal to the cost of mining. These purchases totaled approximately \$188 million in 1991, \$184 million in 1990 and \$163 million in 1989. The cost of coal purchased is included in the energy costs collected from customers. The cost of coal purchased from subsidiaries (particularly coal from the Greenwich mines) has generally been higher than the cost of coal purchased from other sources.

All the coal produced at the Greenwich mines is delivered to the Company's Montour steam electric station. The PUC has adopted a standard based on the cost of coal purchased by other Pennsylvania electric utilities against which the cost of all coal delivered to Montour is measured. The standard covers the three-year period from April 1, 1990 through March 31, 1993. The Company anticipates that the net amount of any costs in excess of the standard during this three-year period will be returned to PUC customers through the Company's 1994-95 ECR. Data as to the standard is available for the period from April 1, 1990 through July 31, 1991. For this period, the cost of coal delivered to Montour was less than the standard.

The Company is closing its subsidiary coal-mining operations due principally to the depletion of coal reserves and the high cost of mined coal as compared to the price of coal purchased on the open market. One of the three operating mines was shut down at the end of June 1991. The Greenwich mines are scheduled to close at the end of March 1992 and the third mine is scheduled to close by the middle of 1992. The Company expects that at the time the mines are shut down, the subsidiaries' remaining investments in coal, mining equipment and other facilities will have been included in the cost of coal purchased by the Company and recovered through energy costs collected from customers. However, the Company cannot predict whether regulatory action, proposed legislation related to health care benefits for miners or other events could have an adverse impact on the Company's earnings.

At December 31, 1991, the capital investment in subsidiary coal-mining operations amounted to about \$10 million, a decrease of about \$20 million from the end of 1990.

13. Credit Arrangements

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

Revolving credit arrangements are maintained with a group of banks in return for the payment of commitment fees. The line of credit is maintained principally as a back-up for the Company's commercial paper. The banks have committed to lend the Company up to \$167 million on a revolving basis. Any loans made under these credit arrangements would mature on June 30, 1994 and, at the option of the Company, interest rates would be based upon certificate of deposit rates, Eurodollar deposit rates or the prime rate. In addition, a subsidiary of the Company has a revolving credit arrangement with a

group of banks as a back-up for short-term borrowings. The banks have agreed to lend the subsidiary up to \$100 million on a revolving basis in return for the payment of commitment fees. Interest rates for borrowings would be based on the London interbank offered rate in effect at the time of the borrowing. No borrowings were outstanding at December 31, 1991 under either of these revolving credit arrangements.

The Company also maintains a \$5 million line of credit with a bank in return for the maintenance of a compensating balance. No borrowings were outstanding at December 31, 1991 under this line of credit.

The Company leases its nuclear fuel from a trust funded by sales of commercial paper backed by a letter of credit. The maximum financing capacity of the trust under existing credit arrangements is \$250 million.

Commitment fees incurred were (millions of dollars): 1991, \$0.3; 1990, \$0.2 and 1989, \$0.5.

14. Pension Plan and Other Postretirement Benefits

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

meeting certain minimum requirements.

The Company also has two supplemental retirement plans for certain management employees and directors. Benefit payments pursuant to

these supplemental plans are made directly by the Company. At December 31, 1991, the projected benefit obligation of these supplemental plans was approximately \$9.0 million.

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

	1991	1990	1989
Service cost-benefits earned during the period	\$ 28,188	\$26,712	\$ 25,565
Interest cost	40,605	36,993	33,925
Actual return on plan assets	(182,956)	4,968	(119,572)
Net amortization and deferral	<u>134,268</u>	<u>(50,227)</u>	<u>77,468</u>
Net periodic pension cost	<u>\$ 20,105</u>	<u>\$18,446</u>	<u>\$ 17,386</u>

The net periodic pension cost charged to operating expenses was \$12.6 million in 1991, \$12.1 million in 1990 and \$10.9 million in 1989.

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

	December 31	
	1991	1990
Fair value of plan assets	\$ 804,210	\$ 642,777
Actuarial present value of benefit obligations:		
Vested benefits	358,676	333,197
Nonvested benefits	1,228	1,338
Accumulated benefit obligation	359,904	334,535
Effect of projected future compensation	198,734	168,407
Projected benefit obligation	<u>558,638</u>	<u>502,942</u>
Plan assets in excess of projected benefit obligation	245,572	139,835
Unrecognized transition assets (being amortized over 23 years)	(81,356)	(85,875)
Unrecognized prior service cost	29,392	4,864
Unrecognized net gain	<u>(244,225)</u>	<u>(90,563)</u>
Accrued expense	<u>\$ (50,617)</u>	<u>\$ (31,739)</u>

The weighted average discount rate and rate of increase in future compensation used in determining the actuarial present value of projected benefit obligations were 7.5% and 6.4%, respectively, on both December 31, 1991 and December 31, 1990. The assumed long-term rates of return on assets used in determining pension cost in 1991 and 1990 were 7.75% and 7.5%, respectively. Plan assets consist primarily of common stocks, government and corporate bonds and temporary cash investments.

Subsidiary mining companies have a noncontributory defined benefit pension plan covering substantially all non-bargaining, full-time employees which is fully funded primarily by group annuity contracts with insurance companies. Substantially all union employees of these subsidiaries are covered by a pension plan administered by the Trustees of the United Mine Workers of America (UMWA) Health and Retirement Funds. The pension cost for non-bargaining employees together with contributions to the UMWA Health and Retirement Funds for 1991, 1990

and 1989 aggregated \$5.4 million, \$4.8 million and \$3.7 million, respectively. Unfunded vested benefits of employees participating in the UMWA Health and Retirement Funds have not been determined.

Subsidiary mining companies are liable under federal and state laws to pay black lung benefits to claimants and dependents, with respect to approved claims, and are members of a trust which was established to facilitate payment of such liabilities. The actuarially determined expense for black lung benefits for 1991, 1990 and 1989 was \$0.5 million, \$0.6 million and \$0.5 million, respectively.

