



Pennsylvania Power & Light Company

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Harold W. Keiser
Vice President-Nuclear Operations
215/770-7502

' APR 0 4 1986

Mr. Harold Denton, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

SUSQUEHANNA STEAM ELECTRIC STATION
ANNUAL FINANCIAL REPORT
PLA-2623 FILE R41-2A

Docket Nos. 50-387
50-388

Dear Mr. Denton:

In accordance with 10CFR50.71(b), attached are ten copies of the 1985 annual report for Pennsylvania Power & Light Co. The annual report for Allegheny Electric Cooperative, Inc., will be forwarded later.

Very truly yours,

H. W. Keiser
Vice President-Nuclear Operations

Attachments

cc: Mr. R. H. Jacobs - USNRC
Ms. M. J. Campagnone - USNRC

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Serving
Central Eastern
Pennsylvania

Harrisburg, capital of Pennsylvania, is the seat of state government and the home of the Pennsylvania Public Utility Commission, which regulates the activities of PP&L and other state utilities. The company is proud to serve Harrisburg, and all the other communities that make up its service area. With an abundant supply of reliable, economical electric energy, PP&L's service area is poised at the core of an industrial and commercial market area where 70 million people live within a 300-mile radius. Please contact Joseph R. Lesko, manager of economic development, toll-free at (800) 523-9854 to talk about plant location opportunities.

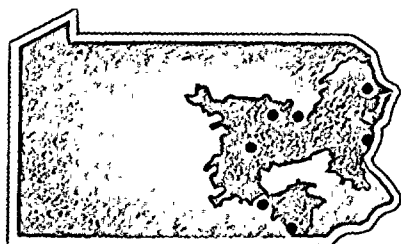
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PP&L Among the Best

PP&L power plants consistently have among the best operating records in the electric utility industry. For 1985, the company's fossil fuel units ran at 81.7 percent equivalent availability — a standard measure of the percentage of time a unit is available to operate at its rated capacity. That measure was the best-ever for PP&L with its existing mix of plants. The company's nuclear units also ran exceptionally well, as described elsewhere in this report. This excellent performance doesn't just happen. As highlighted in the photographs and captions in this report, PP&L people plan and work very hard to maintain, overhaul and operate generating units at their peak efficiency. Most of the plant overhaul, maintenance and life-extension programs are performed in-house — a partnership between Power Production, Nuclear, Construction, Project Management, Power Plant Engineering and Procurement employees throughout the company. Their dedication to excellence keeps PP&L's generating performance among the best.

Service Area

Pennsylvania Power & Light Co., based in Allentown, Pa., provides electric service to more than a 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.



Throughout the photo section of this report are small maps that locate PP&L's seven power plants in relation to the company's service area.

Notice of Annual Meeting

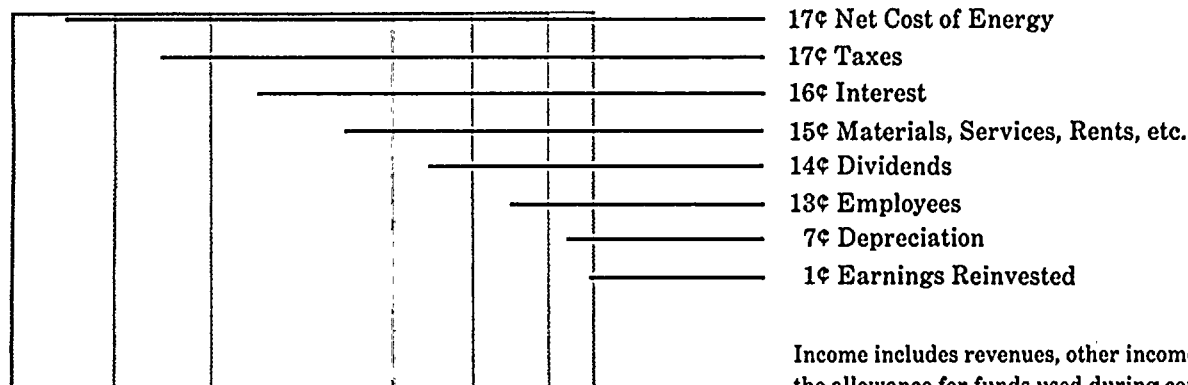
The 1986 annual meeting of shareholders will be held at 1:30 p.m. on Wednesday, April 23, 1986, at Lehigh University's Stabler Arena located on the Lower Saucon Valley campus complex — south of Bethlehem and west of Hellertown, Pa. Formal notice of the meeting, together with a reservation card for meeting attendance are included with shareholders' proxy material.

Highlights

	1985	1984
Customers (a)	1,055,546	1,039,381
Common Shareowners (a)	151,025	162,903
Electric Energy Sales, Kilowatt-hours	28.1 Billion	24.5 Billion
Interchange Power Sales, Kilowatt-hours	16.2 Billion	15.4 Billion
Electricity Generated, Kilowatt-hours	42.7 Billion	37.9 Billion
Operating Revenues	\$2.0 Billion	\$1.6 Billion
Capital Provided by Investors (a)	\$5.5 Billion	\$5.6 Billion
Utility Plant (a)		
Net Plant in Service	\$5.8 Billion	\$3.9 Billion
Construction Work in Progress	\$0.2 Billion	\$2.0 Billion
Common Stock Data		
Return on Average Common Equity	10.42%	12.30%
Earnings Per Share	\$2.68	\$3.12
Dividends Declared Per Share	\$2.56	\$2.48
Market Price Per Share (a)	\$28¾	\$25½
Book Value Per Share (a)	\$25.58	\$25.46
Times Interest Earned Before Income Taxes	2.37	2.35

(a) At year-end.

Where the PP&L Income Dollar Went in 1985



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

President's Letter

A promising new era for PP&L began in February 1985 when Susquehanna Unit 2 was put into commercial operation. This significant turning point officially ended the largest construction and financing program in the company's history. PP&L is now entering a period when our exceptionally strong coal and nuclear generating capacity can be used to meet the needs of our customers and shareholders without the necessity, for at least the balance of this century, of constructing major new generating plants.

Sales and Earnings

Although kilowatt-hour sales to service area customers declined slightly in 1985, total sales increased by 14.8 percent, compared to 1984, due to the substantial growth in electric energy sales to Jersey Central Power & Light Co. and Atlantic City Electric Co.

The revenues PP&L received from these two long-term contracts helped to offset weather-related reductions in electricity usage by service area customers. Those reductions occurred primarily because in 1985 we experienced a much warmer winter than normal.

Industrial sales also declined last year, due in large part to reduced operations by a few of our larger manufacturing customers — further evidence that our service area economy is continuing to shift from a heavy industrial base to a more diversified small business base.

The company's 1985 earnings of \$2.68 per share were down 44 cents per share from 1984. The main reason for the earnings decline was the decision of the Pennsylvania Public Utility Commission, in April 1985, to grant the company only \$121 mil-

lion of the \$330 million rate increase we had requested. The rate increase request reflected additional revenue required due to the commercial operation of Susquehanna Unit 2.

The reason given for most of the disallowance was that the company presently has too much generating capacity. The fact remains, however, that all of PP&L's existing generating capacity is necessary to assure long-term reliable and economic electric service. Since the company filed a conservative and fully justified request, we have appealed the PUC decision to the Commonwealth Court of Pennsylvania.

The company, however, is recovering the return on investment disallowed as excess capacity in the Susquehanna Unit 1 rate case through our contract to sell power to Jersey Central. Under the terms of that contract, which went into effect in April 1985, PP&L will be selling the electric output from 945,000 kilowatts of our total generating system at full cost of service until 1995, with declining amounts each year until 1999.

We are actively pursuing additional contractual power sales to utilities in an effort to recover as much as possible of the return on investment disallowed in the Susquehanna Unit 2 rate case.

Although earnings declined in 1985, the quality of the company's earnings has improved significantly due to the fact that the large, non-cash earnings associated with funds invested in construction have ended now that both Susquehanna nuclear units are in commercial operation. The resulting increase in the company's liquidity underscores the financial transition occurring at PP&L.

While Susquehanna was being constructed, the company's liquidity decreased sharply at the same time that earnings were increasing through the recording of the non-cash allowance for funds used during construction. Now that both Susquehanna units are in commercial operation, the company's liquidity is improving, but we are experiencing a decline in earnings due to the PUC's excess capacity disallowance in April 1985.

Looking ahead, we expect that our efforts to increase sales, combined with our continued emphasis on cost containment, including lower financing costs, will improve the company's earnings per share performance by the end of 1986.

Marketing and Economic Development

Higher sales revenues reduce the need for rate increases. This is the purpose and primary benefit of PP&L's marketing and economic development programs, because holding our electric power rates below the average charged regionally and nationally is vital in retaining and attracting job-producing businesses for our service area. This basic objective of our marketing strategy recognizes the tie between the financial health of the company and the prosperity of the communities we serve.

The company's marketing programs continued to score impressive gains in 1985 among residential, commercial and industrial customers.

For example, over 80 percent of all new residential customers in our service area now choose electric space heating. This impressive penetration of the home heating market is the result of the competi-

tive price of PP&L's electric service and the effectiveness of PP&L people in promoting the conveniences and cost advantages to be gained from the wise use of electricity.

Since many businesses in Central Eastern Pennsylvania are competing in difficult domestic and world markets, we also are well aware of the importance of our efforts to help them be competitive by keeping PP&L's price for electric service as low as possible.

An important part of our ongoing economic development effort is to provide industrial and commercial customers special rate incentives designed to encourage them to locate or expand operations in our service area.

The latest in a series of PP&L incentive rates, which became effective in January 1986, eliminates the off-peak demand charge in order to encourage increased production during off-peak hours when lower-cost electricity is available. These new rate changes also include experimental demand-free days and expand the number of industrial and commercial customers that can take advantage of interruptible rates.

These new economic development rates are directed to off-peak time periods which occur at night and over weekends. This permits us to make more effective use of the company's generating plants, while strengthening our efforts to defer the need for new generating capacity through at least the balance of this century.

Programs that shift significant portions of electric usage to off-peak hours support PP&L's broad-based objectives, because they minimize future generating plant investment, and result in significant savings for our customers.

Operating Performance

The continued outstanding performance of the company's generating plants demonstrates the commitment of PP&L people to excellence in all aspects of our operations. The special contribution of our generating plants in achieving PP&L's service-oriented mission is highlighted in this annual report.

Our Susquehanna nuclear units made an essential contribution to the company's record 1985 production output and demonstrated the value of these generating units in meeting the energy needs of our customers.

Following a very smooth startup leading to commercial operation in February 1985, Susquehanna Unit 2 operated at a capacity factor of 85.4 percent, while generating more electricity than any other American boiling water reactor during 1985. Unit 1, operating for 138 consecutive days following the successful completion of its first refueling outage, also exceeded its 1985 capacity factor and energy output budget objectives.

PP&L's non-nuclear power plants turned in another outstanding year in 1985, with an equivalent availability of 81.7 percent — the best ever for our current mix of fossil-fuel units. This excellent record, combined with the exceptionally high

Susquehanna output, permitted the company last year to sell 16.2 billion kilowatt-hours within our power pool and to other utilities in neighboring states. These sales, which resulted in energy savings of \$118.8 million for PP&L's customers, were important to holding down our cost of service.

With the construction of Susquehanna now complete, the company has allocated about \$136 million for capital expenditures over the next five years to extend the life of PP&L's non-nuclear power plants. This important objective recognizes that the company's existing, highly efficient generating system is the essential resource that will permit us to meet our customers' ongoing needs for reliable and economic electric service — without taking on the financial risk of new plant construction.

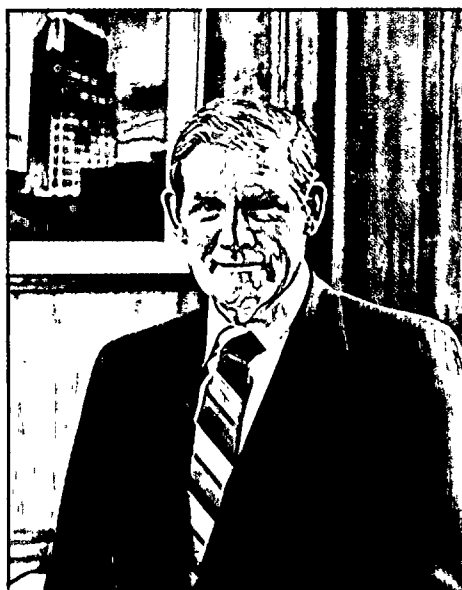
The strong commitment by PP&L people to achieving excellence in all phases of our operations brought about the company's outstanding performance last year. Our confidence in the future is based on their record of accomplishment and dedication to service.

In 1986, we will continue to work hard to achieve the expectations of you, our shareowners, and to meet the needs of the people of Central Eastern Pennsylvania for reliable electric service at the lowest possible cost.

