Pennsylvania Power & Light Company

Annual Report 1992

The rules of our business are changing. The electric utility industry has entered a new age of competition. The future holds both challenge and opportunity. We can turn challenges into opportunities only by understanding and managing change. This is the key to PP&L's continuing success.

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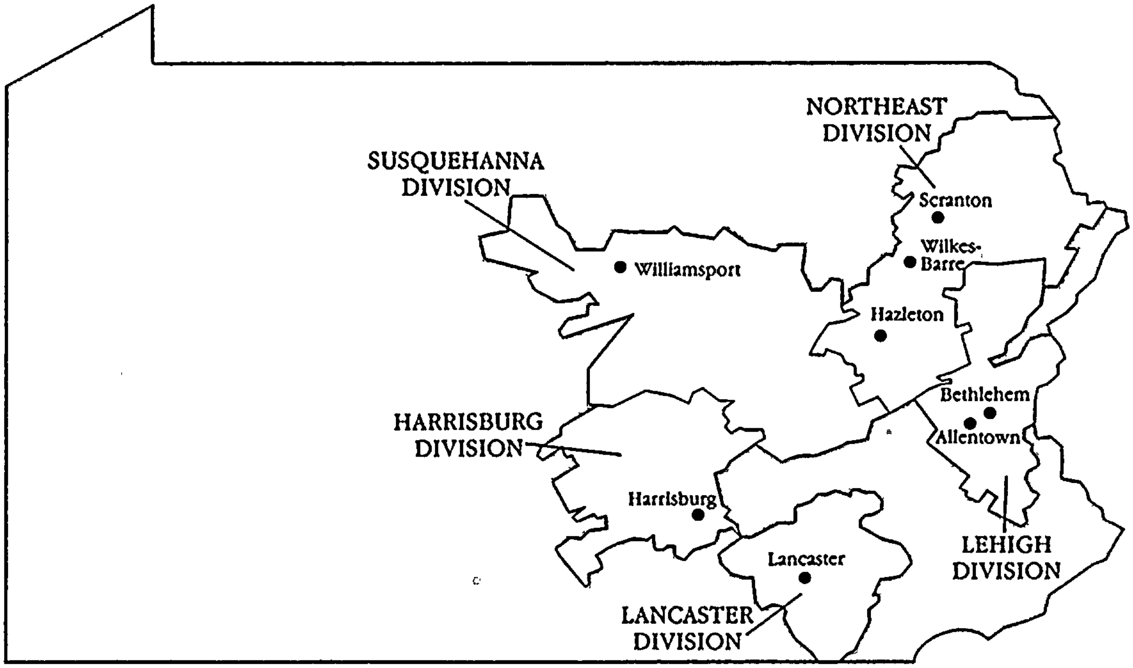
Company Profile

Pennsylvania Power & Light Co., headquartered in Allentown, 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.



Contents

1993 Annual Meeting

PP&L's 1993 annual meeting will be held April 28 at the Harrisburg Marriott, 4650 Lindle Road, Harrisburg, Pa. See Page 46 for details.

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Kauffman's Farewell

As my career at PP&L comes to an end, I can't help but recall with appreciation the outstanding support that we always have received from our shareowners.

Your loyalty to PP&L, and your faith and trust in our leadership, have been a great sense of strength to me and all the rest of us in the company.

Looking back on more than four decades, it seems like it all went by so quickly. As I wrote in our employee publication in December, it seems like only yesterday that we were building power plants at Holtwood, Montour and Susquehanna. It seems like only yesterday that we were selling Gold Medallion Homes. It seems like only yesterday that the Energy of Man train was cruising through our system.

But, it was not yesterday and the time has come to move on.

We have "moved on" at PP&L, changing with the times, meeting the new challenges that each generation seems to bring. It is that spirit of changing with the times that has marked our success in the past and will do so in the future.

I count myself fortunate to have had the privilege of facing those challenges with your support and the efforts of thousands of dedicated employees at PP&L. It really was their efforts that made the difference between success and failure for your company.

As I retire as an active employee, I am leaving the company in the hands of a very capable management team — in the hands of people like Bill Hecht, whom I have worked with for more than 20 years. Bill and the other members of corporate management will provide the leadership and direction the company will need to face the challenges that lie ahead.

Although I will not be involved in the day-to-day operations of the company, the board has asked that I continue as a director. I intend to be very active in retirement, involved in activities that are allied with PP&L's interests. For instance, I will continue in my work with the education reform movement in Pennsylvania and at the national level. Improving our education system is one of the most important challenges facing our nation today.

In closing, I'd like to thank you for your continuing support for PP&L, as Bill and his team chart a course for PP&L's successful future.

Sincerely,

John T. Kauffman

John T. Kauffman
December 31, 1992

John Kauffman, who began his utility career as a test engineer at Holtwood when Harry Truman was still savoring his victory over Dewey, is an institution at PP&L. Although he served as the company's top executive for only 30 months (since the tragic death of Robert K. Campbell), Kauffman has been a key figure in PP&L history.

John Kauffman will most vividly be remembered as the man who "built" the power-generation system that is one of the best in the nation. John was involved in building 12 of the 16 electric generating units that now provide electricity to nearly 1.2 million PP&L customers.

John was the driving force behind the Susquehanna nuclear units, which went into commercial operation in 1983 and 1985. Since then, Susquehanna has been a world leader in generating electricity and in performance as monitored by industry associations and the Nuclear Regulatory Commission.

Under John's leadership as executive vice president-Operations, PP&L became a major wholesale supplier of electricity, revitalized its marketing program and further solidified its place as an industry leader.

Then, just as John was preparing to retire, PP&L's chairman, president and CEO, Bob Campbell, passed away. In June 1990, putting his personal plans on hold, John assumed the title of chairman, president and CEO of PP&L. He retired as an active employee at the end of 1992, but will stay on as a member of the board of directors through 1995.

Commenting on John's retirement, Bill Hecht said, "We will miss John's leadership, his enthusiasm and the spirit that he brought to the company for more than 40 years. We wish him well in his retirement and are very pleased that he will remain on our board of directors."

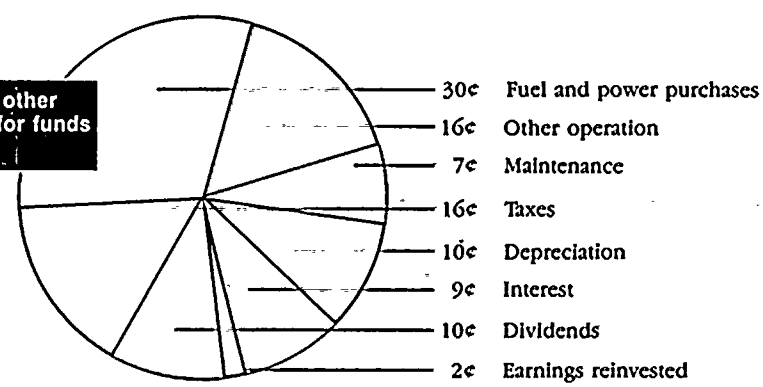
HIGHLIGHTS (CONSOLIDATED)

	1992	1991	1992-1991 % Change	1990
Operating Data (in thousands)				
Total Energy Sales, Kilowatt-hours (a)	**42,242,334**	43,772,159	(3.5)	44,671,355
System Energy Sales, Kilowatt-hours (b)	**29,755,211**	29,036,169	2.5	28,672,040
Contractual Sales to Other Utilities, Kilowatt-hours	**7,326,845**	7,182,642	2.0	7,028,354
PJM Interchange Power Sales, Kilowatt-hours	**5,160,278**	7,553,348	(31.7)	8,970,961
Electricity Generated, Kilowatt-hours	**39,186,425**	41,551,242	(5.7)	41,942,040
Net System Capacity, Kilowatts (c) (d)	**7,802**	7,797	0.1	7,912
Winter Peak Demand, Kilowatts (e)	**6,130**	5,974	2.6	5,661
Financial Data (in thousands)				
Operating Revenues (a)	**$2,744,122**	$2,740,715	0.1	$2,637,922
Operating Income	**$573,431**	$582,331	(1.5)	$590,366
Net Income	**$346,724**	$348,414	(0.5)	$343,906
Common Dividends Declared	**$242,655**	$234,626	3.4	$224,850
Common Equity (c)	**$2,366,939**	$2,298,010	3.0	$2,221,759
Capital Provided by Investors (c)	**$5,702,658**	$5,623,378	1.4	$5,573,360
Construction Expenditures	**$387,220**	$336,741	15.0	$288,278
Construction Work in Progress (c)	**$211,534**	$183,242	15.4	$143,084
Property, Plant and Equipment—Net (c)	**$7,019,504**	$6,929,578	1.3	$6,894,221
Total Assets (c)	**$8,191,768**	$7,934,595	3.2	$7,735,442
Per Common Share (f)				
Earnings	**$2.02**	$2.01	0.5	$1.97
Dividends Declared	**$1.60**	$1.55	3.2	$1.49
Market Price (c)	**$ 27¼**	$ 26⅜	3.3	$21⅞
Book Value (c)	**$15.58**	$15.15	2.8	$14.68
Other Information				
Return on Average Common Equity	**13.11%**	13.42%	(2.3)	13.65%
Times Interest Earned Before Income Taxes	**3.18**	3.06	3.9	2.86
Number of Customers—Electric (a) (c)	**1,186,682**	1,173,680	1.1	1,161,232
Common Shares Outstanding (c) (f)	**151,885,335**	151,655,268	0.2	151,297,940
Number of Common Shareowners (c)	**129,394**	127,272	1.7	130,719
Number of Employees—Electric (c)	**7,981**	8,144	(2.0)	8,149

(a) Years prior to 1992 have been restated to reflect interchange power sales being recorded as electric operating revenues and electric energy sales instead of a credit to operating expenses in accordance with a Federal Energy Regulatory Commission order.
(b) Excludes contractual sales to other utilities and PJM interchange power sales.
(c) At year-end.
(d) Total generating capacity plus firm capacity purchases less firm capacity sales.
(e) Winter peaks were reached early in the subsequent year.
(f) Common share data for 1991 and 1990 have been adjusted for the two-for-one common stock split effective April 22, 1992.

WHERE THE PP&L INCOME DOLLAR WENT IN 1992

Income includes revenues, other income and the allowance for funds used during construction.



It's my distinct pleasure, in my first annual report as PP&L's chairman, to review some of your company's outstanding accomplishments of 1992 and to discuss some of the important issues that will have a substantial impact on us in the future.

A major event of 1992, of course, was the change in corporate leadership.

John Kauffman, a tremendous presence at PP&L for more than four decades, retired as the year came to a close, and I took his place as chairman, president and chief executive officer. Also, we have several new assignments on our Corporate Management Committee. Frank Long, who had served as senior vice president-System Power & Engineering since 1990, was named executive vice president and chief operating officer, and Bob Byram, our vice president-Nuclear Operations, was named to replace Long as senior vice president-System Power & Engineering.

The 12 months since the last annual report also brought congressional action that will have a fundamental, long-term effect on how electric utilities operate. Later in this letter, I'll review what the new national energy policy will mean to PP&L.

First, however, let me bring you up to date on how we fared in 1992.

Our system sales for the year, when adjusted for normal weather, increased by about 2.6 percent over 1991. By comparison, weather-adjusted energy sales in 1991 increased by only 0.2 percent over 1990 levels. During 1992, residential sales were up 1.8 percent over 1991 and commercial sales increased 2.7 percent, when adjusted for weather. Most encouraging, however, is the fact that industrial sales, which are not affected by weather, increased by 3.4 percent. We attribute this increase to an improvement in the service-area economy from the depressed economic conditions in 1991 when we saw our sales to industrial customers decline by 3 percent.

We continued to be a major player in the bulk power sales market. In fact, during 1992, we sold 12.5 billion kwh to other utilities.

In 1992, our base rates remained stable, as they have since 1985. We are continuing with our plans not to increase base rates until at least the 1994-95 time period.

Earnings for 1992 were $2.02 per share, up slightly from $2.01 per share. Milder-than-normal weather affected earnings in both 1992 and 1991. If weather had been normal, our earnings would have been $2.09 per share in 1992 and $2.07 in 1991.

Our fossil-fueled power plants were available to produce electricity about 85 percent of the time, more than they have been in any year since we began keeping records. A major reason for this improvement is a maintenance outage schedule that results in less planned down time. We made the maintenance schedule changes after an intense study of our outage processes. This is a fine example of what we mean when we talk about continually improving our performance.

Our Susquehanna nuclear units generated 13.5 billion kilowatt-hours, 7 percent more than was budgeted for the year. And, they achieved this record despite two refueling outages during the year. In another milestone, the Nuclear Regulatory Commission recognized Susquehanna for its "high level of safety performance" and for "commitment to safety throughout the organization." Only five plants in the nation were recognized in that manner.

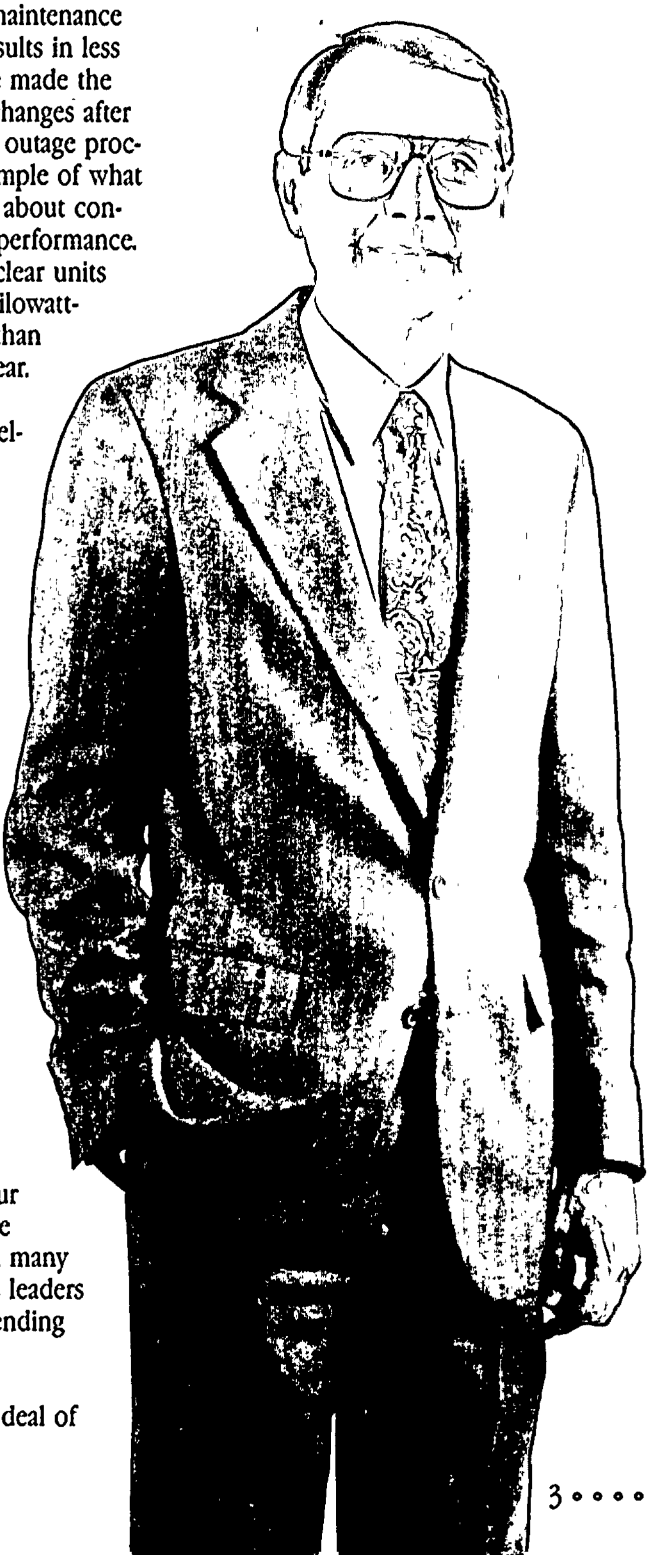
1992 was another safe year for PP&L people. For the fourth year in a row, we had no on-the-job employee fatalities.

Our marketing and economic development efforts resulted in new annualized sales of 435 million kwh, meeting our forecast — an impressive showing in a year when many consumers and business leaders were cautious about spending on new buildings or expansions.

We also spent a great deal of the past year planning for major changes in our industry.

The passage of the Energy Policy Act of 1992, signed into law in October, sets the tone for a restructuring of our industry that is likely to bring major changes in the way we do business.

The new energy act makes it much easier for non-utility companies to build power plants. It also provides the Federal Energy Regula-



tory Commission with new authority to order utilities to provide transmission service to others. The new law means that we have entered an age of intensified competition at PP&L. This change will have implications for years to come.

At the same time, our traditional competitors for the home heating market — oil and gas — are getting more aggressive and more competitive than they once were. Fossil fuels also are providing more competition in the industrial market. And, on the economic development front, we are working hard to meet competition from other states and other regions of the country.

These new conditions provide both opportunities and challenges.

We will take advantage of these opportunities using the same basic tenets that have served us well in the past. We will continue to concentrate on marketing and economic development, effective cost management, operational excellence and sensitivity to people. We can turn challenges into opportunities only by understanding and managing change. This is the key to PP&L's continuing success.

We know that we cannot be complacent. In fact, we have been successful because we have continually adapted to the changing circumstances of our business. We are not strangers to competition.

We have been a leader in marketing the concept of total-electric living.

We have been a leader in forming economic development partnerships that have resulted in thousands of new jobs in our service area.

We have been a leader in the Northeast in making sales to other electric utilities.

These experiences give us a sound base from which we can address the markets of the future.

In 1992, we announced initiatives designed to encourage the development and use of electric vehicles. We are one of the first utilities in the country to offer lower rates to customers who use electric vehicles. In addition, we have instituted a grant program to help offset the cost difference between gasoline-powered vehicles and today's electric-powered vehicles.

We believe electric vehicles will play an important role in meeting the country's environmental and energy goals. We also believe that they hold the potential for an important market for us — one of those opportunities of the future.

In another area, we are pursuing a concept that we call "ultra-service parks," which will include upgraded electric service to businesses that need to minimize power interruptions. Electricity will be supplied to these parks by two separate lines, thus minimizing the probability of power interruptions. Upgraded telecommunications technology also will be featured. These parks will offer first-class locations to advanced technology and research operations as well as corporate offices. At this point, we are working on three ultra-service park locations.

Another example of our marketing efforts is found in our special rates that encourage employment growth. During 1992, we introduced the fourth phase of what we call our Economic Development Incentive rates. Under this phase, rate credits are given to industrial customers who increase production or expand their plants. Industries establishing new manufacturing facilities in PP&L's service area also could qualify for credits.

Since we first established these EDI rates in 1983, we have found them to be an important incentive to attracting new investment in industrial facilities in our service area. Innovations like these have helped make Central Eastern Pennsylvania an attractive place for new business and industry.

We're also encouraging innovation in the residential market. Our ground source heat pumps, which use the earth's thermal energy as a heat source, are becoming an increasingly popular choice for electric heating and cooling in our service area.

> "We also are working toward a 'greener' tomorrow. PP&L has a solid environmental reputation because we have always thought that it is important to do more than simply comply with regulations. We are committed to serving our customers in a manner that protects the environment for present and future generations."

And, even though we won't need to build another power plant for a number of years, we are not forgetting about the future of electricity generation. We are one of the utility sponsors of a research program that is working on a standard design for the next generation of nuclear power plants. Our experience with the Susquehanna plant has convinced us that nuclear power should be preserved as an option in America's future energy mix.

These initiatives give you a good indication that we are not just sitting back, waiting to be swept along with the tides of change in the industry. We are committed to shaping that

CMC Meets with Employees and Customers

Periodically, members of the company's Corporate Management Committee travel to PP&L power plants, service centers and offices throughout the service territory to spend time with employees, learning more about how they do their jobs. Recently, they accompanied Lehigh Division employees on a round of customer visits. Focusing on customer needs is everyone's priority at PP&L, from the meter readers and line crews in the field to the company's senior executives.

Frank Long (center), executive vice president and chief operating officer, and PP&L power engineer Tom Fabian (left), talk with the owner of a Quakertown area auto body shop about advantages of his newly installed radiant electric heat system.

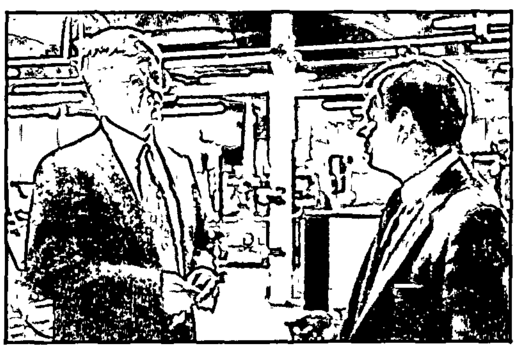
Jerry Callendo (right), senior vice president, general counsel and secretary, accompanies Ken Iwaszek, division staff engineer, on an inspection of a distribution line. Some of the 5,200 customers served by the line had complained of momentary power outages. Trees near the line were trimmed to help alleviate the problem.

William Hecht, chairman, president and chief executive officer, listens as PP&L employee Evelyn Soto tells a low-income customer about CARES, the Customer Assistance and Referral Evaluation Service, that helps people with personal hardships.

Charles Russoli (right), executive vice president and chief financial officer, and Don Frazier, a PP&L economic development director, inspect the site of a new paper sheeting plant in Fogelsville. The paper company said PP&L's energy prices were a determining factor in its decision to locate in Central Eastern Pennsylvania.

John Kauffman (right), former chairman and chief executive officer, and PP&L customer contact representative Dottie Burns (left), explain the workings of an electric meter to a residential customer who requested a meter test after lightning struck near his home.

Joseph Krum (right), senior vice president-Division Operations, along with PP&L'ers Paul Crochunis (left), and Jim Gibbons, inspect a new substation being built in Montgomery County. The $17 million facility, to be completed in November 1993, will provide additional capacity for growing electric supply needs in the Bucks and Montgomery county areas of the company's service territory.



Harold Keiser (left), senior vice president-Nuclear, visits the president of a ground source heat pump firm in Lansdale. The heat pumps, which tap the renewable, nonpolluting heat energy of the earth, are rapidly becoming PP&L's most recommended technology for providing residential heating, cooling and hot water needs.

change to our advantage.

In addition, we are making an in-depth, systematic study of the opportunities that a more competitive future may hold for PP&L. Our strategy to redefine PP&L for the future will continue to emphasize our role in the electric business, but it may be a different role than we have today.

We also are seeking new business opportunities in areas allied to our current operations which would allow us to make better use of the expertise that we have in the company — expertise such as operating power plants, expertise such as transporting and managing fuel supplies, expertise such as equipment maintenance, and expertise such as we have in our Construction Department.

As we examine our strategic direction for the future, we also are looking closely at the staffing levels that we will need to continue to provide superior service. Early in 1992, we announced that we will be seeking to trim our full-time workforce from about 8,000 to 7,500 people by the end of 1995. We anticipate most of the reduction will occur as the result of normal attrition — people leaving the company through retirements or resignations.

We will not, however, succeed in the future simply by fine-tuning our strategies and adjusting the size of our workforce.

We will succeed only if we are truly focused on the needs of our customers and on ways to improve our service to them. That's what our Continuous Performance Improvement Process is all about.

CPIP is an effort that will help us find ways to improve everything we do at PP&L, on an ongoing basis. Continuous improvement does not mean that something needs to be broken to fix it. It means that all PP&L employees must concentrate on satisfying customers, whether those "customers" be other employees or the people who buy our electricity. And, CPIP means that we will be involving all employees in this process.

A structure team, made up of an equal number of bargaining unit and management employees, is working on the specifics of this process at PP&L. This type of partnership is essential for us to move forward.

As our corporate slogan states, we are "Working Toward a Brighter Tomorrow."

We also are working toward a "greener" tomorrow. PP&L has a solid environmental reputation because we have always thought that it is important to do more than simply comply with regulations. We are committed to serving our customers in a manner that protects the environment for present and future generations.

We have a stewardship responsibility for the lands we own. We consider it more than a legal responsibility. It is an ethical one, a question of caring for the land so that it will sustain future generations.

As we prepare for the more competitive future, we also are increasingly conscious of our obligation to manage our business in a way that minimizes wastes and emissions that affect the environment. We are firmly committed to managing and conserving natural resources, protecting environmental diversity and promoting energy efficiency.

We expect to be able to comply with the initial phase of the 1990 Clean Air Act amendments with only a small increase in customer costs — probably about 1.5 percent. We will be able to do this because we have made environmental improvements over the years that went beyond regulatory requirements.

We still expect, however, that the Phase II emission reductions, required by the end of the 1990s under the Clean Air Act amendments, will involve the installation of scrubbers — devices that clean pollutants from stack emissions — on some of our generating units.

But compliance with the law is only part of the environmental story at PP&L. Our award-winning recreation areas provide environmental awareness activities for young and old alike. The Montour Preserve, Susquehanna Riverlands, the Holtwood recreation area and Lake Wallenpaupack are visible examples of PP&L's commitment to the environment.

We instituted another important environmental effort in 1992 and will continue it in 1993. In our "Trees for the Future" program, we distributed more than 120,000 Douglas fir seedlings to school children throughout our service area. The program was so popular that we will repeat the effort this year.

We also are continuing to talk with our customers about their concerns over the electric and magnetic fields that surround electrical appliances and our facilities. Although current scientific evidence does not demonstrate a health problem, we are constructively responding to public concerns through activities like information meetings and by offering to measure EMF levels in homes and businesses. We also are designing and installing new facilities in ways that reduce EMFs.

The successes of 1992 are just examples of what we can expect in the future, as long as we manage the change that is coming our way, rather than being managed by it. Our basic approach to our business remains solid.

But we will identify and take advantage of new opportunities in a new world for America's electric utilities.

We have new leadership in place.

We are prepared to build on a strong foundation.

With your continued support, we will continue to excel.

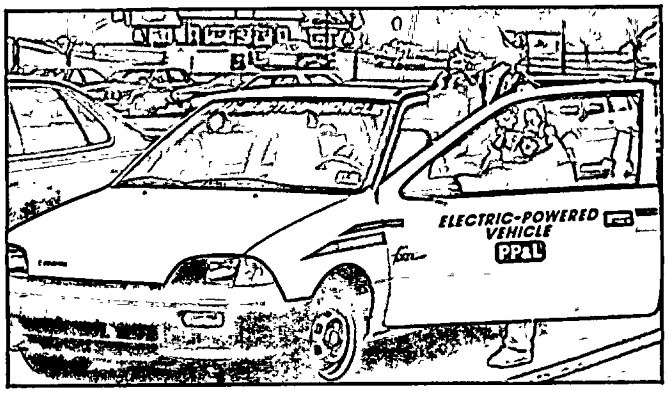
Respectfully submitted,

William F. Hecht

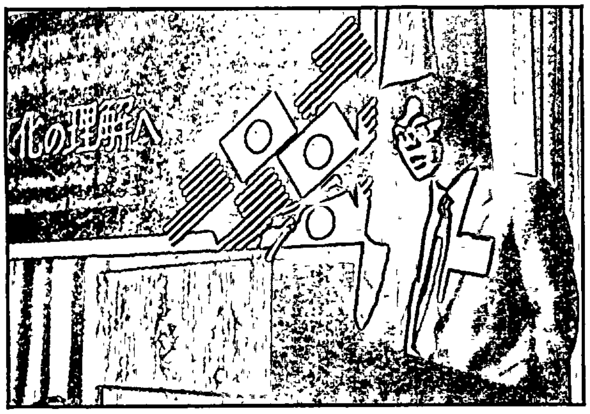
William F. Hecht
March 1, 1993

June

- A series of economic development rate incentives is filed with the Pennsylvania Public Utility Commission — the fourth such effort by PP&L in eight years. The package is designed to make existing industrial customers more competitive and to attract new job-producing industries.
- PP&L files a proposal with the Nuclear Regulatory Commission to increase output at the Susquehanna nuclear plant by 5 percent. The project would free up power from other PP&L plants for sales to other utilities, providing economic benefits to PP&L and its customers.



A customer uses a PP&L electric car to pick up groceries at an Allentown supermarket. She tested the car for several days as part of a loaner program, one of several initiatives launched by PP&L to promote the use of electric vehicles.



Tomoharu Washio of JETRO, a Tokyo-based group that promotes trade between Japan and other nations, speaks at PP&L's Central Eastern Pennsylvania-Japan Workshop. The meeting was organized by PP&L to promote economic development and cultural understanding between Japan and businesses in PP&L's service territory.

- PP&L becomes one of the first utilities in the country to offer lower rates for customers who own electric vehicles. The company also offers grants for the purchase of electric vehicles, loans electric vehicles to customers for test periods, and is designated one of five regional electric vehicle repair centers in the nation.

July

- President William F. Hecht is designated to become chairman, president and chief executive officer, effective Jan. 1, 1993.
- The Susquehanna plant is cited by the Nuclear Regulatory Commission for "its high level of safety performance" and "commitment to safety throughout the organization."
- The U.S. Senior Open golf tournament is held at the Saucon Valley Country Club near Bethlehem, giving PP&L and other event sponsors an opportunity to tell business leaders from around the world about the benefits of living, working and doing business in Central Eastern Pennsylvania.
- PP&L's consumer complaint rate is cited as the lowest among the state's major electric utilities for the seventh straight year by the Pennsylvania Public Utility Commission.

August

- Parts of two PP&L operating divisions are combined to form a new Northeast Division, and two other division boundaries also are redrawn. The realignment improves efficiency and results in five PP&L operating divisions instead of six.
- Northern Division Vice President John E. Roth retires, closing out a 38-year career with PP&L.
- The new East Mountain Business Park near Wilkes-Barre is selected as the site for a new building to house both the company's Northeast Division office and a media operations center to be used in the event of an emergency at the Susquehanna nuclear plant.

September

- A federal court judge rules in PP&L's favor in two antitrust suits. Eastern Pennsylvania fuel oil dealers, who brought the suits alleging antitrust violations in PP&L's residential marketing programs, have appealed the decision.
- Unit 2 at the Susquehanna nuclear plant shuts down for refueling.
- Vice Admiral Robert Y. Kaufman, U.S. Navy-retired, is elected a director, effective Oct. 1. Kaufman was part of the early planning of the Polaris and Trident nuclear submarine programs, and brings to PP&L a strong background in management, training and planning, and nuclear command experience.
- Lake Wallenpaupack is the site of an emergency drill, supervised by the Federal Energy Regulatory Commission, to test the emergency plan of the Wallenpaupack Hydroelectric Project. It is the first full-

Linda L. Miller, a budget administrator in Power Production & Engineering, tutors a child at Allentown's Cleveland Elementary School. PP&L employees spend time each week reading to students or acting as classroom helpers at the school. It's called the "Koalaty Kids" program, and it's a way for PP&L people to get involved in improving the quality of education.