Substantially all employees of the Company and its subsidiaries will become eligible for certain health care and life insurance benefits upon retirement. The Company recognizes the cost of these benefits for retired employees when premiums are paid. However, the subsidiary mining companies include in an accrual for future mine closing costs an amount to pay for such benefits after mining operations have ended. The cost of retiree health and life insurance benefits recognized as ex-

pense by the Company and its subsidiaries was approximately (millions of dollars): 1991, \$9.5; 1990, \$7.6 and 1989, \$5.1.

In December 1990, the FASB issued SFAS 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions," which established new rules for accounting for the costs of these benefits. SFAS 106 is effective for fiscal years beginning after December 15, 1992 and requires accrual, during the years that the employees render the necessary service, of the expected cost of providing those benefits. During 1991, caps were established on the amount the Company will pay for retiree health care cost for all employees who retire on or after April 1, 1993. Based on preliminary actuarial studies, the Company estimates that its accrued cost for postretirement benefits other than pensions will be approximately \$25 million in 1993 when it adopts SFAS 106. This com-

pires to an estimated cash payment of about \$8 million for those benefits in 1993. These amounts are preliminary estimates and are subject to change as more definitive analyses are performed.

The Company has an Employee Stock Ownership Plan (ESOP) for all full-time employees having more than one year of service. Contributions to the ESOP have been funded with investment and payroll-based tax credits previously available to the Company under federal law to acquire shares of the Company's Common Stock. Contributions funded with these tax credits were completed in 1991. As of January 1, 1990, dividends on all shares credited to participants' accounts have been paid in cash. The Company deducts the amount of those dividends for income tax purposes and contributes to the ESOP shares having a cost equal to the tax savings resulting from that deduction and contribution.

15. Jointly Owned Facilities

At December 31, 1991, the Company or a subsidiary owned undivided interests in the following facilities (millions of dollars):

	Generating Stations			Merrill Creek Reservoir
	Susquehanna	Keystone	Conemaugh	
Ownership interest	90.00%	12.34%	11.39%	8.37%
Electric utility plant in service	\$3,941	\$49	\$47	
Other property				\$21
Accumulated depreciation	404	23	21	3
Construction work in progress	57	2	4	

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

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

16. Power Plant Spare Parts

Effective January 1, 1991, the Company began to account for certain power plant spare parts using a deferred (inventory) method. Under this method, purchases of spare parts under inventory control are included in an inventory account and then charged to the appropriate capital or expense accounts when the parts are used or consumed. Prior to 1991, power plant spare parts were generally either capitalized or charged to expense at the time of purchase.

The January 1, 1991 cost of these spare parts was \$116.8 million. This amount was recorded as an increase in the materials and supplies inventory account on the balance sheet at January 1, 1991. The associated income statement effect was deferred and is being amortized as a credit

to expense over a five-year period. The PUC has approved the Company's proposal to include the annual amortization applicable to retail customers in the SBRCA credited to customers' bills effective April 1, 1991. (See Note 3.)

The Company filed an application with the Internal Revenue Service (IRS) in July 1990 requesting permission to use this method of accounting for income tax purposes. The IRS has not acted on the Company's request, but if the request is approved, the Company would include the cost of the spare parts as of January 1, 1991 in taxable income over several years.

17. Reclassification of Interchange Power Sales To Operating Revenues

In November 1991, the FERC issued Accounting Release Number AR-14 that would require the Company to reclassify interchange power sales to PJM member companies from a credit to operating expenses to operating revenues effective as of January 1, 1991. The Company and several other electric utilities disagreed with this accounting release and filed requests for rehearing with the FERC. Upon considering these requests, the FERC reaffirmed its position that interchange power sales must be reclassified to operating revenues, but postponed the effective date of Accounting Release Number AR-14 to January 1, 1992. Accordingly, beginning January 1, 1992, the Company will reclassify its interchange power sales from a credit to operating expenses to operating revenues on the Consolidated Statement of Income. The amounts that

will be reclassified for prior years are (thousands of dollars): 1991, \$181,019; 1990, \$218,205 and 1989, \$256,460. Such reclassification will have no effect on net income.

In the third quarter of 1991, the Company reclassified, as of January 1, 1991, the receipts from distinct sales of energy to certain utilities from interchange power sales to operating revenues on the Consolidated Statement of Income. This reclassification more appropriately records these transactions in accordance with the Uniform System of Accounts. The reclassification had no effect on net income. Energy sales to these utilities in 1990 and 1989 of \$31.0 million and \$20.0 million, respectively, have been reclassified to conform with the current presentation.

18. Commitments and Contingent Liabilities

The Company's construction expenditures are estimated to aggregate \$381 million in 1992, \$391 million in 1993 and \$435 million in 1994, including AFUDC. See "Capital Expenditure Requirements" on page 19 for additional information.

The Company is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to \$2.5 billion under these programs. The Company is also a member of an insurance program which provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, the Company could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. The maximum amount the Company could be assessed under these programs at December 31, 1991 was about \$14.8 million.

In April 1990, the Nuclear Regulatory Commission amended its regulations to require that in the event of an accident, where the estimated cost of stabilization and decontamination exceeds \$100 million, proceeds of property damage insurance be segregated and used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete required decontamination operations before any insurance proceeds would be made available to the Company or the trustee under the mortgage. Under these regulations, such requirements were incorporated in the Company's on-site property damage insurance policies for the Susquehanna station effective April 1991.

The Company's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about \$7.8 billion under provisions of The Price Anderson Amendments Act of 1988 (the Act). The Company is protected against this liability by a combination of commercial insurance and an industry assessment program. A utility's liability under the assessment program will be indexed not less than once during each five-year period for inflation and will be subject to an additional surcharge of 5% in the event the total amount of public claims and costs exceeds the basic assessment. In the event of a nuclear incident at any of the reactors covered by the Act, the Company could be assessed up to \$126 million per incident, payable at a rate of \$20 million per year, plus the additional 5% surcharge, if applicable.