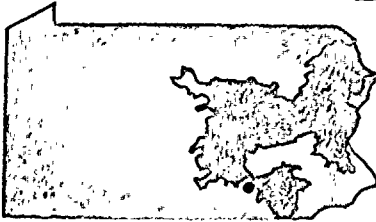
Respectfully submitted,



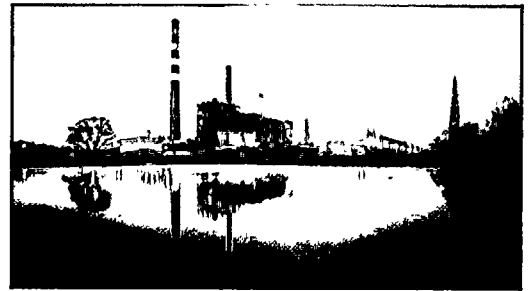
Robert K. Campbell
March 1, 1986



Brunner Island Plant



PP&L's Brunner Island Plant is located in York County, along the west bank of the Susquehanna River about 15 miles south of Harrisburg. Three bituminous coal-fired units provide a total of 1,464,000 kilowatts of capacity. The plant employs 211 people.



Year in Review

OPERATIONS

Employee safety continues to be PP&L's number one operating priority. The company takes very seriously its obligation to provide the tools, equipment and training that employees need to help them achieve a safe work environment. At the end of 1985, PP&L employees marked the fifth straight calendar year without an on-the-job fatality.

The incidence of lost-time accidents was the lowest in PP&L's 65-year history, bettering 1984 — the previous best year — by nearly 30 percent. Twelve work groups in the company won acclaim for working a million hours without a lost-time accident during the year. PP&L also had the best 1985 lost-time accident record of the seven major Pennsylvania electric utilities. The positive attitude that PP&L employees display every day toward safety make these gratifying statistics possible.

Earnings and Dividends

Earnings for 1985 were \$2.68 per share of common stock, compared to \$3.12 for 1984. Earnings for the year were adversely affected by an April 1985 decision by the Pennsylvania Public Utility Commission (PUC) which granted only \$121 million of a \$330 million net rate increase requested by the company.

The quarterly dividend on PP&L's common stock was increased 2 cents per share to 64 cents, beginning with the April 1, 1985, dividend. It had been 62 cents per share since April 1, 1984.

Sales and Revenues

Revenues for 1985 were \$1.98 billion, up \$414 million over the previous year. The increase came from higher sales — primarily to other utilities — and from the \$121 million rate increase which went into effect April 26, 1985.

Residential customers in PP&L's service territory used 1.2 percent less electricity in 1985 than in 1984, primarily because of warmer than normal temperatures during the home-heating season. Commercial usage was up 3.1 percent, reflecting about-normal growth in the service area economy, while industrial usage fell 2.6 percent, primarily due to lower steel manufacturing sales.

Overall, kilowatt-hour sales were up 14.8 percent. Essentially all of the 3.6 billion kilowatt-hour increase resulted from higher sales to other utilities — primarily under long-term contracts.

Demand Breaks Records

PP&L customers in Central Eastern Pennsylvania and energy users in the Pennsylvania-New Jersey-Maryland Interconnection (PJM) — the 11-company power pool in which PP&L operates — broke records in 1985 for both winter and summer peak use of electric power.

The PP&L winter peak use record of 5.21 million kilowatts, set in January 1982, was exceeded on Jan. 21, 1985, when sub-zero temperatures pushed electric demand to 5.52 million kilowatts. The PJM winter peak-demand figure increased from 30.6 million kilowatts to 33.3 million kilowatts on the same day.

Hot, humid weather and the re-

sulting air-conditioning load pushed the PP&L peak summer demand to new highs on two successive August days. Peak demand from PP&L customers reached 4.24 million kilowatts on Aug. 14, and 4.27 million kilowatts on Aug. 15. The previous record summer demand of 4.19 million kilowatts occurred in June 1984. Demand on all of the PJM companies reached 36.7 million and 37.0 million kilowatts, respectively, on the same two August days. The previous PJM record was 35.3 million kilowatts, also reached in June 1984.

Power Sale Finalized

In April 1985, the company began selling the output from 945,000 kilowatts of its electrical generating capacity to Jersey Central Power & Light Co. after the New Jersey Board of Public Utilities ruled the transaction was in the public interest. The agreement had previously been approved by the Federal Energy Regulatory Commission (FERC).

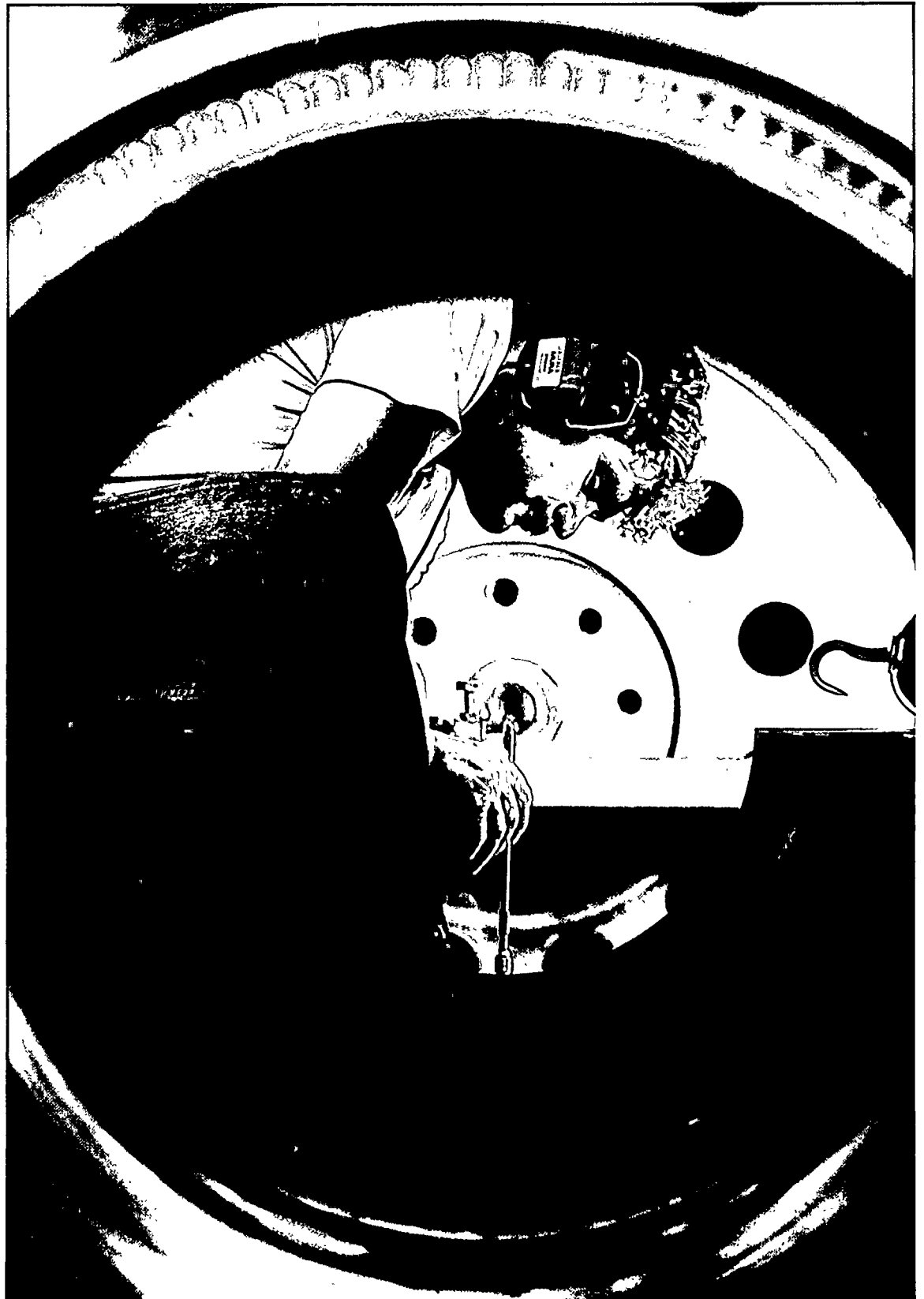
Terms of the sale had been negotiated with JCP&L in 1984 after the PUC ruled in August 1983 that 945,000 kilowatts of PP&L generating capacity was surplus, and that the company could not earn a return on \$287 million of its net investment in generating facilities representing that surplus.

The power being sold to JCP&L represents a proportionate share of each generating unit on the PP&L system. The sale provides JCP&L with 945,000 kilowatts of PP&L capacity and related energy output through 1995, and decreasing amounts after that until the contract expires in 1999.

PP&L Construction Department worker uses a sonic measuring device to adjust, within thousandths of an inch, the clearance between stationary steam nozzles and the turbine rotor which is to be put in place. A thin wire is stretched along the exact center line of the rotor bed. When the device contacts the wire, an audible signal means the measurement is exact. Such close tolerances assure minimal friction and vibration, allowing up to five years between major overhauls.

"Our basic aim is to correct all potential problems within the confines of an overhaul schedule — to avoid a forced outage later. Depending on the job magnitude, it's not unusual to do our planning several years ahead of the overhaul. We plan our work carefully — then carefully work our plan."

Harry Spagnola
Technical Supervisor



PP&L has earmarked \$40 million for a nine-year program of modernization at the 75-year-old Holtwood hydroelectric generating station that will allow the plant to stay in service for the indefinite future. Projects such as the resurfacing of the dam face and the refurbishing of the plant exterior have already begun. Engineer Chris Porse, below right, discusses progress of gunite application to the face of the dam with the contractor's on-site supervisor.



"For 75 years this dam has taken everything the unpredictable side of the Susquehanna River could throw at it. By resurfacing the face of the dam we will correct what floods and ice have claimed. We expect to make the dam as good as new for many years to come."

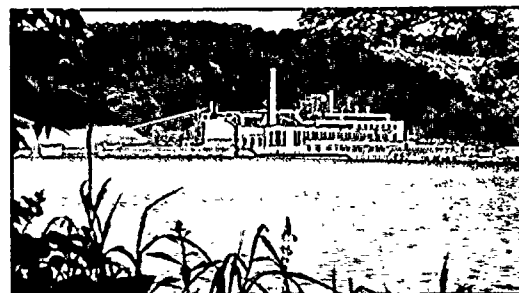
Chris Porse
Technical Supervisor



Holtwood Operations



Holtwood Operations, located in southern Lancaster County, consists of 10 hydro-electric generating units totaling 102,000 kilowatts of capacity, and a 73,000-kilowatt steam unit which burns a mix of fossil fuels. Holtwood employs 133 people.



Lansdale Joins PP&L

The Borough of Lansdale in Montgomery County in July 1985 was connected to the PP&L system as a wholesale customer. The borough had been purchasing electricity for its 7,000 customers from Philadelphia Electric Co. Lansdale adds about 120 million kilowatt-hours to PP&L annual sales and increases system demand by about 20,000 kilowatts. Fifteen other municipalities are also PP&L wholesale customers.

Construction Expenditures

Even with the Susquehanna plant completed, construction expenditures will still be needed to meet customers' ongoing needs for reliable electric service.

Budget figures call for construction expenditures of \$288 million in 1986, and \$234 million in 1987. A large portion of the outlay, about \$144 million for the two years, is earmarked for ongoing improvements, replacements and life-extension programs at the company's fossil-fuel generating plants. Another \$113 million is budgeted for ongoing modifications at the Susquehanna nuclear plant during the two years.

Projects Postponed

As part of a cost-containment program, PP&L in May postponed a number of major projects in its 10-year building program. Included were renovations of the company's 23-story corporate headquarters in Allentown, as well as new division service centers for the Harrisburg, Hazleton and Scranton operating areas.

Steam Facility Sold

PP&L is essentially no longer in the steam heat business. The Harrisburg steam heat system — including the Walnut Steam Heat Plant owned by PP&L since 1926 — was sold on Dec. 10, 1985, to Harrisburg Steam Works Ltd. (HSW).

That firm will provide steam to about 450 customers in downtown Harrisburg through seven miles of underground distribution lines. Four oil-fired boilers at the Walnut plant provide a capacity of 530,000 pounds of steam an hour.

PP&L will operate the steam system for HSW during most of 1986 to give the new owners time to become familiar with the operation. An affiliate of HSW plans to install facilities to cogenerate electricity at the Walnut plant. Cogeneration is the simultaneous production of steam and electricity using the same fuel. PP&L has agreed to purchase electricity cogenerated at the facility.

New Labor Contract

A new three-year labor contract was negotiated and ratified during the summer between PP&L and two locals of the International Brotherhood of Electrical Workers, which represent more than 5,300 of PP&L's employees.

The contract provides a wage increase of 4.75 percent in the first year, and 4.5 percent in the second and third years. The contract also provides for several changes in the company's retirement plan to comply with federal legislation enacted in 1984, and cost-containment measures in the company's medical benefit plans.

PP&L Helps Out

Record numbers of PP&L line crews were sent to assist New York, Connecticut, Rhode Island and Massachusetts utilities after Hurricane Gloria swept through their service areas on Sept. 27, 1985. The high winds and downed trees and limbs destroyed electric service facilities over a wide area, leaving millions of people without electricity.

In all, 220 linemen, 20 foremen, 12 mechanics and 126 vehicles were assigned to the stricken areas. This was the company's largest effort ever to help other utilities rebuild power lines and restore service. The affected utilities subsequently reimbursed PP&L for the costs of its storm-aid efforts under provisions of emergency mutual-aid pacts.

After the relief effort, scores of unsolicited letters poured into PP&L offices from the affected companies, and from grateful residents, complimenting PP&L crews on their hard work, professionalism, dedication and friendliness under adverse conditions.

Reservoir Begun

After seven years of planning, engineering and environmental review, construction began in late September 1985 on a 650-acre reservoir in Harmony Township, N.J., that will help ensure continued generation of electricity during drought periods.