January

- An "unusual event" is declared at the Susquehanna nuclear plant after sparks from a grinding wheel touch off a small hydrogen explosion during routine maintenance work. Two employees are slightly injured, and one of the two is contaminated with radioactive material. The unusual event, the lowest of four emergency classifications at the plant, leads to revised work and safety procedures.

February

- PP&L announces a rate decrease of $11.4 million, passing on to customers the benefit of savings on several bill components. The changes lowered customer bills by about one-half of 1 percent.
- The company's 8,000 employees are told of plans to cut the workforce to about 7,500 people by the middle of the decade. The downsizing, to be accomplished primarily through normal attrition, is part of PP&L's strategy to reduce costs and remain competitive in a changing industry.
- The quarterly dividend on common stock is increased by 3.2 percent, from 77.5 cents to 80 cents per share, effective April 1 (as calculated before the stock split approved later in April 1992). This continues the company's record of increasing the dividend every year since 1979.

March

- PP&L's "Trees for the Future" environmental program is unveiled at the company's Montour Preserve, making about 120,000 evergreen seedlings available for distribution to elementary school students throughout the service territory.
- A Nuclear Oversight Committee of the board of directors is established, adding another dimension to the programs already in place to assure safe, reliable and economical operation of the Susquehanna nuclear plant.
- The company's Harrisburg Division is linked to the Customer Contact Center in Allentown, consolidating customer service office functions at one location. Now customers can dial one toll-free number for 24-hour customer service.
- Unit 1 at the Susquehanna nuclear plant shuts down for a 10-week refueling outage. During refueling shutdowns, technicians replace about one-quarter of the uranium fuel in the reactor and perform thousands of maintenance items to ensure prolonged safe and reliable operation.

April

- Shareowners approve a two-for-one common stock split. The action brings the price of PP&L stock, which had been among the highest in the industry, more into line with stock of other electric utilities.
- PP&L begins an extensive study to determine if the two oil-fired generating units at the Martins Creek plant should be converted to burn both oil and natural gas.
- Chairman John Kauffman and PP&L Directors Elmer Gates and Edward Donley are among those who meet with President George Bush when he visits Allentown to talk about the country's education policy. PP&L unveils PP&L 2000, a major effort to promote education reform.

May

- Two $150-million series of first mortgage bonds are sold to the public. The proceeds are used to redeem $250 million of bonds having higher interest rates, and to retire short-term debt incurred to provide interim financing for the company's capital requirements.
- Susquehanna Unit 1 comes back on-line after refueling.
- PP&L people win nine of 20 awards for achievements in residential, industrial and commercial marketing in the Pennsylvania Electric Association's annual competition.

Chairman John Kauffman helps fifth graders from the Ward L. Myers Elementary School in Muncy plant seedlings to launch PP&L's Trees for the Future program at the company's Montour Preserve. About 120,000 Douglas fir seedlings were distributed to 420 schools throughout the service territory.

The "slinky coil" of a ground source heat pump is installed at a Carlisle-area house. Ground source heat pumps take advantage of relatively constant underground temperatures — about 50°F year-round — to provide energy-efficient heating, cooling and hot water for homes and businesses.

Serve the customer well. It's one of the oldest maxims in business. At PP&L, we've always focused on satisfying customer needs. During 1992 we sharpened that focus even more, because now more than ever, exceptional customer service is crucial to our future success.

The electric utility business is changing. It's becoming increasingly competitive. To continue to be successful, PP&L must set itself apart from the competition through outstanding customer service — a total commitment to satisfying the needs and expectations of our customers.

But what is exceptional customer service, and how is it achieved? A reputation for excellence doesn't come easily. It takes time and hard work. And it takes a commitment from every employee in the company.

Customer service takes many forms. It's the friendly and helpful voice on the telephone when a customer calls. It's a lineman high on a pole restoring power in a driving rainstorm. It's a marketing representative with information customers need to make decisions about how new technologies can work for them. It's a team of economic

The Ed Baldoni family demonstrates the comfort and convenience of the new Smart House℠ built by Baldoni's construction company near Scranton. The house is a showcase of energy efficiency and computer-controlled home management technology. Its ground source heat pump provides cost-effective heating, cooling and hot water. The house also features the latest in energy-efficient appliances, automation, security and entertainment systems. Inset: PP&L Senior Residential Consultant Angelo Smaniotto discusses with Baldoni the controls of a water tank that stores off-peak energy for use during on-peak hours.

scale exercise under new FERC regulations covering dams at hydroelectric facilities.

- An agreement is reached to sell the Tunnelton coal mine in western Pennsylvania to Mon Valley Steel Co., of Uniontown, Pa. The sale is part of PP&L's strategy to phase out its coal mining operations.

October

- PP&L and two other utilities with hydroelectric dams on the Susquehanna River announce a plan to build fish lifts to carry migrating American shad over the dams. When completed by the end of the decade, the three lifts will reopen more than 200 miles of the river to the historic spring shad migration.

Three PP&L employees visit a customer service office at Chugoku Electric Power Co. in Japan as part of PP&L's ongoing exchange program with the utility. The PP&L employees, Sue Johnson, Tom Funk and Gary Miller, were asked to evaluate Chugoku's customer service operations.

- A major federal exercise with an estimated 2,000 participants and 300 visitors from around the world, planned at the Susquehanna plant to demonstrate how the federal government would support local and state governments during a serious nuclear emergency, is canceled. Because of several hurricanes and other disasters nationwide, the U.S. Federal Emergency Management Agency is unable to participate.

- A ribbon-cutting ceremony marks the opening of the first phase of PP&L's new System Facilities Center in Hazleton. When the project is complete in 1994, the center will house PP&L's chemical laboratories and several other service departments.

Customer Service Representative Lucinda Erdman, with a helping hand from Supervisor Sharon Armbruster, takes one of the 1.7 million calls that came in to PP&L's Customer Contact Center in 1992.

- Frank A. Long, senior vice president-System Power & Engineering, is appointed executive vice president and chief operating officer, effective Jan. 1, 1993.

November

- Unit 2 at the Susquehanna nuclear plant returns from a nine-week refueling shutdown.

- A total of $90 million worth of Pollution Control Revenue Bonds are sold through the Lehigh County Industrial Development Authority, to redeem authority bonds issued at higher rates in the early 1980s, thereby reducing PP&L's cost of financing pollution control equipment.

December

- PP&L's five fossil-fueled power plants turn in their best annual performance since 1970, as measured by their availability to generate power, a key performance indicator.

- The National Nuclear Accrediting Board renews accreditation of the Susquehanna nuclear plant's technical training programs after a thorough review by the Institute for Nuclear Power Operations, an independent organization created to improve quality in the commercial nuclear power industry.

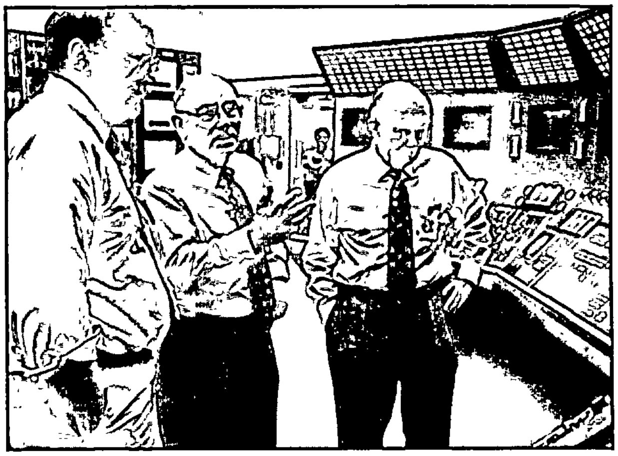
- PP&L crews work around the clock to restore electric service after high winds from one of the worst storms ever to hit the company's service area left 138,000 customers without power.

- Frank A. Long, who becomes executive vice president and chief operating officer Jan. 1, 1993, is elected to the PP&L board of directors, effective the same date.

- Robert G. Byram, vice president-Nuclear Operations, is named senior vice president-System Power & Engineering, effective Jan. 1, 1993.

- John T. Kauffman, chairman and chief executive officer, retires as an active employee after 42 years with PP&L. Kauffman will remain on the board of directors. William F. Hecht becomes chairman, president and chief executive officer Jan. 1, 1993.

Dr. Bert Wolfe (center) and Warren Owen (right), two members of the Nuclear Oversight Committee Advisory Board, talk with Unit Supervisor James Hufford in the control room of the Susquehanna nuclear plant. The advisory board is made up of three nuclear industry experts who advise the five members of the Nuclear Oversight Committee of the board of directors.



thousands of links in the customer service chain.

Shareowners, too, are part of that linkage. When PP&L meets the competition head on, when sales and earnings are strong, when stock dividends continue to grow, then the share-owners' investment has added value. In a very real sense, every shareowner is a "customer" of every employee at PP&L.

We're working to involve every employee in helping to improve quality and efficiency and sharpen our customer-driven focus. Through our Continuous Performance Improvement Process, employees at all levels will be better able to participate in the decisions that will guide this company into the future.

Serving the customer well. It's what PP&L is all about. We're working hard to do everything our customers expect of us, and more. We want every employee, every company department, to be focused on satisfying the customer every hour of every day. We're building our reputation for excellence link by link, piece by piece. Because it's superior customer service that will set PP&L apart.

A PP&L test instrument (foreground) monitors power quality in the cardiac stress test laboratory at Allentown Osteopathic Medical Center. Inset: Lester Onody (left), the hospital's director of plant operations, reviews the results of the analysis with PP&L engineers Keith Sames, Ken Iwaszek and Tom Fabian. Power quality work is a growing segment of PP&L's customer service activities. PP&L power engineers work closely with industrial and commercial customers to ensure a steady supply of quality electricity to computers and other sensitive equipment.

At the David J. Thompson Mailing Corp., an employee tends one of the high-speed inserting machines the company uses to process more than 300 million pieces of mail each year. Cramped for space and paying high electric rates at their previous location, Thompson looked throughout the eastern United States for a place to build a new plant. With the help of PP&L economic development professionals, the company chose Bloomsburg, creating 300 jobs in Central Eastern Pennsylvania. Inset: Thompson's chief financial officer, William Peysson (right), shows the finished product to PP&L Bloomsburg Area Manager Thomas Kinिry.

development professionals working to enhance service-area quality of life by bringing new jobs to the communities we serve. In short, it's keeping the customer in mind in everything we do.

Customer service is a delicate linkage of relationships between PP&L employees and customers. A customer calls to report a power outage. A customer service representative logs the information. Dispatchers send a crew to the scene. Service is restored.

Each event is a link in the chain, a piece of the jigsaw puzzle; each part is important to the whole. The goal — excellent customer service and customer satisfaction — cannot be achieved unless each piece falls neatly into the right place at the right time.

At PP&L, we recognize that customer service is internal as well as external. Not every employee deals directly with our electric service customers. But every employee — from the power plants to the corporate offices — has a "customer" inside PP&L depending on him or her to do quality work, to meet a deadline, to deliver a key piece of information, or to provide any one of the

Review of the Company's Financial Condition and Results of Operations

All common stock earnings and other per share amounts presented in this review have been adjusted for the two-for-one common stock split effective April 22, 1992.

Results of Operations

Earnings

Earnings per share of common stock were $2.02 in 1992, $2.01 in 1991 and $1.97 in 1990. Earnings improved slightly during 1992 as the region's economy continued to recover and the Company made progress in controlling costs. Milder-than-normal weather during the first quarter of 1992 and cooler-than-normal summer weather, adversely affected earnings. If weather had been normal, earnings would have been 7 cents per share higher. The weather affects sales and earnings as heating and cooling demands change. To make valid comparisons of financial performance, the Company adjusts the figures to reflect "normal" conditions as determined by historical weather data.

The Company made progress during 1992 in controlling its operating and maintenance expenses. However, increasing depreciation charges for the Company's Susquehanna nuclear generating station adversely affected earnings. The cost of a generating station is normally spread out evenly over a number of years by recording charges against income. In the formula the Company uses for the Susquehanna generating station, annual depreciation charges are not equal, but increase incrementally each year. The increase in depreciation of the Susquehanna generating station in 1992 adversely affected earnings by 5 cents per share of common stock.

Earnings for 1991 and 1990 were also affected by extremely mild weather. Earnings per share would have been higher by 6 cents in 1991 and 13 cents in 1990 had there been normal weather in the Company's service territory.

Earnings per share over the last five years increased at an annual growth rate of about 4.0%. However, over the past few years, earnings have essentially been flat, reflecting in part a slowdown in the rate of growth of energy sales. The Company will continue its aggressive marketing and economic development programs aimed at increasing energy sales, will continue to emphasize effective cost management and will also continue to take advantage of favorable financial market conditions to refinance long-term debt and preferred or preference stock with lower cost securities to reduce interest expense and dividends on those stocks as steps to achieve continued earnings growth.

Electric Energy Sales

System, or service area, sales were 29.8 billion kwh in 1992, an increase of 719 million kwh, or 2.5%, over 1991. Improvement in the service area economy in 1992 contributed to higher system sales. However, milder-than-normal weather depressed system sales in both 1992 and 1991 primarily due to reduced use of electricity for heating by residential and commercial customers. System sales were down an estimated 334 million kwh in 1992 and 287 million kwh in 1991 due to milder-than-normal weather. The Company estimates that if normal weather had been experienced in both years, system sales for 1992 would have increased by 766 million kwh, or 2.6%, over 1991.

Actual sales to residential and commercial customers in 1992 increased 219 million kwh, or 2.1%, and 178 million kwh, or 2.0%, respectively, over 1991. The Company estimates that under normal weather conditions for both years, sales to residential and commercial customers in 1992 would have increased 189 million kwh, or 1.8%, and 245 million kwh, or 2.7%, respectively, over 1991.

Industrial sales in 1992 increased 290 million kwh, or 3.4%, over 1991. This increase is attributed to an improvement in the service-area economy from the depressed economic conditions in 1991 when sales to industrial customers declined by 3.0 percent.

System sales in 1993 are currently forecasted to be approximately 30.6 billion kwh, an increase of 855 million kwh, or 2.9%, over 1992 actual system sales, and a 521 million kwh, or 1.7%, increase over 1992 weather-normalized sales.

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 1992 was 435 million kwh.

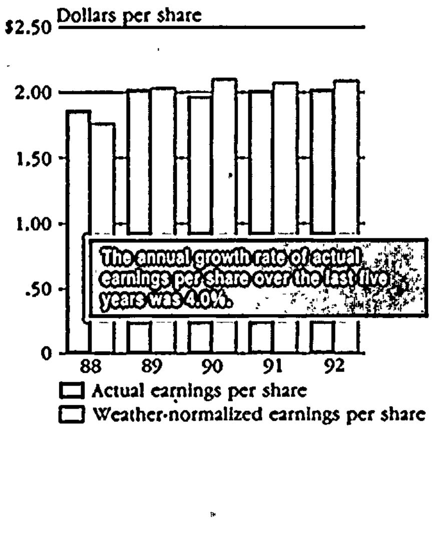
The Company's 1993 marketing and economic development goal is to achieve annual net sales growth of 523 million kwh. The 1993 goal reflects an increased emphasis being placed on marketing activities with existing industrial customers.

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 69% in 1990 to 66% in 1992. The Company's goal for 1993 is a 70% electric heat market share in new residential construction.

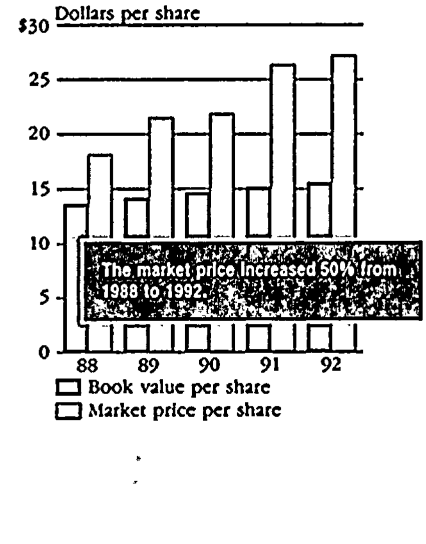
Certain large customers have considered self-generation of electricity over the past several years. However, the Company has lost no significant load to customer-owned generation.

Total electric energy sales, which include contractual sales to other utilities and interchange power sales, were 42.2 billion kwh in 1992, a

EARNINGS PER SHARE
WEATHER—NORMALIZED VS. ACTUAL



COMMON STOCK BOOK VALUE
VS. MARKET PRICE




658 POWER QUALITY ANALYZER

Tariffs subject to PUC jurisdiction accounted for approximately 81% of the Company's revenues from energy sales in 1992. The remaining 19% of such revenues resulted from sales regulated by the FERC and include the Company's PJM interchange power sales.

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.

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 and competitive position 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, PJM interchange power sales and capacity-related and transmission entitlement transactions) include base rate charges and a supplemental charge or credit for fuel costs over or under the levels included in base rates. In December 1991, the FERC accepted a settlement agreement between the Company and its wholesale customers with respect to a $4.1 million base rate increase for those customers that FERC permitted to become effective in May 1991. Under the terms of the settlement agreement, the Company agreed not to file any wholesale base rate requests that would propose an effective date before August 1, 1994.

The FERC regulates contractual sales to other utilities, PJM interchange power sales and capacity-related and transmission entitlement transactions. 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 are generally made at a price equal to the cost of fuel plus an amount to reflect foregone interchange savings. PJM interchange power sales are made at a price equal to the midpoint between the sellers' actual costs and costs that the buyers would have incurred to produce the energy. Capacity-related and transmission entitlement transactions are made at prices negotiated by the Company and the purchaser, subject to a price cap accepted by the FERC.

Fuel Expense

Fuel expense for 1992 decreased by $41.0 million from 1991. The decrease was due to reduced output from the Company's generating units. Output from the Company's generating units in 1992 was 2.4 billion kwh lower than 1991. This decrease in generation was primarily due to lower nuclear and oil-fired generation partially offset by an increase in coal-fired generation. Nuclear generation decreased 2.1 billion kwh in 1992 as a result of two refueling and inspection outages in the year compared to one in 1991, and oil-fired generation decreased due to lower PJM interchange power sales.

Power Purchases

In 1992, power purchases were $275.5 million, an increase of $19.2 million over 1991. The increase was the result of additional purchases from non-utility generating companies and PJM and other electric utilities.

Other Operation, Maintenance and Depreciation

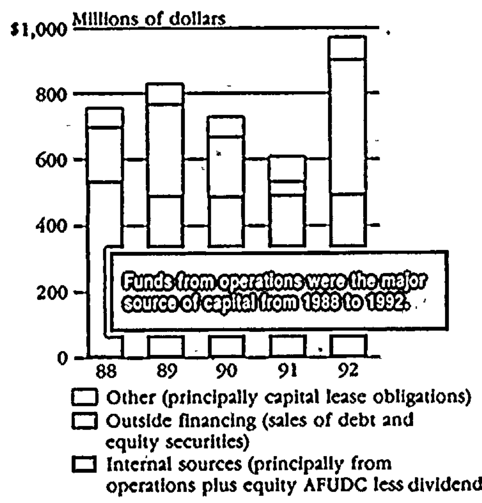
The reduction in revenues resulting from flowing the benefits of a settlement with General Electric Company of certain claims arising from construction of the Susquehanna station through to customers in the SBRCA is offset by a credit to other operation expense on the Consolidated Statement of Income (see Financial Note 5). Excluding this credit, other operation expense remained essentially unchanged in 1992 compared to 1991. Lower costs associated with operating the Company's nuclear-fueled generating station and a decrease in the provision for uncollectible accounts were offset by increases in wages and benefits.

The Company intends to reduce the number of full-time employees by approximately 6.8% from 8,043 at year-end 1991 to about 7,500 by the mid-1990s. This is one of the actions being taken to contain costs and keep the price of the Company's electric service competitive. This reduction is expected to come primarily from normal attrition. As of year-end 1992, the number of full-time employees was 7,882.

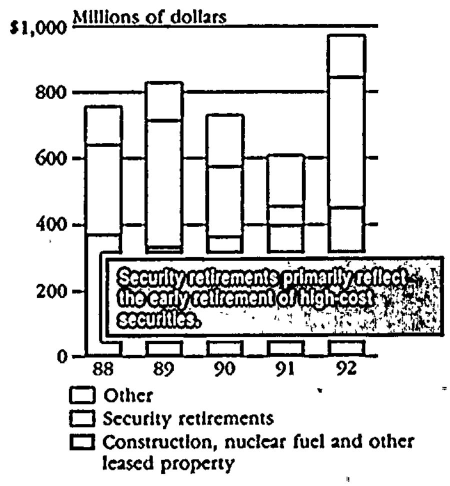
The amortization of the deferred income effect of adopting the inventory method of accounting for power plant spare parts is credited to maintenance expense on the Consolidated Statement of Income (see Power Plant Spare Parts on page 19). Excluding this amortization, maintenance expenses remained essentially unchanged in 1992 compared to 1991.

Higher depreciation in 1992 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, depreciation expense

SOURCES OF CAPITAL



CAPITAL REQUIREMENTS



decrease of 1.5 billion kwh, or 3.5%, compared to 1991.

Contractual sales to other utilities include 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 and energy sold on a short-term basis to other electric utilities. Contractual sales to other utilities were about 7.3 billion kwh in 1992, or 2.0% higher than 1991.

The Company began to record interchange power sales to Pennsylvania-New Jersey-Maryland Interconnection companies (PJM) as operating revenues instead of a credit to operating expenses, effective January 1, 1992, in accordance with a Federal Energy Regulatory Commission (FERC) order. The energy sold to PJM is now included in the Company's total electric energy sales. Prior periods have been restated to conform to the current presentation. The change in accounting for these sales had no effect on income.

PJM interchange power sales were about 5.2 billion kwh in 1992, or 31.7% lower than 1991. The decrease was primarily due to an increase in the availability of nuclear generating capacity of other PJM utilities, which reduced the operation of certain of the Company's generating units. In addition, higher sales to the Company's retail customers resulted in less energy being available for sale to interconnected utilities.

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 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 PJM interchange savings which are included in the Company's Energy Cost Rate (ECR), totaled $35.0 million in 1992, $35.4 million in 1991 and $32.3 million in 1990. The Company currently expects about $30 million of revenues from these transactions during 1993.

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.

Certain industrial customers have requested that the Pennsylvania Public Utility Commission (PUC) investigate the Company's capacity-related and transmission entitlement transactions, contending that the revenues from these sales should be credited against the ECR. These transactions began in 1989 and the associated revenues, net of foregone PJM interchange savings, have totaled $126.1 million through December 31, 1992.

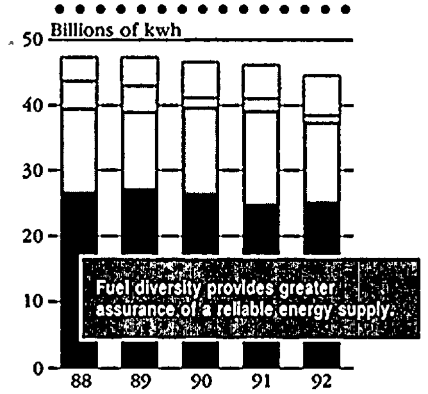
Operating Revenues

Total operating revenues increased $3.4 million, or 0.1%, in 1992 over 1991. Details of changes in operating revenues from the prior year are shown in the schedule below.

Changes in Operating Revenues

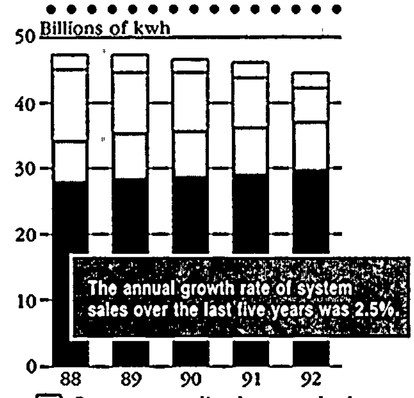
	1992	1991	1990
	(Millions of Dollars)		
Recovery of fuel and energy costs	$ 44.0	$ 79.9	$ 55.3
Change in customer usage	20.6	38.2	(14.4)
State tax adjustment surcharge	22.2	22.0	
Special base rate credit adjustment	(22.6)	(16.7)	
Wholesale rate increase	1.7	2.4	
Capacity-related and transmission entitlement transactions	(0.4)	3.1	8.9
Contractual sales to other utilities	7.7	9.1	(3.3)
PJM interchange power sales	(68.8)	(37.0)	(37.8)
Other	(1.0)	1.8	(3.7)
Total	$ 3.4	$102.8	$ 5.0

SOURCES OF ENERGY



Hydro and purchased power
Oil-fired generation and other
Nuclear generation
Coal-fired generation

DISPOSITION OF ENERGY



Company use, line losses and other
Interchange power sales
Contractual sales to other utilities
System sales to customers

tests. To enhance financing flexibility, the Company has credit arrangements aggregating $205 million with various banks to provide back-up for the Company's commercial paper and short-term borrowings of certain subsidiaries. No borrowings were outstanding at December 31, 1992 under these arrangements.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC), a noncash credit to income, accounted for about 5% of earnings in 1992. AFUDC is expected to remain low through 1993. Beginning in 1994, AFUDC is expected to increase as the Company will be making capital expenditures to comply with clean air legislation. 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.

Financial Indicators

The Company earned a 13.11% return on average common equity during 1992, down slightly from the 13.42% earned in 1991. The ratio of the Company's pretax income to interest charges increased slightly from 3.1 times in 1991 to 3.2 times in 1992. The Company increased common stock dividends from an annual per-share rate of $1.55 in 1991 to $1.60 in 1992. The book value per share of common stock increased 2.8% from $15.15 at the end of 1991 to $15.58 at the end of 1992. The ratio of the market price to book value of common stock was 175% at the end of 1992 compared with 174% at the end of 1991.

Termination of Coal-Mining Operations

The Company has ceased 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 closed at the end of June 1991. A second operating mine closed at the end of March 1992, and a third mine, scheduled to close in June 1992, was temporarily idled and then sold in September 1992. In this regard, the Company requested that the PUC determine that the Company's proposed purchase of coal from the third mine for a period of seven months after the sale of the mine is in the public interest and that the Company will be permitted to recover the idle mine costs and purchased coal costs through the ECR. The PUC granted the Company's request in August 1992.

The Energy Policy Act of 1992 (Energy Act) imposed a new liability on the Company or its coal-mining subsidiaries for the health care of retired coal miners previously employed by those subsidiaries. The estimated liability amounts to approximately $69 million. At the time coal-mining operations ceased, subsidiary mining companies had accrued $32 million for anticipated payments to the miners' health care trust funds to provide for health care benefits of retired miners. Under the Energy Act, the Company or its subsidiaries will be directly liable for these benefits and the $32 million will not have to be paid to the trust funds. The Company intends to use the accrual to partially offset the new liability.

In December 1992, the Company recorded an additional liability of approximately $37 million representing the balance of the liability imposed by the Energy Act for health care benefits for retired coal miners. The charge to expense was deferred because the Company intends to file a request with the PUC to recover these costs through the ECR over a five-year period. In the event the PUC does not permit recovery of this amount, the Company would incur a one-time charge against income of approximately $21 million, net of related taxes.

Clean Air Legislation and Other Environmental Matters

In November 1990, federal clean air legislation was enacted that deals, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. The acid rain provisions, which are contained in Title IV of the legislation, specify Phase I sulfur dioxide emission limits on about 55% of the Company's coal-fired generating capacity by January 1, 1995, and more stringent Phase II sulfur dioxide emission limits for all of the Company's fossil-fired generating units by January 1, 2000.

The Company expects to meet the 1995 Phase I sulfur dioxide standards by the use of lower sulfur coal, additional processing of coal through cleaning plants, and the installation of scrubbers at the Conemaugh station, in which the Company has an 11.39% ownership interest. The Company may also choose to limit the generation of certain units and to bank or trade emission allowances among its generating units or with other utilities, to the extent permitted by the legislation.

The acid rain provisions also require installation of low nitrogen oxide burners on each unit by the same date that sulfur dioxide limits apply to that unit. In addition, the ambient ozone attainment provisions contained in Title I of the legislation specify other nitrogen oxide emission reductions. In this regard, the legislation defines a Northeast Ozone Transport Region that includes all of Pennsylvania in addition to all states in the Northeast from northern Virginia to Maine. All major stationary sources within the region must install reasonably available control technology (RACT) for nitrogen oxide emissions by May 1995.

The Company expects to meet this RACT requirement by installing low nitrogen oxide burners on the Phase I units as required by the acid rain title and on the remaining Phase II units by advancing the installation of low nitrogen oxide burners, where technically feasible, that would have been required in 2000 by the acid rain title.

The Company currently estimates that the cost of compliance with the Phase I sulfur dioxide standards and installation of the low nitrogen oxide burners will require capital expenditures of about $260 million (in estimated 1993 dollars) and an increase in customer rates of about 1.5% (based on 1992 revenue levels).

To meet the Phase II acid rain sulfur dioxide emission standards, the Company expects to install flue gas desulfurization (FGD) on up to 65% of its coal-fired generating capacity, to continue to purchase lower sulfur coal for its remaining generating capacity, and to bank or trade emission allowances among its generating units or with other utilities to the extent permitted by the legislation. The exact mix of lower sulfur fuel, emission allowance purchases, sales or trades, and the amount and timing of FGD will be determined later based on FGD installation costs, fuel cost and availability, and emission allowance prices.

The Company currently estimates that the cost of compliance with the Phase II sulfur dioxide standards will require additional capital expenditures in the later half of the 1990s of $600 million (in estimated 1993 dollars) and an increase in customer rates (based on 1992 revenue levels) of about 4% above the increase expected to result from Phase I compliance with the sulfur dioxide standards of the legislation and installation of low nitrogen oxide burners.

The ambient ozone attainment provisions also require modeling of nitrogen oxide and volatile organic compound emissions in the Northeast Ozone Transport Region to determine what further reductions are needed beyond the RACT requirements to achieve ambient ozone

for the Susquehanna station will increase annually through the year 1998. In 1992, the amount of depreciation expense applicable to the Susquehanna station exceeded the amount that would have been recorded using the straight-line method, resulting in an amortization of previously deferred depreciation. Beginning in 1999, depreciation is scheduled to change to the straight-line method at a level substantially less than the amount expected to be recorded 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. On April 1, 1993, the tax surcharge is expected to be rolled into the Company's base rates.

Financing Costs

The Company has continued to take advantage of opportunities to reduce its financing costs during the years 1990-1992 by the retirement of long-term debt and preferred and preference stock with cash from operations and with the proceeds from the sales of securities at a lower cost. Interest on long-term debt and dividends on preferred and preference stock have decreased by $23 million from $304 million in 1989 to $281 million in 1992.

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. That 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 customers' bills, 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 1990-1992 and current projections for the years 1993-1995. Construction expenditures during the years 1990-1992 totaled about $1.0 billion and are expected to be about $1.3 billion during the years 1993-1995.