In November 1990, federal clean air legislation was enacted that

deals, in part, with acid rain and attainment of federal ambient ozone standards. Under the acid rain provisions of the legislation, sulfur dioxide emissions must meet specified Phase I levels by January 1, 1995 and must meet more stringent Phase II emission levels by January 1, 2000. In addition, the legislation specifies the timing for compliance with the nitrogen oxide emission limitations set forth in the acid rain provisions.

About 55% of the Company's coal-fired generating capacity must meet the Phase I sulfur dioxide standards. The Company expects that it will be able to meet those standards by the use of low sulfur coal, additional processing through coal cleaning plants and the installation of scrubbers at the Conemaugh station, in which the Company has an 11.39% ownership interest. In addition, the Company expects to install low-nitrogen oxide burners on the units that must meet Phase I standards. The Company may also choose to limit the capacity factors of certain of its affected units and, to the extent permitted by the legislation, take advantage of trading emission allowances among its generating units or with other utilities.

The Company currently estimates that the cost of compliance with the Phase I acid rain standards will require an increase in customer rates of about 1% (based on 1991 revenue levels).

To meet the Phase II standards, the Company expects to install scrubbers on about 65% of its coal-fired generating capacity as well as to continue its Phase I compliance activities for the balance of its coal-fired generating capacity. In addition, the Company expects to install low-nitrogen oxide burners on the balance of its coal-fired generating capacity. The cost of compliance with the Phase II standards is currently estimated to require an increase in customer rates (based on 1991 revenue levels) of about 4% above the increase expected to result from Phase I compliance with the acid rain provisions of the legislation.

The Company currently expects that capital expenditures of about \$130 million (in 1991 dollars) will be required through the beginning of 1995 to comply with the Phase I acid rain requirements and that an additional \$670 million (also in 1991 dollars) will be required in the mid-to-late 1990s to comply with Phase II acid rain requirements. Under current Pennsylvania law, construction work in progress for non-revenue producing assets, such as capital expenditures for pollution control equipment, can be claimed in rate base.

The 1990 legislation also addresses geographical areas that do not meet federal ambient ozone standards. The legislation provides that all states within the Northeast Ozone Transport Region (from New England

to areas of Virginia adjacent to the District of Columbia) must require reasonably available control technology (RACT) on all stationary sources of nitrogen oxides within the Region by May 1995. It is expected that Pennsylvania will define this as low-nitrogen oxide burners similar to those already planned by the Company to meet the acid rain requirements of the legislation. If such a determination is made by Pennsylvania, the Company would have to advance the installation of the low-nitrogen oxide burners, with a currently estimated capital cost of about \$110 million (in 1991 dollars) and planned for Phase II compliance, to meet the May 1995 deadline. The Company estimates that the cost of compliance with the RACT provisions could require an increase in customer rates of about one-half of 1% (based on 1991 revenue levels). These estimated costs are based on the Company's preliminary evaluation of the ambient ozone provisions of the legislation and would be in addition to the increase discussed above for compliance with the Phase I acid rain provisions.

The legislation also requires modeling studies concerning the impact of nitrogen oxide emissions from power plants located in the Northeast Ozone Transport Region. If the results of those modeling studies indicate that further nitrogen oxide emission reductions are required to meet federal ambient ozone standards, the Company may be required to install in the last half of the 1990s additional equipment to reduce nitrogen oxide emissions. If it should be determined that the installation of such additional equipment is required, the Company's preliminary estimates indicate that the cost of compliance could require capital expenditures of up to \$580 million (in 1991 dollars) and an increase in customer rates of as much as 4% (based on 1991 revenue levels). These estimated costs would be in addition to the amounts discussed above for compliance with the acid rain and the RACT ozone provisions of the legislation.

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

The Company has discovered groundwater degradation at the Brunner Island steam electric station. The degradation is attributable to fuel oil which has leaked from underground facilities and to seepage from coal refuse and disposal areas and from the station's coal storage pile. The Company also discovered in 1990 that bag-filters, used to trap fly ash from the plant and previously deposited in an ash basin, leach out cadmium in sufficient quantities under laboratory conditions to classify them as hazardous waste under Pennsylvania Department of Environmental Resources (DER) regulations. The Company is currently negotiating a Consent Order with the DER to address these issues and is proceeding to develop and implement various remedial action plans intended to address these different degradation sources. Similar but less substantial groundwater degradation may exist at some of the other power plants.

Since 1980, the DER has been considering a program for the handling and disposal of industrial (or residual) solid waste. The DER has proposed regulations for this purpose, which are expected to be final by mid-1992. The final regulations are currently expected to require the Company to submit detailed information on waste generation, minimization and disposal practices. The final regulations are also expected to require that the Company repermit existing ash basins at all of its coal-fired generating stations by applying updated standards for waste disposal. In lieu of installing liners and leachate collection systems for ash impoundments, the regulations would allow the Company to continue to operate an existing ash basin if it can meet the regulatory criteria for demonstrating that the facility is not polluting groundwater. Any ash basins that cannot be repermited will be required either to close within five years or to file an abatement plan. Any new ash basin must meet the rigid site and design standards expected to be set forth in the final regulations. In addition, the siting of

future facilities and waste handling methods at Company facilities could also be affected.

The Company currently estimates that about \$155 million of capital expenditures could be required to correct the groundwater degradation problems at the Brunner Island station and to meet the residual waste disposal regulations in the form currently proposed by the DER. Changes to the final regulations may lower these costs. Such expenditures during the years 1992-1994 could total about \$52 million of which about \$9 million is included in the Company's estimate of 1992-1994 construction expenditures shown in the tabulation on page 19. Actions taken to correct the Brunner Island groundwater degradation problems and to comply with the DER's proposed regulations are also expected to result in increased operating costs in amounts which are not now determinable but could be substantial.