The Merrill Creek Reservoir will store 15 billion gallons of water to replace — during low-flow periods — water used by PP&L and six other utilities with generating facilities in

Lake Wallenpaupack Hydro



Lake Wallenpaupack hydroelectric generation consists of a 4,700-acre lake in the Pocono Mountains, associated recreation facilities, an 870-foot-long concrete dam, a 3.5-mile pipeline, and a powerhouse with two units totaling 44,000 kilowatts of capacity.



the Delaware River Basin region. Water will be pumped from the Delaware during periods of high river flow, and stored for release during periods of drought, such as experienced in the region during 1985. PP&L's share of the project will provide replacement water for the two 820,000-kilowatt oil-fired units at the company's Martins Creek plant, north of Easton, Pa.

75th Anniversary

PP&L's Holtwood hydroelectric power plant celebrated its 75th anniversary in October 1985. The 102,000-kilowatt plant is located on the east shore of the Susquehanna River in southern Lancaster County.

Holtwood was the largest and most advanced hydroelectric facility in the country when it was put into service in 1910. With careful preventive maintenance and upgrading of various components over the years, Holtwood is as productive as ever. Since its fuel — falling water — costs nothing, the plant's value increases over the years as other generating fuels become more expensive.

In the next several years, PP&L plans to allocate about \$40 million of capital improvements to extend the life of Holtwood's hydro units.

Mining Operations

Pennsylvania Mines Corp. (PMC), PP&L's coal mining subsidiary, completed an agreement in December 1985 to have Rochester & Pittsburgh Coal Co. manage PMC's Greenwich mines beginning Jan. 1, 1986.

This is one in a number of steps PMC is taking to make the Greenwich mines more cost-efficient. The Greenwich mines provide about 18 percent of the bituminous coal used at PP&L's power plants.

Another PP&L coal-mining subsidiary, The Arcadia Company Inc., was sold at the end of 1985. Arcadia assets consist primarily of surface coal reserves.

RATE-RELATED ACTIVITIES

The PUC, late in April 1985, granted about \$121 million of the \$330 million net rate increase requested by the company in July 1984.

The PUC denied the company a return on the common equity investment in the second unit at its Susquehanna nuclear plant — based on a judgment that PP&L has too much generating capacity. This adjustment reduced requested revenues by about \$161 million. Other adjustments in the PUC decision reduced the PP&L request by another \$48 million.

The company filed a conservative request and believes the evidence presented to the commission clearly established the reasonableness of the full amount. On May 17, 1985, PP&L appealed the PUC rate case decision to the Commonwealth Court of Pennsylvania, where it is still pending.

Capacity For Sale

In an effort to improve earnings performance, which is being adversely affected by the PUC decision, PP&L has offered other utili-

ties an opportunity to buy capacity and energy from the company.

For utilities that will need additional generating capacity, this represents an opportunity to purchase that capacity on a long-term basis without the uncertainties of new construction. At year-end, discussions with other utilities were being conducted, but no firm commitments had been made.

Wholesale Rates

A rate increase of \$5.7 million went into effect on Jan. 1, 1986, under provisions of a settlement agreement between PP&L and 17 wholesale customers, which was accepted by the FERC.

Rates increased about 20 percent for the 16 boroughs and one investor-owned utility that buy their electric power from PP&L for resale to their own customers. PP&L had filed the \$5.7 million request for the higher rates with the FERC in August 1985, asking that the increase go into effect at the end of October 1985.

In the settlement negotiations, the wholesale customers agreed to the requested increase and PP&L agreed to delay the start of the higher rates for an additional two months.

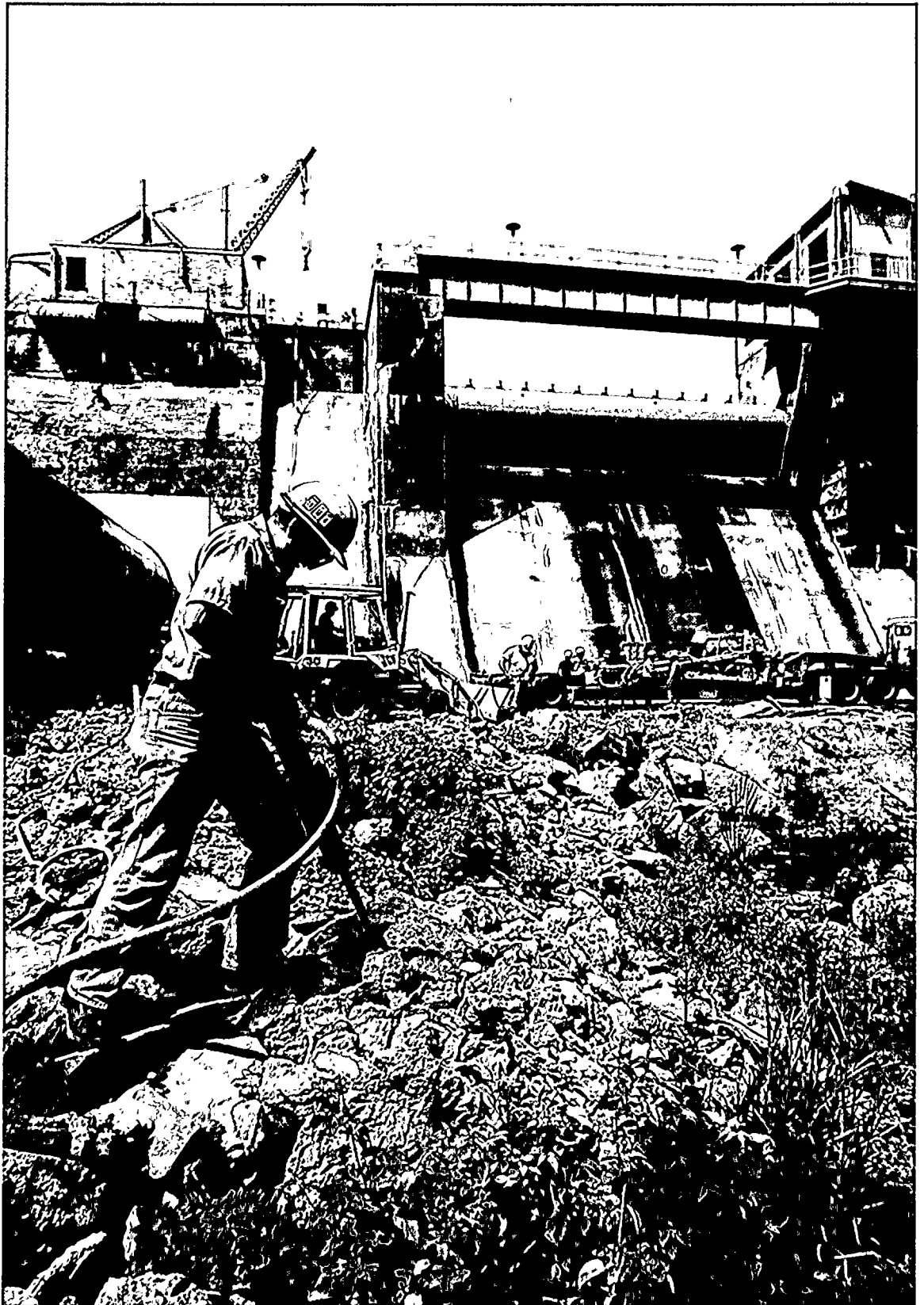
Weatherization Begun

A new weatherization program called WRAP (Winter Relief Assistance Program) was implemented during 1985. WRAP is designed to help cut energy costs for single-family homes owned or rented by low-income people, and multi-family rental units occupied primarily by low-income tenants.

Even though the Wallenpaupack hydro plant is in its 60th year of operation, it is as reliable as ever. Because the pipeline to the power house traverses rugged Pocono mountain terrain, it must be maintained free of overgrowth and accessible for patrol or repair throughout the year. Ongoing scheduled maintenance, such as the replacement of weathered concrete shown below, keeps all of the Wallenpaupack facilities in optimum operating condition.

"Since this is a peak-load hydro unit, remotely controlled by Allentown system operators, our construction crews are counted on to be the eyes, ears and hands of the operating forces found at other plants. These folks take that responsibility seriously. When the Wallenpaupack units are needed, they're ready."

Joseph Sullma
Construction Foreman



PP&L Construction Department mechanic uses a hydraulic device to remove pins securing turbine blades in place. Several blades in the high pressure stage of the big Martins Creek Unit 3 turbine were found to have slight cracks. Replacement blades were located, procured on an expedited basis, and replaced by the end of the overhaul period. The blades must be finely machined to fit within tolerances of tens of thousandths of an inch, so they won't vibrate in use and wear prematurely.

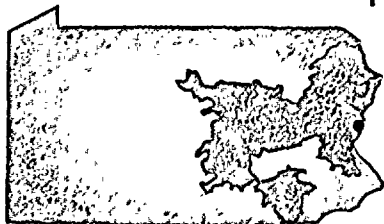


"It was a joy watching our people put these new blades in place. They wouldn't tolerate a sloppy fit. Nothing was forced into place. They put it together like they were building a watch. I haven't seen anybody that didn't simply demand the best of themselves."

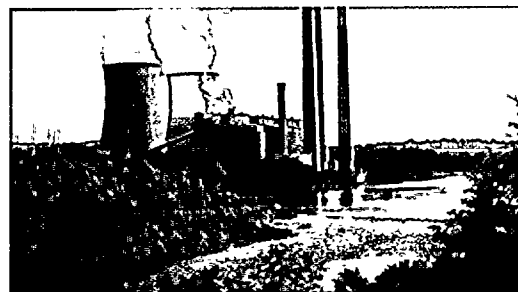
Allan Scott
Mechanical Repairs Foreman



Martins Creek Plant



The Martins Creek plant has two 150,000-kilowatt coal-fired units and two 820,000-kilowatt oil-fired peak-load units. The plant is located in Northampton County on the Delaware River about 15 miles north of Easton. The plant employs 229 people.



During the year, 2,508 single-family dwellings were weatherized, and 1,687 multifamily apartment units were committed to the weatherization program.

In contrast to other programs implemented to help people pay their home energy bills, WRAP helps to treat one of the root causes of high bills — poorly insulated dwellings. PP&L is allocating \$2 million a year to the program.

Additionally, the Pennsylvania Governor's Energy Council awarded PP&L another \$252,000 for the WRAP program. These funds are from the Solar Energy and Energy Conservation Bank of the U.S. Department of Housing and Urban Development. The money is being used to match PP&L funds for single-family homes, and to reduce the principal amount on energy conservation loans made by banks to landlords of multifamily units.

Under the program, the company first conducts home energy audits to determine needed weatherization measures. Depending on the findings of the audit, qualified customers who use electric heat can receive window and baseboard caulking, door and window weatherstripping, water heater wrapping, attic and duct insulation and storm windows.

In another part of the program, the company provides funds to reduce the interest on energy conservation loans for landlords, or to install low-cost energy conservation measures in multifamily rental units.

HELP Continues

Operation HELP, an energy as-

sistance program begun by PP&L in March 1983, is continuing into 1986.

During its three-year trial period, Operation HELP provided about \$760,000 to assist 4,200 needy families in PP&L's service area.

More than half of this money came from contributions by PP&L customers who added an extra dollar to their electric bill payments. The rest came from PP&L, and from contributions by company employees.

The program provides funds to selected social service agencies and community groups that have agreed to administer the assistance. The funds help pay any type of home energy bill — oil, natural gas, coal, wood or electric — for elderly and handicapped people, and others with special hardships.

SECURITY SALES

With both Susquehanna nuclear units in commercial operation, the company's capital requirements dropped drastically in 1985. Sales of securities declined from \$538 million in 1984 to \$180 million in 1985.

The Lehigh County Industrial Development Authority in late June 1985 authorized \$55 million of its tax-exempt revenue bonds to finance pollution-control and solid-waste-disposal equipment at the Susquehanna plant. The bonds were offered to the public by underwriters at a 9.375 percent interest rate. The authority bonds were backed by PP&L first-mortgage bonds with terms identical to the revenue bonds.

In September 1985, \$125 million of first-mortgage bonds were sold through underwriters at a 12 percent interest rate. Proceeds were

used for general corporate purposes, including the retirement of debt incurred earlier to provide funds for construction expenditures.

SUSQUEHANNA PROJECT

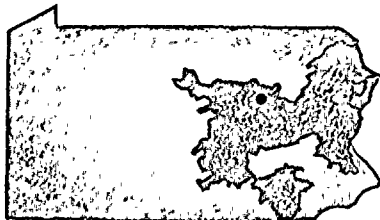
The most significant 1985 milestone for the company's Susquehanna nuclear plant near Berwick, Pa., was the completion of testing and the start of commercial operation for Unit 2 on Feb. 12, 1985. This culminated more than 11 years of dedication and hard work by the thousands of people connected with the construction of Susquehanna. With both units in service, PP&L should have sufficient generating capacity for the remainder of this century.

Unit 1 Refueled

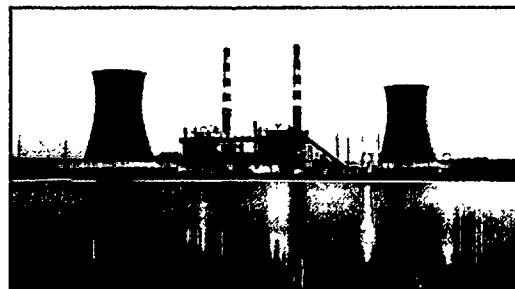
Concurrent with Unit 2 commercial operation, Unit 1 was shut down for a 122-day refueling and maintenance outage. This was the first refueling for Unit 1 since it went into commercial operation on June 8, 1983. During this initial operating period, Unit 1 ran at a capacity factor of 67.2 percent. Capacity factor is a measure of electricity actually produced compared to what would have been produced if the unit had operated continuously at full power. The average annual capacity factor for all nuclear units in the United States is about 60 percent.