Financing and Liquidity

For the years 1990-1992, the Company issued $540 million of long-term debt and about $24 million of common stock and also incurred $189 million of obligations under capital leases (primarily nuclear fuel). In 1992, the Company sold $300 million principal amount of first mortgage bonds in a public offering, $90 million of first mortgage pollution control bonds, increased its short-term debt by $12 million and issued $6 million of common stock to the Employee Stock Ownership Plan. During the year, the Company retired $346 million of long-term debt and $47 million of preferred stock.

After the payment of dividends, internally generated funds during the years 1993-1995 are currently expected to provide approximately 75% of the Company's construction expenditures.

Sales of securities will be undertaken during the 1993-1995 period as needed to meet the Company's capital requirements, to meet a total of $195 million of long-term debt maturities 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. As part of this program, in February 1993, the Company sold $300 million principal amount of first mortgage bonds consisting of $100 million principal amount, 6⅞% Series due 2003 and $200 million principal amount, 7⅞% Series due 2023; and redeemed three series of first mortgage bonds aggregating $305 million through the maintenance and replacement fund provisions of the mortgage: the 9¾% Series due 2005, the 9¾% Series due November 1, 2005 and the 9¼% Series due 2004. Additionally, the Company plans to redeem in 1993 three series of first mortgage bonds aggregating $375 million through early retirement provisions: the 9⅝% Series due June 1998, the 9½% Series due October 2016 and the 9¼% Series due March 1998. However, the exact timing will depend on the Company issuing additional first mortgage bonds to provide the funds necessary for the redemptions.

The Company's ability to issue securities during the 1993-1995 period is not expected to be limited by earnings or other issuance

Capital Expenditure Requirements (a)

	Actual			Projected		
	1990	1991	1992	1993	1994	1995
	(Millions of Dollars)					
Construction expenditures						
Generating facilities	$101	$124	$136	$130	$107	$ 70
Transmission and distribution facilities	148	165	186	189	197	176
Environmental	16	11	13	81	208	84
Other	23	37	52	38	32	28
	288	337	387	438	544	358
Nuclear fuel owned and leased	53	41	42	65	49	66
Other leased property	18	17	20	28	23	26
Total	$359	$395	$449	$531	$616	$450

(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 $25 million in each of the years 1993-1995.

participating in the current research effort to determine whether EMF causes any human health problems and is taking steps to reduce EMF, where practical, in the design of new transmission and distribution facilities. The Company is unable to predict what effect the EMF issue might have on Company operations and facilities.

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 Energy Act will have a significant impact on the Company and the electric utility industry. The Energy Act includes, among other things, amendments to the Public Utility Holding Company Act of 1935 (PUHCA) to increase competition in the generation of electricity, mainly by creating a new class of independent power producers that would be exempt from PUHCA regulations; rules addressing access to electric transmission systems; incentives for the development of electric vehicles and provisions that streamline the nuclear power plant licensing process. The Energy Act also includes provisions to encourage resolution of the high-level nuclear waste disposal issue, perform global climate change studies, promote increased energy efficiency and provide funding for an EMF research program. The Company is unable to predict the ultimate impact that these provisions of the Energy Act or other initiatives may ultimately 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 good position to adapt to changes in the industry.

The Energy Act established the Uranium Enrichment Decontamination and Decommissioning Fund (Fund) and provides for an assessment on domestic utilities with nuclear power operations, including the Company. Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the Energy Act and are expected to be paid to the Fund by such utilities over a 15-year period. Amounts paid to the Fund are to be used for the ultimate decontamination and decommissioning of the U.S. Department of Energy's uranium enrichment facilities. The Energy Act states that the assessment shall be deemed a necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as the utility's other fuel costs.

In December 1992, the Company accrued an estimated liability for its total assessment in the amount of approximately $39 million, subject to adjustment for inflation. The charge to expense was deferred because the Company will include its annual payments to the Fund of approximately $2.6 million, subject to adjustment for inflation, in the ECR included in the Company's PUC tariffs and the fuel adjustment clause included in the Company's FERC tariffs. As a result, the Company does not expect the assessment to have an adverse effect on net income.

For discussion of the effects of the Energy Act on the Company's liability for health care costs of retired miners previously employed by the Company's coal-mining subsidiaries, see "Termination of Coal-Mining Operations" on page 20.

Accounting Statements Adopted After December 31, 1992

The Financial Accounting Standards Board (FASB) has issued two accounting statements that the Company adopted effective January 1, 1993: Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes," and SFAS 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." Under the provisions of SFAS 109, the Company recorded in January 1993 an increase of approximately $1.1 billion in its deferred tax liability for tax benefits previously flowed through to customers and for other temporary differences. The increased tax liability was offset by a corresponding asset representing the future revenue expected through the ratemaking process to pay for the taxes based on the established regulatory practice and legislative history in Pennsylvania permitting recovery of actual taxes payable. (See Financial Note 10.)

The second statement, SFAS 106, establishes new rules 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. The Company's transition obligation on January 1, 1993 amounted to about $174 million and its accrued cost for postretirement benefits other than pensions will be about $25 million in 1993, including amortization of the transition obligation over a 20-year period. This compares to estimated cash payments of about $8 million for those benefits in 1993.

In November 1992, the PUC issued an order that denied the joint petition by several utilities requesting that the PUC issue a declaratory order to permit deferral and future recovery through rates of the increase in costs for retiree benefits other than pensions that would occur when SFAS 106 was adopted. The PUC's order cited concerns about a joint petition approach and stated that the appropriate amount of retiree benefit costs to be allowed in rates would be decided on a case-by-case basis. In December 1992, the Company filed a petition with the PUC requesting permission to defer the increase in its retiree benefit costs incurred from January 1, 1993 until such costs are recognized in customer rates. Recovery of the deferred costs would be requested in the Company's next retail base rate proceeding. Under current accounting rules, the Company could defer the costs for about five years if the PUC approves the petition. (See Financial Note 5.) In the event the PUC does not permit the Company to defer these costs, the Company would incur a charge against net income each year until such costs are reflected in customer rates. Under those circumstances, the Company estimates that the charge against net income in 1993 would be approximately $7.1 million, net of related taxes.

A third accounting statement, SFAS 112, "Employer's Accounting for Postemployment Benefits," is effective for fiscal years beginning after December 15, 1993. SFAS 112 requires the accrual of the expected cost of providing benefits to former or inactive employees after employment but before retirement. The Company is assessing the statement, but at this time is unable to estimate what impact SFAS 112 will have on its results of operations. The Company intends to adopt SFAS 112 on its effective date.

attainment. If the results indicate further reductions are needed in power plant nitrogen oxide emissions, the Company may be required to install additional nitrogen oxide reduction equipment, such as selective catalytic reduction, on some or all of its fossil units around 2000. The Company's preliminary estimates indicate that the cost of compliance could require additional capital expenditures of up to $600 million (in estimated 1993 dollars) and a further increase in customer rates of as much as 4% (based on 1992 revenue levels).

In addition to acid rain and ambient attainment provisions, the legislation requires the Environmental Protection Agency (EPA) to conduct a study of hazardous air emissions from power plants. Adverse findings from this study could cause the EPA to mandate additional ultra high efficiency particulate removal baghouses or specialized flue gas scrubbing to remove certain vaporous trace metals and certain gaseous emissions. If it is determined that the installation of such additional equipment is required, the Company's preliminary estimates indicate that the cost of compliance could require additional capital expenditures of up to $300 million (in estimated 1993 dollars) and a further increase in customer rates of as much as 2% (based on 1992 revenue levels).

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.

In March 1992, the PUC opened a generic investigation into the trading and usage of, and the ratemaking treatment for, emission allowances by Pennsylvania electric utilities. On February 3, 1993, the PUC adopted a policy statement regarding these issues. The policy statement determines, among other things, that the PUC will not require approval of specific transactions, utilities will not be required to sell allowances to non-utility generating companies and allowances will be recognized as energy-related power production expenses and recoverable through the ECR.

In June 1992, the Pennsylvania Air Pollution Control Act was amended to implement the 1990 federal clean air legislation. The state legislation essentially requires that new state air emission standards be no more stringent than federal standards. This legislation has no effect on the Company's plans for compliance with the 1990 federal clean air 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.

In July 1992, the Pennsylvania Department of Environmental Resources (DER) published regulations governing the handling and disposal of industrial (or residual) solid waste. These regulations require the Company to submit detailed information on waste generation, minimization and disposal practices. They also require that the Company upgrade and repermit existing ash basins at all of its coal-fired generating stations by applying updated standards for waste disposal. Ash basins that cannot be repermitted are required to close within five years. Any groundwater contamination caused by the basins must also be abated. Any new ash basin must meet the rigid site and design standards set forth in the final regulations. In addition, the siting of future facilities at Company facilities could also be affected.

The ash basin at the Martins Creek station and the dry fly ash disposal area at the Montour station are expected to comply with the DER regulations. However, the fly ash basins at other fossil generating stations, bottom ash basins at all fossil generating stations and the coal refuse basin at the Brunner Island station do not meet the new requirements and must be retired by July 1997. The Company, in addressing the requirements of these regulations, plans to install dry fly ash handling systems at Brunner Island, Sunbury and Holtwood stations and plans to construct a lined landfill at the Brunner Island station for disposal of coal ash and mill rejects. The Company, with siting assistance from a public advisory group, also plans to use the dry fly ash from the Sunbury and Holtwood stations to reclaim abandoned mines in the anthracite coal region.

Groundwater degradation has occurred at the Brunner Island station due to fuel oil which had leaked from underground facilities and to seepage from coal refuse and disposal areas and coal storage piles. Similar but less substantial groundwater degradation may exist at some other generating stations. Many requirements of the new DER regulations address these groundwater degradation issues at the Company's generating stations. The Company has reviewed its remedial action plans with the DER and has started remedial work at the Brunner Island station. Remedial work also may be required at other generating stations.

The DER has adopted regulations to implement the toxic control provisions of the Federal Water Quality Act of 1987 and to advance Pennsylvania's toxic control program. These regulations authorize the DER to use both biomonitoring and a chemical-specific approach in National Pollutant Discharge Elimination System (NPDES) permits to control toxics and support the imposition of stricter limits in NPDES permits. In this regard, the NPDES permits for the Montour and Sunbury generating stations, which became effective October 1, 1989 for a period of about five years, contain increased monitoring requirements and requirements to study and, if necessary, control toxicity. These studies are being performed at the two stations and are expected to begin at other generating stations in the near future. These studies are expected to result in plant modifications to recycle and reduce waste water streams and installation of chemical treatment facilities to treat water discharges. Such remedies are being integrated with the residual solid waste disposal modifications and groundwater protection activities.

The Company currently estimates that about $258 million of capital expenditures could be required to comply with the residual waste regulations and to correct groundwater degradation problems at the Brunner Island station and to address waste water control problems at other Company facilities. Such expenditures during the years 1993-1995 could total about $92 million of which about $63 million is included in the Company's estimate of 1993-1995 construction expenditures shown on page 19. Actions taken to correct the Brunner Island groundwater degradation problems, to comply with the DER's regulations and to address waste water control problems 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.

Concerns have been expressed by some members of the scientific community and others regarding the potential health effects of electric and magnetic fields (EMF). These fields are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Federal, state and local officials are focusing increased attention on this issue. The Company is actively

Consolidated Statement of Income

	1992	1991	1990
		(Thousands of Dollars)	
Operating Revenues (Notes 1, 3, 4, 5 and 9)	$2,744,122	$2,740,715	$2,637,922
Operating Expenses			
Operation			
Fuel	545,361	586,325	579,272
Power purchases	275,499	256,320	228,336
Other	452,999	461,921	431,340
Maintenance	201,254	206,861	223,528
Depreciation (Notes 1 and 6)	258,357	246,212	234,252
Amortized (deferred) depreciation (Notes 1 and 6)	3,563	(7,047)	(15,707)
Income taxes (Note 10)	228,340	217,366	196,301
Taxes, other than income (Note 10)	205,318	190,426	170,234
	2,170,691	2,158,384	2,047,556
Operating Income	573,431	582,331	590,366
Other Income and (Deductions)			
Allowance for equity funds used during construction (Note 1)	6,771	2,961	3,512
Income tax credits (expense) (Note 10)	(322)	903	2,174
Other—net	12,337	7,616	5,903
	18,786	11,480	11,589
Income Before Interest Charges	592,217	593,811	601,955
Interest Charges			
Long-term debt	240,260	232,092	239,250
Short-term debt and other	13,402	22,254	27,559
Allowance for borrowed funds used during construction and interest capitalized (Note 1)	(8,169)	(8,949)	(8,760)
	245,493	245,397	258,049
Net Income	346,724	348,414	343,906
Dividends on Preferred and Preference Stock	40,495	44,687	46,125
Earnings Applicable to Common Stock	$ 306,229	$ 303,727	$ 297,781
Earnings Per Share of Common Stock (a) (b)	$ 2.02	$ 2.01	$ 1.97
Average Number of Shares Outstanding (thousands) (a)	151,676	151,382	150,924
Dividends Declared Per Share of Common Stock (a)	$ 1.60	$ 1.55	$ 1.49

(a) After two-for-one stock split (Note 2).
(b) Based on average number of shares outstanding.

See accompanying Notes to Financial Statements.

Independent Auditors' Report

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, 1992 and 1991, 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, 1992. 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, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

Deloitte & Touche

Parsippany, New Jersey
February 3, 1993

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 above. 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 four 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.

William F. Hecht

William F. Hecht
Chairman, President and Chief Executive Officer

C E Russoli

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

Consolidated Statement of Cash Flows

	1992	1991	1990
		(Thousands of Dollars)	
Cash Flows From Operating Activities			
Net income	$ 346,724	$ 348,414	$ 343,906
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	270,048	261,180	242,661
Amortization of property under capital leases	81,916	96,565	90,704
Amortization of contract settlement proceeds and deferred cost of power plant spare parts	(31,973)	(17,818)	
Deferred income taxes and investment tax credits	18,309	52,118	81,509
Equity component of AFUDC	(6,771)	(2,961)	(3,512)
Change in current assets and current liabilities			
Accounts receivable	16,010	(14,380)	15,627
Unbilled and refundable electric revenues	(37,865)	(45,725)	(5,042)
Fuel inventories	16,997	25,887	(85,379)
Materials and supplies	9,071	1,200	1,793
Accounts payable	41,790	(11,835)	9,397
Accrued interest and taxes	4,525	17,858	(14,086)
Other	(11,876)	8,012	33,015
Other operating activities—net	52,985	49,432	42,760
Net cash provided by operating activities	769,890	767,947	753,353
Cash Flows From Investing Activities			
Property, plant and equipment expenditures	(422,209)	(374,397)	(337,995)
Proceeds from sales of nuclear fuel to trust	42,778	48,914	30,014
Financial investments	(17,796)	(50,876)	(43,052)
Other investing activities—net	4,509	4,191	7,093
Net cash used in investing activities	(392,718)	(372,168)	(343,940)
Cash Flows From Financing Activities			
Issuance of long-term debt	390,000	150,000	
Issuance of common stock	6,151	8,401	9,371
Retirement of long-term debt	(346,400)	(37,460)	(182,335)
Retirement of preferred and preference stock	(46,753)	(19,100)	(26,300)
Payments on capital lease obligations	(85,733)	(100,227)	(94,461)
Dividends paid	(282,209)	(277,323)	(269,186)
Net increase (decrease) in short-term debt	12,178	(118,770)	170,511
Costs associated with issuance and retirement of securities	(16,682)	(2,136)	(13,347)
Other financing activities—net	(126)	(160)	95
Net cash used in financing activities	(369,574)	(396,775)	(405,652)
Net Increase (Decrease) in Cash and Cash Equivalents	7,598	(996)	3,761
Cash and Cash Equivalents at Beginning of Period	7,512	8,508	4,747
Cash and Cash Equivalents at End of Period	$ 15,110	$ 7,512	$ 8,508
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for			
Interest (net of amount capitalized)	$ 249,303	$ 229,066	$ 252,325
Income taxes	$ 197,594	$ 154,136	$ 117,597

See accompanying Notes to Financial Statements.

Consolidated Balance Sheet at December 31

Assets	1992	1991
	(Thousands of Dollars)	
Property, Plant and Equipment		
Electric utility plant in service—at original cost	$8,591,544	$8,300,914
Accumulated depreciation (Notes 1 and 6)	(2,495,972)	(2,304,266)
Deferred depreciation (Notes 1 and 6)	296,285	299,848
	6,391,857	6,296,496
Construction work in progress—at cost	211,534	183,242
Nuclear fuel owned and leased—net of amortization (Note 13)	174,368	197,794
Other leased property—net of amortization (Note 13)	76,974	76,351
Electric utility plant—net	6,854,733	6,753,883
Other property—net of depreciation, amortization and depletion (1992, $64,286; 1991, $135,050)	164,771	175,695
	7,019,504	6,929,578
Investments		
Associated company—at equity	17,088	17,115
Nuclear plant decommissioning trust fund (Notes 1 and 8)	65,159	58,043
Financial investments (Notes 1 and 11)	121,500	113,951
Other—at cost or less (Note 11)	33,657	7,511
	237,404	196,620
Current Assets		
Cash and cash equivalents (Note 1)	15,110	7,512
Accounts receivable (less reserve: 1992, $27,660; 1991, $27,655)		
Customers	184,149	183,735
Interchange power sales	7,261	18,332
Other	14,128	19,489
Unbilled revenues	109,906	72,285
Fuel (coal and oil)—at average cost	142,374	159,371
Materials and supplies—at average cost (Note 18)	139,360	148,431
Common stock held for dividend reinvestment plan—at cost (Note 12)	14,383	12,225
Other	58,929	44,266
	685,600	665,646
Deferred Debits		
Utility plant carrying charges—net of amortization (Note 1)	24,965	25,757
Unamortized debt expense and reacquired debt costs	83,999	69,321
Assessment for decommissioning uranium enrichment facilities (Note 5)	38,925	
Retired miners' health care benefits (Note 5)	36,600	
Other	64,771	47,673
	249,260	142,751
	$8,191,768	$7,934,595

See accompanying Notes to Financial Statements.

Liabilities	1992	1991
	(Thousands of Dollars)	
Capitalization		
Common equity		
Common stock	$1,364,148	$1,358,091
Capital stock expense	(11,969)	(12,187)
Earnings reinvested	1,014,760	952,106
	2,366,939	2,298,010
Preferred and preference stock		
With sinking fund requirements	325,600	364,590
Without sinking fund requirements	223,612	231,375
Long-term debt	2,620,720	2,575,794
	5,536,871	5,469,769
Current Liabilities		
Commercial paper (Note 15)	67,000	74,000
Bank loans (Note 15)	92,348	73,170
Long-term debt due within one year	6,439	6,439
Capital lease obligations due within one year (Note 13)	86,899	80,489
Accounts payable	147,001	105,211
Taxes accrued	63,067	48,521
Interest accrued	59,429	69,450
Dividends payable	70,556	69,615
Accrued mine closing costs	20,296	13,225
Other	91,105	105,596
	704,140	645,716
Deferred Credits and Other Noncurrent Liabilities		
Deferred investment tax credits (Note 10)	255,823	269,852
Deferred income taxes (Note 10)	1,079,744	1,040,429
Capital lease obligations (Note 13)	164,159	191,487
Unamortized cost of power plant spare parts (Note 18)	75,457	98,968
Accrued nuclear plant decommissioning costs (Notes 1 and 8)	67,435	59,963
Accrued mine closing costs	61,841	55,244
Contract settlement proceeds to be credited to customers (Note 5)	55,794	
Accrued pension costs (Note 16)	73,902	55,843
Accrued assessment for decommissioning uranium enrichment facilities (Note 5)	39,600	
Accrued retired miners' health care benefits (Note 5)	36,600	
Other	40,402	47,324
	1,950,757	1,819,110
Commitments and Contingent Liabilities (Note 19)		
	$8,191,768	$7,934,595

See accompanying Notes to Financial Statements.

Consolidated Statement of Shareowners' Common Equity

	Common Stock Shares (a)(b)	Outstanding Amount	Capital Stock Expense (c)	Earnings Reinvested	Total
		(Thousands of Dollars)			
Balance at December 31, 1989	150,845,478	$1,340,224	$(12,596)	$ 811,710	$2,139,338
Net income				343,906	343,906
Cash dividends declared					
Preferred stock				(36,485)	(36,485)
Preference stock				(9,640)	(9,640)
Common stock ($1.49) (b)				(224,850)	(224,850)
Stock redemption costs				(1,479)	(1,479)
Employee stock ownership plan (d)	452,462	10,822			10,822
Other			147		147
Balance at December 31, 1990	151,297,940	$1,351,046	$(12,449)	$ 883,162	$2,221,759
Net income				348,414	348,414
Cash dividends declared					
Preferred stock				(35,047)	(35,047)
Preference stock				(9,640)	(9,640)
Common stock ($1.55) (b)				(234,626)	(234,626)
Stock redemption costs				(157)	(157)
Employee stock ownership plan (d)	357,328	7,045			7,045
Other			262		262
Balance at December 31, 1991	151,655,268	$1,358,091	$(12,187)	$ 952,106	$2,298,010
Net income				346,724	346,724
Cash dividends declared					
Preferred stock				(30,855)	(30,855)
Preference stock				(9,640)	(9,640)
Common stock ($1.60) (b)				(242,655)	(242,655)
Stock redemption costs				(920)	(920)
Employee stock ownership plan (d)	230,067	6,057			6,057
Other			218		218
Balance at December 31, 1992	151,885,335	$1,364,148	$(11,969)	$1,014,760	$2,366,939

(a) No par value, 170,000,000 shares authorized. Each share entitles the holders to one vote on any question presented to any shareowners' meeting.
(b) Shares of common stock and per share amounts have been adjusted for the two-for-one stock split effective April 22, 1992.
(c) Includes the net unrealized loss applicable to marketable securities.
(d) Includes employee subscriptions.

Consolidated Statement of Preferred and Preference Stock at December 31

	Outstanding 1992	Outstanding 1991	Shares Outstanding 1992	Shares Authorized
	(Thousands of Dollars)			
Preferred Stock—$100 par, cumulative (a)				
4½ %	$ 53,019	$ 53,019	530,189	629,936
Series	381,193	427,946	3,811,926	10,000,000
	$434,212	$480,965		
Preference Stock—no par, cumulative (a)	$115,000	$115,000	1,150,000	5,000,000

See accompanying Notes to Financial Statements.

Details of Preferred and Preference Stock (b)

	Outstanding 1992 (Thousands of Dollars)	Outstanding 1991 (Thousands of Dollars)	Shares Outstanding 1992	Optional Redemption Price Per Share 1992	Sinking Fund Provisions (c) Shares to be Redeemed Annually	Sinking Fund Provisions (c) Redemption Period
With Sinking Fund Requirements						
Series Preferred						
6.875% (d)	**$ 50,000**	$ 50,000	500,000	$103.44	100,000	1993-1997
7.00% (d)(e)	**100,000**	100,000	1,000,000	103.50	200,000	1993-1997
7.375% (d)	**50,000**	50,000	500,000	104.92	25,000	1993-2012
7.40%	**17,600**	19,200	176,000	101.78	16,000	1993-2003
7.82% (d)	**50,000**	50,000	500,000	103.91	100,000	1993-1997
7.927%	**3,000**	6,000	30,000	100.00	30,000	1993
8.00%	**25,000**	27,500	250,000	102.00	25,000	1993-2002
8.75% (d)	**30,000**	36,000	300,000	103.58	30,000	1993-2002
9.24%		25,890				
	$325,600	$364,590				
Without Sinking Fund Requirements						
4½ % Preferred	**$ 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%		7,763				
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		
	$223,612	$231,375				

Decreases in Preferred and Preference Stock *(Thousands of Dollars)*

	1992 Shares	1992 Amount	1991 Shares	1991 Amount	1990 Shares	1990 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)
8.75%	(60,000)	(6,000)	(60,000)	(6,000)	(30,000)	(3,000)
9.00%	(77,630)	(7,763)				
9.24%	(258,900)	(25,890)	(60,000)	(6,000)	(60,000)	(6,000)
Preference Stock						
$8.625					(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 shareowners' 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 1997 are (thousands of dollars): 1993, $52,600; 1994, $49,600; 1995, $49,600; 1996, $49,600; 1997, $49,600.

(d) On certain sinking fund redemption dates, additional shares may be redeemed up to the number of shares required to be redeemed annually.

(e) In January 1993, the Company redeemed through sinking fund provisions at $100 per share 200,000 shares of 7.00% Series Preferred Stock.

See accompanying Notes to Financial Statements.

Consolidated Statement of Long-Term Debt at December 31

Company	Outstanding 1992	1991	Maturity (b)
	(Thousands of Dollars)		
First Mortgage Bonds (a) (g)			
4⅝%	$ 30,000	$ 30,000	March 1, 1994
9⅝%		125,000	February 1, 1996
5⅝%	30,000	30,000	June 1, 1996
6¾%	30,000	30,000	November 1, 1997
7% to 9⅝%	665,000	515,000	1998-2002
7½% to 9¾%	635,000	635,000	2003-2007
9% to 10⅞%	250,000	375,000	2013-2017
8½% to 10%	675,000	525,000	2018-2022
First Mortgage Pollution Control Bonds (a)			
5⅝% Series A (c)	15,500	15,500	(d)
7⅞% to 8⅛% Series C		20,000	(e)
11¼% to 11½% Series D		70,000	(e)
10⅝% Series E	37,750	37,750	March 1, 2014
10⅝% Series F	115,500	115,500	September 1, 2014
9⅜% Series G	55,000	55,000	July 1, 2015
6.40% Series H	90,000		November 1, 2021
	2,628,750	2,578,750	
Miscellaneous promissory notes	116	155	1993-1995
	2,628,866	2,578,905	
Unamortized (discount) and premium—net	(19,307)	(20,672)	
	2,609,559	2,558,233	
Less amount due within one year	39	39	
	2,609,520	2,558,194	
Subsidiaries			
Notes (f)	17,600	24,000	1993-1996
Less amount due within one year	6,400	6,400	
	11,200	17,600	
Total long-term debt	$2,620,720	$2,575,794	

(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 1997 are (thousands of dollars): 1993, $6,439; 1994, $33,339; 1995, $3,338; 1996, $37,300; 1997, $30,900. Maximum sinking fund requirements aggregate $27.4 million through 1997 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 Series A Bonds and the May 1, 1993 maturity of $900,000 of Series A Bonds.
(d) Bonds mature annually on May 1 as follows (thousands of dollars): 1994-2002, $900; 2003, $7,400.
(e) The Series C Bonds and Series D Bonds were redeemed as of January 1, 1993 at the optional redemption price of 102% and 103%, respectively, of the principal amount. The bonds were retired for financial reporting purposes effective December 31, 1992 with the irrevocable deposit of funds with the Trustee.
(f) Various fixed rates ranging from 9% to 12%. During 1992, subsidiary companies retired $6.4 million of maturing notes.
(g) In February 1993, the Company sold $300 million principal amount of First Mortgage Bonds in two series: $100 million principal amount, 6⅞% Series due 2003 and $200 million principal amount, 7⅞% Series due 2023. The net proceeds from the sale of the bonds were added to the Company's general funds. Such proceeds, together with other funds provided by the Company, were used to redeem, through the maintenance and replacement fund provisions of the Company's mortgage: (i) $125 million principal amount of First Mortgage Bonds, 9¾% Series due 2005 at a redemption price of 100.00%; (ii) $100 million principal amount of First Mortgage Bonds, 9¾% Series due November 1, 2005 at a redemption price of 100.00%; and (iii) $80 million principal amount of First Mortgage Bonds, 9¼% Series due 2004 at a redemption price of 100.36%, together, in each case, with unpaid accrued interest.

See accompanying Notes to Financial Statements.

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 3.)

Principles of Consolidation

All wholly owned subsidiaries (principally involved in 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): 1992, $9.4; 1991, $9.3 and 1990, $9.5. Under equity accounting, the operations of Safe Harbor resulted in additional income to the Company of (millions of dollars): 1992, $2.1; 1991, $2.2 and 1990, $2.5.

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 change to the straight-line method. Provisions for depreciation, as a percent of average depreciable property, approximated 3.2% in 1992, 3.1% in 1991 and 2.9% in 1990.

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 8.)

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. Noncurrent marketable debt securities are carried at amortized cost. Current marketable debt securities are carried at the lower of amortized cost or market value. 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 11.)

Premium on Reacquired 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 13.)

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's PUC tariffs include a Special Base Rate Credit Adjustment (SBRCA) that currently credits retail customers' bills for three nonrecurring items related to: (i) the use of an inventory method of

accounting for certain power plant spare parts; (ii) the sale of capacity and related energy from the Company's wholly owned coal-fired stations to Atlantic City Electric Company (Atlantic); and (iii) the proceeds from a settlement with General Electric Company of outstanding contract claims arising from construction of the Susquehanna station. (See Note 5.)

In August 1991, Pennsylvania enacted legislation that increased the Company's state taxes. The Company is recovering the increase in taxes applicable to retail customers through a State Tax Adjustment Surcharge (STAS) which provides for the recovery of new or increased state taxes. (See Note 5.)

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 were deferred when utilized and are 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 10.)

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 16.)

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. Common Stock Split

On April 22, 1992, the Company's shareowners approved an increase in the number of authorized shares of common stock from 85,000,000 to 170,000,000 and a split of the outstanding shares of common stock on a two-for-one basis, resulting in 151,659,356 shares outstanding after the stock split. All common stock earnings and other per share amounts presented in these notes have been adjusted for the two-for-one common stock split.

3. Reclassification of Interchange Power Sales to Operating Revenues

Effective as of January 1, 1992, pursuant to a FERC order, the Company began to record interchange power sales to Pennsylvania-New Jersey-Maryland Interconnection (PJM) member companies as operating revenues, instead of a credit to operating expenses, on the Consolidated Statement of Income. Such interchange power sales for 1991 and 1990 of (thousands of dollars) $181,019 and $218,205, respectively, have been reclassified from a credit to operating expenses to operating revenues to conform with the current presentation. The reclassification had no effect on net income.

4. 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 1992, about 98% of total operating revenues was derived from electric energy sales with 33% coming from residential customers, 27% from commercial customers, 20% from industrial

customers, 4% from interchange power sales to members of the PJM, 13% from contractual sales to other utilities and 3% from others. The Company's largest industrial customer provided about 1.5% of revenues from energy sales during 1992. Twenty-nine industrial customers, whose billings exceeded $3 million each, provided about 7.7% of such revenues. Industrial customers are broadly distributed among industrial classifications.