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

The Company does not anticipate that the costs, which will be charged to operating expense, for work currently planned to clean up or remediate known sites involving the removal of hazardous or toxic substances will be material in amount. However, future clean-up or remediation work at sites currently under review, or at sites currently unknown, may result in substantial operating costs which the Company cannot reasonably estimate at this time.

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

In August 1991, a group of fuel oil dealers in the Company's service area filed a complaint against the Company in United States District Court for the Eastern District of Pennsylvania alleging that the Company's promotion of electric heat pumps and off-peak thermal storage systems had violated and continues to violate the federal antitrust laws. Specifically, the complaint alleges that the Company's use of its PUC-filed tariff to provide a lower electric rate for newly constructed residences equipped with thermal storage systems, combined with the Company's program of providing cash grants to developers and contractors for the installation of high efficiency heat pumps in these residences, allowed the Company to illegally capture at least 70% of the market for heating in new residential construction within its service area. The complaint also alleges that the cash grant program violated and continues to violate the Racketeer Influenced and Corrupt Organizations Act (RICO).

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

The Company believes that the allegations made in the complaint are without merit. However, the Company cannot predict the ultimate outcome of this litigation.

At December 31, 1991, the Company had guaranteed \$17 million of obligations of certain unconsolidated companies.

SELECTED FINANCIAL AND OPERATING DATA

	1991	1990	1989	1988
CONSOLIDATED OPERATIONS				
Income Items—thousands				
Operating revenues (a)	\$2,559,696	\$2,419,717	\$2,376,455	\$2,227,114
Operating income	582,331	590,366	618,850	605,051
Net income (b)	348,414	343,906	353,436	332,042
Earnings applicable to common stock (b)	303,727	297,781	305,018	279,865
Balance Sheet Items—thousands (c)				
Electric utility plant in service—net	\$6,296,496	\$6,240,608	\$6,198,693	\$6,056,723
Construction work in progress	183,242	143,084	115,799	177,333
Other property, plant and equipment—net	449,840	510,529	552,150	607,528
Total assets	7,934,595	7,735,442	7,598,968	7,524,648
Long-term debt	2,582,233	2,470,596	2,650,276	2,626,784
Preferred and preference stock				
With sinking fund requirements	364,590	383,690	409,990	438,290
Without sinking fund requirements	231,375	231,375	231,375	231,375
Common equity	2,298,010	2,221,759	2,139,338	2,049,831
Short-term debt	147,170	265,940	95,429	201,652
Total capital provided by investors	5,623,378	5,573,360	5,526,408	5,547,932
Financial Ratios				
Return on average common equity—% (b)	13.42	13.65	14.62	13.86
Embedded cost rates (c)				
Long-term debt—%	9.72	9.69	9.80	10.15
Preferred and preference stock—%	7.51	7.54	7.62	7.66
Times interest earned before income taxes	3.06	2.86	2.78	2.65
Ratio of earnings to fixed charges—total enterprise basis (d)	3.04	2.81	2.69	2.57
Depreciation as % of average depreciable property	3.1	2.9	2.7	2.6
Common Stock Data				
Number of shares outstanding—thousands				
Year-end	75,828	75,649	75,423	75,248
Average	75,691	75,462	75,314	75,071
Number of shareowners (c)	127,272	130,719	132,197	137,450
Earnings per share (b)	\$ 4.01	\$ 3.95	\$ 4.05	\$ 3.73
Dividends declared per share	\$ 3.10	\$ 2.98	\$ 2.86	\$ 2.76
Book value per share (c)	\$30.30	\$29.36	\$28.36	\$27.23
Market price per share (c)	\$ 52 ³ / ₈	\$ 43 ³ / ₄	\$ 42 ⁷ / ₈	\$ 36 ¹ / ₂
Dividend payout rate—% (b)	77	76	71	74
Dividend yield—% (e)	6.69	7.15	7.33	7.70
Price earnings ratio (b) (e)	11.55	10.56	9.63	9.61
ELECTRIC OPERATIONS				
Revenue Data				
By class of service—thousands				
Residential	\$ 842,771	\$ 800,587	\$ 776,673	\$ 768,051
Commercial	687,632	647,949	612,762	592,023
Industrial	506,038	503,806	488,691	495,968
Other energy sales	83,630	78,489	80,144	75,507
System sales	2,120,071	2,030,831	1,958,270	1,931,549
Contractual sales to other utilities (a)	322,298	313,207	316,508	277,971
Total from energy sales billed (a)	2,442,369	2,344,038	2,274,778	2,209,520
Unbilled revenues—net	47,022	5,043	39,628	(18,187)
Other operating revenues	68,283	68,950	60,373	34,073
Total electric operating revenues (a)	\$2,557,674	\$2,418,031	\$2,374,779	\$2,225,406
Average price per kwh billed—cents				
Residential	8.12	7.92	7.72	7.79
Commercial	7.76	7.59	7.40	7.46
Industrial	5.98	5.78	5.60	5.64
Total for ultimate customers	7.39	7.17	6.97	7.02
Total for system sales	7.30	7.08	6.89	6.91

- (a) Years 1982 through 1990 have been restated to reflect changes due to the reclassification of receipts from the distinct sale of energy to certain utilities, which began in 1982, from interchange power sales to energy sales and operating revenues. See Financial Note 17 for information concerning the future reclassification of interchange power sales to operating revenues.
- (b) 1981 net income and earnings applicable to common stock include a nonrecurring credit related to an accounting change, while indicated financial ratios and common stock data for the year are computed excluding the nonrecurring credit from earnings.