About one-quarter of its original 764 uranium fuel bundles were replaced, and more than 1,200 maintenance tasks were completed before Unit 1 was put back into service in mid-June 1985.

Montour Plant



The Montour plant is located in Montour County, near Washingtonville, about 12 miles east of the Susquehanna River. The plant consists of two modern, 1970s vintage 750,000-kilowatt bituminous coal-burning units. The plant employs 192 people.



Unit 1 is scheduled to be taken out of service, in mid-February 1986, for its second refueling. This will allow both units to move into a rotating 18-month schedule. Subsequent refueling outages will be scheduled for the spring and fall months when energy demand is lowest. The first refueling for Unit 2 is scheduled to begin in August 1986.

Emergency Preparedness

Evaluations by outside agencies have given Susquehanna high marks in a number of areas.

A full-scale 12-hour emergency exercise at Susquehanna involving two primary county emergency organizations, 26 municipalities, various state agencies, and PP&L, was conducted on May 1, 1985.

The exercise, which tested the emergency preparedness and response capabilities of PP&L personnel and the Pennsylvania Emergency Management Agency, as well as emergency management personnel in a 10-mile radius of the nuclear plant, was observed by the Nuclear Regulatory Commission (NRC) and the Federal Emergency Management Agency.

Exercises of this scale are held every two years under federal regulations. The exercise revolved around a simulated accident and other unusual situations at the plant. Details of the scenario are not disclosed to drill participants until the simulated incidents occur. The exercise included sounding of 111 emergency sirens in the 10-mile zone, and activation of the region's emergency radio broadcast system. PP&L scored well in the exercise.

NRC Evaluation

Another NRC evaluation provided a vote of confidence in late July for the operating and support teams at the Susquehanna plant.

The NRC gave Susquehanna the highest ratings possible in seven of 10 areas examined, and a satisfactory rating in the other three areas. The agency's Systematic Assessment of Licensee Performance covered a period from February 1984 through April 1985.

In the report, the NRC concluded that PP&L's management approach "encourages conservatism, aggressiveness, openness and a straightforward approach to problem resolution," and that "the staff is composed of professional, well-qualified individuals guided by well-defined programs."

INPO Report

For the second straight year, an evaluation by a team from the Institute of Nuclear Power Operations (INPO) also gave the plant high marks.

INPO is an independent nonprofit association organized by the electric utility industry to assist members in achieving the highest standards of excellence in nuclear plant operations. The INPO evaluation included examination of station organization and administration, operations, maintenance, technical support, training and qualification, radiological protection, chemistry and emergency preparedness.

Additionally, PP&L in 1985 became the first utility in the country to receive accreditation for all 10 training programs for which INPO provides accreditation criteria.

Safety Milestone

A safety milestone was reached at Susquehanna in early September 1985 as plant personnel accumulated 3 million consecutive employee-hours worked without a lost-time injury. The record-breaking safety streak began Aug. 30, 1983. At no other point in PP&L's history had any facility or group gone 3 million accident-free hours in one stretch.

Units Run Well

Year-end capacity factor calculations show that both Susquehanna units are running extremely well. Unit 1, from the time it was put back in service after its refueling outage, through the end of the year, had an 88.7 percent capacity factor. Unit 2, from its February 1985 commercial operation date through year-end, ran at an 85.4 percent capacity factor. Both compare very well to the 60 percent average annual rate for all U.S. nuclear reactor units. Additionally, Unit 2 produced more kilowatt-hours of electricity than any other boiling water reactor in the U.S. during 1985.

MARKETING/ECONOMIC DEVELOPMENT

PP&L in 1985 continued its aggressive marketing efforts to promote new jobs and increased production among industrial and commercial firms in the company's service area. The company's strategy is to market its strong capacity situation, and its abundant supply of electric energy, in ways that will provide economic benefits for Central Eastern Pennsylvania.

PP&L Construction Department employees make adjustments to steam piping on a boiler feed pump turbine during a Montour Unit 2 overhaul. Inspection and preventive maintenance work during outages allows repair or replacement before worn parts lead to a forced outage. Typically more than 500 people are involved in an overhaul so all tasks can be performed expediently and the unit placed back in use.

"By using PP&L people, for the most part, during overhauls, we see a lot of personal pride in workmanship. They see these as their own units — and they strive for quality work. When the units are put back together they want to see them run at the top end of their efficiency."

Gene Baker
Construction Foreman



When the first unit at the Sunbury plant went into commercial operation in 1949, its boiler was controlled by the most up-to-date pneumatic and vacuum-tube instrumentation. Unfortunately, such mechanisms are subject to a lot of wear and tear and seldom last for more than 30 or 35 years. As part of a systemwide extended-life program, nearly \$20 million worth of new microprocessor-operated controls are being installed, part of which are shown below being wired into place.

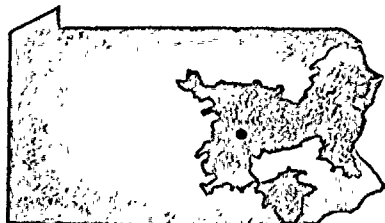


"It's much less expensive to renovate, update and replace equipment than to build new power plants. At Sunbury we now have a state-of-the-art control system that should help Sunbury maintain its workhorse reputation for many years to come."

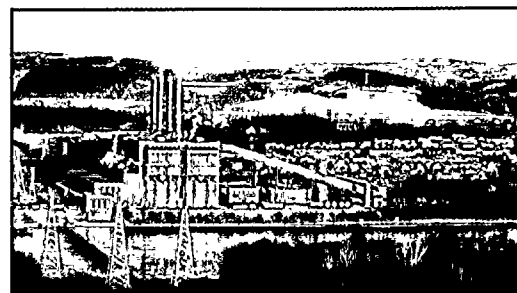
James Batug
Senior Project Engineer



Sunbury Plant



The Sunbury plant is located in Snyder County on the Susquehanna River. It consists of two anthracite, bituminous and coke-burning units and two bituminous-only units for a plant capacity of 389,000 kilowatts. The plant employs 205 people.



Job Goal

A 1985 corporate goal of achieving a net increase of 5,000 new jobs in PP&L's service territory was exceeded by a wide margin as 172 new or expanding firms provided a net increase of 5,739 jobs.

Marketing Results

In addition to aiding the service area economy and helping to provide new jobs throughout Central Eastern Pennsylvania, PP&L's economic development efforts boosted electric energy sales more than 143 million kilowatt-hours above what they otherwise would have been.

Sales efforts among PP&L industrial and commercial customers added more than 85 million kilowatt-hours of sales, and residential marketing programs added almost 29 million more kilowatt-hours.

In all, 257 million kilowatt-hours of added sales were attributable to company marketing programs — exceeding sales goals by about 15 percent.

As an example of the strong allure that electric heat has in the residential energy market in PP&L's service area, 82 percent of the new residences served by PP&L chose to heat electrically.

Incentive Rates

New incentive rates proposed by the company in 1985 were conditionally approved by the PUC and went into effect Jan. 1, 1986. The rates are designed to help PP&L's commercial and industrial customers increase productivity.

The new rates can provide significant benefits to local industries by enabling them to compete more

effectively through the use of lower-priced electricity, and through increased off-peak use. The economic development initiatives eliminate demand charges for off-peak energy use, and create experimental demand-free days for industrial and commercial customers. Demand is a measure of a customer's maximum need for energy.

Another provision of the new rate reduces the threshold demand level required to qualify for the interruptible rate structure first introduced in 1984. Also included in the incentive rate package was a reduction in charges for residential customers who use off-peak storage systems to heat their homes. This new incentive also will contribute to the company's goal of managing residential peak load growth.

Greenhouse Marketing

The company initiated a major effort in September 1985 to attract greenhouse operators to PP&L's expanding greenhouse project where waste heat recovered from the company's Montour power plant is used as a prime heat source.

The complex, known as the Montour Agribusiness Center, now houses four commercial growers that cultivate a variety of flowers, vegetables and bedding plants for retail and wholesale markets.

The center began in 1980 as a waste-heat utilization research project to determine whether warm water that is normally circulated through the nearby coal-fired power plant's cooling towers could economically be used to heat commercial greenhouses.

The research project was very suc-

cessful, showing that it does indeed cost much less to heat a greenhouse with warm water than with conventional fossil fuels. The company's goal is to now turn the project into a commercial center that will stimulate economic development in the region.

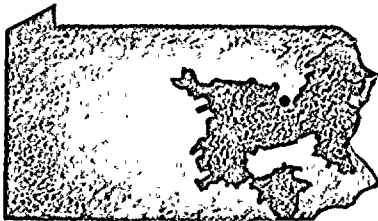
A new addition to the center is Connecticut-based AgrowNautics Inc., which began construction of a 1-acre greenhouse in July 1985 and by year-end was growing lettuce under controlled-environment conditions. Besides using Montour's warm water to heat the greenhouse, the facility also is taking advantage of PP&L's special greenhouse electric rates for high-intensity lighting. These lights supplement natural daylight to shorten the time needed from planting to harvest, and also contribute to the total heating requirement.

Other successful commercial operators at the site include Bryfogle's Inc., with six acres of flowers and bedding plants, and Campbell Soup and Pepperidge Farm Inc., with six acres of tomatoes and agricultural experiments. Green Empire Inc., which grows gourmet Shiitake mushrooms in a 93-acre wooded area near the site, also has leased land at the center.

MANAGEMENT CHANGES

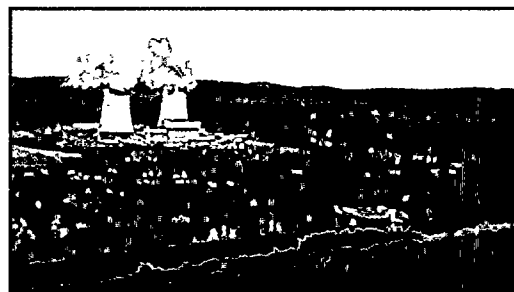
Jack R. Calhoun, senior vice president-Nuclear, retired from PP&L on July 1, 1985, after five years as the senior officer in the company's Nuclear Department.

Calhoun came to PP&L in 1980 from the Tennessee Valley Authori-



Susquehanna Plant

PP&L's Susquehanna nuclear plant is located in Luzerne County about five miles northeast of Berwick. Its twin boiling-water reactors provide 2,100,000 kilowatts of capacity — 90 percent owned by PP&L. The plant employs about a 1,000 people.



ty where he had been director of nuclear power. He provided leadership for PP&L's nuclear operations for the critical period during which construction of the Susquehanna plant was completed and its two units placed into commercial operation. He was instrumental in mapping key strategies to maintain PP&L's commitment to excellence in operating the plant.

Succeeding Calhoun on July 1, as senior vice president-Nuclear, and as a member of PP&L's Corporate Management Committee, was Bruce D. Kenyon, former vice president-Nuclear Operations.

Kenyon stepped into the principal management role of a department he helped mold. He had been a leading force in the successful development of Susquehanna plant operations and its support functions.

Kenyon joined PP&L in 1976 as manager-Nuclear Support in the Power Production Department. He was named manager-Construction Department in 1978, and a year later he was promoted to assistant vice president-Nuclear. He had been vice president-Nuclear Operations since 1980.

Kenyon came to PP&L from Northeast Utilities, Waterford, Conn., where he had been superintendent of the Millstone nuclear plant.

Succeeding Kenyon as vice president-Nuclear Operations on July 1, was Harold W. Keiser, who had been superintendent of the Susquehanna plant.

Keiser came to PP&L in 1980 from Consumers Power Co. in Covert, Mich., where he had been operations/maintenance superintendent at that

utility's Palisades nuclear plant.

On Aug. 1, 1985, functions of the company's Legal and Regulatory Affairs departments were combined.

Gennaro D. Caliendo, vice president and chief counsel-Regulatory Affairs was appointed vice president and general counsel to head the new Office of General Counsel. Edward M. Nagel, vice president, general counsel and secretary, was appointed vice president and secretary. Nagel will concentrate on matters pertaining to the board of directors, and priority assignments such as bulk power marketing.

Caliendo joined PP&L's Legal Department in 1968 as an attorney. He was named assistant counsel in 1975, and appointed chief counsel-Regulatory Affairs in 1978 when the Regulatory Affairs Section was established. He was appointed vice president and chief counsel-Regulatory Affairs in November 1981 when the Regulatory Affairs Department was established.

Nagel joined PP&L in 1952 as an attorney, and in 1962 was promoted to assistant counsel. In 1968 he was appointed assistant general counsel. Three years later he was named general counsel, head of the Legal Department and secretary of the company. He became a vice president in 1973.

Norman W. Curtis, vice president-Engineering & Construction-Nuclear, retired Oct. 1, 1985, after a 35-year career with PP&L.

Curtis played a pivotal role in the building of Susquehanna, the largest construction project ever undertaken by PP&L. He joined PP&L as a Construction wireman's helper in

1950 and progressed through a number of foreman and project engineer jobs. Among his early experience had been assignments in the company's former Atomic Power Division from 1956 through 1965. He also had been superintendent of System Operation, manager-Power Supply and Construction manager.