5. Rate Matters

Certain industrial customers have filed complaints with the PUC against the Company's ECR for the 1990-91, 1991-92 and 1992-93 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 an investigation by the PUC into the Company's ratemaking treatment of revenue received from sale of capacity credits, reservation of output and sale of transmission entitlements (capacity-related transactions). Certain of the industrial customers contend that the revenues from these capacity-related transactions should be credited against the ECR. These transactions are discussed in Note 9.

In November 1991, the PUC accepted the recommended decision of an Administrative Law Judge (ALJ) that dismissed a complaint filed by a group of the Company's industrial customers against the Company's 1991-92 ECR with respect to the ECR recovery of the cost of output purchased from non-utility generating companies. This decision was consistent with prior PUC actions dismissing similar complaints with respect to the ECR for the 1988-89 and 1989-90 periods. At the same time, however, the PUC accepted the ALJ's recommendation to hold hearings regarding capacity-related transactions made possible by purchases from non-utility generating companies. Hearings have not yet been scheduled regarding capacity-related transactions and the ECR. Revenues from all capacity-related transactions, net of foregone PJM interchange savings included in the ECR, have aggregated $126.1 million from 1989 through 1992.

In March 1992, the Pennsylvania Office of Consumer Advocate (OCA) filed a complaint against the Company's ECR for the 1992-93 period, contending that revenues from capacity-related transactions should be credited against the ECR. The PUC has consolidated the OCA complaint with the complaint filed by that group of industrial customers against the 1991-92 ECR.

In October 1991, a group of industrial companies located throughout Pennsylvania 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 governing the practices and procedures of jurisdictional electric utilities with respect to their ECRs. The Company filed an answer in opposition to the petition in November 1991 and this matter remains pending before the PUC.

In November 1992, the PUC issued an order that denied the joint petition by several utilities requesting that the PUC issue a declaratory order to permit deferral and future recovery through rates of the increase in costs for retiree benefits other than pensions that would occur when Statement of Financial Accounting Standards (SFAS) 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions," was adopted. The PUC's order cited concerns about a joint petition approach and stated that the appropriate amount of retiree benefit costs to be allowed in rates would be decided on a case-by-case basis. In December 1992, the Company filed a petition with the PUC requesting permission to defer the increase in its retiree benefit costs incurred from January 1, 1993 until such costs are recognized in customer rates. Recovery of the deferred costs would be requested in the Company's next retail base rate proceeding. Under current accounting rules, the Company could defer the costs for about five years if the PUC approves the petition. In the event the PUC does not permit the Company to defer these costs, the Company would incur a charge against net income each year until such costs are reflected in customer rates. Under those circumstances, the Company estimates that the charge against net income in 1993 would be approximately $7.1 million, net of related taxes.

The Energy Policy Act of 1992 (Energy Act) imposed a new liability on the Company or its coal-mining subsidiaries for the health care of retired coal miners previously employed by those subsidiaries. The estimated liability amounts to approximately $69 million. At the time coal-mining operations ceased, subsidiary mining companies had accrued $32 million for anticipated payments to the miners' health care trust funds to provide for health care benefits of retired miners. Under the Energy Act, the Company or its subsidiaries will be directly liable for these benefits and the $32 million will not have to be paid to the trust funds. The Company intends to use the accrual to partially offset the new liability.

In December 1992, the Company recorded an additional liability of approximately $37 million representing the balance of the liability imposed by the Energy Act for health care benefits for retired coal miners. The charge to expense was deferred because the Company intends to file a request with the PUC to recover these costs through the ECR over a five-year period. In the event the PUC does not permit recovery of this amount, the Company would incur a one-time charge against income of approximately $21 million, net of related taxes.

The Energy Act established the Uranium Enrichment Decontamination and Decommissioning Fund (Fund) and provides for an assessment on domestic utilities with nuclear power operations, including the Company. Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the Energy Act and are expected to be paid to the Fund by such utilities over a 15-year period. Amounts paid to the Fund are to be used for the ultimate decontamination and decommissioning of the DOE's uranium enrichment facilities. The Energy Act states that the assessment shall be deemed a necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as the utility's other fuel costs.

In December 1992, the Company accrued an estimated liability for its total assessment in the amount of approximately $39 million, subject to adjustment for inflation. The charge to expense was deferred because the Company will include its annual payments to the Fund of approximately $2.6 million, subject to adjustment for inflation, in the ECR included in the Company's PUC tariffs and the fuel adjustment clause included in the Company's FERC tariffs. As a result, the Company does not expect the assessment to have an adverse effect on net income.

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

The SBRCA has been in effect since April 1, 1991, and currently reduces retail customers' bills for the effects of three nonrecurring items. The first is the annual amortization of a credit to income associated with reporting the cost of spare parts recorded as an increase in the materials and supplies inventory account when the Company began using an inventory method of accounting for those spare parts. (See Note 18.) The amortization is being included in the SBRCA over a five-year period.

The second item relates to costs that are being recovered from Atlantic pursuant to the sale of 125,000 kilowatts of capacity (summer rating) and related energy from the Company's wholly owned coal-fired stations beginning October 1, 1991. The costs recovered from Atlantic are currently reflected in retail base rate tariffs. Accordingly, the Company included a credit in the SBRCA 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 third is the proceeds from the settlement of outstanding contract claims against General Electric Company arising from construction of the Susquehanna station. In accordance with approval of the settlement by the PUC, the Company began on April 1, 1992 to return the settlement proceeds to retail customers through the SBRCA at the rate of $11 million per year for five years. In addition, the proceeds from the settlement applicable to wholesale and bulk power customers are being credited to those customers.

The SBRCA reduced revenues from retail customers by about $39.1 million in 1992 and $16.7 million in 1991. The reductions in revenues due to the SBRCA do not adversely affect the Company's net income.

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 were 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, and the Company is recovering the increased taxes applicable to retail customers through application of the STAS. In August 1991, the Company deferred approximately $21.4 million of the increased taxes which represented the retroactive portion of the increased taxes, and the amount deferred was amortized to expense and recovered through application of the 1991-92 STAS. The Company expects that the STAS will be rolled into base rates on April 1, 1993. 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.

In December 1991, the FERC accepted a settlement agreement between the Company and its wholesale customers with respect to a $4.1 million base rate increase for those customers that the FERC permitted to become effective May 19, 1991. Under the terms of the settlement agreement, the Company agreed not to file any wholesale base rate requests that would propose an effective date before August 1, 1994.

6. Rate Phase-in Plan

Consistent with PUC and FERC rate orders, the annual depreciation for property placed in service at the Susquehanna station prior to January 1, 1989 was lower through 1991 than the amount that would have been recorded using straight-line depreciation. The amount of depreciation recorded increases each year through 1998 when the cumulative amount of depreciation recorded will equal the amount that would have been recorded using straight-line depreciation. The cumulative difference between the amount of depreciation recorded for Susquehanna and the amount that would have been recorded using straight-line depreciation is shown as deferred depreciation on the Consolidated Balance Sheet. The annual difference is shown as deferred or amortized depreciation on the Consolidated Statement of Income.

7. 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, 1992. 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.

8. 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 market value of securities

held and accrued income in the trust fund at December 31, 1992 aggregated approximately $69.1 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.

9. 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 Baltimore Gas and Electric (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 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 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 deliveries of energy from Martins Creek, the revenue received for deliveries of output from non-utility generating companies and the foregone PJM interchange savings that were not realized when interchange sales are reduced because of reservation agreements.

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 are made through negotiated prices for various periods of time. The Company includes, as a credit to the ECR, the foregone PJM 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 $35.0 million in 1992, $35.4 million in 1991 and $32.3 million in 1990. For information relating to proceedings pending before the PUC with respect to capacity-related sales, see Note 5.

10. Taxes

In August 1991, Pennsylvania enacted legislation that increased the Company's state income and other taxes retroactive to January 1, 1991. See Note 5 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 $552 million at December 31, 1992. The Company would expect to recover through electric revenues the taxes when due in future years.

In January 1993, the Company adopted SFAS 109, "Accounting for Income Taxes." SFAS 109 establishes new accounting rules that change the manner in which income tax expense is determined for accounting purposes. Prior accounting rules utilized a deferred method, while SFAS 109 utilizes a liability method under which deferred tax liabilities are recorded and adjusted for the effect of a change in tax law or rates.

In connection with the adoption of SFAS 109, the Company recorded in January 1993 an increase of approximately $1.1 billion in its deferred tax liability for tax benefits previously flowed through to customers and for other temporary differences. The increased tax liability was offset by a corresponding asset representing the future revenue expected through the ratemaking process to pay for the taxes based on the established regulatory practice and legislative history in Pennsylvania permitting recovery of actual taxes payable.

Details of the components of income tax expense and a reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations for accounting purposes are as follows (thousands of dollars):

	1992	1991	1990
Income Tax Expense			
Included in operating expenses			
Provision—Federal	$144,546	$114,904	$ 86,950
State	64,648	49,534	30,564
	209,194	164,438	117,514
Deferred—Federal	30,654	51,547	68,593
State	2,521	225	310
	33,175	51,772	68,903
Investment tax credit, net—Federal	(14,029)	1,156	9,884
	228,340	217,366	196,301
Included in other income and deductions			
Provision (credit)—Federal	676	(126)	(4,461)
State	483	33	(435)
	1,159	(93)	(4,896)
Deferred—Federal	(441)	(640)	2,673
State	(396)	(170)	49
	(837)	(810)	2,722
	322	(903)	(2,174)
Total income tax expense—Federal	161,406	166,841	163,639
State	67,256	49,622	30,488
	$228,662	$216,463	$194,127
Detail of deferred taxes in operating expenses			
Tax depreciation	$ 38,026	$ 72,113	$ 93,367
Reacquired debt costs	5,405	(1,938)	3,672
Unbilled revenues			(8,142)
Other	(10,256)	(18,403)	(19,994)
	$ 33,175	$ 51,772	$ 68,903
Reconciliation of Income Tax Expense			
Indicated federal income tax on pretax income at statutory tax rate (34%)	$195,631	$192,058	$182,931
Increase (decrease) due to:			
State income taxes	44,575	34,319	20,970
Depreciation differences not normalized	6,805	9,080	12,220
Amortization of investment tax credit	(14,029)	(15,048)	(14,261)
AFUDC (Note 1)	(2,302)	(1,007)	(1,194)
Other	(2,018)	(2,939)	(6,539)
	33,031	24,405	11,196
Total income tax expense	$228,662	$216,463	$194,127
Effective income tax rate	39.7%	38.3%	36.1%

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

	1992	1991	1990
Taxes, Other Than Income			
State gross receipts	$ 94,926	$ 91,504	$ 88,304
State utility realty	48,511	43,432	34,115
State capital stock	37,279	32,579	24,875
Social security and other	24,602	22,911	22,940
	$205,318	$190,426	$170,234

11. Financial Instruments

The carrying amount and the estimated fair value of the Company's financial instruments are as follows (thousands of dollars):

	December 31, 1992	
	Carrying Amount	Fair Value
Assets		
Nuclear plant decommissioning trust fund (a)	$ 65,159	$ 69,104
Financial investments (b)	121,500	124,203
Other investments (a)	33,657	33,638
Cash and cash equivalents (c)	15,110	15,110
Marketable debt securities and other assets included in other current assets (a)	16,842	16,862
Liabilities		
Preferred stock with sinking fund requirements (d)	325,600	334,090
Long-term debt (d)	2,627,159	2,891,285
Commercial paper and bank loans (c)	159,348	159,348
Taxes and interest accrued, dividends payable and other liabilities included in other current liabilities (c)	222,338	222,338
Accrued nuclear assessment (c)	39,600	39,600

(a) The fair value generally is based on established market prices. For a minor portion, the fair value approximates the carrying amount.

(b) The fair value is based on established market prices. For venture capital investments included in financial investments, fair value is determined in good faith by management of the venture capital entity.

(c) The fair value approximates the carrying amount.

(d) The fair value is based on quoted market prices for the security or similar securities where available and estimates based on current rates offered to the Company where quoted market prices are not available.

Financial investments consist of the following (thousands of dollars):

	December 31	
	1992	1991
Marketable equity securities	$ 11,320	$ 9,192
Marketable debt securities	78,942	63,155
Financial limited partnerships	39,256	35,069
Venture capital investments	6,393	6,535
	135,911	113,951
Less marketable debt securities included in other current assets (at the lower of amortized cost or market value)	14,411	
Total	$121,500	$113,951

Marketable equity securities at December 31, 1992 and 1991 are stated at the lower of aggregate cost or market. The market value of marketable equity securities was $11,546,000 at December 31, 1992 and $9,364,000 at December 31, 1991. The market value of marketable debt securities at December 31, 1992 was $80,588,000.

12. Stock Held For Dividend Reinvestment Plan

At December 31, 1992, the Company temporarily held 527,108 shares of common stock which were acquired in the open market. These shares were distributed to participants in the Dividend Reinvestment Plan in January 1993.

13. Leases

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

	December 31	
	1992	1991
Nuclear fuel, net of accumulated amortization (1992, $191,002; 1991, $238,876)	$171,901	$192,596
Vehicles, oil storage tanks and other property, net of accumulated amortization (1992, $93,730; 1991, $83,254)	79,157	79,379
Net property under capital leases	$251,058	$271,975

Capital lease obligations incurred for the acquisition of nuclear fuel and other property were (millions of dollars): 1992, $64.8; 1991, $69.5 and 1990, $54.3.

Nuclear fuel lease payments, which are charged to expense as the fuel is used for the generation of electricity, were (millions of dollars): 1992, $70.4; 1991, $95.5 and 1990, $92.6. 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 $200 million.

Future minimum lease payments under capital leases in effect at December 31, 1992 (excluding nuclear fuel) would aggregate $91.6 million, including $12.5 million in imputed interest. During the five years ending 1997, such payments would decrease from $24.9 million per year to $8.5 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): 1992, $10.5; 1991, $20.5 and 1990, $23.0.

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.

14. Coal-Mining Operations

The Company has ceased 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 closed at the end of June 1991. A second operating mine closed at the end of March 1992, and a third mine, scheduled to close in June 1992, was temporarily idled and then sold in September 1992. In this regard, the PUC, in response to the Company's request, determined that the Company's proposed purchase of coal from the third mine for a period of seven months after the sale of the mine is in the public interest and that the Company will be permitted to recover the idle mine costs and purchased coal costs through the ECR.

The Company purchased coal from certain subsidiaries at prices equal to the cost of mining. These purchases totaled approximately $109 million in 1992, $188 million in 1991 and $184 million in 1990. The cost of coal purchased was included in the energy costs collected from customers. The cost of coal purchased from subsidiaries (particularly coal from the Greenwich mines) had generally been higher than the cost of coal purchased from other sources.

All the coal produced at the now closed Greenwich mines was delivered to the Company's Montour generating 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 at the end of 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 April 1, 1990 through October 31, 1992. For this period, the cost of coal delivered to Montour was $9.6 million more than the standard. The Company expects that the excess of the cost of coal delivered to Montour over the standard will decrease so that at the end of the three-year period the cost of coal delivered to Montour will approximate the standard. Accordingly, no provision has been made at December 31, 1992 for a possible return of costs in excess of the standard to PUC customers through the ECR.

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

The Energy Act imposed a new liability on the Company or its coal-mining subsidiaries for the health care of retired coal miners previously employed by those subsidiaries. This new liability could have an adverse impact on the Company's earnings. (See Note 5.)

15. 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.

A $140 million revolving credit arrangement is 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. Any loans made under this credit arrangement would mature on June 30, 1995 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 November 1992, the Company established an additional credit arrangement with another group of banks in return for the payment of commitment fees. The banks have committed to lend the Company up to $60 million under this credit arrangement at interest rates based upon Eurodollar deposit rates or the prime rate. This credit arrangement matures on October 29, 1993 with provisions to extend every six months. When combined with the Company's existing revolving credit arrangement, this new arrangement produces a total $200 million of lines of credit to provide back-up for the Company's commercial paper and the short-term borrowings of certain subsidiaries. No borrowings were outstanding at December 31, 1992 under these 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, 1992 under this line of credit.

The Company leases its nuclear fuel from a trust funded by sales of commercial paper. The maximum financing capacity of the trust under existing credit arrangements is $200 million.

Commitment fees incurred were (millions of dollars): 1992, $0.4; 1991, $0.4 and 1990, $0.3.

16. Pension Plan and Other Postretirement and Postemployment 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, 1992, the projected benefit obligation of these supplemental plans was approximately $11.1 million.

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

	1992	1991	1990
Service cost-benefits earned during the period	$29,967	$28,188	$26,712
Interest cost	44,203	40,605	36,993
Actual return on plan assets	(95,969)	(182,956)	4,968
Net amortization and deferral	40,251	134,268	(50,227)
Net periodic pension cost	$18,452	$20,105	$18,446

The net periodic pension cost charged to operating expenses was $11.6 million in 1992, $12.6 million in 1991 and $12.1 million in 1990. The balance was charged to construction and other accounts.

The funded status of the Company's Plan was (thousands of dollars):

	December 31 1992	December 31 1991
Fair value of plan assets	$ 877,887	$ 804,210
Actuarial present value of benefit obligations:		
Vested benefits	407,164	358,676
Nonvested benefits	1,119	1,228
Accumulated benefit obligation	408,283	359,904
Effect of projected future compensation	201,594	198,734
Projected benefit obligation	609,877	558,638
Plan assets in excess of projected benefit obligation	268,010	245,572
Unrecognized transition assets (being amortized over 23 years)	(76,836)	(81,356)
Unrecognized prior service cost	36,731	29,392
Unrecognized net gain	(295,543)	(244,225)
Accrued expense	$ (67,638)	$ (50,617)

The weighted average discount rate used in determining the actuarial present value of projected benefit obligations was 7.5% on December 31, 1992 and December 31, 1991. The rate of increase in future compensation used in determining the actuarial present value of projected benefit obligations was 6.2% and 6.4%, respectively, on December 31, 1992 and December 31, 1991. The assumed long-term rate of return on assets used in determining pension cost in 1992 and 1991 was 8.0% and 7.75%, 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 retirement contributions to the UMWA Health and Retirement Funds for 1992, 1991 and 1990 aggregated $2.0 million, $5.4 million and $4.8 million, respectively.

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 1992, 1991 and 1990 was $0.2 million, $0.5 million and $0.6 million, respectively.

Substantially all employees of the Company and its subsidiaries will become eligible for certain health care and life insurance benefits upon retirement. Through December 31, 1992, the Company recognized the cost of these benefits for retired employees when payments were made. Subsidiary mining companies had accrued the estimated payment they expected to make to the UMWA health trust funds for future retiree health care. However, the Energy Act imposed an additional liability of approximately $37 million on the Company or its subsidiary coal-mining companies for health care of retired miners. The Company deferred this charge and intends to file a request with the PUC to recover this cost in its ECR over a five-year period. (See Note 5.) The cost of retiree health and life insurance benefits recognized as expense by the Company and its subsidiaries was approximately (millions of dollars): 1992, $5.5; 1991, $7.2 and 1990, $5.2.

Effective January 1, 1993, the Company adopted SFAS 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions," which establishes new rules 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. The Company's transition obligation on January 1, 1993 amounted to about $174 million and its accrued cost for postretirement benefits other than pensions will be about $25 million in 1993, including amortization of the transition obligation over a 20-year period. This compares to an estimated cash payment of about $8 million for those benefits in 1993. For information relating to recovery of the increased cost of postretirement benefits, see Note 5.

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. Since 1990, all dividends on 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.

In November 1992, the FASB issued SFAS 112, "Employer's Accounting for Postemployment Benefits." SFAS 112 is effective for fiscal years beginning after December 15, 1993 and requires the accrual of the expected cost of providing benefits to former or inactive employees after employment but before retirement. The Company is assessing the statement, but at this time is unable to estimate what impact SFAS 112 will have on its results of operations. The Company intends to adopt SFAS 112 on its effective date.

17. Jointly Owned Facilities

At December 31, 1992, the Company or a subsidiary owned undivided interests in the following facilities (millions of dollars):

	Generating Stations			Merrill Creek
	Susquehanna	Keystone	Conemaugh	Reservoir
Ownership interest	90.00%	12.34%	11.39%	8.37%
Electric utility plant in service	$3,962	$52	$49	
Other property				$21
Accumulated depreciation	492	24	23	4
Construction work in progress	62	1	14	

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.

18. 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. That 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 customers' bills and the annual amortization applicable to wholesale customers is reflected in the base rate increase effective May 1991. (See Note 5.)

The Company has received Internal Revenue Service permission to use this method of accounting for income tax purposes and will include the cost of the spare parts as of January 1, 1991 in taxable income over several years.

19. Commitments and Contingent Liabilities

The Company's construction expenditures are estimated to aggregate $438 million in 1993, $544 million in 1994 and $358 million in 1995, including AFUDC. For discussion pertaining to construction expenditures, see Review of the Company's Financial Condition and Results of Operations under the caption "Financial Condition—Capital Expenditure Requirements" on page 19.

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.

For further discussion pertaining to environmental matters, see Review of the Company's Financial Condition and Results of Operations under the caption "Financial Condition—Clean Air Legislation and Other Environmental Matters" on page 20.

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 $2.6 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, 1992 was about $15.6 million.

Nuclear Regulatory Commission regulations, as amended, 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. The Company's on-site property damage insurance policies for the Susquehanna station conform to these regulations.

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 August 1991, a group of 21 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 (Court) 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. The complaint also alleged that the Company's use of a cash grant program to developers and contractors for the installation of high efficiency heat pumps violated and continued to violate the Racketeer Influenced and Corrupt Organizations Act (RICO).

The complaint requested 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 requested 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 requested a permanent injunction against all activities found to be illegal, including the cash grant program.

In April 1992, a fuel oil dealer in the Company's service area filed a class action complaint against the Company in the Court alleging, as did the August 1991 complaint, that the Company's promotion of electric heat pumps and off-peak thermal storage systems had violated and continued to violate the federal antitrust laws. The complaint did not allege any violation of RICO, but did allege that the Company engaged in a civil conspiracy and unfair competition in violation of Pennsylvania law.

The plaintiff sought to represent as a class all fuel oil dealers in the Company's service area. The complaint requested a permanent injunction against all activities found to be illegal and treble the damages alleged to have been sustained by the class. No specific damage amount was set forth in the complaint. This second antitrust complaint was consolidated with the August 1991 complaint.

In September 1992, the Court granted the Company's motion for summary judgment and dismissed both suits filed against the Company. The Court denied the plaintiffs' request for reconsideration of its decision, and the plaintiffs have appealed the decision to the United States Court of Appeals for the Third Circuit. The Company cannot predict the ultimate outcome of these proceedings.

At December 31, 1992, the Company had guaranteed $15 million of the debt obligations of Safe Harbor. The Company does not expect to fund the guarantee and has concluded that it is impractical to determine the fair value of the guarantee.

Selected Financial and Operating Data

	1992	1991	1990	1989
CONSOLIDATED OPERATIONS				
Income Items—thousands				
Operating revenues (a)	$2,744,122	$2,740,715	$2,637,922	$2,632,915
Operating income	573,431	582,331	590,366	618,850
Net income	346,724	348,414	343,906	353,436
Earnings applicable to common stock	306,229	303,727	297,781	305,018
Balance Sheet Items—thousands (b)				
Electric utility plant in service—net	$6,391,857	$6,296,496	$6,240,608	$6,198,693
Construction work in progress	211,534	183,242	143,084	115,799
Other property, plant and equipment—net	416,113	449,840	510,529	552,150
Total assets	8,191,768	7,934,595	7,735,442	7,598,968
Long-term debt	2,627,159	2,582,233	2,470,596	2,650,276
Preferred and preference stock				
With sinking fund requirements	325,600	364,590	383,690	409,990
Without sinking fund requirements	223,612	231,375	231,375	231,375
Common equity	2,366,939	2,298,010	2,221,759	2,139,338
Short-term debt	159,348	147,170	265,940	95,429
Total capital provided by investors	5,702,658	5,623,378	5,573,360	5,526,408
Financial Ratios				
Return on average common equity—%	13.11	13.42	13.65	14.62
Embedded cost rates (b)				
Long-term debt—%	9.36	9.72	9.69	9.80
Preferred and preference stock—%	7.36	7.51	7.54	7.62
Times interest earned before income taxes	3.18	3.06	2.86	2.78
Ratio of earnings to fixed charges—total enterprise basis (c)	3.15	3.04	2.81	2.69
Depreciation as % of average depreciable property	3.2	3.1	2.9	2.7
Common Stock Data				
Number of shares outstanding—thousands				
Year-end (d)	151,885	151,655	151,298	150,845
Average (d)	151,676	151,382	150,924	150,628
Number of shareowners (b)	129,394	127,272	130,719	132,197
Earnings per share (d)	$ 2.02	$ 2.01	$ 1.97	$ 2.02
Dividends declared per share (d)	$ 1.60	$ 1.55	$ 1.49	$ 1.43
Book value per share (b) (d)	$15.58	$15.15	$14.68	$14.18
Market price per share (b) (d)	$ 27¼	$ 26⅜	$ 21⅞	$ 21½
Dividend payout rate—%	79	77	76	71
Dividend yield—% (e)	6.07	6.69	7.15	7.33
Price earnings ratio (e)	13.05	11.55	10.56	9.63
ELECTRIC OPERATIONS				
Revenue Data				
By class of service—thousands				
Residential	$ 876,531	$ 842,771	$ 800,587	$ 776,673
Commercial	713,406	687,632	647,949	612,762
Industrial	523,367	506,038	503,806	488,691
Other energy sales	85,456	83,630	78,489	80,144
System sales	2,198,760	2,120,071	2,030,831	1,958,270
Contractual sales to other utilities	330,017	322,298	313,207	316,508
PJM interchange power sales (a)	111,602	180,434	217,430	255,245
Total from energy sales billed (a)	2,640,379	2,622,803	2,561,468	2,530,023
Unbilled revenues—net	36,567	47,022	5,043	39,628
Other operating revenues (a)	64,670	68,868	69,725	61,588
Total electric operating revenues (a)	$2,741,616	$2,738,693	$2,636,236	$2,631,239
Average price per kwh billed—cents				
Residential	8.27	8.12	7.92	7.72
Commercial	7.89	7.76	7.59	7.40
Industrial	5.98	5.98	5.78	5.60
Total for ultimate customers	7.48	7.39	7.17	6.97
Total for system sales	7.39	7.30	7.08	6.89

(a) Years prior to 1992 have been restated to reflect interchange power sales being recorded as electric operating revenues and electric energy sales instead of a credit to operating expenses in accordance with a Federal Energy Regulatory Commission order.
(b) At year-end.

1988	1987	1986	1985	1984	1983	1982	1982-1992 % Change
$2,495,640	$2,457,153	$2,480,006	$2,566,288	$2,212,482	$1,991,773	$1,523,653	80.1
605,051	590,637	597,529	536,115	418,689	300,563	236,430	142.5
332,042	302,461	300,108	290,613	318,903	296,011	278,886	24.3
279,865	248,035	231,051	199,327	226,758	210,173	210,572	45.4
$6,056,723	$5,970,000	$5,815,838	$5,776,687	$3,856,738	$3,842,826	$2,107,651	203.3
177,333	141,960	224,426	161,684	2,020,780	1,730,223	2,923,744	(92.8)
607,528	655,254	691,820	699,448	733,002	670,239	582,740	(28.6)
7,524,648	7,457,346	7,413,105	7,255,918	7,231,058	6,744,180	6,152,976	33.1
2,626,784	2,587,500	2,849,972	2,664,564	2,674,036	2,477,700	2,417,244	8.7
438,290	495,590	475,239	691,010	738,027	714,830	621,634	(47.6)
231,375	231,375	231,375	231,375	231,375	231,375	231,375	(3.4)
2,049,831	1,969,971	1,915,649	1,905,700	1,896,987	1,767,949	1,643,695	44.0
201,652	298,321	243,588	247,260	278,652	351,194	324,664	(50.9)
5,547,932	5,582,757	5,715,823	5,739,909	5,819,077	5,543,048	5,238,612	8.9
13.86	12.78	12.11	10.42	12.30	12.29	13.60	(3.6)
10.15	10.31	10.53	11.23	11.11	10.98	10.80	(13.3)
7.66	7.77	8.33	10.02	9.94	9.66	9.41	(21.8)
2.65	2.62	2.69	2.28	2.24	2.20	1.94	63.9
2.57	2.53	2.58	2.19	2.06	2.05	1.81	74.0
2.6	2.5	2.3	2.3	2.7	2.9	3.4	(5.9)
150,497	149,945	149,026	149,026	149,026	140,670	132,922	14.3
150,141	149,289	149,026	149,026	145,534	137,284	125,617	20.7
137,450	141,843	147,611	151,025	162,903	169,142	169,127	(23.5)
$ 1.86	$ 1.66	$ 1.55	$ 1.34	$ 1.56	$ 1.53	$ 1.68	20.2
$ 1.38	$ 1.34	$ 1.29	$ 1.28	$ 1.24	$ 1.20	$ 1.16	37.9
$13.62	$13.13	$12.85	$12.79	$12.73	$12.56	$12.37	25.9
$ 18⅛	$ 16½	$ 18¼	$ 14⅜	$ 12⅝	$ 10⅜	$ 10½	159.5
74	81	83	96	80	79	70	12.9
7.70	7.37	7.30	9.81	11.00	10.48	11.95	(49.2)
9.61	10.95	11.39	9.76	7.24	7.48	5.79	125.4
$ 768,051	$ 737,066	$ 714,753	$ 634,669	$ 591,922	$ 529,911	$ 503,557	74.1
592,023	572,623	557,216	492,686	441,651	386,617	363,233	96.4
495,968	492,491	473,488	438,427	411,533	367,950	347,726	50.5
75,507	74,228	74,047	64,223	59,526	47,275	47,731	79.0
1,931,549	1,876,408	1,819,504	1,630,005	1,504,632	1,331,753	1,262,247	74.2
277,971	282,799	299,663	255,875	52,724	39,012	11,775	2702.7
268,526	359,449	282,259	556,926	623,328	720,462	290,499	(61.6)
2,478,046	2,518,656	2,401,426	2,442,806	2,180,684	2,091,227	1,564,521	68.8
(18,187)	(84,888)	52,344	78,545	(9,725)	(119,539)	(61,652)	159.3
34,073	21,900	25,033	38,163	33,657	13,694	12,708	408.9
$2,493,932	$2,455,668	$2,478,803	$2,559,514	$2,204,616	$1,985,382	$1,515,577	80.9
7.79	8.05	8.15	7.60	7.00	6.51	6.26	32.1
7.46	7.68	7.78	7.32	6.77	6.32	6.11	29.1
5.64	5.84	5.93	5.55	5.07	4.83	4.75	25.9
7.02	7.23	7.34	6.85	6.30	5.91	5.74	30.3
6.91	7.12	7.25	6.77	6.23	5.83	5.66	30.6

(c) 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.
(d) Years 1982 through 1991 have been adjusted for the two-for-one split of the Company's common stock effective April 22, 1992.
(e) Based on average of month-end market prices.