1987	1986	1985	1984	1983	1982	1981	1981-1991 % Change
\$2,097,704	\$2,197,747	\$2,001,258	\$1,585,457	\$1,270,589	\$1,233,154	\$1,134,903	125.5
590,637	597,529	536,115	418,689	300,563	236,430	227,044	156.5
302,461	300,108	290,613	318,903	296,011	278,886	244,077	42.7
248,035	231,051	199,327	226,758	210,173	210,572	183,182	65.8
\$5,970,000	\$5,815,838	\$5,776,687	\$3,856,738	\$3,842,826	\$2,107,651	\$2,049,418	207.2
141,960	224,426	161,684	2,020,780	1,730,223	2,923,744	2,312,289	(92.1)
655,254	691,820	699,448	733,002	670,239	582,740	496,739	(9.4)
7,457,346	7,413,105	7,255,918	7,231,058	6,744,180	6,152,976	5,410,245	46.7
2,587,500	2,849,972	2,664,564	2,674,036	2,477,700	2,417,244	2,261,767	14.2
495,590	475,239	691,010	738,027	714,830	621,634	544,231	(33.0)
231,375	231,375	231,375	231,375	231,375	231,375	231,375	
1,969,971	1,915,649	1,905,700	1,896,987	1,767,949	1,643,695	1,435,437	60.1
298,321	243,588	247,260	278,652	351,194	324,664	321,481	(54.2)
5,582,757	5,715,823	5,739,909	5,819,077	5,543,048	5,238,612	4,794,291	17.3
12.78	12.11	10.42	12.30	12.29	13.60	12.74	5.3
10.31	10.53	11.23	11.11	10.98	10.80	10.84	(10.3)
7.77	8.33	10.02	9.94	9.66	9.41	8.93	(15.9)
2.62	2.69	2.28	2.24	2.20	1.94	1.79	70.9
2.53	2.58	2.19	2.06	2.05	1.81	1.77	71.8
2.5	2.3	2.3	2.7	2.9	3.4	3.4	(8.8)
74,972	74,513	74,513	74,513	70,335	66,461	58,447	29.7
74,644	74,513	74,513	72,767	68,642	62,809	53,912	40.4
141,843	147,611	151,025	162,903	169,142	169,127	165,096	(22.9)
\$ 3.32	\$ 3.10	\$ 2.68	\$ 3.12	\$ 3.06	\$ 3.35	\$ 3.17	26.5
\$ 2.68	\$ 2.58	\$ 2.56	\$ 2.48	\$ 2.40	\$ 2.32	\$ 2.24	38.4
\$26.26	\$25.71	\$25.58	\$25.46	\$25.12	\$24.71	\$24.52	23.6
\$ 33	\$ 36%	\$ 28%	\$ 25%	\$ 20%	\$ 21	\$ 17%	207.3
81	83	96	80	79	70	72	6.9
7.37	7.30	9.81	11.00	10.48	11.95	13.34	(49.9)
10.95	11.39	9.76	7.24	7.48	5.79	5.30	117.9
\$ 737,066	\$ 714,753	\$ 634,669	\$ 591,922	\$ 529,911	\$ 503,557	\$ 411,668	104.7
572,623	557,216	492,686	441,651	386,617	363,233	292,984	134.7
492,491	473,488	438,427	411,533	367,950	347,726	295,006	71.5
74,228	74,047	64,223	59,526	47,275	47,731	39,484	111.8
1,876,408	1,819,504	1,630,005	1,504,632	1,331,753	1,262,247	1,039,142	104.0
282,799	299,663	255,875	52,724	39,012	11,775		
2,159,207	2,119,167	1,885,880	1,557,356	1,370,765	1,274,022	1,039,142	135.0
(84,888)	52,344	78,545	(9,725)	(119,539)	(61,652)	76,884	(38.8)
21,900	25,033	30,059	29,960	12,972	12,708	10,142	573.3
\$2,096,219	\$2,196,544	\$1,994,484	\$1,577,591	\$1,264,198	\$1,225,078	\$1,126,168	127.1
8.05	8.15	7.60	7.00	6.51	6.26	5.09	59.5
7.68	7.78	7.32	6.77	6.32	6.11	4.97	56.1
5.84	5.93	5.55	5.07	4.83	4.75	3.70	61.6
7.23	7.34	6.85	6.30	5.91	5.74	4.59	61.0
7.12	7.25	6.77	6.23	5.83	5.66	4.53	61.1

(c) Year-end.