He was manager-Engineering & Construction when ground was broken for the Susquehanna plant in November 1973, and in January 1974 he was promoted to vice president in the System Power & Engineering Department. Six months later, he assumed project management responsibility for the Susquehanna plant, an assignment he retained until his retirement.

BOARD OF DIRECTORS

Dr. Elizabeth E. Bailey, dean of the Graduate School of Industrial Administration at Carnegie-Mellon University in Pittsburgh, did not stand for re-election to the board at the company's annual meeting in April 1985. Conflicts in her business schedule would have interfered with her attendance at PP&L board meetings. Dr. Bailey had joined the board in mid-1983.

Dr. W. Deming Lewis, president emeritus of Lehigh University, a PP&L director since 1967, resigned from the board effective Sept. 30, 1985, for health reasons.

With his strong educational excellence, and his long-term ties to eastern Pennsylvania, Dr. Lewis brought a special perspective to the board, and to his service on several board committees over his 18 years with PP&L.

During its first refueling, about one-quarter of the Susquehanna Unit 1 reactor's fuel assemblies were replaced. The operation is conducted underwater to shield workers from radioactivity. While the unit was out of service, about 4,000 individual work activities of preventive and corrective maintenance were performed. Refueling and maintenance outages are scheduled for both Units 1 and 2 during 1986, then at 18-month intervals throughout the life of the plant.

"With hundreds of thousands of dollars of revenues riding on each day out of service, a lot of people work a lot of hours to complete tasks that have been planned many months before. Everything has to mesh perfectly. Our goal of operating excellence also extends to the times when we're down for maintenance."

Ardle Kissinger
Assistant Unit Supervisor



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

This review provides a discussion of the Company's financial condition and results of operations. Additional information on these matters is set forth in the financial statements, schedules and notes on pages 24-39 and the selected financial and operating data on pages 40 and 41.

Results of Operations

Earnings per share of common stock were \$2.68 in 1985, \$3.12 in 1984 and \$3.06 in 1983. The primary reason for the earnings decline in 1985 was related to the Pennsylvania Public Utility Commission's (PUC) April 1985 rate decision which granted about one-third of the net rate increase requested by the Company.

The Company expects that the decline in earnings per share will end in the first half of 1986. A combination of cost-containment measures, an improved sales outlook and refinancing high-cost securities at a lower cost are expected to improve year-end earnings per share performance, as compared to 1985.

The Company is pursuing the sale of generating capacity and energy to other utilities. To the extent a sale is concluded, the Company would recover some portion of the revenues and earnings disallowed by the PUC in its 1985 rate decision.

The earnings improvement in 1984 compared to 1983 was primarily

ly attributable to a 6.3% increase in electric energy sales during the year. Increased revenues from the higher sales helped offset the effects of an inadequate rate increase allowed by the PUC in its August 1983 rate decision.

1985 Rate Decision

In April 1985, the PUC issued a final order on the Company's request for an increase in electric rates to reflect the effect of placing Susquehanna Unit 2 in commercial operation and to recover other increased costs. The PUC granted the Company approximately \$121 million of the \$330 million net rate increase requested.

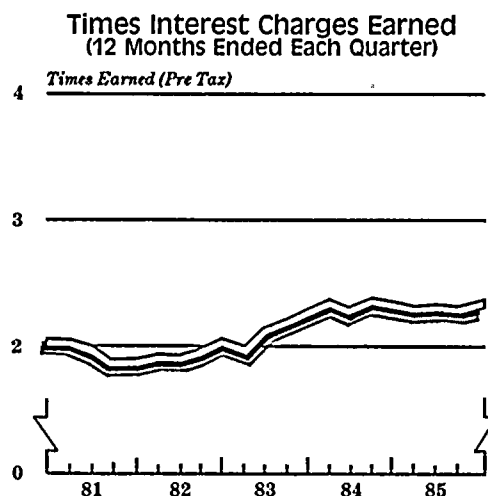
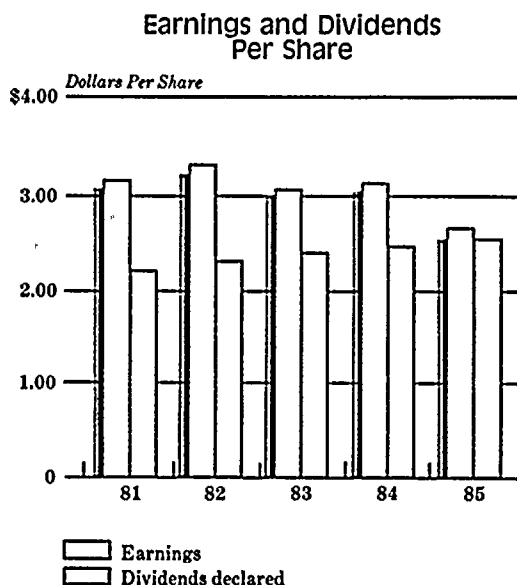
The PUC denied the Company a return on the common equity investment in Susquehanna Unit 2, based on the PUC's conclusion that the Company has too much generating capacity. This adjustment reduced requested revenues by about \$161 million. The other major adjustment by the PUC was to disallow recovery

of about \$37 million of the cost of electricity purchased from Allegheny Electric Cooperative, Inc.'s (Allegheny) 10% undivided interest in the Susquehanna units. The Company has agreed to purchase declining amounts of electricity from Allegheny through 1990. The PUC did permit the Company to recover all operating costs associated with Unit 2 and to earn a return on the preferred and preference stock and debt investment in the unit.

The Company has appealed to the Commonwealth Court of Pennsylvania the PUC decisions regarding excess capacity and the purchase of electricity from Allegheny. Other parties have filed cross-appeals and the Company is unable to predict what action the Court will take.

1983 Rate Decision

In August 1983, the PUC issued a final order on the Company's request to increase rates to reflect the effect of placing Susquehanna Unit 1 in commercial operation and to re-



cover other increased costs. The PUC granted the Company approximately \$203 million of the \$315 million net rate increase requested.

The PUC decided that 945,000 kilowatts of the Company's total generating capacity was excess, and therefore did not permit the Company to earn a return on \$287 million of its net investment in total generating facilities. This reduced annual revenues by about \$59 million which adversely affected earnings through March 1985.

Since April 1985, the Company has provided Jersey Central Power & Light Company (JCP&L) with 945,000 kilowatts of generating capacity and related energy from the Company's generating facilities. With commencement of this sale, the Company began to recover from JCP&L the \$59 million a year in return on investment in generating facilities disallowed by the PUC in its 1983 rate decision.

Energy Sales and Operating Revenues

Electric energy sales were 14.8% higher in 1985 than in 1984, prima-

rily due to increased contractual sales to other utilities from specific generating units. Contractual sales to other utilities represent the energy sold to Atlantic City Electric Company from the Susquehanna units and the energy sold to JCP&L. These sales were 3.7 billion kwh higher in 1985 than in 1984 due to the commencement of sales to JCP&L and the commercial operation of Susquehanna Unit 2.

Excluding contractual sales to other utilities, electric energy sales were 71 million kwh or 0.3% lower in 1985 than in 1984. Sales to residential customers were down 100 million kwh or 1.2%, sales to commercial customers increased 201 million kwh or 3.1% and sales to industrial customers decreased 211 million kwh or 2.6%. The decline in residential sales was primarily due to milder weather during the 1985 heating season. Sales to steel manufacturing customers were down 14.3% in 1985. This decline was a major factor in the decrease in sales to industrial customers.

Energy sales for 1984 were 6.3% higher than 1983, reflecting improved economic conditions and extremely cold weather during the

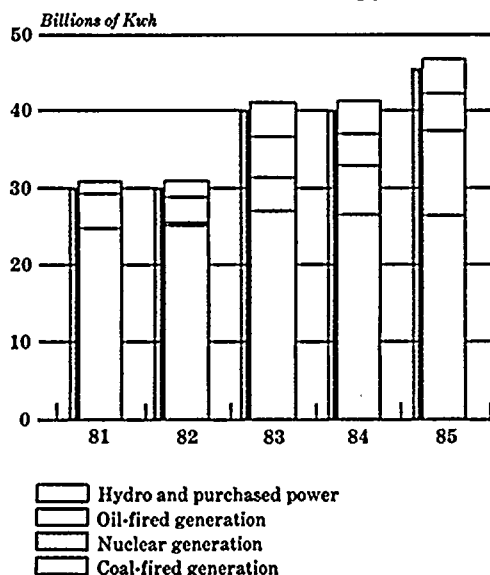
1983-1984 winter season.

Sales under tariffs subject to PUC jurisdiction accounted for approximately 86% of the Company's revenues from electric energy sales in 1985. The remaining 14% of these revenues related to sales to others for resale, which are regulated by the Federal Energy Regulatory Commission (FERC).

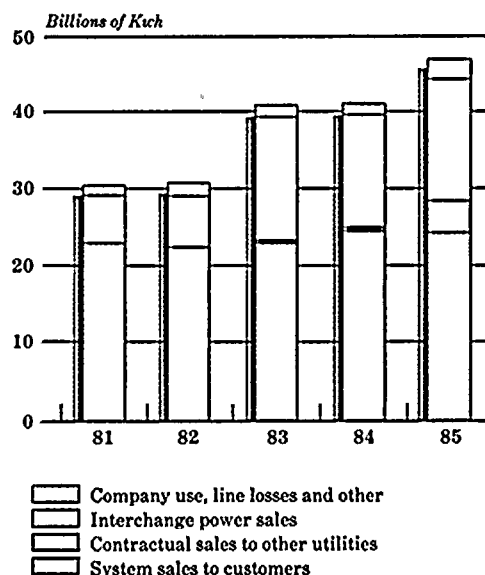
The FERC also regulates interchange power sales which are classified as a credit to operating expenses and serve to reduce the cost of energy included in customers' bills. The percentage of electric revenues subject to FERC regulation was higher in 1985 than in previous years due to the contractual sales to other utilities.

Billings to customers under PUC jurisdiction include base rate charges along with supplemental charges for energy costs and state taxes over the levels included in base rates. Billings to FERC customers (excluding contractual sales to other utilities) include base rate charges and a supplemental charge for fuel costs over the level included in base rates. Details of the changes from the prior year in operating revenues are shown at the top of page 20.

Sources of Energy



Disposition of Energy



Changes in Operating Revenues

	1985	1984	1983
	<i>(Millions of Dollars)</i>		
Electric			
Base rate increases	\$138.2	\$257.5	\$141.1
Recovery of fuel and energy costs	50.3	(17.0)	(153.9)
Change in customer usage	13.1	31.1	15.2
Contractual sales to other utilities	200.8	13.3	18.5
Other (principally tax surcharge)	12.1	28.1	9.5
Total electric	414.5	313.0	30.4
Steam heat	(0.8)	1.4	(1.6)
Total	<u>\$413.7</u>	<u>\$314.4</u>	<u>\$ 28.8</u>

Base rate increases for customers under the jurisdiction of the PUC went into effect August 1983 and April 1985. The amounts shown in the schedule above for base rate increases exclude reductions in energy costs which were included in base rates as part of the rate filing.

The substantial increase in contractual sales to other utilities in 1985 was principally due to the sale of capacity and energy to JCP&L. A large increase in interchange power sales to other utilities during 1983 resulted in lower energy costs. This

caused a substantial reduction in revenues applicable to recovery of energy costs in that year.

Net Cost of Energy

In 1985, the output from the Company's generating units was 42.7 billion kwh, an all-time high, reflecting excellent performance of all the units and the commercial operation of Susquehanna Unit 2. The two Susquehanna units generated about 11.5 billion kwh. Coal-fired units generated about 26.2 billion kwh

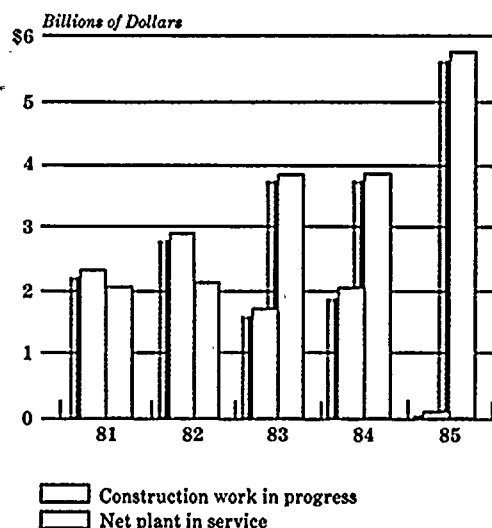
with the balance coming from oil-fired and hydro units.

Fuel expense in 1985 was 4.9% higher than in 1984 due principally to the increased power produced. The average cost of fuel per kwh generated by coal-fired stations was 1.7% higher in 1985 than in 1984, while the fuel cost per kwh of oil-fired generation declined 5.5%.