Selected Financial and Operating Data

ELECTRIC OPERATIONS (Continued)	1992	1991	1990	1989
Sales Data				
Customers (a) (b)	1,186,682	1,173,680	1,161,232	1,143,593
Average annual residential kwh use	10,207	10,101	9,947	10,064
Electric energy sales billed—millions of kwh				
Residential	10,604	10,385	10,103	10,061
Commercial	9,039	8,861	8,538	8,285
Industrial	8,746	8,456	8,716	8,723
Other	1,366	1,334	1,315	1,333
System sales	29,755	29,036	28,672	28,402
Contractual sales to other utilities	7,327	7,183	7,028	6,956
PJM interchange power sales (a)	5,160	7,553	8,971	9,234
Total electric energy sales billed (a)	42,242	43,772	44,671	44,592
Sources of energy sold—millions of kwh				
Generated				
Coal-fired steam stations	25,153	24,805	26,409	27,104
Nuclear steam station (c)	12,216	14,271	13,254	11,916
Oil-fired steam station	1,057	1,939	1,442	3,817
Combustion turbines and diesels (oil)	10	15	33	107
Hydroelectric stations	750	521	804	714
	39,186	41,551	41,942	43,658
Power purchases	5,347	4,542	4,634	3,586
Company use, line losses and other	(2,291)	(2,321)	(1,905)	(2,652)
Total electric energy sales billed (a)	42,242	43,772	44,671	44,592
Generation Data				
Net system capacity—thousands of kw (b) (d)	7,802	7,797	7,912	7,864
Winter peak demand—thousands of kw (e)	6,130	5,974	5,661	6,000
Generation by fuel source—%				
Coal	64.2	59.7	63.0	62.1
Nuclear (c)	31.2	34.3	31.6	27.3
Oil	2.7	4.7	3.5	9.0
Hydroelectric	1.9	1.3	1.9	1.6
Steam station availability—%				
Coal-fired	81.7	78.1	82.5	81.1
Nuclear (c)	73.7	86.3	80.2	72.1
Oil-fired	94.8	86.7	82.8	76.3
Steam station capacity factor—%				
Coal-fired	68.8	68.2	72.7	74.6
Nuclear (c)	73.0	85.8	80.1	72.0
Oil-fired	7.3	13.5	10.0	26.6
Fuel Cost Data				
Cost per kwh generated—cents				
Coal-fired steam stations	1.74	1.75	1.66	1.61
Nuclear steam station (c)	0.54	0.57	0.59	0.58
Oil-fired steam station	3.73	3.58	4.18	3.03
Combustion turbines and diesels (oil)	7.50	7.52	7.68	5.95
Average	1.42	1.43	1.41	1.46
Cost of fossil fuel received at steam stations				
Coal—per ton	$41.44	$42.87	$40.64	$39.04
Residual oil—per barrel	$16.56	$18.76	$21.52	$17.71
Capitalization Ratios—% (b)				
Long-term debt	46.7	46.3	44.5	48.3
Short-term debt	1.2	1.3	3.8	0.2
Preferred and preference stock	9.8	10.8	11.2	11.9
Common equity	42.3	41.6	40.5	39.6
Times Interest Earned Before Income Taxes	3.21	3.11	2.93	2.88
Employees (b)	7,981	8,144	8,149	8,108

(a) Years prior to 1992 have been restated to reflect interchange power sales being recorded as electric operating revenues and electric energy sales instead of a credit to operating expenses in accordance with a Federal Energy Regulatory Commission order.
(b) At 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.

1988	1987	1986	1985	1984	1983	1982	1982-1992 % Change
1,122,633	1,097,522	1,073,151	1,055,550	1,039,385	1,026,149	1,013,626	17.1
10,059	9,565	9,344	9,034	9,282	9,051	9,039	12.9
9,856	9,157	8,771	8,354	8,454	8,138	8,045	31.8
7,932	7,457	7,159	6,728	6,527	6,119	5,946	52.0
8,799	8,438	7,986	7,907	8,117	7,623	7,324	19.4
1,360	1,285	1,170	1,082	1,043	968	982	39.1
27,947	26,337	25,086	24,071	24,141	22,848	22,297	33.4
6,268	6,201	5,602	4,850	1,002	845	348	2005.5
10,855	12,682	11,018	15,433	14,732	15,769	6,552	(21.2)
45,070	45,220	41,706	44,354	39,875	39,462	29,197	44.7
26,607	26,465	25,151	26,237	26,695	26,885	25,477	(1.3)
12,867	13,285	10,151	11,534	6,295	4,509	293	4069.3
4,186	4,095	5,453	4,316	4,121	5,581	3,186	(66.8)
57	28	17	18	32	45	13	(23.1)
573	689	739	612	747	700	612	22.5
44,290	44,562	41,511	42,717	37,890	37,720	29,581	32.5
3,027	2,707	2,032	3,716	3,765	3,880	1,414	278.1
(2,247)	(2,049)	(1,837)	(2,079)	(1,780)	(2,138)	(1,798)	(27.4)
45,070	45,220	41,706	44,354	39,875	39,462	29,197	44.7
7,479	7,499	7,519	7,513	7,484	7,494	6,546	19.2
5,566	5,591	5,154	4,981	5,519	4,869	4,489	36.6
60.1	59.4	60.6	61.4	70.4	71.3	86.1	(25.4)
29.0	29.8	24.4	27.0	16.6	11.9	1.0	3020.0
9.6	9.3	13.2	10.2	11.0	14.9	10.8	(75.0)
1.3	1.5	1.8	1.4	2.0	1.9	2.1	(9.5)
81.3	83.3	78.8	78.6	75.2	78.8	79.1	3.3
77.7	80.4	61.7	70.7	66.7	67.7		
90.1	84.7	84.7	87.2	68.0	75.8	80.4	17.9
73.1	72.9	69.3	72.3	73.3	74.0	70.2	(2.0)
77.7	80.5	61.3	70.5	65.7	67.5		
29.1	28.5	38.0	30.0	28.6	38.8	22.2	(67.1)
1.64	1.63	1.67	1.78	1.75	1.68	1.77	(1.7)
0.56	0.56	0.58	0.61	0.54	0.66		
2.76	3.23	2.96	5.02	5.31	5.23	5.62	(33.6)
5.89	6.51	7.81	9.31	9.82	10.21	10.74	(30.2)
1.44	1.46	1.57	1.81	1.98	2.15	2.20	(35.5)
$39.52	$39.30	$40.17	$42.00	$42.75	$39.37	$42.32	(2.1)
$15.95	$18.51	$16.83	$28.42	$31.32	$29.79	$30.94	(46.5)
47.9	46.9	50.4	47.1	46.7	45.1	46.7	0.0
1.7	3.1	2.1	1.7	1.9	3.6	3.2	(62.5)
12.4	13.5	12.8	16.7	17.4	17.9	17.1	(42.7)
38.0	36.5	34.7	34.5	34.0	33.4	33.0	28.2
2.73	2.71	2.80	2.37	2.35	2.29	2.05	56.6
8,306	8,301	8,339	8,433	8,386	8,160	8,208	(2.8)

(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.

Shareowner and Investor Information

The 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. 18101-1179

Toll-Free Phone Number: For information regarding your investor account, or other inquiries, call toll-free: 800-345-3085.

Annual Meeting: The annual meeting of shareowners is held each year on the fourth Wednesday of April. The 1993 annual meeting will be held at 1:30 p.m. on Wednesday, April 28, 1993, at the Harrisburg Marriott, 4650 Lindle Road, Harrisburg, 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 that includes this report. This material was mailed beginning March 15, 1993, to all shareowners of record as of March 10, 1993.

Dividends: For 1993, the dates the declaration of dividends is considered by the board, or its executive committee are: February 24, May 26, August 25 and November 24, for payment on April 1, July 1 and October 1, 1993, and January 1, 1994, 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 1993 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
Corporate Trust Operations
55 Exchange Place—Basement "A"
New York, New York 10260-0023

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)			
1992				
Operating revenues	$756,834	$645,093	$655,912	$686,283
Operating income	170,505	128,162	128,061	146,703
Net income	113,025	69,790	72,900	91,009
Earnings applicable to common stock	102,603	59,686	62,825	81,115
Earnings per common share (b) (c)	0.68	0.39	0.41	0.53
Dividends declared per common share (c) (d)	0.40	0.40	0.40	0.40
Price per common share (c)				
High	26½	26⅛	28¼	27⅞
Low	23⅞	24⅛	25¾	25⅞
1991				
Operating revenues (e)	$721,547	$655,071	$671,199	$692,898
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 (b) (c)	0.65	0.40	0.46	0.49
Dividends declared per common share (c) (d)	0.3875	0.3875	0.3875	0.3875
Price per common share (c)				
High	22½	23⅛	24	26⅜
Low	20⅞	21⅜	21¾	23⅜

(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) 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.

(c) Earnings, dividends declared and price per common share for 1991 and the quarter ending March 31, 1992 have been adjusted for the two-for-one stock split effective April 22, 1992.

(d) The Company has paid quarterly cash dividends on its common stock in every year since 1946. The dividends paid per share in 1992 and 1991 were $1.5875 and $1.535, respectively. The most recent regular quarterly dividend paid by the Company was 40 cents per share (equivalent to $1.60 per annum) paid January 1, 1993. Future dividends will be dependent upon future earnings, financial requirements and other factors.

(e) Operating revenues for 1991 have been restated to reflect the reclassification of interchange power sales from a credit to operating expenses to operating revenues.

OFFICERS

WILLIAM F. HECHT 49 (28), *Chairman, President and Chief Executive Officer*
FRANCIS A. LONG 52 (29), *Executive Vice President and Chief Operating Officer*
CHARLES E. RUSSOLI 59 (37), *Executive Vice President and Chief Financial Officer*
ROBERT G. BYRAM 47 (16), *Senior Vice President-System Power and Engineering*
GENNARO D. CALIENDO 52 (24), *Senior Vice President, General Counsel and Secretary*
HAROLD W. KEISER 49 (12), *Senior Vice President-Nuclear*
JOSEPH C. KRUM 55 (33), *Senior Vice President-Division Operations*

LINDA CURRY BARTHOLOMEW 44 (22), *Vice President-Public Affairs*
JOHN R. BIGGAR 48 (23), *Vice President-Finance*
STEVEN H. CANTONE 49 (13), *Vice President-Northeast Division*
JOHN M. CHAPPELEAR 54 (14), *Vice President-Investments and Pensions*
ROBERT S. GOMBOS 49 (27), *Vice President-Human Resource & Development*
RONALD E. HILL 50 (28), *Vice President and Comptroller*
JOHN P. KIERZKOWSKI 53 (21), *Vice President and Treasurer*
GRAYSON E. McNAIR 52 (30), *Vice President-Lehigh Division*
JOHN R. MENICHINI 45 (24), *Vice President-Harrisburg Division*
CLAIR W. NOLL 59 (32), *Vice President-Information Services*
EDWARD F. REIS 62 (36), *Vice President-Corporate Planning*
JOHN H. SAEGER 54 (32), *Vice President-Lancaster Division*
ROBERT J. SHOVLIN 52 (30), *Vice President-Power Production & Engineering*
JEAN A. SMOLICK 58 (40), *Assistant Secretary*
RAYMOND F. SUHOCKI 47 (19), *Vice President-Susquehanna Division*
HELEN J. WOLFER 64 (45), *Assistant Secretary and Assistant Treasurer*

Numbers indicate age and years of service ( ) as of March 1, 1993.

CORPORATE MANAGEMENT COMMITTEE:

William F. Hecht, chairman; Francis A. Long, Charles E. Russoli, Robert G. Byram, G. D. Caliendo, Harold W. Keiser and Joseph C. Krum, with Edward F. Reis serving as the committee's executive secretary.

BOARD COMMITTEES

Executive Committee: William F. Hecht, chairman; Jeffrey J. Burdge, John T. Kauffman, Norman Robertson and David L. Tressler.

Audit Committee: David L. Tressler, chairman; William J. Flood, Daniel G. Gambet and Ruth Leventhal.

Corporate Responsibility Committee: Daniel G. Gambet, chairman; Stuart Heydt, Clifford L. Jones, Robert Y. Kaufman and Ruth Leventhal.

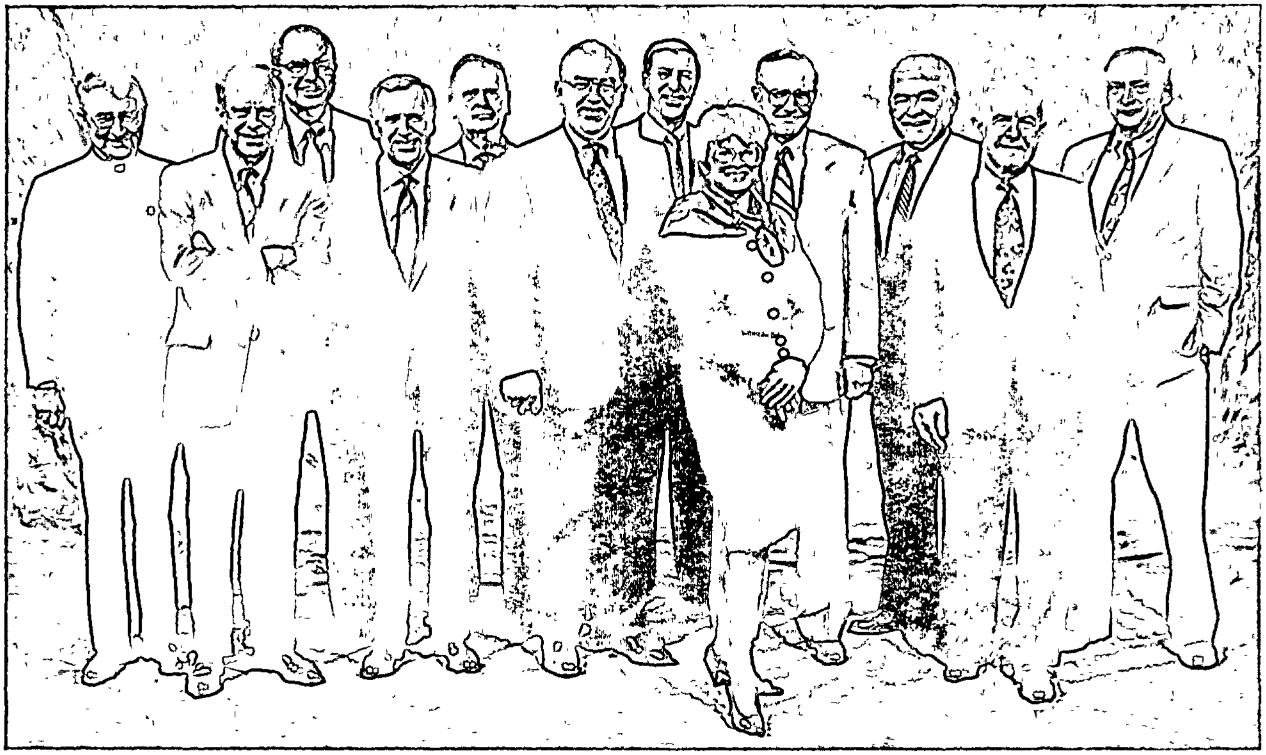
Management Development and Compensation Committee: Edward Donley, chairman; E. Allen Deaver, Elmer D. Gates and Norman Robertson.

Nominating Committee: Jeffrey J. Burdge, chairman; Edward Donley, William J. Flood and Clifford L. Jones.

Nuclear Oversight Committee: Elmer D. Gates, chairman; E. Allen Deaver, Stuart Heydt, John T. Kauffman and Robert Y. Kaufman.

DIRECTORS

Outside Directors as of December 31, 1992



Gambet Deaver Burdge Heydt Flood Gates Jones
Donley Robertson Tressler Leventhal Kaufman

JEFFREY J. BURDGE 70 (10), *Camp Hill, Former Chairman of the Board, Harsco Corporation. Manufacturer of processed and fabricated metals*

E. ALLEN DEAVER 57 (2), *Lancaster, Executive Vice President, Armstrong World Industries Inc. Manufacturer of interior furnishings and specialty products*

EDWARD DONLEY 71 (10), *Allentown, Former Chairman, Air Products and Chemicals Inc. Manufacturer of industrial and commercial gases and chemicals*

WILLIAM J. FLOOD 57 (3), *Hazleton, Secretary-Treasurer, Highway Equipment & Supply Co. Supplier of heavy equipment for highway construction and industry*

REV. DANIEL G. GAMBET, O.S.F.S. 63 (6), *Center Valley, President, Allentown College of St. Francis de Sales*

ELMER D. GATES 63 (3), *Bethlehem, Vice Chairman, Fuller Company. Manufacturer of plants, machinery and equipment for industry*

WILLIAM F. HECHT 49 (2), *Allentown, PP&L Chairman, President and Chief Executive Officer*

STUART HEYDT 53 (2), *Danville, President and Chief Executive Officer, Geisinger Foundation. Parent company of Geisinger Health Care System*

CLIFFORD L. JONES 65 (4), *Mechanicsburg, Former President, Pennsylvania Chamber of Business and Industry*

JOHN T. KAUFFMAN 66 (14), *Allentown, Former PP&L Chairman and Chief Executive Officer*

ROBERT Y. KAUFMAN 68 (*), *Potomac, Md., President, Yogi, Inc. Consultant*

RUTH LEVENTHAL 52 (4), *Middletown, Provost and Dean, Penn State Harrisburg (The Capital College)*

FRANCIS A. LONG 52 (*), *Allentown, PP&L Executive Vice President and Chief Operating Officer*

NORMAN ROBERTSON 65 (23), *Pittsburgh, Former Senior Vice President and Chief Economist, Mellon Bank, N.A.*

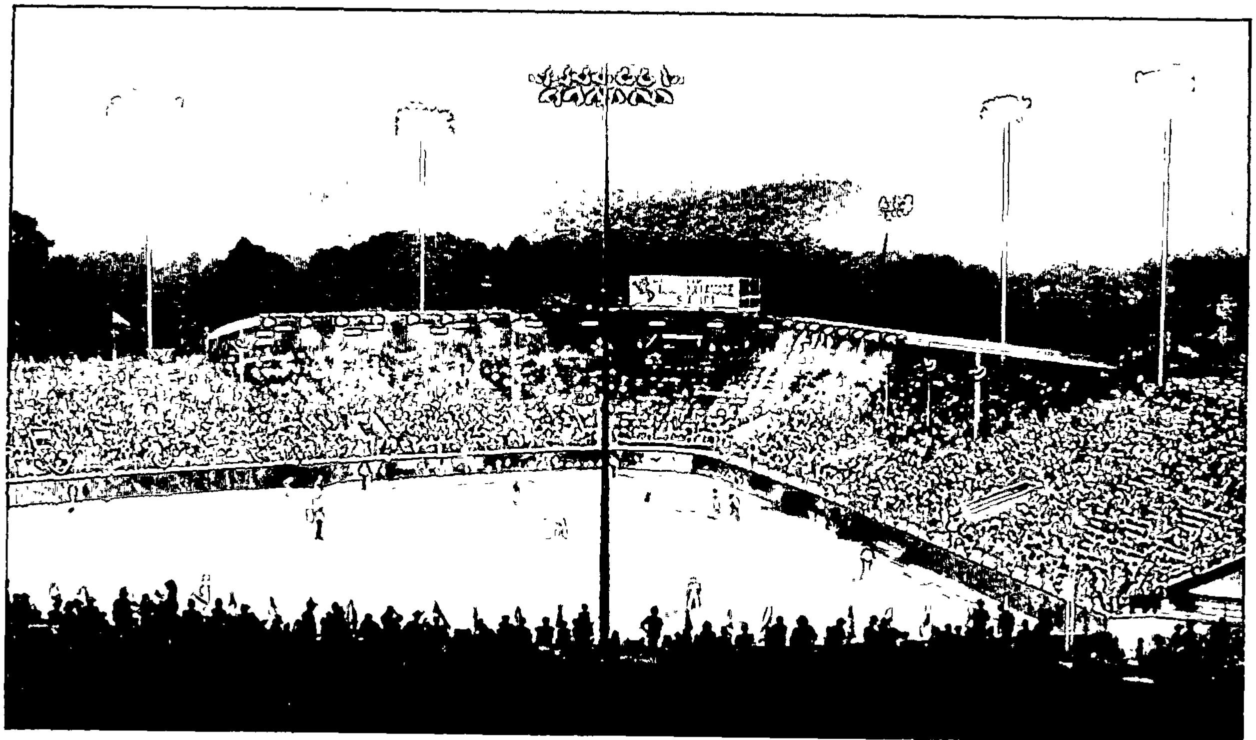
CHARLES E. RUSSOLI 59 (6), *Allentown, PP&L Executive Vice President and Chief Financial Officer*

DAVID L. TRESSLER 56 (11), *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, 1993. *Less than one year as a director.

PP&L Pennsylvania Power & Light Company
Two North Ninth Street • Allentown, PA 18101 • 215/774-5151

Working Toward a Brighter Tomorrow℠



New lights illuminate the first night game in the 53-year history of the Little League Baseball World Series in Williamsport. A crowd of 20,000 was on hand Aug. 24 to watch little leaguers from Hamilton Square, N.J., beat Lake Charles, La., 5-0. PP&L power engineers worked closely with Little League Baseball in the design and construction of the electrical system for the lights, and in the upgrade of the electric service at the stadium complex.

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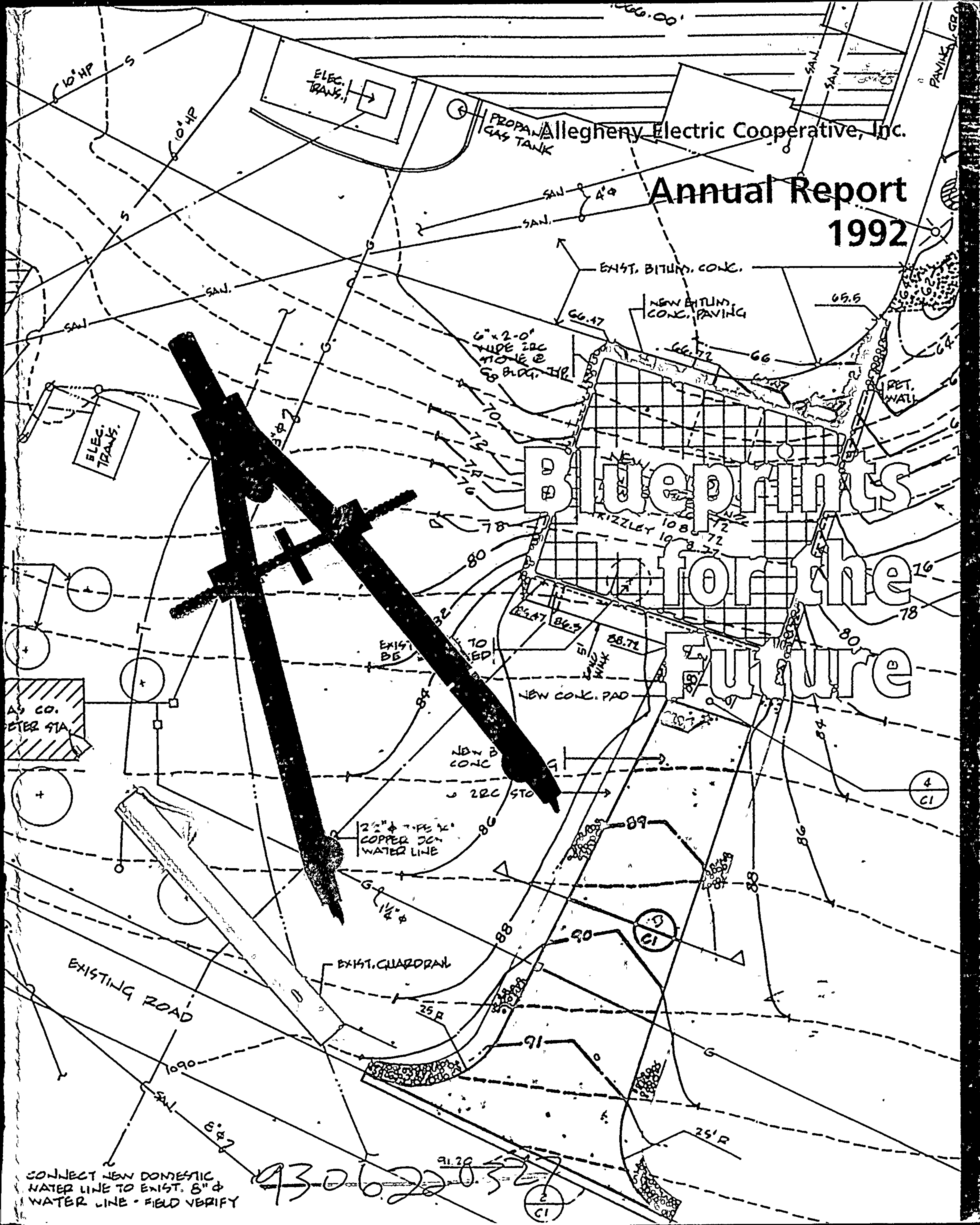
Allegheny Electric Cooperative, Inc.

Annual Report 1992

Blueprints for the Future



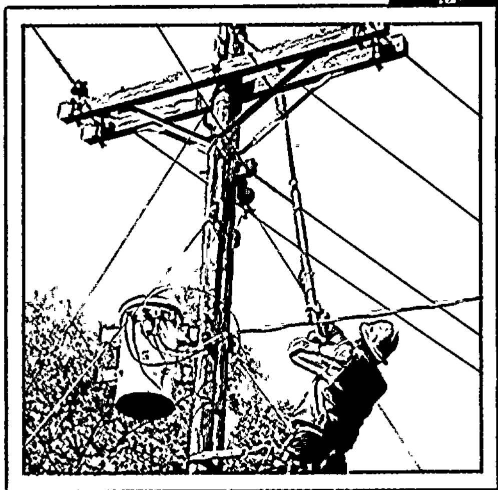
Allegheny Electric Cooperative, Inc. is the wholesale power supplier for the 14 rural electric cooperatives in Pennsylvania and New Jersey. Through them, Allegheny serves more than 600,000 rural residents.

Allegheny is owned and controlled by the 14 distribution cooperatives and its activities are governed by a 14-member board of directors — one director elected from each of its member co-ops. That control, which originates in the rural areas served by the cooperatives, ensures Allegheny's actions will best serve the consumer-members who depend on the co-ops for electricity.

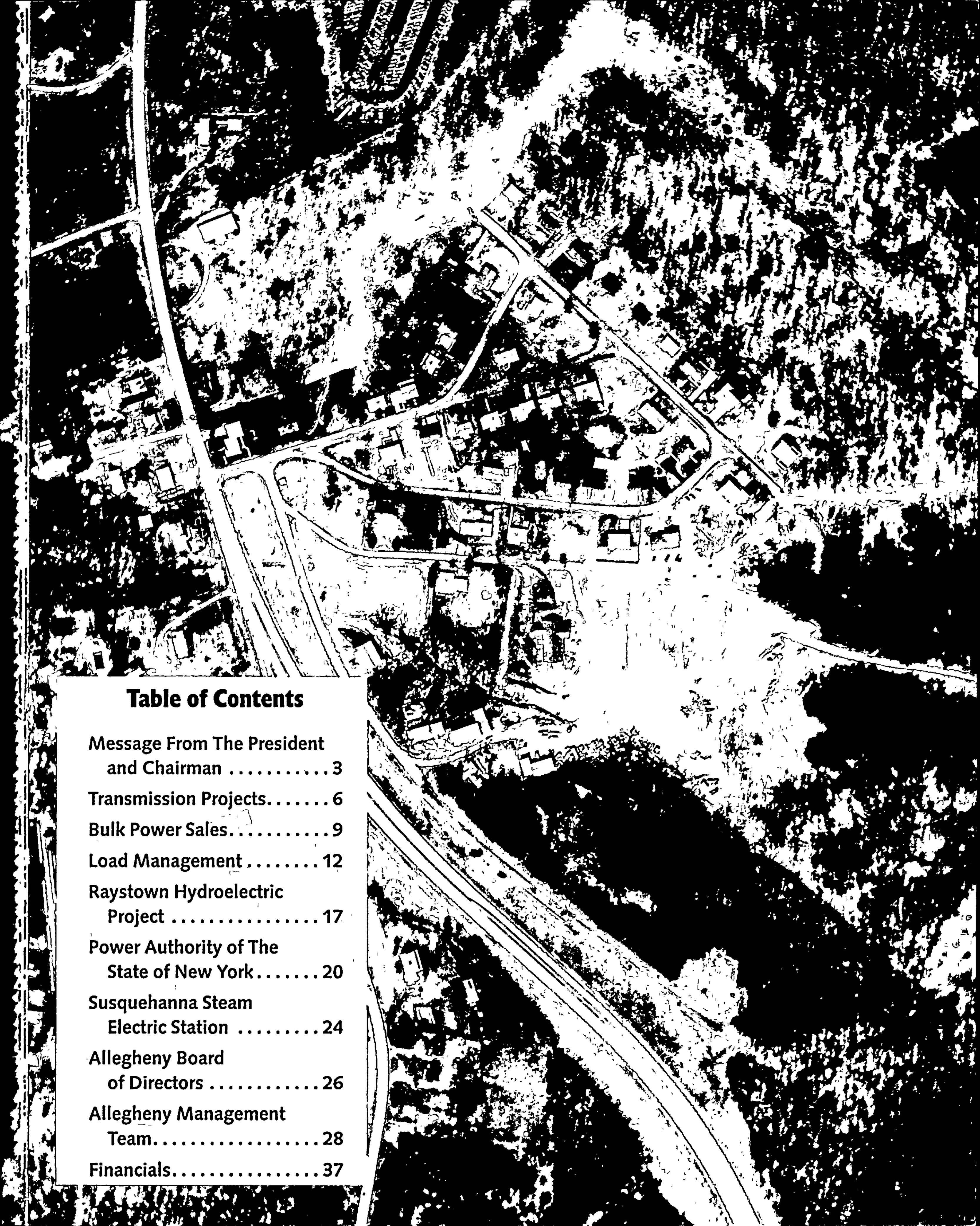
Allegheny's member cooperatives own and maintain about 12.5 percent of the electric distribution lines in Pennsylvania, covering nearly one-third of the state's land area in 41 counties. These lines represent one of the largest non-government investments in rural infrastructure and are an essential component of business and industry.

The history of rural electric cooperatives is one of improving conditions and aiding the expansion of economic possibilities in rural America.

Allegheny Electric Cooperative is proud to continue that tradition by providing a reliable source of electricity at reasonable rates and by using its resources to power the development activities of its rural members.



Allegheny Electric Cooperative, Inc., located in Harrisburg, Pa., supplies wholesale power to its 14 member distribution cooperatives in Pennsylvania and New Jersey. Those cooperatives, in turn, furnish the electricity to light rural homes and power rural development.