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

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

SELECTED FINANCIAL AND OPERATING DATA

	1991	1990	1989	1988
ELECTRIC OPERATIONS (Continued)				
Sales Data				
Customers (a) (b)	1,173,679	1,161,231	1,143,592	1,122,632
Average annual residential kwh use	10,101	9,947	10,064	10,059
Electric energy sales billed—millions of kwh				
Residential	10,385	10,103	10,061	9,856
Commercial	8,861	8,538	8,285	7,932
Industrial	8,456	8,716	8,723	8,799
Other	1,334	1,315	1,333	1,360
System sales	29,036	28,672	28,402	27,947
Contractual sales to other utilities (a)	7,183	7,028	6,956	6,268
Total electric energy sales billed (a)	36,219	35,700	35,358	34,215
Sources of energy sold—millions of kwh				
Generated				
Coal-fired steam stations	24,805	26,409	27,104	26,607
Nuclear steam station (c)	14,271	13,254	11,916	12,867
Oil-fired steam station	1,939	1,442	3,817	4,186
Combustion turbines and diesels (oil)	15	33	107	57
Hydroelectric stations	521	804	714	573
Power purchases	41,551	41,942	43,658	44,290
Interchange power sales (a)	4,542	4,634	3,586	3,027
Company use, line losses and other	(7,553)	(8,971)	(9,234)	(10,855)
Company use, line losses and other	(2,321)	(1,905)	(2,652)	(2,247)
Total electric energy sales billed (a)	36,219	35,700	35,358	34,215
Generation Data				
Net system capacity—thousands of kw (b) (d)	7,797	7,912	7,864	7,479
Winter peak demand—thousands of kw (e)	5,974	5,661	6,000	5,566
Generation by fuel source—%				
Coal	59.7	63.0	62.1	60.1
Nuclear (c)	34.3	31.6	27.3	29.0
Oil	4.7	3.5	9.0	9.6
Hydroelectric	1.3	1.9	1.6	1.3
Steam station availability—%				
Coal-fired	78.1	82.5	81.1	81.3
Nuclear (c)	86.3	80.2	72.1	77.7
Oil-fired	86.7	82.8	76.3	90.1
Steam station capacity factor—%				
Coal-fired	68.2	72.7	74.6	73.1
Nuclear (c)	85.8	80.1	72.0	77.7
Oil-fired	13.5	10.0	26.6	29.1
Fuel Cost Data				
Cost per kwh generated—cents				
Coal-fired steam stations	1.75	1.66	1.61	1.64
Nuclear steam station (c)	0.57	0.59	0.58	0.56
Oil-fired steam station	3.58	4.18	3.03	2.76
Combustion turbines and diesels (oil)	7.52	7.68	5.95	5.89
Average	1.43	1.41	1.46	1.44
Cost of fossil fuel received at steam stations				
Coal—per ton	\$42.87	\$40.64	\$39.04	\$39.52
Residual oil—per barrel	\$18.76	\$21.52	\$17.71	\$15.95
Capitalization Ratios—%				
Long-term debt	46.3	44.5	48.3	47.9
Short-term debt	1.3	3.8	0.2	1.7
Preferred and preference stock	10.8	11.2	11.9	12.4
Common equity	41.6	40.5	39.6	38.0
Times Interest Earned Before Income Taxes	3.11	2.93	2.88	2.73
Employees (b)	8,144	8,149	8,108	8,306

(a) Years 1982 through 1990 have been restated to reflect changes due to the reclassification of receipts from the distinct sale of energy to certain utilities, which began in 1982, from interchange power sales to energy sales and operating revenues. See Financial Note 17 for information concerning the future reclassification of interchange power sales to operating revenues.

(b) Year-end.

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

1987	1986	1985	1984	1983	1982	1981	1981-1991 % Change
1,097,521	1,073,150	1,055,549	1,039,384	1,026,148	1,013,625	1,006,570	16.6
9,565	9,344	9,034	9,282	9,051	9,039	9,157	10.3
9,157	8,771	8,354	8,454	8,138	8,045	8,088	28.4
7,457	7,159	6,728	6,527	6,119	5,946	5,893	50.4
8,438	7,986	7,907	8,117	7,623	7,324	7,968	6.1
1,285	1,170	1,082	1,043	968	982	1,005	32.7
26,337	25,086	24,071	24,141	22,848	22,297	22,954	26.5
6,201	5,602	4,850	1,002	845	348		
32,538	30,688	28,921	25,143	23,693	22,645	22,954	57.8
26,465	25,151	26,237	26,695	26,885	25,477	24,841	(0.1)
13,285	10,151	11,534	6,295	4,509	293		
4,095	5,453	4,316	4,121	5,581	3,186	4,705	(58.8)
28	17	18	32	45	13	32	(53.1)
689	739	612	747	700	612	622	(16.2)
44,562	41,511	42,717	37,890	37,720	29,581	30,200	37.6
2,707	2,032	3,716	3,765	3,880	1,414	744	510.5
(12,682)	(11,018)	(15,433)	(14,732)	(15,769)	(6,552)	(6,274)	(20.4)
(2,049)	(1,837)	(2,079)	(1,780)	(2,138)	(1,798)	(1,716)	(35.3)
32,538	30,688	28,921	25,143	23,693	22,645	22,954	57.8
7,499	7,519	7,513	7,484	7,494	6,546	6,546	19.1
5,591	5,154	4,981	5,519	4,869	4,489	5,207	14.7
59.4	60.6	61.4	70.4	71.3	86.1	82.2	(27.4)
29.8	24.4	27.0	16.6	11.9	1.0		
9.3	13.2	10.2	11.0	14.9	10.8	15.7	(70.1)
1.5	1.8	1.4	2.0	1.9	2.1	2.1	(38.1)
83.3	78.8	78.6	75.2	78.8	79.1	74.7	4.6
80.4	61.7	70.7	66.7	67.7			
84.7	84.7	87.2	68.0	75.8	80.4	73.4	18.1
72.9	69.3	72.3	73.3	74.0	70.2	68.4	(0.3)
80.5	61.3	70.5	65.7	67.5			
28.5	38.0	30.0	28.6	38.8	22.2	32.8	(58.8)
1.63	1.67	1.78	1.75	1.68	1.77	1.64	6.7
0.56	0.58	0.61	0.54	0.66			
3.23	2.96	5.02	5.31	5.23	5.62	5.75	(37.7)
6.51	7.81	9.31	9.82	10.21	10.74	10.51	(28.4)
1.46	1.57	1.81	1.98	2.15	2.20	2.30	(37.8)
\$39.30	\$40.17	\$42.00	\$42.75	\$39.37	\$42.32	\$39.59	8.3
\$18.51	\$16.83	\$28.42	\$31.32	\$29.79	\$30.94	\$33.47	(43.9)
46.9	50.4	47.1	46.7	45.1	46.7	47.6	(2.7)
3.1	2.1	1.7	1.9	3.6	3.2	3.9	(66.7)
13.5	12.8	16.7	17.4	17.9	17.1	17.0	(36.5)
36.5	34.7	34.5	34.0	33.4	33.0	31.5	32.1
2.71	2.80	2.37	2.35	2.29	2.05	1.91	62.8
8,301	8,339	8,433	8,386	8,160	8,208	7,999	1.8

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

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



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

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

Toll-Free Phone Number: For information regarding your investor account, or other inquiries, call toll-free: 800-322-9532 when calling from inside Pennsylvania, or 800-345-3085 when calling from outside Pennsylvania.