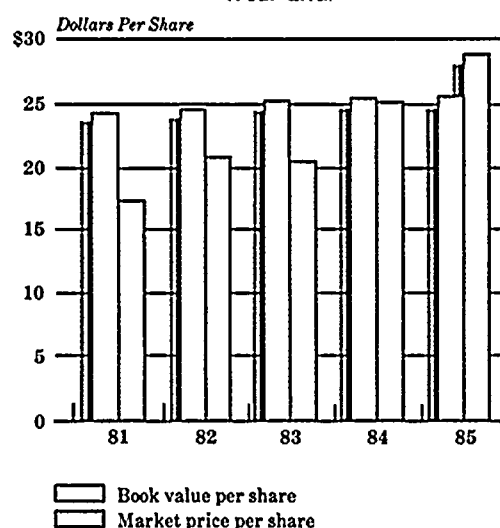
Interchange power sales in 1985 were 16.2 billion kwh or 5.6% higher than in 1984. The increase was primarily attributable to the additional energy available for sale from increased production. The amount received for interchange power sales in 1985, however, was \$59.6 million less than in 1984 due to a reduction in the selling price of interchange sales. The average price received for interchange power sales was 3.62 cents per kwh in 1985 and 4.21 cents per kwh in 1984. The decline primarily reflects the impact of lower oil prices on the pricing of interchange power sales.

In 1984, the quantity of interchange power sold to other utilities was 1.0 billion kwh lower than the 16.4 billion kwh sold in 1983. During 1984, increased sales to the Company's own customers, equipment

Construction Work in Progress vs. Net Plant in Service



Common Stock Book Value vs. Market Price (Year End)



outages and less need for energy by other utilities resulted in a decline in interchange sales.

Wages and Benefits, Other Operating Costs and Depreciation

Wages and employee benefits and other operating costs increased over the prior year in both 1985 and 1984 due to higher prices and costs related to operating the Susquehanna units. Increases in depreciation reflect additions to plant in service, including the Susquehanna units. The provision for depreciation, as a percent of average depreciable property, declined from approximately 2.7% in 1983 to 2.2% in 1985 primarily due to the use of a modified sinking fund method of depreciation for the Susquehanna units.

Income Taxes

In 1985, the Company utilized tax loss carryforwards of approximately \$100 million for both federal and state income tax purposes. The tax losses arose during the period 1982-1984 and were due in part to

the large amount of construction interest incurred in those years to finance construction expenditures.

The Company's construction expenditures have enabled it to qualify for substantial investment tax credits. At the end of 1985, an estimated \$256 million of unused investment and payroll-based tax credits were available to reduce federal income tax liabilities in future years.

For additional information concerning income taxes, see the Schedule of Taxes on page 31 and Notes 5 and 6 to Financial Statements.

Capital Expenditure Requirements

Construction of the two Susquehanna generating units has dominated the Company's construction program for the past several years. Unit 1 was placed in commercial operation in June 1983 and Unit 2 in February 1985. The Company's investment in its 90% share of the two Susquehanna units was \$3.8 billion at December 31, 1985. Construction expenditures for the next several years are expected to decrease substantially from the levels recently experienced because no new gen-

erating units will be under construction.

The schedule below shows actual construction and nuclear fuel expenditures for the years 1983-1985 and current projections for the years 1986-1988. Construction expenditures during the three years 1983-1985 totaled \$1.3 billion and are expected to be about \$0.8 billion during the three years 1986-1988, a decline of approximately \$0.5 billion from the prior three years.

Allowance for Funds Used During Construction (AFUDC)

The amount of AFUDC recorded in 1985 was substantially less than in 1984. The decrease resulted from a large reduction in construction work in progress due to the commercial operation of Susquehanna Unit 2 and an adjustment of the income tax component of AFUDC due to utilization of tax loss carryforwards. The Susquehanna units accounted for about \$379 million of the total \$391 million of AFUDC recorded during the three years 1983-1985. With no new generating facilities under construction, AFUDC is not ex-

Construction and Nuclear Fuel Expenditures

	Actual			Projected		
	1983	1984	1985	1986	1987	1988
	(Millions of Dollars)					
Construction expenditures (a)						
Generating facilities (b)	\$581	\$322	\$ 84	\$139	\$ 91	\$120
Transmission and distribution facilities	62	84	93	101	108	126
Environmental	4	5	6	20	13	7
Other	2	11	17	28	22	25
	649	422	200	288	234	278
Nuclear fuel (c)	100	103	74	51	42	27
Total	\$749	\$525	\$274	\$339	\$276	\$305

(a) Construction plans are revised from time to time to reflect changes in conditions. Actual construction costs may vary from those projected because of changes in plans, cost fluctuations, environmental regula-

tions and other factors. Construction expenditures include AFUDC which is expected to be less than \$20 million in each of the years 1986-1988.

(b) Expenditures for generating facilities include amounts spent to com-

plete the Susquehanna units and amounts for modifications and improvements to all generating facilities.

(c) Includes both owned and leased nuclear fuel.

pected to be a material amount in the foreseeable future. See Note 6 to Financial Statements for additional information concerning AFUDC.

Financing

Outside financing was about \$1.0 billion during the three years 1983-1985. During the same period, the Company also incurred \$280 million of obligations under capital leases (primarily nuclear fuel). Details of the amount of securities sold and other information on sources and uses of funds during 1983-1985 are set forth in the Statement of Changes in Financial Position on page 25.

The Company presently estimates that outside financing during the three years 1986-1988 will be about \$400 million, or about \$600 million less than the amount required during the prior three years. Funds from securities sales and from internal sources will be used to finance construction expenditures, repay \$167 million of maturing long-term debt obligations, meet \$209 million of preferred and preference stock sinking fund requirements and for the early retirement of \$525 million of certain high-cost issues of preference stock and long-term debt.

Funds generated from internal

sources are expected to provide about 78% of total funds required during the three years 1986-1988 compared with 48% during the three years 1983-1985.

Tentative Plans for Securities Sales

The Company intends to issue \$375 million of long-term debt in 1986. The exact amount, nature and timing of sales of securities in 1986 and subsequent years will be determined in the light of market conditions and other factors.

Financial Condition

Although earnings have been adversely affected by the PUC's April 1985 rate decision, the Company's financing capability and financial flexibility remain strong. Currently, the Company's mortgage indenture and charter do not materially restrict the amount of additional securities that the Company can issue. The reduced level of construction expenditures will result in the need for less outside financing. As a result, the Company has an opportunity to lower its current financing costs.

The Company intends to redeem certain high-cost preference stock

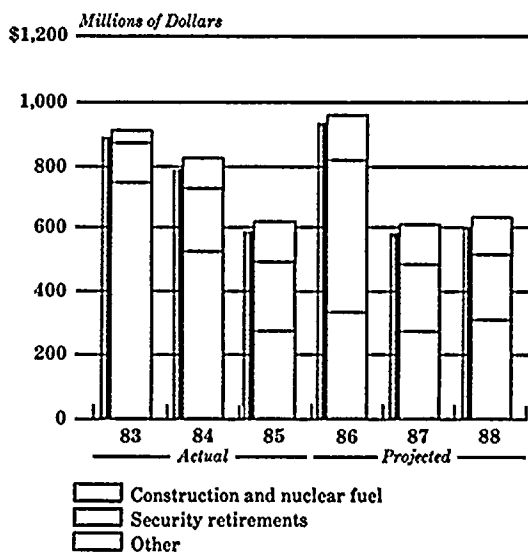
and bonds currently outstanding. Current plans are to retire in the first half of 1986 the 14% series bonds due 1990, the 15% series bonds due 2010, the \$15.00 preference stock and the \$13.68 preference stock. The funds required to redeem these securities will be obtained from either internally generated funds or the issuance of lower-cost securities.

Future financial condition and earnings performance will depend on many factors including the Company's ability to sell the capacity designated as being excess by the PUC, the success of the Company's appeal of the PUC's rate decision, unanticipated increases in future capital requirements, the level of economic activity in the Company's service area, future action that the PUC may take in establishing a coal cost standard applicable to the Company's affiliated coal mines and possible action by the Company to divest or phase-out its affiliated coal-mining operations.

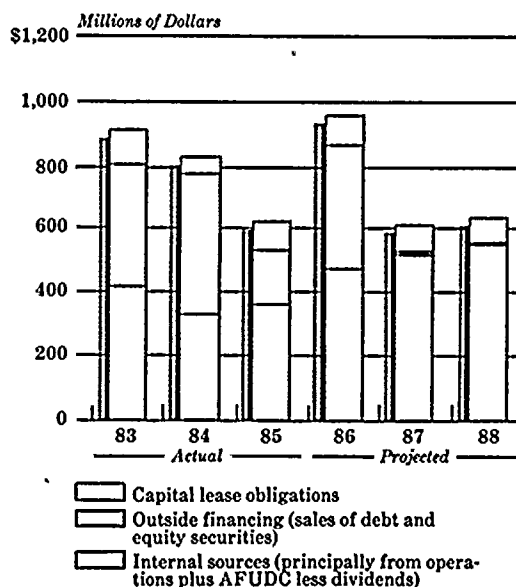
Impacts of Inflation

Certain effects of inflation on the operations of the Company have been estimated on the basis prescribed by the Financial Accounting Standards Board and are set forth in Note 17 to Financial Statements.

Capital Requirements



Sources of Capital



Management's Report on the Financial Statements

The management of Pennsylvania Power & Light Company is responsible for the preparation, integrity and objectivity of the financial statements and other sections of this annual report. The financial statements have been prepared in conformity 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.

The Company maintains a system of internal accounting controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions and events are executed in accordance with management's authorization and are recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable

assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits derived and that there are inherent limitations in the effectiveness of any system of internal accounting controls. Fundamental to the control system is the selection and training of qualified personnel, an organizational structure that provides appropriate segregation of duties and the utilization of written policies and procedures. In addition, the Company maintains an internal auditing program to evaluate the Company's internal accounting controls, policies and procedures as to adequacy, application and compliance.

Deloitte Haskins & Sells, independent certified public accountants, have been engaged to examine the Company's financial statements and to render an opinion as to whether such financial statements, considered in their entirety, present fairly the Company's financial position, operating results and changes in financial position, in conformity with generally accepted

accounting principles. Their examination is conducted in accordance with generally accepted auditing standards and includes such procedures believed by them to be sufficient to provide reasonable assurance that the financial statements are not materially misleading and do not contain material errors.

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 directors who are not employees of the Company, meets periodically with management, the internal auditors and the independent certified public accountants to review the work of each. Deloitte Haskins & Sells 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.

Auditors' Opinion

Deloitte Haskins+Sells

Certified Public Accountants

One World Trade Center
New York, New York 10048

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

We have examined the balance sheets of Pennsylvania Power & Light Company as of December 31, 1985 and 1984 and the related statements of income, earnings reinvested, and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Company at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 4, 1986

Statement of Income

	1985	1984	1983
	(Thousands of Dollars)		
Operating Revenues (Note 2)	<u>\$1,976,502</u>	<u>\$1,562,782</u>	<u>\$1,248,397</u>
Operating Expenses			
Net cost of energy			
Fuel	756,295	720,670	768,583
Power purchases	164,963	171,953	186,955
Interchange power sales	<u>(587,613)</u>	<u>(647,186)</u>	<u>(740,964)</u>
	333,645	245,437	214,574
Wages and employee benefits	259,670	232,632	211,752
Other operating costs	272,147	219,002	166,839
Depreciation	141,912	118,763	107,885
Income taxes (Note 5)	243,160	185,784	112,055
Taxes, other than income	170,405	154,206	125,470
Deferred Susquehanna energy savings net of operating expenses (Note 3)	<u>29,075</u>		<u>19,892</u>
	<u>1,450,014</u>	<u>1,155,824</u>	<u>958,467</u>
Operating Income	<u>526,488</u>	<u>406,958</u>	<u>289,930</u>
Other Income and (Deductions)			
Allowance for equity funds used during construction (Note 6)	(51,490)	64,743	131,362
Deferred Susquehanna capital costs (Note 3)	31,742	(718)	29,935
Income tax credits (Note 5)	80,764	62,623	21,976
Other—net	<u>(7,670)</u>	<u>(4,830)</u>	<u>(9,518)</u>
	<u>53,346</u>	<u>121,818</u>	<u>173,755</u>
Income Before Interest Charges	<u>579,834</u>	<u>528,776</u>	<u>463,685</u>
Interest Charges			
Long-term debt	284,538	280,328	258,629
Short-term debt and other	26,872	33,740	29,231
Allowance for borrowed funds used during construction (Note 6)	<u>(22,189)</u>	<u>(104,195)</u>	<u>(120,186)</u>
	<u>289,221</u>	<u>209,873</u>	<u>167,674</u>
Net Income	290,613	318,903	296,011
Dividends on Preferred and Preference Stock	<u>91,286</u>	<u>92,145</u>	<u>85,838</u>
Earnings Applicable to Common Stock	<u>\$ 199,327</u>	<u>\$ 226,758</u>	<u>\$ 210,173</u>
Earnings Per Share of Common Stock (a)	<u>\$ 2.68</u>	<u>\$ 3.12</u>	<u>\$ 3.06</u>
Average Number of Shares Outstanding (thousands) ...	74,513	72,767	68,642
Dividends Declared Per Share of Common Stock	\$ 2.56	\$ 2.48	\$ 2.40

(a) Based on average number of shares outstanding.

See accompanying Schedules and Notes to Financial Statements.