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per kilowatt-hour, a 2 percent decrease from 1992 actual rates. Allegheny achieved the decrease — the fourth in the last five years — by taking a number of financial, accounting, litigation and power supply initiatives.

Aggressive marketing of SSES power saved our member cooperatives $4.6 million. Allegheny also repriced approximately $123 million in high-interest Federal Financing Bank loans, providing a net savings of $1.42 million in 1993 and an additional $18 million over the term of the loans. Success in opposing various private power company rate increases for purchased power have also contributed to Allegheny's rate-control efforts.

Allegheny held the line on rates even though its 1993 budgeted tax and government fee burden increased substantially. As budgeted, the Pennsylvania General Assembly raised the state's Public Utility Realty Tax, which increased our tax load by $826,134. An increase in the state's Gross Recipts Tax is expected in 1993, which will force the co-op to pay at least $170,000 more annually for purchased power. Under new federal legislation, nuclear power plants, such as SSES, will be assessed fees to help the U.S. government clean up nuclear enrichment facilities. Allegheny's 1993 assessment for that amounts to approximately $410,000. Without these new and projected levies, the net billed average power cost — or what member cooperatives would pay in 1993 — would have fallen 3.6 percent.

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

We also scored several legislative victories in 1992. The U.S. Congress approved a national energy bill that fundamentally restructures the electric industry. Among the major energy bill provisions important to rural electric cooperatives is a transmission access provision that brings us closer to the wheeling rights Allegheny has long advocated.

Under the bill, the Federal Energy Regulatory Commission will have clear authority to order utilities that own transmission lines to allow other utilities access to those lines for a just and reasonable fee. The measure was a priority for consumer-owned rural electric co-ops facing problems in moving wholesale power they generate or purchase at reasonable rates. The provision will put Allegheny and the nation's other co-ops on a more equal footing with large private power companies.

Another success involved payments consumers receive from utilities (including co-ops) for buying energy-efficient equipment. These now will be made tax free. Previous Internal Revenue Service rulings had found such conservation rebates to constitute taxable income.

We are proud of our achievements and anticipate a bright future that includes using our expertise, influence and standing to do what the cooperatives have always done: help rural residents acquire and retain the benefits, services and opportunities offered by changing technologies and times.

We believe our continued progress toward the organization's goal — providing rural electric cooperative consumer-members with adequate and reliable supplies of reasonably-priced electricity — is a vital component in ensuring rural residents will keep pace in a changing world.

A Message From The Chairman And President

During 1992, Allegheny continued and expanded its efforts to assist its members in augmenting existing businesses and attracting new industries. Aggressive efforts by Allegheny and its member cooperatives over the past few years have resulted in the creation of seven economic development projects in five different cooperative territories. Eight others are in various stages of development.

Fostering economic development is a natural extension of our commitment to the communities and residents we serve. These development activities not only help provide job opportunities, they also stabilize the economic base of rural Pennsylvania and New Jersey and benefit all rural residents.

Our primary task in maintaining and improving the climate for business and industry in our region's rural areas is the delivery of reliable electric power at reasonable rates. Energy — particularly electricity — is the lifeblood of modern economic activity.

We have devised and implemented a strategy aimed specifically at holding the line on rates and I am pleased to report Allegheny Electric Cooperative, Inc. is entering its sixth straight year of rate stability. The rate stability period of 1987–1992 followed nine years when rates climbed at an average of 11.3 percent per year. This rate stability was hard-earned, coming amid significant pressures which could have driven rates much higher.

The challenge Allegheny faced in 1987 and in the following years was how to control rates amid expense burdens. These burdens included construction risk from commitments to our load management and Raystown Hydroelectric projects, Susquehanna Steam Electric Station (SSES) capacity entering our rate base and continuing litigation over declining power allocations from the Power Authority of the State of New York (PASNY). In addition, Allegheny expected substantial increases in purchased power costs from private power companies.

In 1987, Allegheny had only two-thirds of its SSES capacity — 140 out of 210 megawatts — rolled into its rate base. The rest of the capacity was added in increments each year through 1991.

Also, during these years, the Raystown Hydroelectric Project was under construction and Allegheny faced both construction cost overrun and operating risks once the project came on line. Also, litigation over low-cost PASNY power allocations continued and the possibility that we might lose additional capacity from that very affordable source of power remained.

Allegheny absorbed some significant private power company wholesale rate increases during the period. For example, Met-Ed's wholesale rate increased 42 percent during the period and West Penn's increased 33 percent.

Despite those and other rate-driving forces, Allegheny has held rates steady. During the six-year period from 1987 through Allegheny's budgeted rate for 1993, the average net billed power cost for member cooperatives has increased only 1.1 percent per year as compared to the 11.3 percent per year increase for the period from 1978 through 1987.

This is a dramatic improvement — all six years' increases combined are only one-half as much as that experienced in just one of the previous nine years.

In 1993, Allegheny's net billed rate will be 61.24 mills

TRANSMISSION PROJECTS

Allegheny marked another transmission milestone October 15 with the energization of the Bedford North-South transmission project. A new 11.6-mile, 115 kV transmission line connects a Pennsylvania Electric Company (Penelec) substation about three miles north of Bedford, Pa. to a new Allegheny substation about 8.6 miles south of Bedford, adjacent to Route 220.

Allegheny built the line, its third transmission project, to enable one of its member systems, Bedford Rural Electric Cooperative, Inc., to serve a Texas Eastern gas compressor station and improve reliability for co-op members in the south-central portion of the co-op's service area. The Allegheny Board of Directors approved the project at its April 1991 meeting.

The complete project — including planning, permitting, right-of-way acquisition, surveying, design, procurement and construction — took only 19 months. While a project of this magnitude would typically take at least two years, Allegheny successfully expedited many aspects of the line's construction due to the importance of the industrial load.

The completed line joins two other transmission projects built by Allegheny. The first, the 5.5-mile, 69 kV Fairfield-Mill Creek project in Lycoming County, entered service in July 1990. The second, the 7.5-mile, 138 kV Donegal-Seven Springs project, was completed in November 1991.

Allegheny also pushed forward with several other projects during the year. The nine-mile, 46 kV transmission line with 12 kV underbuild, is planned to connect the West Penn Austin delivery point to the site of a new

1992 Allegheny Electric Cooperative, Inc. Annual Report

Economic development. Everyone from President Bill Clinton to local township supervisors and Chambers of Commerce say new jobs, plus growing business and industry, are vital to our future. While everyone agrees on the importance of an expanding job base, few organizations are positioned to assist in making those goals a reality. But the nation's rural electric cooperatives are.

The reasons are simple. Electric cooperatives are an integral part of the communities they serve. They are, in fact, owned by the members of those communities, not by absentee stockholders unaware of local needs. In addition, electric co-ops build and maintain one of the more complex and important components of local infrastructures: the electric lines which provide electricity to power rural business, industries and residential development.

In Pennsylvania, rural electric cooperatives own and maintain about 12.5 percent of the electric utility lines in the Commonwealth, covering nearly one-third of the state's land area in 41 counties.

In rural Pennsylvania and New Jersey, the expertise used to overcome the economic, political and engineering hurdles of supplying reliable, reasonably-priced electricity to the states' rural areas also provides a strong foundation to support rural development efforts.

Allegheny Electric Cooperative, Inc., the wholesale supplier of electricity to the 14 electric cooperatives in Pennsylvania and New Jersey, works hard to maintain a climate conducive to development within its members' service territories.

with annual increases of only 1.1 percent per year, a rate far below that of inflation. In contrast, the region's private power companies have increased their retail rates by an average of 25.17 percent between 1988 and 1992. Those increases ranged from a low of 2.4 percent to a high of 54.2 percent.

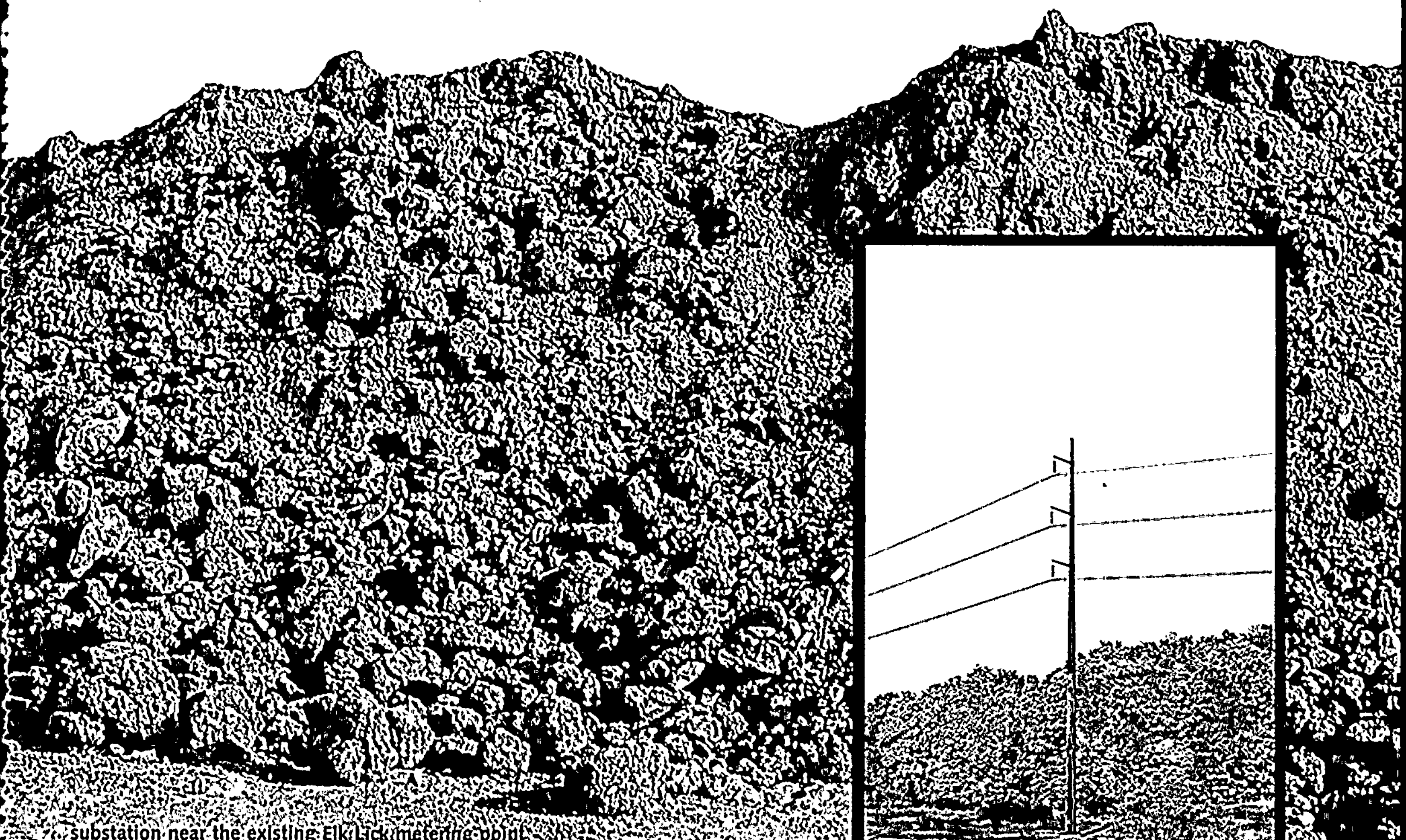
Allegheny's flat rate, however, has not been accompanied by a corresponding lack of system improvements. The cooperative has provided transmission facilities to improve service for existing co-op members and ensure that the infrastructure is sufficient to meet new growth and development in areas served by its member cooperatives.

Allegheny marked its most recent milestone October 15 with the completion of the Bedford North-South transmission project. Allegheny built the 11.6-mile, 115 kilovolt (kV) transmission line, its third transmission project, to enable Bedford Rural Electric Cooperative, Inc. to serve a Texas Eastern gas compressor station. Only 19 months passed between the project's approval by the Allegheny Board of Directors and its successful completion. While a project of this magnitude would typically take at least two years, Allegheny successfully expedited many aspects of the project due to the importance of the new industrial load it serves. When the second unit is added in the summer of 1993 to bring the facility up to a 12 MW demand, this load will be larger by itself than that of two Allegheny member cooperatives.

The completed line joins two other dedicated transmission projects built by Allegheny. The first, the 5.5-mile, 69 kV Fairfield-Mill Creek project in Lycoming County, entered service in July 1990. The second, the 7.5-mile, 138 kV Donegal-Seven Springs project, was completed in November 1991.

As a generation and transmission cooperative, its first obligation is the reliable delivery of power at competitive rates. And it's meeting that obligation.

In the six years between 1987 and 1993, Allegheny has achieved a record of rate stability



substation near the existing Elk Lick metering point in Tri-County Rural Electric Cooperative's territory in Potter County, Pa.

Surveying for the Lobo-Cammal-Fischer 46 kV Project was completed in March with right-of-way acquisition almost complete by years' end. 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. An additional eight miles of 46 kV line from Cammal to the Fisher Mining Company will serve both Fisher's needs and future load requirements in the south-central section of Tri-County's system.

At its June meeting, the Allegheny Board of Directors paved the way for construction of two new transmission projects that will serve increasing load requirements in the Sussex Rural Electric Cooperative area and improve reliability in one section of United Electric Cooperative, Inc.'s service territory. The Sussex project includes construction of about a mile of 34.5 kV transmission line. Allegheny will acquire the necessary mile of line starting at an existing transmission facility to provide service to a distribution substation after completion of construction by Sussex. The United project includes the construction of a nine-mile, 34.5 kV line from private power company facilities to United's new Cooksburg substation. The project will provide an improvement in service and reliability for co-op members who live in the area.

Allegheny developed the Donegal-Seven Springs project to provide a more economical and reliable source of electricity to the rapidly growing Seven Springs area which covers portions of Somerset, Fayette and Westmoreland counties.

The Allegheny Board of Directors has also paved the way for two new transmission projects, one that will serve increasing load requirements in the Sussex Rural Electric Cooperative area and one that will improve reliability in one section of United Electric Cooperative's service territory.

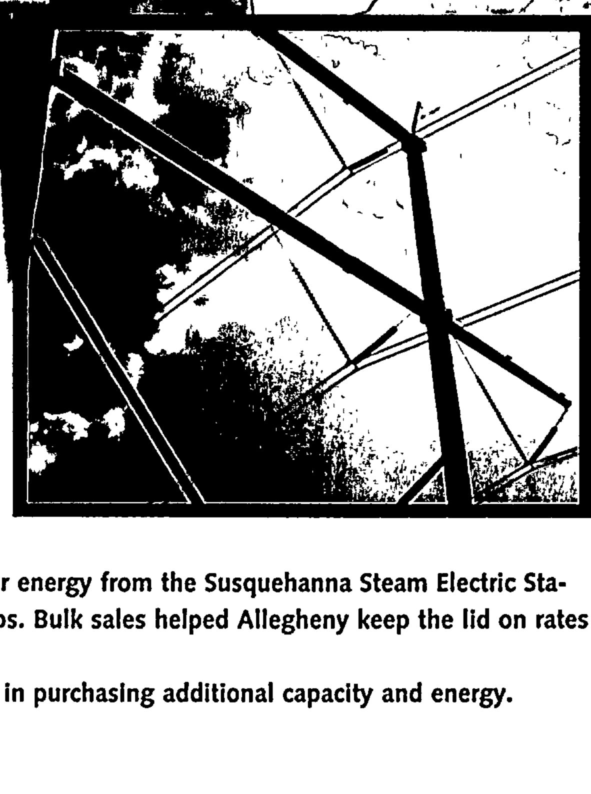
The Sussex project includes construction of about a mile of 34.5 kV transmission line. Allegheny will acquire the necessary mile of line starting at an existing transmission facility to provide service to a distribution substation after completion of construction by Sussex Rural Electric Cooperative.

The United Electric Cooperative project includes the construction of a nine-mile, 34.5 kV line from private power company facilities to United's new Cooksburg substation. The project will provide improvement in service and reliability for co-op members who live in the area.

These projects continue Allegheny's commitment to its members and the communities they serve without sacrificing Allegheny's six-year trend of rate stability.

While the transmission and delivery system is vital to the economic health of rural areas, so is a reliable source of power. As rural areas grow, so does the need for an adequate power supply not dependent on purchases from private power companies or any single source.

BULK POWER SALES



During 1992, Allegheny expanded its presence in the wholesale power market with beneficial sales to Niagara Mohawk Power Corporation in New York state, Public Service Electric & Gas Company of New Jersey, Pennsylvania Electric Company and Pennsylvania Power and Light Company. Savings from these transactions amounted to $4.6 million.

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

Allegheny is continuing its discussions with other companies interested in purchasing additional capacity and energy.

LOAD MANAGEMENT

As part of the nation's continuing efforts to manage, conserve and gain greater efficiency from its energy supply, most utility regulation agencies are now requiring "least-cost planning" by regulated utilities. Many of these regulations contain a strong demand-side management component.

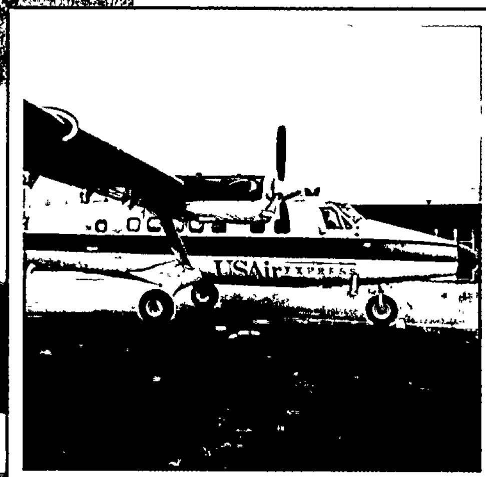
Because Pennsylvania's consumer-owned cooperatives are self-regulated by their consumer-members, they are not under oversight by the Pennsylvania Public Utility Commission. Allegheny does, however, recognize the importance of demand-side management and has taken voluntary actions to implement a systemwide program.

Allegheny and its member cooperatives launched the load management program in late 1986 to reduce peak demand at individual substations. By the end of the 1992 fiscal year, more than 25,000 load-control receivers (which switch off the heating element in water heaters and certain heating appliances during peak hours) had been installed in the homes of volunteer consumer-members. Participating cooperatives reported gross power cost savings of over $2.6 million during the year and a total savings to date of more than $8.9 million in the six years since the program began.

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.

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.

Allegheny has also worked with its wholesale power suppliers and has developed data links which allow the co-op to monitor suppliers' load conditions, as well as conditions on member systems. Those refinements will enhance the ability to control purchased power costs and help Allegheny maintain rate stability for its members. As an example, Allegheny participated in Metropolitan Edison's curtailable load program during the company's high demand period in the summer, producing additional power cost savings.

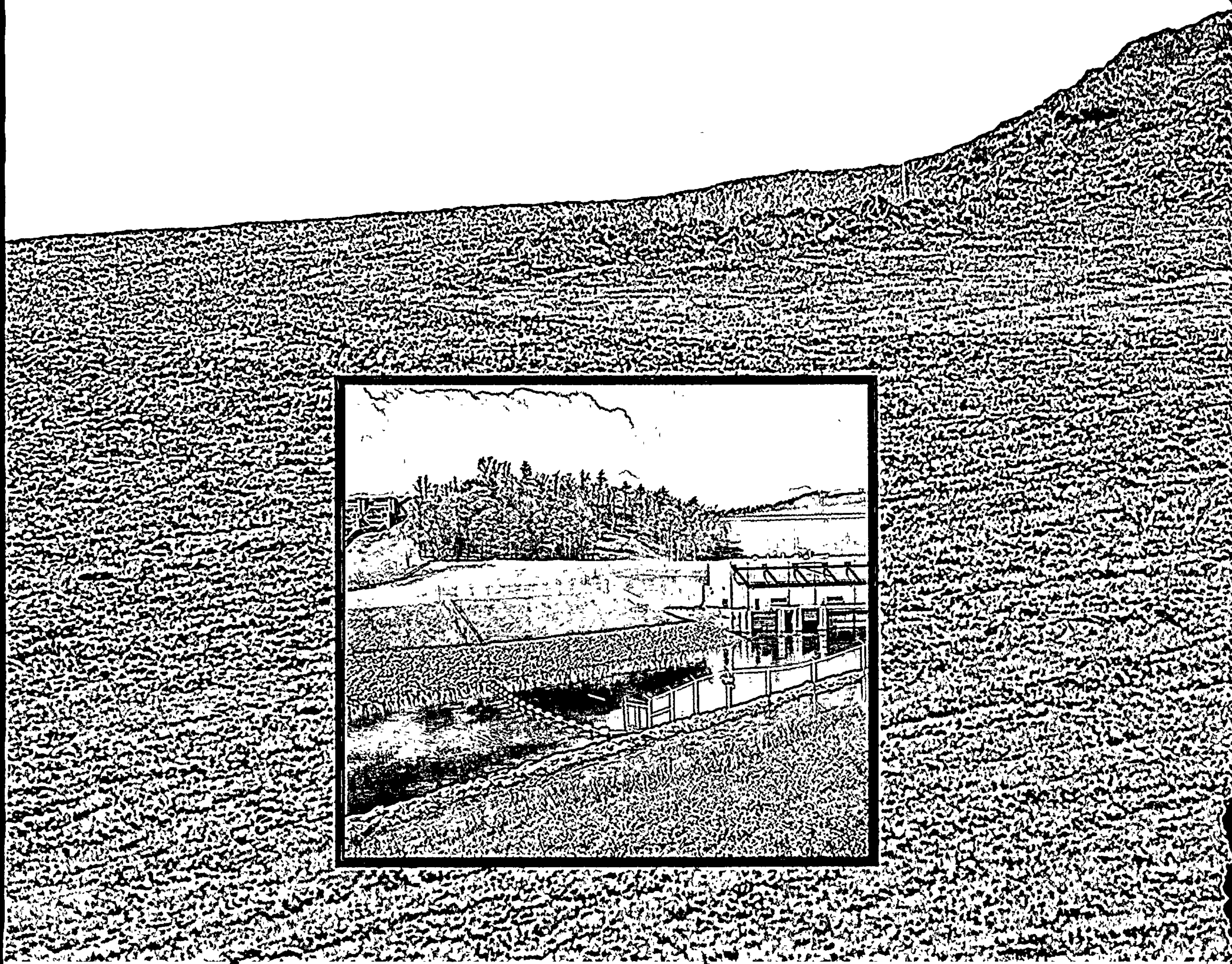


Economic development projects reflect the diversity of a co-op's service area, but are targeted to meet the needs of specific sectors and businesses. Some, like this restaurant at the Dubois-Jefferson County Airport, do double duty. While they create an immediate impact by offering jobs to local residents, they also foster long-term benefits by improving facilities such as airports — required for business expansion. This restaurant "got off the ground" with the help of a $100,000 zero-interest REA loan provided with help from United Electric Cooperative, Inc.

One of rural Pennsylvania's most abundant resources is its forests and the timber they provide. Direct assistance to logging companies combined with support of manufacturers of finished wood products ensures economic and employment growth. This Clarion County logging firm, Beary Logging, received a $100,000 zero-interest REA loan with help from Central Electric Cooperative, Inc. The influx of needed funds helped expand the company's work force and kept log loaders — like this one — moving.

Back in 1966, Allegheny anticipated future needs and began building a framework of diversified power sources. As a preference customer, it began purchasing hydropower generated at the publicly-owned Niagara Power Project from the Power Authority of the State of New York (PASNY). This extremely low-cost hydropower has saved Allegheny more than $219 million compared to the cost of power it would have needed to buy from private utilities.

ing for a distance learning program, funding for a medical link program to improve rural health care, and expansion of the rural and urban teacher forgiveness program.



In 1977, Allegheny continued developing reliable 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 53 percent of Allegheny's energy needs.

Allegheny continued its commitment to low-cost generation with the Raystown Hydroelectric Project, William F. Matson Generating Station which began commercial operation in 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 to its member cooperatives.

Stable rates and reliable power supplies are only part of the cooperative's efforts to attract business and expand opportunities for those living in rural Pennsylvania and New Jersey. In recognition of the unique role played by rural electric cooperatives, the federal government designated them as point agencies in rural development programs contained in the 1990 Farm Bill. The Rural Investment Partnership Program, for example, provides capital for economic development in rural areas.

Allegheny and its sister organization, the Pennsylvania Rural Electric Association (PREA), also support state legislation and initiatives designed to foster growth in rural areas.

Some of the initiatives endorsed by Allegheny and contained in the Pennsylvania state budget include a grant program which provides money to improve rural water supplies, fund-

Rural development loans and grants obtained with the help of rural electric cooperatives provide an economic base for rural communities. They also provide jobs for skilled workers like these mechanics and truck assemblers who are putting the finishing touches on an emergency vehicle at the New Lexington Fire Equipment Company in Somerset County, Pa. The facility opened in 1991 thanks to a $100,000 zero-interest REA loan obtained with help from Somerset Rural Electric Cooperative, Inc.

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 Allegheny supplies to its member cooperatives.

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

Despite high plant availability through the year, unusually low-flow conditions during fiscal 1992 — November 1991 through October 1992 — reduced generation at the Raystown Hydroelectric Project to approximately 63 percent of normal expected generation. The plant produced 53.7 million kilowatt-hours of electricity through the period.

High plant availability of 98.4 percent was recorded, 1.4 percent greater than the 97 percent goal and well above the small hydro industry average of 88 percent. Outages were reduced from 51 in fiscal year 1991 to 45 this year. In terms of cost effectiveness, the plant's operating expenses over the past four years average 3.6 cents per kilowatt-hour.

The Baltimore District of the U.S. Army Corps of Engineers, the Susquehanna River Basin Commission and the State of Maryland last year discontinued a study investigating the reallocation of water from Raystown Lake during extreme drought conditions. The study was examining the feasibility of reallocating existing flood control/conservation water storage at the lake to water supply for purchase by users downstream.

Study sponsors, however, agreed that existing and foreseeable water needs in the Juniata River and the lower Susquehanna River do not warrant storage reallocation at Raystown Lake. During the course of the proceedings, Allegheny worked with the Corps to detail the alternatives and assess the reallocation's impact on the facility's electricity generation.

The teacher forgiveness program, for example, encourages newly-graduated teachers to work in targeted districts — including rural areas — by forgiving all or a portion of the student loans of those who agree to participate.

The need for many of these programs was determined through the activities of the Center for Rural Pennsylvania, a legislative policy and research agency of the state General Assembly. The Center, which PREA helped create through its lobbying efforts and now participates in, determines needs within rural communities and charts the effects policies have on rural state residents.

Allegheny is also sponsoring a study in a four-county area in central Pennsylvania to determine specific business needs within the region. The results of the study will enable its member co-ops to apply resources precisely to gain the maximum possible benefit for the area's industries and residents.

The cooperative also supports use of state development programs like PENNVEST, which provides loans and grants to upgrade small community water and sewer facilities. Programs like this are designed to benefit all rural residents, not just those who belong to rural electric co-ops.

Rural developments efforts also take place on the federal level, too. REA's distance learning and medical link grant program, authorized in the Rural Development Act of 1990, is designed to provide rural schools, hospitals and medical centers with rapid access to more spe-

...ITY OF THE STATE OF NEW Y...

...ural electric cooperatives and legitimate municipal elec- ...stems — within economical transmission distance — have ...first right, or preference, to 50 percent of the electric power produc... the N... Project by the Power Authority of the State of New York (PASNY).

A Jan... contract extended Allegheny's rights to this low-cost hydro power through June 20, ... cludes a clause permitting an extension of service through October 31, 2003.

...tion, successful conclusion in 1991 of a long-standing dispute between Allegheny and ... guarantees the continued availability of an additional 7.7 megawatts of Niagara power for ...e cooperative. Allegheny's total share of PASNY power now stands at 44 megawatts.

The Niagara project produces electricity at a low cost. It is among the least expensive in the U.S. Since Allegheny began purchasing it in 1966, PASNY power has saved the cooperative more than $219 million compared to the cost of purchasing the same amount of electricity from private power companies.

In 1992, Allegheny's PASNY savings amounted to $5.1 million. The extra 7.7 megawatt allocation alone shaves $893,000 annually from Allegheny's purchased power costs, based on current rates which are subject to change by the Federal Energy Regulatory Commission.

cialized training and information through the use of telecommunications, computer networks and other advanced technologies.

To directly assist in rural economic development, Pennsylvania and New Jersey rural electric cooperatives help secure zero-interest loans and grants from REA to finance projects in rural areas. These projects are designed to benefit the entire rural community, not just those persons served by an electric cooperative. The goal is job creation and stimulation of local economies.

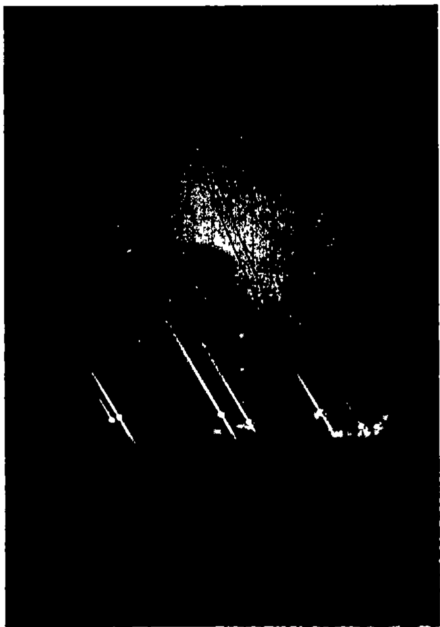
The efforts are paying off. Seven projects in five different rural co-op territories are up and running. Eight others are in various stages of development.

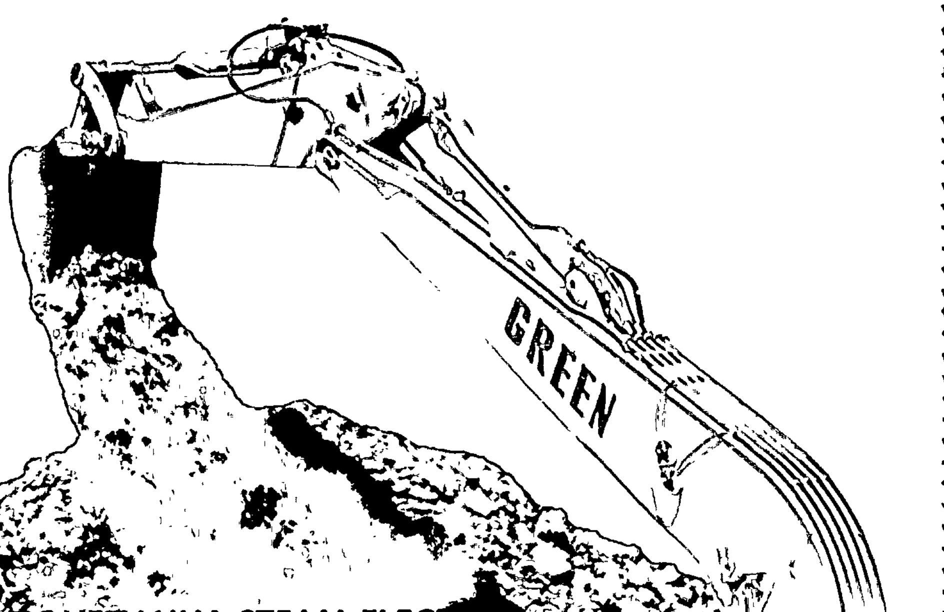
For example, in Jefferson County, Pa., a $100,000 zero-interest REA loan helped finance a $2 million airport terminal restoration. That project does double duty by providing construction and staffing jobs now as well as enhancing the local facilities—in this case, an airport—which will help attract future business and corporate development.