Annual Meeting: The annual meeting of shareowners is held each year on the fourth Wednesday of April. The 1992 annual meeting will be held at 1:30 p.m. on Wednesday, April 22, 1992, at the Williamsport Scottish Rite Auditorium, 348 Market St., Williamsport, Pa. A reservation card for meeting attendance is included with shareowners' proxy material.

Proxy Material: A proxy statement, a proxy and a reservation card for the company's annual meeting are mailed in a package which includes the annual report. This material was mailed beginning March 16, 1992, to all shareowners of record as of March 10, 1992.

Dividends: For 1992, the declaration of dividends is considered by the board, or its executive committee, on February 26, May 27, August 26 and November 25, for payment on April 1, July 1 and October 1, 1992, and January 1, 1993, respectively. Dividend checks are mailed ahead of those dates with the intention they arrive as close as possible to the payment dates.

Record Dates: The 1992 record dates for dividends are March 10, June 10, September 10 and December 10.

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

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

Certificate Safekeeping: Shareowners participating in the Dividend Reinvestment Plan may choose to have their common stock certificates forwarded to the company for safekeeping. These shares will be registered in the name of the company as agent for plan participants and will be credited to the participant's account. Dividends paid on any shares held in the plan will be reinvested.

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

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

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

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

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

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

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

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

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

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

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

Listed Securities:**New York Stock Exchange**

Common Stock (Code: PPL)
 4½% Preferred Stock
 (Code: PPLPRB)
 4.40% Series Preferred Stock
 (Code: PPLPRA)
 8.60% Series Preferred Stock
 (Code: PPLPRG)
 Preference Stock, \$8.00 Series
 (Code: PPLPRJ)
 Preference Stock, \$8.40 Series
 (Code: PPLPRH)
 Preference Stock, \$8.70 Series
 (Code: PPLPRI)

Philadelphia Stock Exchange

Common Stock
 4½% Preferred Stock
 3.35% Series Preferred Stock
 4.40% Series Preferred Stock
 4.60% Series Preferred Stock
 8.60% Series Preferred Stock
 Preference Stock, \$8.00 Series
 Preference Stock, \$8.40 Series
 Preference Stock, \$8.70 Series

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

First Chicago Trust Co. of New York
P. O. Box 3981
Church Street Station
New York, New York 10008-3981

Pennsylvania Power & Light Co.
Investor Services Department

Dividend Disbursing Office and Dividend Reinvestment Plan Agent

Pennsylvania Power & Light Co.
Investor Services Department

Mortgage Bond Trustee

Morgan Guaranty Trust Co. of New York
55 Exchange Place—Basement 'A'
New York, New York 10260

Bond Interest Paying Agent

Pennsylvania Power & Light Co.
Investor Services Department

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands of Dollars, Except Per Share Amounts)			
1991				
Operating revenues (b)	\$673,835	\$599,606	\$630,721	\$655,534
Operating income	169,960	131,049	139,615	141,707
Net income	110,382	72,475	80,851	84,706
Earnings applicable to common stock	99,036	61,189	69,733	73,769
Earnings per common share (c)	1.31	0.81	0.92	0.97
Dividends declared per common share (d)	0.775	0.775	0.775	0.775
Price per common share				
High	45	46⅞	48	52⅞
Low	41¾	42⅞	43½	47¼
1990				
Operating revenues (b)	\$645,386	\$568,900	\$582,470	\$622,961
Operating income	170,409	129,147	144,293	146,517
Net income	107,626	66,820	82,858	86,602
Earnings applicable to common stock	95,937	55,191	71,397	75,256
Earnings per common share (c)	1.27	0.73	0.95	1.00
Dividends declared per common share (d)	0.745	0.745	0.745	0.745
Price per common share				
High	43⅞	43⅞	42⅞	44⅞
Low	40	39½	39	39⅞

- (a) The Company's electric utility business is seasonal in nature with peak sales periods generally occurring in the winter months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) Operating revenues for 1990 and the quarters ending March 31 and June 30, 1991 have been restated to reflect changes due to the reclassification of receipts from the distinct sale of energy to certain utilities from interchange power sales to operating revenues. See Financial Note 17 for information concerning the future reclassification of interchange power sales to operating revenues. The amounts to be reclassified for the quarters ended March 31, June 30, Sept. 30 and Dec. 31 are (thousands of dollars): 1991, \$47,712, \$55,465, \$40,478, \$37,364; 1990, \$46,720, \$57,509, \$83,207, \$30,769, respectively.
- (c) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
- (d) The Company has paid quarterly cash dividends on its common stock in every year since 1946. The dividends paid per share in 1991 and 1990 were \$3.07 and \$2.95, respectively. The most recent regular quarterly dividend paid by the Company was 77½ cents per share (equivalent to \$3.10 per annum) paid January 1, 1992. Future dividends will be dependent upon future earnings, financial requirements and other factors.

Officers

JOHN T. KAUFFMAN 65 (41), *Chairman and Chief Executive Officer*
 WILLIAM F. HECHT 48 (27), *President and Chief Operating Officer*
 CHARLES E. RUSSOLI 58 (36), *Executive Vice President and Chief Financial Officer*
 GENNARO D. CALIENDO 51 (23), *Senior Vice President, General Counsel and Secretary*
 HAROLD W. KEISER 48 (11), *Senior Vice President-Nuclear*
 JOSEPH C. KRUM 54 (32), *Senior Vice President-Division Operations*
 FRANCIS A. LONG 51 (28), *Senior Vice President-System Power & Engineering*