Statement of Changes in Financial Position

Source of Funds	1985	1984 (Thousands of Dollars)	1983
Funds from operations			
Net income.....	\$290,613	\$318,903	\$296,011
Charges (credits) to income not involving working capital			
Depreciation	141,912	118,763	107,885
Amortization of property under capital leases...	77,850	38,649	29,669
Noncurrent deferred income taxes and investment tax credits—net	133,103	125,038	78,178
Deferred Susquehanna costs—net	(2,667)	718	(10,043)
Allowance for funds used during construction ..	29,301	(168,938)	(251,548)
Other	(2,740)	2,502	694
	<u>667,372</u>	<u>435,635</u>	<u>250,846</u>
Outside financing			
Common stock.....		84,203	81,415
Preferred and preference stock.....		50,000	106,000
First mortgage bonds.....	180,000	403,250	175,000
Short-term debt—net increase (decrease)	(9,300)	(85,200)	29,455
	<u>170,700</u>	<u>452,253</u>	<u>391,870</u>
Noncurrent capital lease obligations	89,852	53,424	104,644
Working capital (excluding debt)—decrease (a).....			176,767
	<u>\$927,924</u>	<u>\$941,312</u>	<u>\$924,127</u>
Application of Funds			
Construction expenditures	\$199,852	\$421,697	\$648,661
Additions to nuclear fuel—owned and leased	74,345	103,518	100,157
Allowance for funds used during construction	29,301	(168,938)	(251,548)
	<u>303,498</u>	<u>356,277</u>	<u>497,270</u>
Securities retired			
Preferred and preference stock.....	47,017	26,803	12,804
First mortgage bonds.....	76,534	80,154	59,842
Secured term notes	100,000	100,000	
Nuclear fuel trust notes—net decrease			50,000
	<u>223,551</u>	<u>206,957</u>	<u>122,646</u>
Reduction in noncurrent capital lease obligations....	94,616	47,492	39,515
Dividends on preferred, preference and common stock ..	282,036	273,236	251,182
Working capital (excluding debt)—increase (a)	14,577	39,762	
Other—net	9,646	17,588	13,514
	<u>\$927,924</u>	<u>\$941,312</u>	<u>\$924,127</u>
(a) Changes in components of working capital (excluding debt)			
Cash	\$ (1,839)	\$ (299)	\$ 191
Accounts receivable	48,234	1,917	7,889
Unbilled and refundable revenues, net of deferred taxes ..	70,594	(7,438)	(130,805)
Fuel (coal and oil)	(43,289)	70,771	(29,992)
Accounts payable and accrued taxes	(20,053)	(32,277)	(7,377)
Capital lease obligations due within one year	233	(26,267)	(5,999)
Other—net	(39,303)	33,355	(10,674)
Increase (Decrease)	<u>\$ 14,577</u>	<u>\$ 39,762</u>	<u>\$(176,767)</u>

See accompanying Schedules and Notes to Financial Statements.

Balance Sheet at December 31

Assets

	1985 (Thousands of Dollars)	1984
Utility Plant		
Plant in service—at original cost		
Electric	\$6,916,733	\$4,876,163
Steam heat (Note 14)		8,661
	<u>6,916,733</u>	<u>4,884,824</u>
Less accumulated depreciation	<u>1,140,046</u>	<u>1,023,864</u>
	5,776,687	3,860,960
Construction work in progress—at cost	161,684	2,020,839
Nuclear fuel owned and leased—net of amortization (Note 8)	372,446	377,105
Other leased property—net of amortization (Note 8)	79,318	71,897
	<u>6,390,135</u>	<u>6,330,801</u>
Investments		
Associated companies—at equity	18,099	17,714
Receivable from litigation settlement	19,200	27,500
Nonutility property and other—at cost or less	13,023	11,413
	<u>50,322</u>	<u>56,627</u>
Current Assets		
Cash	4,615	6,454
Accounts receivable (less reserve: 1985, \$6,223; 1984, \$5,486)		
Customers	152,483	105,857
Interchange power sales	46,086	46,468
Other	7,231	5,241
Unbilled revenues	68,840	52,064
Fuel (coal and oil)—at average cost	154,572	197,861
Materials and supplies—at average cost	23,609	21,222
Common stock held for dividend reinvestment program (Note 7)	11,878	12,820
Other	25,121	50,718
	<u>494,435</u>	<u>498,705</u>
Deferred Debits	30,747	24,650
	<u>\$6,965,639</u>	<u>\$6,910,783</u>

See accompanying Schedules and Notes to Financial Statements.

Liabilities

	1985 (Thousands of Dollars)	1984
Capitalization		
Common equity		
Common stock	\$1,307,267	\$1,307,267
Capital stock expense	(16,669)	(16,805)
Earnings reinvested	<u>615,102</u>	<u>606,525</u>
	1,905,700	1,896,987
Preferred and preference stock		
With sinking fund requirements	691,010	738,027
Without sinking fund requirements	<u>231,375</u>	<u>231,375</u>
Long-term debt	<u>2,507,213</u>	<u>2,528,531</u>
	<u>5,335,298</u>	<u>5,394,920</u>
Current Liabilities		
Commercial paper and other notes	95,500	104,800
Long-term debt due within one year	97,723	75,975
Capital lease obligations due within one year (Note 8)	70,420	70,653
Accounts payable	114,450	117,054
Taxes accrued	57,506	34,849
Interest accrued	69,714	69,500
Dividends payable	70,104	69,546
Deferred income taxes	33,437	25,486
Energy revenues to be refunded	36,672	98,441
Other	<u>51,416</u>	<u>37,037</u>
	696,942	703,341
Deferred Credits and Other Noncurrent Liabilities		
Deferred investment tax credits	120,482	107,130
Deferred income taxes	432,806	336,617
Capital lease obligations (Note 8)	326,110	330,874
Other	<u>54,001</u>	<u>37,901</u>
	933,399	812,522
Commitments and Contingent Liabilities (Note 15)	<u>\$6,965,639</u>	<u>\$6,910,783</u>

Schedule of Capital Stock at December 31

	Outstanding 1985 1984 (Thousands of Dollars)		Shares Outstanding 1985	Shares Authorized
Preferred Stock—\$100 par, cumulative (a)				
4½%.....	\$ 53,019	\$ 53,019	530,189	629,936
Series.....	<u>451,046</u>	<u>497,211</u>	4,510,456	10,000,000
	<u>\$ 504,065</u>	<u>\$ 550,230</u>		
Preference Stock—no par, cumulative (a)	<u>\$ 418,320</u>	<u>\$ 419,172</u>	4,183,197	5,000,000
Common Stock—no par (a)	<u>\$1,307,267</u>	<u>\$1,307,267</u>	74,512,797	85,000,000

Details of Preferred and Preference Stock (b)

	Outstanding 1985 1984 (Thousands of Dollars)		Shares Outstanding 1985	Optional Redemption Price Per Share 1985	Sinking Fund Provisions(c) Shares to be Redeemed Annually	Redemption Period
With Sinking Fund Requirements						
Series Preferred						
7.40%	\$ 28,800	\$ 30,400	288,000	\$103.85	16,000	1986-2003
7.50%		15,000			150,000	
7.75%	36,000	48,000	360,000	101.73	120,000	1986-1988
8.00%	42,500	45,000	425,000	112.00	25,000	1986-2002
8.00%, Second	8,000	10,000	80,000	102.67	20,000	1986-1989
8.25%	40,000	50,000	400,000	102.76	100,000	1986-1989
8.75% (d)	57,000	60,000	570,000	110.00	30,000	1986-2004
9.24% (d)	58,890	58,955	588,900	115.00	30,000	1986-2005
10.75% (d) (i)	26,500	26,500	265,000	104.78	53,000	1986-1990
11.00%, Adjustable (g) (i) ...	15,000	15,000	150,000	125.00	30,000	1989-1993
11.00% (i)	26,000	26,000	260,000	125.00	260,000	1988
11.25% (i)	15,000	15,000	150,000	125.00	15,000	1989-1998
14.00% (i)	34,000	34,000	340,000	122.00	(e)	(e)
Preference						
\$8.625 (i)	51,000	51,000	510,000	None	102,000	1986-1990
\$11.00 (d)	37,349	37,770	373,492	105.50	25,000	1986-2000
\$11.60 (d) (h)	50,000	50,000	500,000	114.00	25,000	1989-2008
\$13.00 (d)	14,971	15,402	149,705	105.85	12,500	1986-1998
\$13.00, Second (d) (h)	50,000	50,000	500,000	114.00	25,000	1989-2008
\$13.68 (d) (f) (h)	50,000	50,000	500,000	114.00	25,000	1990-2009
\$15.00 (d) (f) (h)	50,000	50,000	500,000	120.00	25,000	1988-2007
	<u>\$691,010</u>	<u>\$738,027</u>				
Without Sinking Fund Requirements						
4½% Preferred	\$ 53,019	\$ 53,019	530,189	110.00		
Series Preferred						
3.35%	4,178	4,178	41,783	103.50		
4.40%	22,878	22,878	228,773	102.00		
4.60%	6,300	6,300	63,000	103.00		
8.60%	22,237	22,237	222,370	104.00		
9.00%	7,763	7,763	77,630	104.00		
Preference						
\$8.00	35,000	35,000	350,000	103.00		
\$8.40	40,000	40,000	400,000	104.00		
\$8.70	40,000	40,000	400,000	101.00		
	<u>\$231,375</u>	<u>\$231,375</u>				

See accompanying Notes to Financial Statements.

Increases (Decreases) in Capital Stock (Thousands of Dollars)

	1985		1984		1983	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock—issued under dividend reinvestment plan (j).....			4,177,927	\$84,874	3,873,726	\$81,843
Series Preferred Stock						
7.40%	(16,000)	\$ (1,600)	(16,000)	(1,600)	(16,000)	(1,600)
7.50%	(150,000)	(15,000)				
7.75%	(120,000)	(12,000)	(120,000)	(12,000)		
8.00%	(25,000)	(2,500)	(25,000)	(2,500)	(25,000)	(2,500)
8.00%, Second	(20,000)	(2,000)				
8.25%	(100,000)	(10,000)				
8.75%	(30,000)	(3,000)				
9.24%	(650)	(65)	(58,660)	(5,866)	(29,350)	(2,935)
11.00%, Adjustable					150,000	15,000
11.00%					260,000	26,000
11.25%					150,000	15,000
Preference Stock						
\$11.00	(4,210)	(421)	(30,498)	(3,050)	(32,680)	(3,268)
\$11.60					500,000	50,000
\$13.00	(4,317)	(432)	(17,875)	(1,787)	(25,000)	(2,500)
\$13.68			500,000	50,000		

Decreases in Preferred and Preference Stocks represent: (i) the redemption of stock pursuant to sinking fund requirements, or (ii) shares reacquired through market purchases and subsequently cancelled. The reacquired and cancelled shares are used to meet sinking fund requirements.

- (a) Each share of preferred, preference and common stock entitles the holder to one vote on any question presented to any shareholders' meeting.
- (b) The involuntary liquidation price of the preferred and preference stock is \$100 per share, and the optional voluntary liquidation price is the redemption price per share in effect, except for the 4½% Preferred and the \$8.625 Series Preference Stocks which are \$100 per share (plus in each case any unpaid dividends). Liquidation payments on preferred stock are payable in preference over the preference stock.
- (c) The aggregate amount of sinking fund redemption requirements through 1990 are (thousands of dollars): 1986, \$60,560; 1987, \$61,850; 1988, \$86,950; 1989, \$58,450; 1990, \$50,650.
- (d) On certain sinking fund redemption dates, additional shares may be redeemed up to the number of shares required to be redeemed annually.
- (e) The 14.00% Preferred Stock has a sinking fund provision which requires redemption of the following number of shares annually at \$100 per share: October 1, 1986-1987, 85,000; 1988-1989, 51,000; 1990, 68,000.
- (f) The Company intends to redeem all of the outstanding \$15.00 Series Preference Stock on February 19, 1986 at the optional redemption price of \$122 per share (\$30.50 per depositary share) which includes \$2.00 per share (\$0.50 per depositary share) representing an amount equal to the accrued dividends from January 1, 1986. The Company also intends to redeem all of the outstanding \$13.68 Series Preference Stock on April 1, 1986 at the optional redemption price of \$114 per share (\$28.50 per depositary share). The April 1, 1986 dividend will be paid separately.
- (g) Effective April 1, 1988, the dividend rate is subject to a one-time adjustment pursuant to a formula based on the then current prime rate.
- (h) Ownership of the \$11.60, \$13.00, Second Series, \$13.68 and \$15.00 Preference Stocks is evidenced by Depositary Preference Shares, each representing ¼ share of Preference Stock.
- (i) In the event certain Federal income tax benefits are lost to corporate holders of these stocks, the Company may be required to make indemnity payments sufficient to provide the holders with an agreed upon effective yield after Federal income taxes. Such payments are payable only after the holders sell or redeem the stock. At December 31, 1985, the Company estimates that future indemnity payments would not exceed \$5.0 million.
- (j) For 1985, the Company's dividend reinvestment plan was amended to provide for shares to be acquired in the open market.