In Clearfield County, Pa. two separate $100,000 zero-interest REA loans helped fund a portion of the start-up costs for the Sawmill Center for the Arts and a custom hardwood furniture manufacturer.

The Sawmill Center strengthens a major rural industry—tourism—while providing an outlet for local artists and crafts people. And, by helping local wood products industries, both the logging and rural manufacturing base is supported.

Harvesting timber is only part of the economic potential offered by Pennsylvania forests. The Timber Line, pictured here, typifies a host of small firms across the state whose activities add value to an already important natural resource. The Timber Line, located in Clearfield County, buys locally-grown hardwood lumber and fashions it into fine custom furniture and cabinetry. With the assistance of a $100,000 zero-interest REA loan provided through United Electric Cooperative, Inc., the firm has grown from a garage-based hobby shared by two couples into an important business employing 12 full-time and six part-time workers.





SUSQUEHANNA STEAM ELECTRIC STATION

Allegheny owns [illegible] percent of the Susquehanna Steam Electric Station (SSES), a 2,100-megawatt, two-unit, nuclear power plant in Luzerne County, Pa. Pennsylvania Power & Light Company (PP&L), a private power company based in Allentown, Pa., owns the remaining 90 percent and operates the boiling water facility.

SSES recorded its highest generation ever for a year in which both SSES units underwent planned refueling and inspection outages. The annual capacity factor for Unit 1 was 68.86 percent. Unit 2 posted a capacity factor of 77.11 percent. When combined, this resulted in a composite capacity factor of 72.99 percent. This figure was well above PP&L's forecasted budget expectations. In comparison, the 1992 average capacity factor for boiling water nuclear power plants in the United States was approximately [illegible]4.6 percent, according to the Utility Data Institute.

In fiscal year 1992, SSES provided 1.35 billion kilowatt-hours of electricity to Allegheny's member distribution cooperatives, which equates to [illegible]8 percent of Allegheny's total system energy requirements at delivery.

SSES continues to collect accolades from both industry and regulatory bodies. At a June meeting, Nuclear Regulatory Commission (NRC) senior managers cited SSES for its high level of safety performance.

In remarks at the meeting, James M. Taylor, NRC executive director for operations, noted that the plant's exemplary record was the result of total involvement by plant management in all phases of operation, dedicated and knowledgeable staff and the overall commitment to safety by those operating the facility. SSES is one of only five nuclear power plants in the nation so recognized.

In addition, the full NRC has again ranked SSES among the best operated plants in the nation. In its Systematic Assessment of Licensee Performance (SALP), the NRC gave SSES the highest possible rating in six of seven evaluation categories — operations, security and safeguards, maintenance/surveillance, emergency preparedness, safety assessment and engineering support.

The evaluation, covering the period from December 1, 1990 through April 18, 1992, ranked SSES ninth among 75 plants nationally and first among 26 boiling water reactors. The plant has never received a rating below Category 2 — the second highest possible — in any SALP evaluation.

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 best, SSES was awarded a 2.

In Clarion County, Pa. a $100,000 zero-interest REA loan assisted a logging business in its expansion.

Another $100,000 zero-interest REA loan helped develop an incubator in Somerset County, Pa. to foster business development — in effect "hatch" new economic growth from fertile ideas. Once those fledgling businesses are sound, they move on to make room in the facility for another new enterprise.

A Somerset County fire truck and equipment manufacturing plant is also successfully operating with the help provided by a $100,000 zero-interest loan. In fact, Blaine Stockton, REA assistant administrator of economic development and technical services, has praised the New Lexington Fire Equipment Company as one of the shining successes of the zero-interest rural development loan program. The firm, which opened in the summer of 1991, was projected to have 20 employees on board after five years. After just 18 months, the company has 41 employees and is still expanding.

In Warren County, Pa. a $1.6 million waste recycling plant recently began operation.

Allegheny and PREA are also helping to obtain a $100,000 zero-interest REA loan to partially fund a $3 million municipal airport expansion project in Bradford County, Pa. In Clarion County, a $77,000 REA grant will help convert an unused bridge into a commercial development. In Sussex County, New Jersey, plans for a tourism expansion project are being discussed.

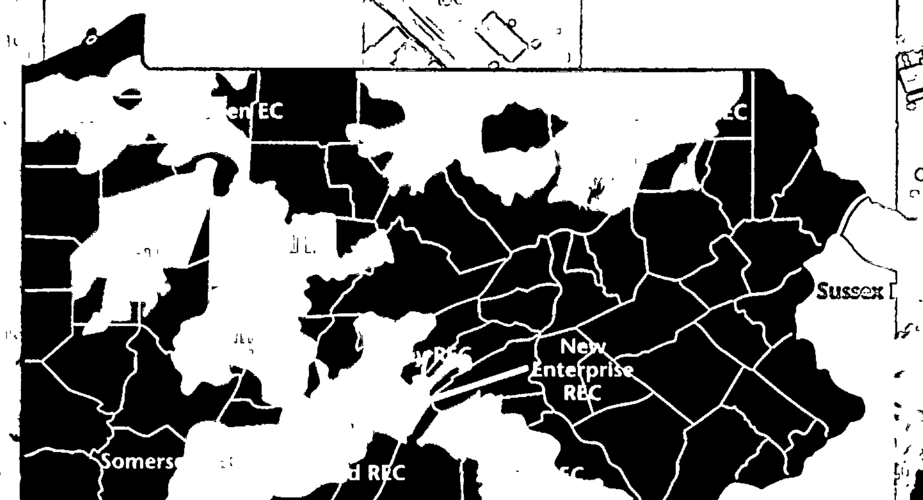
Allegheny Board Of Directors

Dave Turner
Chairman
Warren EC

Alston Teeter
Vice Chairman
Tri-County REC

Lowell Friedline
Secretary
Somerset REC

John Looser
Treasurer
Adams EC



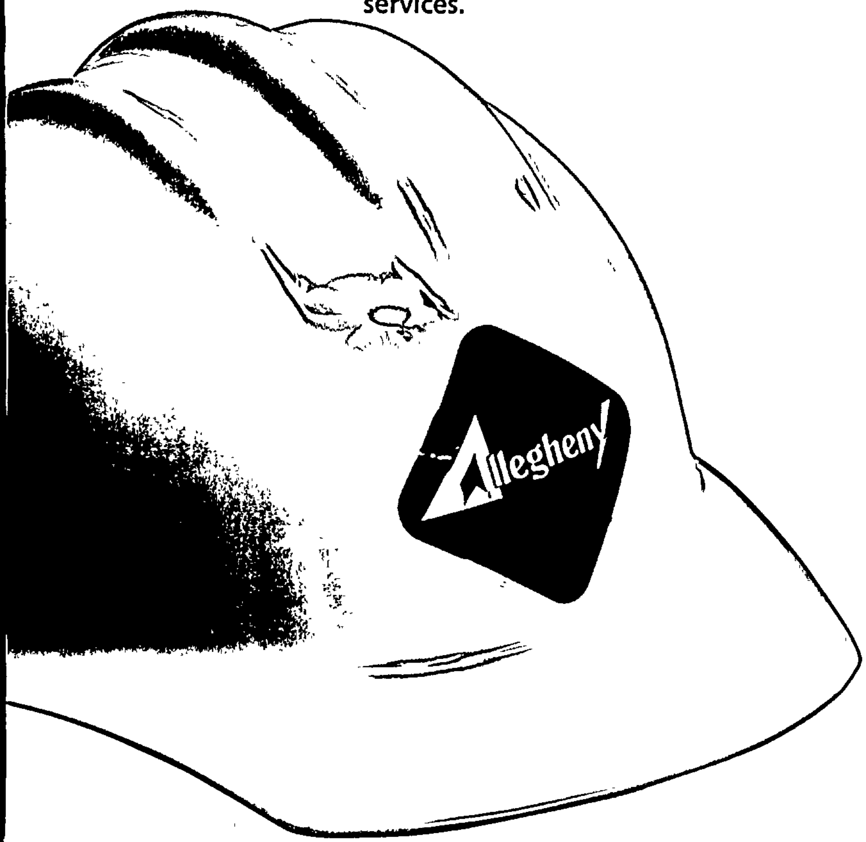
Ralph Fischer
Bedford REC

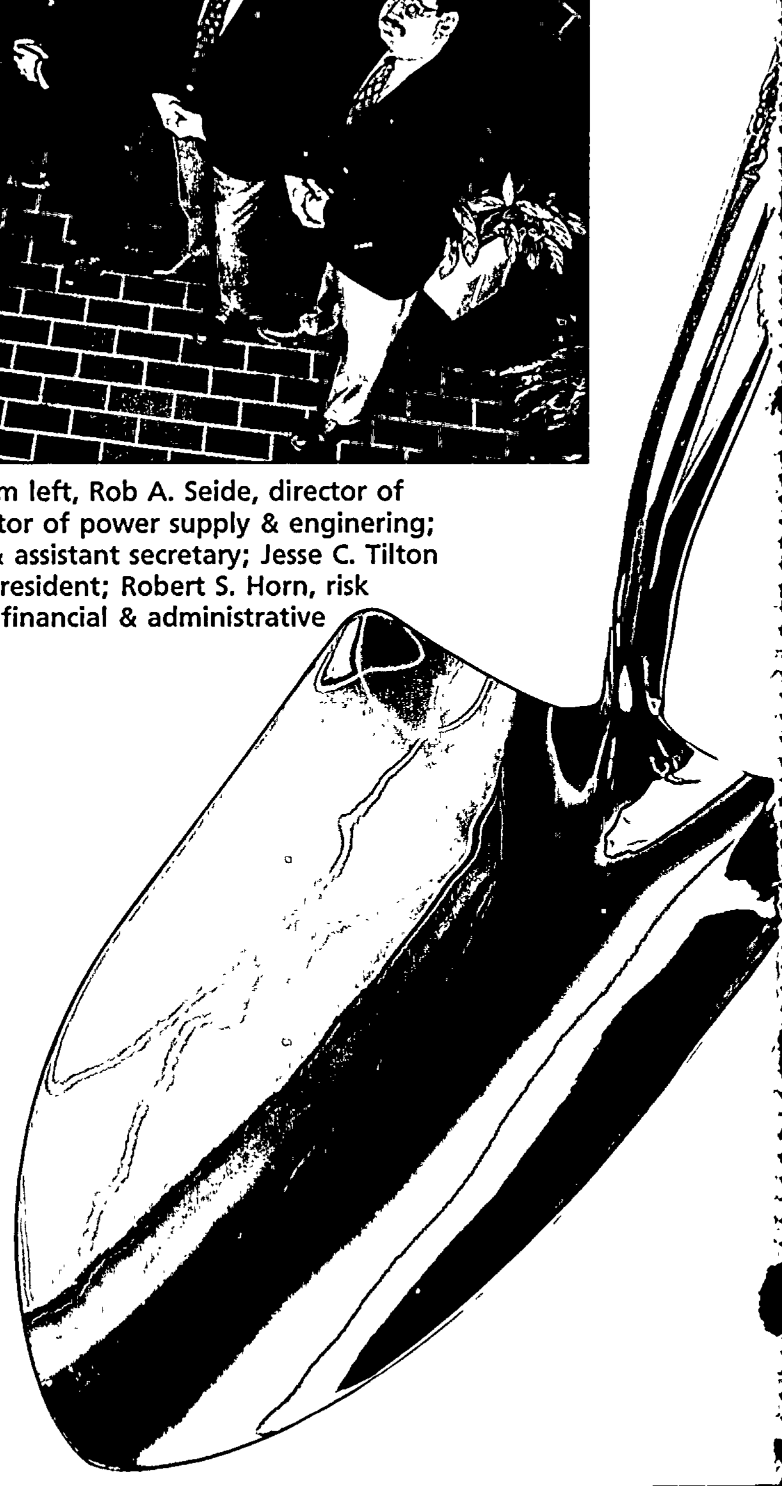
With the help of Allegheny, PREA and their member cooperatives, these projects will potentially create an estimated 120 direct jobs and stimulate existing businesses in their local economies.

Allegheny's rural development efforts continue a 50-year tradition of commitment to the needs of rural citizens and businesses. That tradition began with the goal of enabling everyone to have the advantages and comfort electric power provides. It continues today in efforts to provide equal opportunities in jobs, education and health care to all residents regardless of where they choose to live. ❦

Allegheny Management Team

Allegheny's management team: From left, Rob A. Seide, director of communications; Frank M. Betley, director of power supply & enginering; Anthony C. Adonizio, general counsel & assistant secretary; Jesse C. Tilton III, president; William E. Mowatt, vice president; Robert S. Horn, risk manager; Laurence V. Bladen, director, financial & administrative services.





Winston Donaldson
Central EC

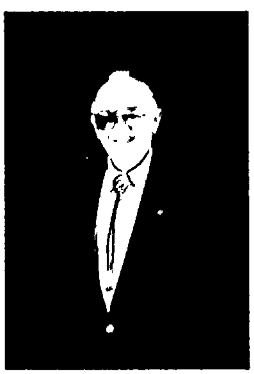
John B. Drake
Claverack REC

John Ritchey
New Enterprise REC

Harold Hines
Northwestern REC

Sam Eckenrod
Southwest Central EC

John Anstadt
Sullivan County REC



James Henderson
Sussex REC

Anson Brosius
United EC

Harold Ritchey
Valley REC

Summary of Operations—

	Adams	Bedford	Central	Claverack	New Enterprise	Northwestern	Somerset	Southwest
SUMMARY OF OPERATIONS								
Operating revenue	$29,002,766	$8,562,670	$19,629,986	$16,811,766	$3,233,643	$17,637,228	$12,373,773	$23,432,769
OPERATING EXPENSES								
Purchased power	$19,632,198	$5,611,676	$12,083,367	$9,742,768	$2,461,208	$11,447,471	$9,126,670	$17,363,115
Operations & maintenance	$4,904,020	$1,507,502	$4,282,609	$3,905,498	$887,054	$3,531,337	$2,033,520	$3,438,600
Depreciation	$1,513,294	$377,232	$1,011,911	$1,099,321	$162,000	$945,801	$594,854	$923,378
Taxes	$255,926	$75,546	$143,803	$236,217	$30,931	$230,624	$152,331	$164,824
Interest	$1,784,382	$314,776	$1,074,496	$914,563	$0	$923,924	$718,156	$1,063,556
Cost of Electric Service	$28,089,821	$7,886,732	$18,596,186	$15,898,367	$3,541,193	$17,079,158	$12,625,531	$22,953,473
Operating Margins	$912,945	$675,938	$1,033,800	$913,399	($307,551)	$558,070	($251,758)	$479,296
Non-operating margins & capital credits	$128,638	$62,774	$190,202	$122,783	$40,011	$222,540	$144,826	$131,738
Net margins	$1,041,583	$738,712	$1,224,002	$1,036,182	($267,539)	$780,610	($106,932)	$611,034
ASSETS								
Total Utility plant	$53,270,353	$14,602,543	$38,029,910	$36,070,546	$3,426,169	$35,027,933	$23,301,300	$35,357,815
Less accumulated depreciation	$12,258,082	$4,481,017	$9,718,011	$8,927,730	$2,080,492	$9,664,817	$5,267,118	$6,059,076
Net utility plant	$41,012,272	$10,121,527	$28,311,899	$27,142,816	$1,345,677	$25,363,116	$18,034,182	$29,298,739
Other property & investments	$7,674,515	$2,256,269	$5,310,457	$4,122,543	$829,353	$5,673,166	$4,243,238	$6,192,671
Current & accrued assets	$4,814,210	$2,037,176	$5,512,828	$2,562,467	$308,278	$2,510,550	$3,336,831	$2,156,281
Deferred debits	$96,936	$71,761	$103,011	$298,131	$0	$509,934	$30,103	$71,458
Total assets	$53,597,933	$14,486,732	$39,238,195	$34,125,957	$2,483,309	$34,056,766	$25,644,354	$37,719,149
LIABILITIES								
Margins & equities	$19,904,882	$7,177,290	$15,651,752	$12,117,006	$2,285,066	$14,473,939	$10,858,404	$17,956,624
Long-term debt	$31,255,867	$6,268,719	$21,272,306	$18,985,838	$0	$17,653,970	$13,652,986	$17,829,146
Current & accrued liabilities	$2,425,016	$722,578	$2,049,319	$2,978,371	$198,244	$1,874,512	$996,982	$1,877,619
Other credits & reserves	$12,168	$318,145	$264,818	$44,742	$0	$54,345	$135,982	$55,760
Total Liabilities	$53,597,933	$14,486,732	$39,238,195	$34,125,957	$2,483,309	$34,056,766	$25,644,354	$37,719,149
OTHER STATISTICS								
Miles of Line	2,491	1,154	2,949	2,432	375	2,361	1,852	2,431
Consumers served	23,003	7,841	22,067	15,479	2,986	16,610	11,240	19,698
Consumers per mile	9.2	6.8	7.5	6.4	8	7	6.1	8.1
Kwh sold per consumer	12,861	10,764	8,141	9,958	11,650	10,445	12,794	12,545
Mwh sales	295,853	84,401	179,653	154,142	34,788	173,492	143,808	247,107
Annual revenue per consumer	$1,261	$1,092	$890	$1,086	$1,083	$1,062	$1,101	$1,190
Plant investment per consumer	$1,783	$1,291	$1,283	$1,754	$451	$1,527	$1,604	$1,487
Revenue per mile of line	$11,643	$7,421	$6,656	$6,913	$8,623	$7,469	$6,681	$9,639

Allegheny Electric Cooperative, Inc.

ASSETS:	1992	1991	1990	1989	1988
General Plant	648,947,342	640,405,919	633,120,217	616,987,394	609,034,277
Construction Work in Progress	14,214,117	11,495,759	5,903,441	9,240,232	6,938,574
TOTAL PLANT	663,161,459	651,901,679	639,023,658	626,227,626	615,972,851
Accumulated provision for depreciation & amortization	167,818,423	154,581,169	137,581,537	88,725,714	70,828,954
NET PLANT	495,343,036	497,320,510	501,442,121	537,501,912	545,143,897
Non-Utility property - net	4,910,988	5,010,441	4,970,628	5,055,971	5,083,843
Capital Credits - NRUCFC	141,530	125,292	296,167	322,609	344,133
Investments in associated organizations	3,878,851	3,879,055	3,879,261	3,879,452	3,811,153
Other Investments	5,197,077	4,628,698	4,012,303		
Cash - general funds	-99,816	640,291	-887	-457,634	1,296,372
Cash - construction fund	48,695	1,889	12,103	1,483	251,664
Temporary investments	23,226,222	36,895,537	47,019,705	35,078,414	39,577,723
Special funds	1,874,311	1,889,548	1,901,112	1,903,823	2,071,952
Notes receivable	3,367,637	3,695,755	4,148,632		
Accounts receivable	10,350,153	13,766,227	11,549,690	13,734,646	14,411,035
Materials and Supplies-Other	4,947,032	4,694,020	1,113,921	1,052,028	1,030,083
Prepayments	5,250,031	1,133,323	1,113,921	1,052,028	1,030,083
Other current & accrued assets	2,266,810	1,047,743	574,342	342,028	333,278
Deferred debits	3,706,835	2,643,004	499,200	1,350,929	848,811
TOTAL ASSETS	574,072,928	577,371,333	582,532,219	600,817,689	615,234,027
LIABILITIES					
Depreciation	804,908	804,907	804,907	804,768	804,477
Memberships	2,800	2,800	2,800	2,800	2,800
Patronage capital	14,390,760	12,012,827	3,504,255	38,941,810	36,387,453
Donated capital	50,730	50,730	50,730	50,730	50,730
Long-term debt - REA	7,395,044	7,413,005	5,715,056	4,010,892	501,601,153
Long-term debt - other	508,080,384	508,537,784	526,410,577	522,511,395	30,318,791
Notes payable	0	0	15,245,462	4,893,235	5,180,000
Accounts payable	6,183,734	16,830,638	15,245,462	4,287,707	8,801,704
Cost of service adjustment	4,290,266	2,541,259	6,416,815	4,893,235	5,330,430
Accrued taxes	3,815,257	1,815,246	545,874	551,844	346,221
Accrued interest	3,052,458	3,509,277	3,502,011	3,348,615	3,577,179
Other current & accrued liabilities	1,720,611	507,177	683,332	664,308	12,751
Deferred credits	17,926,267	18,130,598	19,341,385	20,502,325	22,594,732
Operating Reserves	7,164,617	6,019,991	577,322,375	584,156,571	591,609,212
TOTAL LIABILITIES	574,072,929	577,371,332	596,663,760	604,658,896	614,203,944
MEMBERS REVENUES					
Adams	19,370,045	18,201,477	16,920,011	16,459,643	15,450,524
Bedford	5,533,837	5,180,139	4,948,332	4,934,084	4,717,574
Central	11,978,857	11,410,378	11,170,252	11,123,585	10,795,933
Claverack	9,611,069	8,901,042	8,739,960	8,678,763	8,348,586
New Enterprise	2,429,876	2,301,401	2,214,818	2,183,582	2,066,695
Northwestern	11,186,990	10,484,591	10,323,184	10,375,739	9,994,179
Somerset	9,793,753	9,106,826	8,737,337	8,772,896	8,351,506
Southwest Central	17,142,056	16,166,475	14,825,514	14,548,709	14,005,635
Sullivan	2,619,316	2,390,777	2,345,952	2,344,198	2,193,827
Sussex	6,778,523	6,534,524	6,312,906	6,333,850	6,004,249
Tri-County	7,906,010	7,450,527	7,199,562	7,194,547	6,887,205
United	8,279,835	7,948,551	7,664,418	7,814,898	7,709,440
Valley	11,694,928	11,122,999	10,650,759	10,555,639	9,955,957
Warren	3,159,357	3,180,782	3,084,646	3,114,060	3,051,498
TOTAL MEMBER REVENUES	127,484,459	120,380,490	115,137,651	114,434,194	109,532,808

Allegheny Member System

Sullivan	Sussex	Tri-County	United	Valley	Warren	TOTAL
$4,161,509	$12,534,093	$14,124,954	$14,061,325	$17,668,423	$5,134,178	$198,369,082
$2,679,357	$6,871,464	$8,111,419	$8,387,488	$11,837,427	$3,199,045	$128,554,673
$789,512	$2,439,989	$3,244,323	$3,056,836	$3,287,248	$1,080,098	$38,388,146
$273,796	$743,421	$894,568	$912,858	$1,035,616	$321,665	$10,809,715
$40,038	$1,291,304	$184,471	$97,792	$159,653	$57,266	$3,120,726
$225,783	$722,335	$1,042,402	$1,250,028	$754,162	$132,270	$10,920,835
$4,008,488	$12,068,513	$13,477,183	$13,705,002	$17,074,106	$4,790,343	$191,794,096
$153,021	$465,580	$647,771	$356,323	$594,317	$343,834	$6,574,986
$36,586	$122,637	$115,091	$177,479	$167,221	$60,738	$1,723,264
$189,607	$588,217	$762,862	$533,802	$761,538	$404,572	$8,298,250
$9,420,447	$24,259,490	$35,030,024	$35,830,083	$36,924,440	$11,612,972	$392,164,025
$3,097,594	$5,893,301	$8,497,345	$9,567,611	$10,369,967	$3,813,911	$99,696,071
$6,322,852	$18,366,189	$26,532,679	$26,262,472	$26,554,473	$7,799,061	$292,467,954
$1,256,775	$2,704,128	$3,680,377	$4,843,255	$4,639,041	$1,705,574	$55,131,361
$593,535	$2,696,016	$2,085,828	$3,036,849	$4,698,650	$1,145,480	$37,494,979
$33,032	$306,718	($26,878)	$237,009	$21,281	$480,021	$2,232,517
$8,206,194	$24,073,051	$32,272,006	$34,379,585	$35,913,445	$11,130,136	$387,326,812
$3,083,809	$8,441,882	$12,285,223	$11,282,666	$18,536,355	$7,559,954	$161,614,853
$4,770,120	$13,451,229	$18,112,358	$21,523,773	$15,105,129	$3,130,422	$203,011,863
$352,076	$2,134,570	$1,836,353	$1,164,740	$1,907,615	$188,475	$20,706,470
$189	$45,370	$38,072	$408,406	$364,345	$251,285	$1,993,627
$8,206,194	$24,073,051	$32,272,006	$34,379,585	$35,913,445	$11,130,136	$387,326,813
803	612	2,916	2,631	2,409	1,016	26,432
5,015	9,975	16,140	16,134	17,903	8,574	192,665
6.2	16.3	5.5	6.1	7.4	8.4	7.3
7,658	10,356	6,898	7,226	9,671	5,162	9,863
38,407	103,303	111,329	116,577	173,143	44,258	1,900,260
$830	$1,257	$875	$872	$987	$599	$1,030
$1,261	$1,841	$1,644	$1,628	$1,483	$910	$1,518
$5,186	$20,467	$4,844	$5,344	$7,334	$5,055	$7,505

PROMPT ACTION RESULTS IN SIGNIFICANT SAVINGS

On February 28, 1992 Allegheny learned through a trade press report that the federal Rural Electrification Administration (REA) would for the first time permit generation and transmission cooperatives, such as Allegheny, to reprice certain outstanding high-cost Federal Financing Bank (FFB) loans. By agreeing to pay the government a prepayment premium equal to one year's interest on the loans being repriced, REA-financed electric systems could reduce the interest rate for the remaining life of the loans to the then-current FFB interest rate.

At its March 5, 1992 meeting, the Allegheny Board of Directors authorized submission of a repricing application. Thanks to this speedy action, Allegheny was one of only 14 borrowers to receive REA approval to reprice a portion of its long-term FFB debt during 1992. Nearly $123 million of FFB loans carrying interest rates ranging from 8.28 to 13.8 percent were repriced by Allegheny on August 31, 1992 to new interest rates averaging 6.78 percent.

The repricing is expected to provide a net savings in rates of $1.42 million during the first year and $19.07 million over the remaining term of the loans. By timing the repricing to take advantage of falling interest rates, Allegheny maximized the savings available. Any delay in submitting the repricing request would have harmed Allegheny since REA limited the number of repricings permitted during 1992.

The interest cost savings achieved by the repricing were incorporated into the 1993 Purchased Power Cost Projections and Member Cooperative Rate Study. Thus the expected net savings were passed on to Allegheny's member cooperatives.

Five-Year Financial Statement

ELECTRIC ENERGY SALES:	1992	1991	1990	1989	1988
Members	127,484,460	120,380,490	115,108,723	114,434,195	109,532,808
Non-members	5,935,149	24,966,421	14,138,882	16,057,630	24,347,984
TOTAL RECEIPTS	133,419,609	145,346,911	129,247,605	130,491,825	133,880,792
Cost of power	34,447,974	43,054,251	32,085,914	33,358,887	40,119,659
Wheeling	10,168,786	8,880,653	9,249,841	8,345,773	7,441,025
RAYSTOWN:					
Operation & Maintenance	2,231,109	2,320,600	2,560,147	2,346,261	736,696
Interest	128,693	0	0	0	116,970
Transmission	23,918	206,809	183,550	200,521	0
Taxes	23,293	19,385	16,884 0		
OTHER PROJECTS:					
Operation & Maintenance	290,689	300,322	123,663		
Transmission	62,549	15,401	24,052		
Depreciation	588,886	509,847	466,190		
Taxes	18,912	3,352			
SSES:					
Generation					
Operation & Maintenance	19,697,503	20,958,143	18,024,408	18,518,905	19,490,190
Fuel	7,263,452	8,452,974	9,512,667	9,413,177	8,634,341
Unamort. Debt & Extraordinary Loss	9,663,536				
Depreciation	10,931,235	9,967,034	9,034,865	9,376,144	8,694,096
Taxes	4,282,906	4,243,498	3,437,242	3,429,845	3,608,751
Transmission					
Maintenance	272,597	293,213	216,007	317,266	207,431
Interest	39,608,659	42,319,156	43,018,285	42,724,066	44,147,039
Interest charged to					
Construction - Credit	-1,143,974	-1,041,514	-909,146	-1,233,918	-2,318,873
General & administrative	5,716,858	5,559,603	5,315,694	5,153,748	3,980,637
TOTAL OPERATION EXPENSE	135,395,660	146,871,542	133,167,671	132,772,327	135,662,439
Depreciation	186,884	159,064	131,397	134,988	120,533
Taxes	169,063	141,581	136,143	109,750	102,094
Other deductions	-410,374	-662,593	30,417,247	-701,433	-672,383
TOTAL EXPENSES	135,341,233	146,509,594	163,852,458	132,315,632	135,212,683
Operating margins	-1,921,624	-1,162,683	-34,604,853	-1,823,807	-1,331,891
Interest income	2,845,352	3,691,751	4,636,182	4,328,040	2,924,868
Other - profit/(loss) net	1,397,724	10,081	1,462,261	28,940	596,398
Other capital credits	55,068 0	29,912	21,184	23,825	
NET MARGINS	2,376,520	2,539,148	-28,476,498	2,554,357	2,213,200

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 regular tax liability for the foreseeable future. Allegheny continues to be subject to the Alternative Minimum Tax (AMT) provisions of the Internal Revenue Code. Allegheny believes that the tax liabilities arising from the AMT will remain negligible.

REGULATION: Unlike for-profit, investor-owned utilities, Allegheny and its member cooperatives are consumer-owned and non-profit. They are self-regulated by their consumer-members acting through a democratically-elected board of directors and thus 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 member co-ops 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 systems.

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 SSES. The amendment extended the contract through 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 in areas outside the corporate limits of cities and boroughs. 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 electric lines and facilities, waste of materials and natural resources, plus improves electric system efficiency by allowing electric utilities to make long-term contracts for power and plan necessary capital improvements. 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.

MARGINS

The 1992 margins of $2,376,520 met Allegheny's Times Interest Earned Ratio (TIER) goal of 1.06. Additional margins of $4,290,266 in excess of this TIER requirement earned during 1992 will flow back to member cooperatives in 1993 through Allegheny's Annual Operating Adjustment.

FINANCING

The largest expense item for Allegheny is interest on long-term debt. In 1992, it accounted for more than 28 percent of total expenses.