LINDA CURRY BARTHOLOMEW 43 (21), *Vice President-Public Affairs*
 JOHN R. BIGGAR 47 (22), *Vice President-Finance*
 ROBERT G. BYRAM 46 (15), *Vice President-Nuclear Operations*
 STEVEN H. CANTONE 48 (12), *Vice President-Central Division*
 JOHN M. CHAPPELEAR 53 (13), *Vice President-Investments and Pensions*
 ROBERT S. GOMBOS 48 (26), *Vice President-Human Resource & Development*
 RONALD E. HILL 49 (27), *Vice President and Comptroller*
 JOHN P. KIERZKOWSKI 52 (20), *Vice President and Treasurer*
 GRAYSON E. McNAIR 51 (29), *Vice President-Lehigh Division*
 JOHN R. MENICHINI 44 (23), *Vice President-Harrisburg Division*
 CLAIR W. NOLL 58 (31), *Vice President-Information Services*
 EDWARD F. REIS 61 (35), *Vice President-Corporate Planning*
 JOHN E. ROTH 63 (37), *Vice President-Northern Division*
 JOHN H. SAEGER 53 (31), *Vice President-Lancaster Division*
 ROBERT J. SHOVLIN 51 (29), *Vice President-Power Production & Engineering*
 JEAN A. SMOLICK 57 (39), *Assistant Secretary*
 RAYMOND F. SUHOCKI 46 (18), *Vice President-Susquehanna Division*
 PAULINE L. VETOVITZ 45 (27), *Assistant Secretary*
 HELEN J. WOLFER 63 (44), *Assistant Secretary and Assistant Treasurer*
 Numbers indicate age and years of service () as of March 1, 1992.

Corporate Management Committee: John T. Kauffman, chairman; William F. Hecht, Charles E. Russoli, G. D. Caliendo, Harold W. Keiser, Joseph C. Krum and Francis A. Long, with Edward F. Reis serving as the committee's executive secretary.

Directors

*CLIFFORD L. ALEXANDER JR. 58 (16), Washington, D.C., *President, Alexander & Associates Inc. Consultants to business, government and industry*
 JEFFREY J. BURDGE 69 (9), Camp Hill, *Former Chairman of the Board, Harsco Corporation. Manufacturer of processed and fabricated metals*
 E. ALLEN DEEVER 56 (1), Lancaster, *Executive Vice President, Armstrong World Industries Inc. Manufacturer of interior furnishings and specialty products*
 EDWARD DONLEY 70 (9), Allentown, *Chairman, Executive Committee, Air Products and Chemicals Inc. Manufacturer of industrial and commercial gases and chemicals*
 WILLIAM J. FLOOD 56 (2), Hazleton, *Secretary-Treasurer, Highway Equipment & Supply Co. Supplier of heavy equipment for highway construction and industry*
 REV. DANIEL G. GAMBET, O.S.F.S. 62 (5), Center Valley, *President, Allentown College of St. Francis de Sales*
 ELMER D. GATES 62 (2), Bethlehem, *Vice Chairman, Fuller Company. Manufacturer of plants, machinery and equipment for industry*
 WILLIAM F. HECHT 48 (1), Allentown, *President and Chief Operating Officer*
 STUART HEYDT 52 (1), Danville, *President and Chief Executive Officer, Geisinger Foundation. Parent company of Geisinger Health Care System*
 CLIFFORD L. JONES 64 (3), Mechanicsburg, *Former President, Pennsylvania Chamber of Business and Industry*
 JOHN T. KAUFFMAN 65 (13), Allentown, *Chairman and Chief Executive Officer*
 RUTH LEVENTHAL 51 (3), Middletown, *Provost and Dean, Penn State Harrisburg (The Capital College)*
 NORMAN ROBERTSON 64 (22), Pittsburgh, *Senior Vice President and Chief Economist, Mellon Bank, N.A.*
 CHARLES E. RUSSOLI 58 (5), Allentown, *Executive Vice President and Chief Financial Officer*
 DAVID L. TRESSLER 55 (10), Scranton, *Executive Director of the Joseph M. McDade Center for Technology and Applied Research at the University of Scranton*
 Numbers indicate age and years of service () on PP&L board as of March 1, 1992.
 *Mr. Alexander resigned from the board effective Dec. 31, 1991.

Executive Committee: John T. Kauffman, chairman; Norman Robertson and David L. Tressler.
Audit Committee: David L. Tressler, chairman; William J. Flood, Daniel G. Gambet, Elmer D. Gates and Ruth Leventhal.
Corporate Responsibility Committee: Daniel G. Gambet, chairman; E. Allen Deever, Stuart Heydt, Clifford L. Jones and Ruth Leventhal.
Management Development and Compensation Committee: Edward Donley, chairman; Jeffrey J. Burdge, E. Allen Deever, Elmer D. Gates and Norman Robertson.
Nominating Committee: Jeffrey J. Burdge, chairman; Edward Donley, William J. Flood, Stuart Heydt and Clifford L. Jones.

DIRECTORS



Left to right: Rev. Daniel Gambet, Elmer Gates, Ruth Leventhal and David Tressler



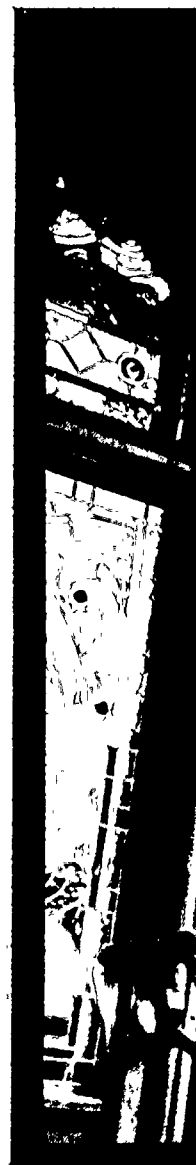
Left to right: Jeffrey Burdge, Clifford Jones, Edward Donley and William Flood



Left to right: Smart Heydt, Clifford Alexander, Allen Deaver and Norman Robertson

Pictured here are the outside, non-employee members of PP&I's board.

Working Toward a Brighter TomorrowSM



Joseph Mezlo, left, manager-Marketing and Economic Development in the company's Central Division, is one of several hundred Hazleton-area citizens who gave several days to build a permanent creative play area at a school district playground under the auspices of the Drums PTA.