To help control interest costs, every effort is made to obtain 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, 1992, Allegheny's dollar weighted average interest rate on outstanding debt (excluding leveraged lease debt) was 7.68 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 the Susquehanna Steam Electric Station (SSES). In 1992, the average yield on the bonds, which bear interest at weekly and monthly variable rates, was 3.4 percent. These bonds—issued though the Lehigh County Industrial Development Authority—are backed by irrevocable letters of credit from Rabobank Nederland.

COMMERCIAL PAPER: Allegheny maintains a commercial paper program to supplement short-term project financing. Moody's Investors Services has assigned its Prime-2 rating to this program. No commercial paper was issued or outstanding during 1992.

LINE OF CREDIT: In fiscal year 1992, 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 1992.

REA INSURED AND GUARANTEED LOANS: A traditional blend of REA insured and REA guaranteed loans, which makes up the majority of Allegheny's debt portfolio, continues to be Allegheny's primary source of financing. REA guaranteed loans made by the Federal Financing Bank (FFB) are used to finance certain additions to SSES. Approximately 17 percent of the $476.5 million of the outstanding FFB loans bear short term interest rates of two years. The remaining FFB loans have 35 year maturities and bear a weighted average interest rate of 7.67 percent. Allegheny utilizes REA insured loans to finance transmission and load management projects. Bearing interest at 5 percent, these loans are an attractive low-cost source of financing.

LEVERAGED LEASE: The leveraged leasing of the Raystown Hydroelectric Project has ensured the cost of power produced by the project is lower than the cost of the purchased power it replaced.

Under the lease agreement, Allegheny controls the placement of the $20.5 million debt portion of the lease. To take advantage of the continuing decline in interest rates, Allegheny has placed 60 percent of the lease debt in various maturities ranging from 30 days to 4 years. This resulted in a blended interest rate of 7.09 percent in 1992. Compared to placing the total lease debt in a two-year maturity, an interest savings of $197,000 was realized for fiscal year 1992.

CFC: In addition to providing Allegheny with a line of credit, CFC has provided financing for the Locust Court Building (Allegheny headquarters) plus loans of $4.4 million for load management and transmission facilities.

Report Of Independent Accountants

Coopers
&Lybrand

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Allegheny Electric Cooperative, Inc.

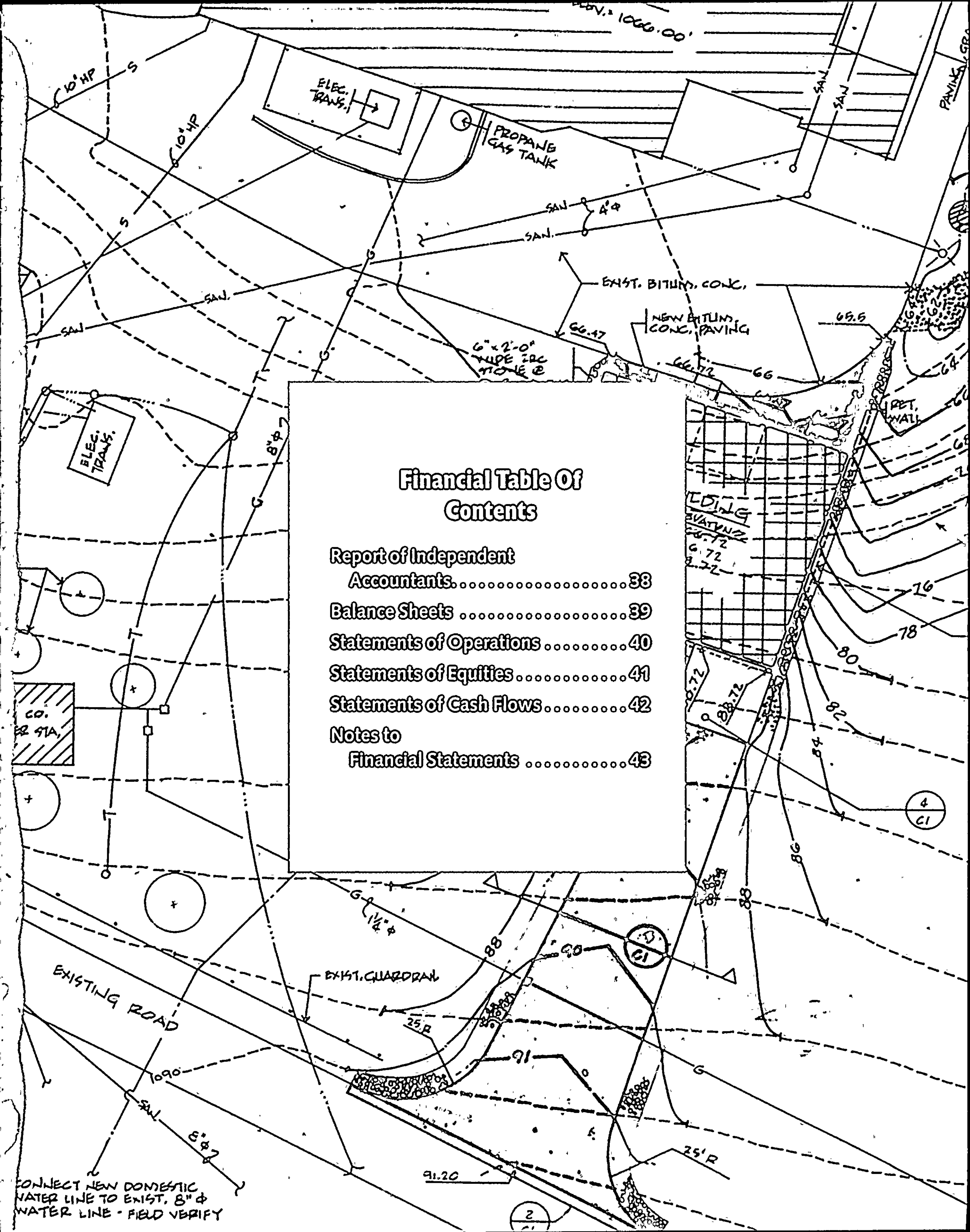
We have audited the accompanying balance sheets of Allegheny Electric Cooperative, Inc. (Allegheny) as of October 31, 1992 and 1991 and the related statements of operations, equities, and cash flows for the years then ended. These financial statements are the responsibility of Allegheny's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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, the financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Electric Cooperative, Inc. as of October 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

5 North Fifth Street
Harrisburg, Pennsylvania
January 15, 1993



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STATEMENTS OF OPERATIONS

for the years ended October 31, 1992 and 1991
(in thousands)

	1992	1991
Operating revenue, including sales to members of $127,495 in 1992 and $120,380 in 1991	$133,438	$145,347
Operating expenses:		
Purchased power	34,448	43,054
Transmission — operation	10,531	9,319
Transmission — maintenance	98	69
Production — operation	15,674	15,556
Production —maintenance	6,258	7,731
Fuel	7,263	8,453
Depreciation, net	12,511	11,441
Taxes	4,336	4,279
Administrative and general	6,186	5,994
	97,305	105,896
Operating margin before interest and other deductions	36,133	39,451
Interest and other deductions (income):		
Interest expense, net of allowance for funds used during construction of $1,144 in 1992 and $1,042 in 1991	38,465	41,277
Other deductions (income), net	(965)	14
	37,500	41,291
Operating deficit	(1,367)	(1,840)
Nonoperating margins:		
Net nonoperating rental loss	(21)	(72)
Interest income	2,840	3,657
Other	924	794
	3,743	4,379
Net margin	$ 2,376	$ 2,539

See accompanying notes to financial statements.

BALANCE SHEETS

as of October 31, 1992 and 1991
(in thousands)

	1992	1991
ASSETS		
Electric utility plant:		
In service	$644,429	$632,559
Construction work in process	14,214	11,496
Nuclear fuel in process	4,511	7,847
	663,154	651,902
Less accumulated depreciation and amortization	167,818	154,581
	495,336	497,321
OTHER ASSETS AND INVESTMENTS:		
Nonutility property, at cost (net of accumulated depreciation of $1,847 in 1992 and $1,656 in 1991)	4,916	5,010
Investments in associated organizations	4,069	4,068
Notes receivable from members, less current portion	3,368	3,695
Other investments	6,994	6,427
Other noncurrent assets	522	554
	19,869	19,754
CURRENT ASSETS:		
Cash and cash equivalents	23,391	37,117
Accounts receivable, including accounts receivable from members of $9,729 in 1992 and $10,081 in 1991	9,920	13,374
Inventories	4,947	4,694
Other current assets	3,339	2,470
	41,597	57,655
Deferred charges	13,370	2,643
	$570,172	$577,373
EQUITIES:		
Memberships	$ 3	$ 3
Donated capital	51	51
Patronage capital	37,952	37,952
Other margins and equities	(23,561)	(25,937)
	14,445	12,069
LONG-TERM DEBT, LESS CURRENT PORTION	504,127	513,218
CURRENT LIABILITIES:		
Current portion of long-term debt	11,348	13,645
Accounts payable and accrued expenses	10,686	11,550
Accounts payable to members	4,475	2,741
	26,509	27,936
OTHER LIABILITIES AND DEFERRED CREDITS:		
Accrued nuclear decommissioning	7,165	6,020
Deferred income tax benefits from safe harbor lease	10,711	11,454
Other deferred credits	7,215	6,676
	25,091	24,150
	$570,172	$577,373

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

for the years ended October 31, 1992 and 1991
(in thousands)

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 2,376	$ 2,539
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and fuel amortization	19,053	19,218
Amortization of deferred charges and deferred credits	(3,585)	(859)
Gain on sale of other investments	(200)	(116)
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Accounts receivable	3,454	(2,329)
Inventories	(253)	(224)
Other current and noncurrent assets	(855)	(438)
Deferred charges	(33)	(361)
Accounts payable and accrued expenses	(864)	(1,885)
Accounts payable to members	1,734	(3,799)
Other liabilities and deferred credits	3,603	(687)
Net cash provided by operating activities	24,430	11,059
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric utility plant and nonutility property	(16,991)	(15,359)
Purchase (redemption) of investments in associated organizations	(1)	182
Payments received on notes receivable from members	362	322
Purchase of other investments	(8,604)	(12,514)
Proceeds from sale of other investments	8,209	12,281
Net cash used in investing activities	(17,025)	(15,088)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	4,531	3,933
Payments on long-term debt	(15,919)	(9,196)
Payment of debt repurchase premium	(9,743)	—
Retirement of capital credits	—	(622)
Net cash used in financing activities	(21,131)	(5,885)
Decrease in cash and cash equivalents	(13,726)	(9,914)
Cash and cash equivalents at beginning of year	37,117	47,031
Cash and cash equivalents at end of year	$23,391	$37,117

See accompanying notes to financial statements.

STATEMENTS OF EQUITIES

for the years ended October 31, 1992 and 1991
(in thousands)

	Memberships	Donated Capital	Patronage Capital	Other Margins and Equities	Unrealized Loss on Marketable Equity Securities	Total
Balance at November 1, 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
Net margin				2,376		2,376
Balance at October 31, 1992	$3	$51	$37,952	$(23,561)	—	$14,445

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 Statement No. 92, "Regulated Enterprises - Accounting for Phase-in Plans" (Statement No. 92). 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 $36.4 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. As of October 31, 1992 and 1991, deferred charges included $2.8 million and $1.8 million, respectively, of deferred nuclear decommissioning costs.

As required by the NRC, Allegheny established a Decommissioning Trust Fund (Trust Fund B) which is restricted for use to ultimately decommission SSES. In accordance with the NRC funding schedule, $0.9 million and $0.8 million was funded to the Trust Fund B for the years ended October 31, 1992 and 1991, respectively. Allegheny's Board of Directors has restricted as of October 31, 1992 and 1991, $3.4 million and $3.8 million, respectively, of Trust Fund A for future payments to Trust Fund B. Trust Fund A and B are included in other investments.

Accrued nuclear decommissioning as of October 31, 1992 and 1991 was $7.2 million and $6.0 million, respectively.

1. Summary of Significant Accounting Policies, continued:

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.

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. 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 charged to operations.

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.

The 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 recorded as a deferred credit and will be amortized as a credit to expense over a three-year period consistent with the ratemaking treatment.

In May 1992, Allegheny received permission from the Internal Revenue Service to use this method of accounting for income tax purposes. Therefore, Allegheny will include the value of these spare parts in taxable income over a six-year period beginning with the tax year ended October 31, 1991.

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:

Allegheny had established an unallocated equity account, Other Margins and Equities, as a result of a charge against income in connection with the adoption of Statement No. 92. This charge against income was recorded as a deficiency in an unallocated equity account since the amount is not allocable to Allegheny's members. All margins recognized by Allegheny are required by REA to be used to reduce this deficiency.

2. Electric Utility Plant In Service:

Electric utility plant in service consists of the following as of October 31, 1992 and 1991:

	Depreciation/ Amortization, Lives/Rates	1992 (in thousands)	1991
Nuclear Utility Plant:			
Production	39 years	$516,345	$516,391
Transmission	2.75%	35,444	32,193
General plant	3% - 12.5%	859	859
Nuclear fuel	Heat production	84,670	76,314
		637,318	625,757
Non-Nuclear Utility Plant	3% - 33%	7,111	6,802
Total		$644,429	$632,559

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, which included electric utility plant in service, construction and nuclear fuel in progress, totalled $645 million and $639 million as of October 31, 1992 and 1991, respectively. Allegheny's share of anticipated costs for ongoing construction and nuclear fuel for SSES is estimated to be approximately $63 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 reflect Allegheny's respective share of assets, liabilities and operations associated with SSES.

4. Investments in Associated Organizations:

Investments in associated organizations, at cost, consists of the following as of October 31, 1992 and 1991:

	1992 (in thousands)	1991
National Rural Utilities Cooperative Finance Corporation (CFC) Subordinated Term Certificates, bearing interest from 0% to 5%, maturing January 1, 2014 through October 1, 2080	$3,860	$3,860
National Rural Utilities Cooperative Finance Corporation Capital Term Certificates	142	125
National Bank for Cooperatives: Stock certificates	48	63
Other	19	20
	$4,069	$4,068

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

CONNECT NEW DOMESTIC
WATER LINE TO EXIST. 8" φ
WATER LINE - FIELD VERIFY

1. Summary of Significant Accounting Policies, continued:

Rates:

The Board of Directors of Allegheny has full authority to establish electric rates subject to approval by 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. 109, "Accounting for Income Taxes" (Statement No. 109), which requires 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. 109 will not have a material impact on Allegheny's net margin or financial position.

Margin Stabilization Plan and Annual Operating Adjustment Plan:

During 1992 Allegheny established an annual operating adjustment plan, which has been approved by REA, to replace the margin stabilization plan which was terminated as of October 31, 1991. Under the provisions of both plans, 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.

The plans differ in that under the margin stabilization plan if the actual margin realized was less than the TIER, Allegheny was permitted to record the difference as an addition to the current year's operating revenue and as a receivable from its members. Under the annual operating adjustment program, Allegheny is not permitted to record the difference by which actual margins realized are less than the TIER as an addition to the current year's operating revenue and as a receivable from members. The liability to members, if any, 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, 1992 and 1991, operating revenues were reduced by \$4.3 million and \$2.5 million, respectively, due to actual margins exceeding the TIER. These amounts are included in accounts payable to members as of October 31, 1992 and 1991.

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.

Reclassification:

The 1991 financial statements have been reclassified to conform with the current year presentation.

CONNECT NEW DOMESTIC WATER LINE TO EXIST. 8" ф WATER LINE - FIELD VERIFY

8. 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 as of October 31, 1992 and 1991:

	1992	1991
	(in thousands)	
Advances under mortgage notes payable to FFB at interest rates varying from 4.879% to 10.734% in 1992 and 6.418% to 13.820% in 1991, due in varying amounts through 2021	$476,462	$487,276
Pollution Control Revenue Bonds, payable semi-annually, including interest through 2014. Variable rates ranged from 1.75% to 6.50% in 1992 and 3.75% to 6.0% in 1991	26,600	27,000
Mortgage loan payable to CFC, payable in various quarterly installments, including interest through January 2015. Variable rates ranged from 5.00% to 6.625% in 1992 and 6.625% to 9.125% in 1991	1,939	1,973
Notes payable to CFC, payable in various quarterly installments, including interest through October 2019. Variable rates ranged from 5.00% to 6.625% in 1992 and 6.625% to 9.125% in 1991	3,075	3,101
5% mortgage notes payable to REA due in varying amounts through 2019	7,399	7,513
	515,475	526,863
Less current portion	11,348	13,645
	$504,127	$513,218

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. As of October 31, 1992 and 1991, Allegheny had elected short-term interest rates and interim maturities on advances under these mortgage notes payables to FFB of $82.6 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. As of October 31, 1992, Alle-

5. Notes Receivable From Members:

Notes receivable from members arise from the lease of load management equipment to the member cooperatives. Such notes bear interest at a variable rate (5.189% and 5.761% as of October 31, 1992 and 1991, respectively) and mature at various dates through September 30, 2000.

6. Other Investments:

Other investments consists of the following as of October 31, 1992 and 1991:

	1992 Cost (in thousands)	1992 Market (in thousands)	1991 Cost (in thousands)	1991 Market (in thousands)
DECOMMISSIONING TRUST FUND A:				
Money market funds	$ 103	$ 103	$ 64	$ 64
U.S. Government securities	1,161	1,187	1,824	1,874
Corporate bonds	1,088	1,104	913	935
Common stocks	1,055	1,153	990	1,095
	3,407	3,547	3,791	3,968
NRC MANDATED DECOMMISSIONING TRUST FUND B:				
Money market funds	39	39	33	33
U.S. Government securities	1,403	1,427	779	793
Corporate bonds	315	313	—	—
	1,757	1,779	812	826
DEBT SERVICE RESERVE FUND:				
U.S. Government securities	1,796	1,796	1,775	1,775
Accrued interest receivable	34	34	49	49
	$6,994	$7,156	$6,427	$6,618

The gross unrealized gains and losses in the value of common stocks were $172 and $74, respectively, as of October 31, 1992 and $144 and $39, respectively, as of October 31, 1991.

7. Deferred Charges:

Deferred charges consists of the following as of October 31, 1992 and 1991:

	1992 (in thousands)	1991 (in thousands)
Unamortized FFB debt repurchase premium	$ 9,664	—
Nuclear decommissioning costs	2,838	$1,796
Low level radiation waste facility costs	502	349
Safe harbor lease closing costs	242	254
Preliminary surveys	124	244
	$13,370	$2,643

8. Long-Term Debt, continued:

During 1992 and 1991, Allegheny incurred interest costs of $39.6 million and $42.3 million, respectively, of which $1.1 million and $1.0 million, respectively, was capitalized as part of the construction of the electric utility plant. Interest paid, net of amounts capitalized, was $39.0 million and $41.3 million, respectively.

9. Deferred Credits:

Deferred credits consists of the following as of October 31, 1992 and 1991:

	1992	1991
	(in thousands)	
SSES inventory adjustment	$2,980	$4,469
1992 cash settlement (See Note 12)	2,333	—
Raystown lease gain	1,741	1,786
Deferred compensation arrangement with PREA	161	248
Other	—	173
	$7,215	$6,676

10. Income Taxes:

As of October 31, 1992, Allegheny had available nonmember net operating loss carryforwards of $190.0 million for tax reporting purposes expiring through 2006 and investment tax credit carryforwards of approximately $22.1 million expiring through 2003. Allegheny also had operating loss carryforwards attributable to member activities of $129.2 million for tax reporting purposes which may be carried forward indefinitely.

11. 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 years ended October 31, 1992 and 1991 were approximately $4.0 million and $3.6 million, respectively.

12. 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 $21.5 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 $0.9 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 $2.0 million in a calendar year.

8. Long-Term Debt, continued:

gheny had $25.5 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.

Effective August 31, 1992, Allegheny executed a three-party agreement modifying promissory note with FFB and REA resulting in a one-time reduction of the interest rates on certain advances made to Allegheny by FFB under the original mortgage notes. Total outstanding advances modified under the agreement amounted to $122.0 million. Under terms of the agreement, Allegheny was required to pay a repurchase premium, as calculated by REA, of $9.7 million. This premium was recorded as a deferred charge and will be amortized over the remaining term of the advances modified by the 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, 1992 and 1991, are $1.8 million of investments which relate to a debt service reserve fund required under the bond indenture.

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

1993	$11,348
1994	12,014
1995	12,527
1996	13,045
1997	13,703

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.

Allegheny has a short-term line of credit available with CFC of $21.4 million. There were no amounts outstanding as of October 31, 1992 or 1991. 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 limitations of total short-term indebtedness.

As of October 31, 1992, Allegheny had unadvanced portions of certain existing REA, FFB and CFC long-term commitments of $40.7 million.

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 as of October 31, 1992 and 1991.

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

13. Sale/Leaseback Arrangement, continued:

The leaseback of the Facility is accounted for as an operating lease by Allegheny. As of October 31, 1992, 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):

1993	$ 2,361
1994	2,361
1995	2,361
1996	2,237
1997	2,078
Thereafter	50,737
Total minimum lease payments	$62,135

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.

Rental expense for this lease totalled $1.8 million for each of the years ended October 31, 1992 and 1991, respectively.

14. 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.

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.

15. Government Regulations:

The Energy Policy Act of 1992 established, among other things, a fund to pay for the decontamination and decommissioning of three nuclear enrichment facilities operated by DOE. A portion of the fund is to be collected from electric utilities that have purchased enrichment services from DOE and will be in the form of annual special assessments for a period not to exceed more than 15 years. The special assessments will be based on a formula that takes into account the amount of enrichment services purchased by the utilities in past periods.

As of October 31, 1992, the financial statements do not reflect the additional liability and related deferred charge. Allegheny recorded its share of the liability in December 1992 in connection with PP&L's recognition of the liability in accounts of SSES. Allegheny's share of the liability is $4.4 million which will be paid over a period of 15 years.

12. Commitments and Contingencies, continued:

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 as of October 31, 1992 was approximately $18.0 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.

Settlements:

In May 1992, Allegheny received a settlement of $3.5 million in cash. Allegheny recorded the $3.5 million cash settlement as deferred revenue to be recognized as income over three years. The amount of revenue recognized during 1992 related to the settlement was $1.2 million. In addition, Allegheny will receive $4.5 million through noncash discounts on purchases of capital equipment.

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 reimbursed Allegheny $2.5 million for the excess energy received. Allegheny recognized the full amount of the settlement in 1991.

13. 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.

ALLEGHENY ELECTRIC COOPERATIVE, INC.

1992 Annual Report "Blueprints to the Future" Errata Sheet

These pages replace pages 32 & 33 of the Allegheny Electric Cooperative, Inc. 1992 Annual Report which contained a printing error.

Allegheny Electric Cooperative, Inc.

	1992	1991	1990	1989	1988
ASSETS					
General Plant	$648,947,342	$640,405,919	$633,120,217	$616,987,394	$609,034,277
Construction Work in Progress	$14,214,117	$11,495,759	$5,903,441	$9,240,232	$6,938,574
TOTAL PLANT	$663,161,459	$651,901,679	$639,023,658	$626,227,626	$615,972,851
Accumulated provision for depreciation & amortization	$167,818,423	$154,581,169	$137,581,537	$88,725,714	$70,828,954
NET PLANT	$495,343,036	$497,320,510	$501,442,121	$537,501,912	$545,143,897
Non-utility property - net	$4,910,988	$5,010,441	$4,970,628	$5,055,971	$5,083,843
Capital credits - NRUCFC	$141,530	$125,292	$296,167	$322,609	$344,133
Investments in associated organizations	$3,878,851	$3,879,055	$3,879,261	$3,879,452	$3,811,153
Other investments	$5,197,077	$4,628,698	$4,012,303	$0	$0
Cash - general funds	($99,816)	$640,291	($887)	($457,634)	$1,296,372
Cash - construction fund	$48,695	$1,889	$12,103	$1,483	$251,664
Temporary investments	$23,226,222	$36,895,537	$47,019,705	$35,078,414	$39,577,723
Special funds	$1,874,311	$1,889,548	$1,901,112	$1,903,823	$2,071,952
Notes receivable	$3,367,637	$3,695,755	$4,148,632	$0	$0
Accounts receivable	$10,350,153	$13,766,227	$11,549,690	$13,734,646	$14,411,035
Materials and supplies - other	$4,947,032	$4,694,020	$0	$0	$0
Prepayments	$5,250,031	$1,133,323	$1,113,921	$1,052,028	$1,030,083
Other current & accrued assets	$2,266,810	$1,047,743	$574,342	$342,028	$333,278
Unamort. debt disc. & EO losses	$9,663,536	$0	$0	$0	$0
Deferred debits	$3,706,835	$2,643,004	$499,200	$1,350,929	$848,811
TOTAL ASSETS	$574,072,929	$577,371,333	$581,418,298	$599,765,661	$614,203,944
LIABILITIES					
Memberships	$2,800	$2,800	$2,800	$2,800	$2,800
Patronage capital	$14,390,760	$12,012,827	$9,921,071	$38,941,810	$36,387,453
Donated capital	$50,730	$50,730	$50,730	$50,730	$50,730
Long-term debt - REA	$7,395,044	$7,413,005	$5,623,571	$4,010,892	$501,601,153
Long-term debt - other	$508,080,384	$508,537,784	$516,407,133	$522,511,395	$30,318,791
Notes payable	$0	$0	$0	$0	$5,180,000
Accounts payable	$6,183,734	$16,830,638	$18,923,576	$4,287,707	$8,801,704
Cost of service adjustment	$4,290,266	$2,541,259	$6,416,815	$4,893,235	$5,330,430
Accrued taxes	$3,815,257	$1,815,246	$545,874	$551,844	$346,221
Accrued interest	$3,052,458	$3,509,277	$3,502,011	$3,348,615	$3,577,179
Other current & accrued liabilities	$1,720,611	$507,177	$683,332	$664,308	$12,751
Deferred credits	$17,926,267	$18,130,598	$15,187,468	$20,502,325	$22,594,732
Operating reserves	$7,164,617	$6,019,991	$4,153,917	$0	$0
TOTAL LIABILITIES	$574,072,929	$577,371,333	$581,418,298	$599,765,661	$614,203,944
MEMBER REVENUES					
Adams	$19,370,045	$18,201,477	$16,920,011	$16,459,644	$15,450,524
Bedford	$5,533,837	$5,180,138	$4,948,332	$4,934,084	$4,717,574
Central	$11,978,858	$11,410,378	$11,170,252	$11,123,586	$10,795,933
Claverack	$9,611,069	$8,901,042	$8,739,960	$8,678,763	$8,348,586
New Enterprise	$2,429,877	$2,301,401	$2,214,818	$2,183,582	$2,066,695
Northwestern	$11,186,991	$10,484,591	$10,323,184	$10,375,739	$9,994,179
Somerset	$9,793,753	$9,106,826	$8,737,337	$8,772,896	$8,351,506
Southwest Central	$17,142,057	$16,166,475	$14,825,514	$14,548,709	$14,005,635
Sullivan	$2,619,317	$2,390,777	$2,345,952	$2,344,198	$2,193,827
Sussex	$6,778,523	$6,534,524	$6,312,906	$6,333,850	$6,004,249
Tri-County	$7,906,011	$7,450,527	$7,199,562	$7,194,547	$6,887,205
United	$8,279,836	$7,948,551	$7,664,418	$7,814,898	$7,709,440
Valley	$11,694,928	$11,123,000	$10,650,759	$10,555,639	$9,955,957
Warren	$3,159,358	$3,180,783	$3,084,646	$3,114,060	$3,051,498
TOTAL MEMBER REVENUES	$127,484,460	$120,380,490	$115,137,651	$114,434,195	$109,532,808

Five-year Financial Statement

	1992	1991	1990	1989	1988
ELECTRIC ENERGY SALES:					
Members	$127,484,460	$120,380,490	$115,137,651	$114,434,195	$109,532,808
Non-Member	$5,935,149	$24,966,421	$14,109,954	$16,057,630	$24,347,984
TOTAL RECEIPTS	$133,419,609	$145,346,911	$129,247,605	$130,491,825	$133,880,792
Cost of Power	$34,447,974	$43,054,251	$32,085,914	$33,358,887	$40,119,659
Wheeling	$10,168,786	$8,880,653	$9,249,841	$8,345,773	$7,441,025
RAYSTOWN:					
Generation					
Operation & Maintenance	$2,231,109	$2,320,600	2,560,147	$2,346,261	$736,696
Interest	$0	$0	$0	$0	$116,970
Transmission	$128,693	$206,809	$183,550	$200,521	$0
Taxes	$23,918	$23,293	$19,385	$16,884	$0
OTHER PROJECTS:					
Operation & Maintenance	$290,689	$300,322	$123,663	$0	$0
Transmission	$62,549	$15,401	$24,052	$0	$0
Depreciation	$588,886	$509,847	$466,190	$0	$0
Taxes	$18,912	$3,352	$0	$0	$0
SSES:					
Generation					
Operation & Maintenance	$19,697,503	$20,958,143	$18,024,408	$18,518,905	$19,490,190
Fuel	$7,263,452	$8,452,974	$9,512,667	$9,413,177	$8,634,341
Depreciation	$10,931,235	$9,967,034	$9,034,865	$9,376,144	$8,694,096
Taxes	$4,282,906	$4,243,498	$3,437,242	$3,429,845	$3,608,751
Transmission					
Maintenance	$272,597	$293,213	$216,007	$317,266	$207,431
Depreciation	$804,908	$804,907	$804,907	$804,768	$804,477
Interest	$39,608,659	$42,319,156	$43,018,285	$42,724,066	$44,147,039
Interest charged to Construction - Credit	($1,143,974)	($1,041,514)	($909,146)	($1,233,918)	($2,318,873)
General & Administrative	$5,716,858	$5,559,603	$5,315,694	$5,153,748	$3,980,637
TOTAL OPERATION EXPENSE	$135,395,660	$146,871,542	$133,167,671	$132,772,327	$135,662,439
Depreciation	$186,884	$159,063	$131,397	$134,988	$120,533
Taxes	$169,063	$141,582	$136,143	$109,750	$102,094
Other Deductions	($410,374)	($662,593)	$30,417,247	($701,433)	($672,383)
TOTAL EXPENSES	$135,341,233	$146,509,594	$163,852,458	$132,315,632	$135,212,683
Operating Margins	($1,921,624)	($1,162,683)	($34,604,853)	($1,823,807)	($1,331,891)
Interest Income	$2,845,352	$3,691,751	$4,636,182	$4,328,040	$2,924,868
Other - profit/(loss) net	$1,397,724	$10,081	$1,462,261	$28,940	$596,398
Other capital credits	$55,068	$0	$29,912	$21,184	$23,825
NET MARGINS	$2,376,520	$2,539,149	($28,476,498)	$2,554,357	$2,213,200

Allegheny
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