Schedule of Long-Term Debt at December 31

	Outstanding		Maturity (b)
	1985 (Thousands of Dollars)	1984	
First Mortgage Bonds (a)			
15%		\$ 16,665	February 1, 1985
9 $\frac{7}{8}$ %		33,329	June 1, 1985
3 $\frac{3}{8}$ %		25,000	August 1, 1985
15%	\$ 16,670	16,670	February 1, 1986
16 $\frac{1}{2}$ %	30,900	30,900	August 1, 1986
14 $\frac{3}{4}$ %	50,000	50,000	December 12, 1986
16 $\frac{1}{2}$ %	36,000	36,000	August 1, 1987
16 $\frac{1}{2}$ %	10,400	10,400	September 1, 1987
16 $\frac{1}{2}$ %	10,100	10,100	August 1, 1988
16 $\frac{1}{2}$ %	10,400	10,400	September 1, 1988
12 $\frac{1}{8}$ %	10,000	10,000	February 1, 1989
16 $\frac{1}{2}$ %	7,000	7,000	August 1, 1989
16 $\frac{1}{2}$ %	10,400	10,400	September 1, 1989
12 $\frac{1}{8}$ %	10,000	10,000	February 1, 1990
16 $\frac{1}{2}$ %	8,500	8,500	August 1, 1990
16 $\frac{1}{2}$ %	10,400	10,400	September 1, 1990
14%	125,000	125,000	December 1, 1990
4 $\frac{5}{8}$ % to 16 $\frac{1}{2}$ %	325,400	325,400	1991-1995
5 $\frac{5}{8}$ % to 9%	190,000	190,000	1996-2000
7 $\frac{1}{4}$ % to 9 $\frac{3}{4}$ %	520,000	520,000	2001-2005
8 $\frac{1}{4}$ % to 15 $\frac{5}{8}$ % (c)	350,000	350,000	2006-2010
12% to 13 $\frac{1}{4}$ %	475,000	350,000	2011-2015
First Mortgage Pollution Control Bonds (a)			
5 $\frac{5}{8}$ % Series A	21,800	23,340	(d)
7 $\frac{7}{8}$ % to 8 $\frac{1}{8}$ % Series C	20,000	20,000	(d)
11 $\frac{1}{4}$ % to 11 $\frac{1}{2}$ % Series D	70,000	70,000	(d)
10 $\frac{5}{8}$ % Series E	37,750	37,750	March 1, 2014
10 $\frac{5}{8}$ % Series F	115,500	115,500	September 1, 2014
9 $\frac{3}{8}$ % Series G	55,000		July 1, 2015
	<u>2,526,220</u>	<u>2,422,754</u>	
Other Long-Term Debt			
Secured term notes (a) (e)	100,000	200,000	March 31, 1991
Miscellaneous promissory notes	468	809	1986-1989
	<u>2,626,688</u>	<u>2,623,563</u>	
Unamortized (discount) and premium—net	<u>(21,752)</u>	<u>(19,057)</u>	
	<u>2,604,936</u>	<u>2,604,506</u>	
Less amount due within one year	<u>97,723</u>	<u>75,975</u>	
	<u>\$2,507,213</u>	<u>\$2,528,531</u>	

(a) Substantially all utility plant is subject to the lien of the Company's first mortgage. Certain utility plant is also subject to the lien of a second mortgage issued as security for term notes.

(b) Aggregate long-term debt maturities through 1990 are (thousands of dollars): 1986, \$97,723; 1987, \$47,429; 1988, \$21,511; 1989, \$28,375; 1990, \$154,800. Maximum

sinking fund requirements aggregate \$33.7 million through 1990 and may be met with property additions or retirement of bonds.

(c) In January 1986, the Company sold \$125 million principal amount of First Mortgage Bonds, 10 $\frac{5}{8}$ % Series due 2016. A portion of the proceeds from the sale will be used to redeem on March 4, 1986 the \$100 million principal amount of First Mortgage

Bonds, 15 $\frac{5}{8}$ % Series due 2010.

(d) Bonds mature annually as follows (thousands of dollars): (i) Series A on May 1, 1987-2002, \$900; 2003, \$7,400 (ii) Series C on April 1, 2000, \$4,000; 2006-2009, \$2,000; 2010, \$8,000 (iii) Series D on November 1, 2002, \$15,000; 2012, \$55,000.

(e) Variable interest rate.

Schedule of Taxes

	1985	1984	1983
	<i>(Thousands of Dollars)</i>		
Income Tax Expense (Note 5)			
Included in operating expenses			
Provision—Federal	\$ 78,648	\$ 51,790	\$ 15,823
State	<u>23,458</u>	<u>11,243</u>	<u>6,787</u>
	<u>102,106</u>	<u>63,033</u>	<u>22,610</u>
Deferred—Federal	107,954	123,844	94,689
State	<u>(2,308)</u>	<u>2,815</u>	<u>(938)</u>
	<u>105,646</u>	<u>126,659</u>	<u>93,751</u>
Investment tax credit, net—Federal	<u>35,408</u>	<u>(3,908)</u>	<u>(4,306)</u>
	<u>\$243,160</u>	<u>\$185,784</u>	<u>\$112,055</u>
Included in other income and deductions			
Provision (credit)—Federal	\$ (67,005)	\$ (51,370)	\$ (15,216)
State	<u>(13,759)</u>	<u>(11,253)</u>	<u>(6,760)</u>
	<u>\$ (80,764)</u>	<u>\$ (62,623)</u>	<u>\$ (21,976)</u>
Total income tax expense—Federal	\$155,005	\$120,356	\$ 90,990
State	<u>7,391</u>	<u>2,805</u>	<u>(911)</u>
	<u>\$162,396</u>	<u>\$123,161</u>	<u>\$ 90,079</u>
Detail of deferred taxes in operating expenses			
Tax depreciation	\$130,237	\$120,232	\$101,728
Test operation of generating unit	<u>(5,731)</u>	<u>(2,780)</u>	<u>(10,856)</u>
Deferred Susquehanna energy savings net of operating expenses	<u>(15,811)</u>		<u>(11,411)</u>
Unbilled revenues	7,951	(2,287)	11,266
State utility realty tax	<u>(13,291)</u>	<u>14,888</u>	
Other	<u>2,291</u>	<u>(3,394)</u>	<u>3,024</u>
	<u>\$105,646</u>	<u>\$126,659</u>	<u>\$ 93,751</u>
Reconciliation of Federal Income Tax Expense			
Indicated federal income tax on pre-tax income at statutory tax rate (46%)	<u>\$208,384</u>	<u>\$203,350</u>	<u>\$177,601</u>
Reduction due to:			
AFUDC (Note 6)	(13,478)	77,656	65,088
Tax and pension cost	5,245	5,719	6,314
Deferred Susquehanna capital costs	14,601	(331)	13,770
Depreciation differences not normalized	(12,290)	(1,439)	221
Utilization of loss carryforward	52,604		
Other	<u>(694)</u>	<u>(1,416)</u>	<u>2,129</u>
	<u>45,988</u>	<u>80,189</u>	<u>87,522</u>
Total income tax expense	<u>\$162,396</u>	<u>\$123,161</u>	<u>\$ 90,079</u>
Effective income tax rate	35.8%	27.9%	23.3%
Taxes, Other Than Income			
State gross receipts	\$ 73,549	\$ 66,711	\$ 60,112
State capital stock	23,557	23,044	20,074
State utility realty	56,407	48,316	31,803
Social security and other	<u>16,892</u>	<u>16,135</u>	<u>13,481</u>
	<u>\$170,405</u>	<u>\$154,206</u>	<u>\$125,470</u>

See accompanying Notes to Financial Statements.

Statement of Earnings Reinvested

	1985	1984	1983
	(Thousands of Dollars)		
Balance, January 1	\$606,525	\$560,858	\$516,162
Add Net Income	<u>290,613</u>	<u>318,903</u>	<u>296,011</u>
	<u>897,138</u>	<u>879,761</u>	<u>812,173</u>
Deduct			
Cash dividends declared			
Preferred stock—at required annual rates	44,537	47,437	47,268
Preference stock—at required annual rates	46,749	44,708	38,570
Common stock—per share: 1985, \$2.56; 1984, \$2.48; 1983, \$2.40 ...	190,750	181,091	165,344
Issuance cost of retired preferred and preference stock			133
	<u>282,036</u>	<u>273,236</u>	<u>251,315</u>
Balance, December 31	<u>\$615,102</u>	<u>\$606,525</u>	<u>\$560,858</u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Accounting Records

Accounting records 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).

Affiliated Companies

Investments in unconsolidated subsidiaries (all wholly owned) and in Safe Harbor Water Power Corporation (of which the Company owns one-third of the outstanding capital stock representing one-half of the voting securities) are recorded using the equity method of accounting. Unconsolidated subsidiaries operate in the United States and are engaged in coal mining, holding coal reserves, oil pipeline operations and real estate investment.

The Company believes that its financial position and results of operations are best reflected without consolidation of these subsidiaries since they are not engaged in the business of generating or distributing electricity. All unconsolidated subsidiaries considered in the aggregate would not constitute a "significant subsidiary" as that term is defined by the Securities and Exchange Commission.

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 replacement of items determined to be less than units of property are charged to operating expense.

For financial reporting purposes, depreciation is being provided over the estimated useful lives of property and is computed using a modified sinking fund method for the Susquehanna nuclear plant and the straight-line method for all other property. These methods are also used for rate-making purposes. In accordance with an order of the PUC, the modified sinking fund method will be used to depreciate the nuclear plant until the year 2000, after which the straight-line method will be used for the plant's remaining life. Provisions for depreciation, as a percent of average depreciable property, approximated 2.2% in 1985, 2.5% in 1984 and 2.7% in 1983.

Nuclear Decommissioning and Fuel Disposal

An annual provision for decommissioning costs of the Susquehanna nuclear plant equal to the amount allowed for rate-making purposes is charged to operating expense. Such amounts, net of income taxes, are invested in securities kept in a segregated account which can be used only for future decommissioning costs.

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.

Allowance for Funds Used During Construction (AFUDC)

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 AFUDC shown on the 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. The equity funds component is reduced by the income tax savings realized due to the tax deductibility of construction-related interest.

AFUDC serves to offset on the 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. (See Note 6).

Capital Leases

Capital leased property 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 rate-making purposes. (See Note 8).

Revenues

Revenues are recorded based on the amount of electricity delivered to customers to 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 accounting period. The Company's PUC tariffs contain an energy cost rate 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 energy cost rate billings are recorded at the level of actual energy costs and the difference is recorded as payable to or receivable from customers.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based on their respective taxable income or loss and investment tax credits.

Income taxes applicable to the

Company are allocated to operating expenses and other income and deductions on the Statement of Income. Under other income and deductions, the income tax credits relate principally to the tax reductions associated with the interest expense that is offset by the borrowed funds component of the allowance for funds used during construction.

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 two principal items for which deferred taxes are not currently recorded are (i) certain pension costs and employee-related taxes capitalized for book purposes but deducted currently for income taxes and (ii) a portion of tax depreciation in excess of book depreciation related to property placed in service prior to 1980.

Investment and payroll-based tax credits result in a reduction of federal income taxes payable. Such tax credits, other than credits resulting from contributions to the employee stock ownership plan, are deferred when utilized and amortized over the average lives of the related property. (See Notes 5 and 6).

Retirement Plan

The Company has a noncontribu-

tory retirement plan covering substantially all employees. Company contributions to the plan include current service costs and all amounts required to amortize unfunded prior service costs over periods of not more than 20 years. (See Note 10).

Proposed Accounting Statement

The Financial Accounting Standards Board (FASB) issued a draft accounting statement in December 1985 that proposed certain accounting rules to be used by rate-regulated utilities in accounting for rate phase-in plans, plant abandonments and disallowed plant costs. Under certain circumstances, the proposed accounting could require utilities to recognize an immediate charge against net income that previously may have been recognized over a period of time. The Company cannot predict what final accounting rules the FASB may adopt, or the ultimate effect, if any, that such accounting may have on the Company's net income or financial position.

Reclassification

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

2. Rate Matters

In accordance with rate orders issued by the PUC, electric base rates were increased by approximately \$203 million annually in August 1983 and \$121 million annually in April 1985.

In April 1985, the PUC granted \$121 million of the \$330 million net rate increase requested by the Company to reflect the operation of Unit 2 at the Susquehanna nuclear-fueled station and other increased costs of doing business.

The PUC denied the Company a return on the common equity investment in Susquehanna Unit 2 based on the PUC's conclusion that the Company has too much generating capacity. This adjustment reduced requested revenues by about \$161 million. The other major adjustment by the PUC was to disallow

recovery of about \$37 million of the cost of electricity purchased from Allegheny Electric Cooperative, Inc.'s (Allegheny) 10% undivided interest in the Susquehanna units. The agreement with Allegheny provides that the Company will purchase declining amounts of electricity from Allegheny through 1990.

The Company has appealed to the Commonwealth Court of Pennsylvania the PUC decisions regarding excess capacity and the purchases from Allegheny. Other parties to the rate proceeding before the PUC have filed cross-appeals with the Court or have intervened in all of the appeals. The Company is unable to predict the outcome of these appeals.

In its August 1983 rate order, the PUC did not permit the Company to earn a return on \$287 million of its

net investment in all generating facilities. This adjustment, which reduced requested revenues by about \$59 million, resulted from a decision by the PUC that 945,000 kilowatts of the Company's generating capacity was excess. In April 1985, the Company began to sell 945,000 kilowatts of capacity and energy to Jersey Central Power & Light Company (JCP&L) and began to recover from JCP&L the \$59 million a year in return on investment disallowed by the PUC. (See Note 4).

The FERC permitted annual increases in rates for wholesale customers of \$3 million effective July 1982, \$4 million effective March 1984 and \$5.7 million effective January 1986.

3. Deferral of Costs Related to the Susquehanna Units

In accordance with orders of the PUC, the Company deferred certain operating and capital costs, net of energy savings, associated with Susquehanna Units 1 and 2. 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, 1985. Recovery of this amount is subject to PUC review and approval. No return is being accrued on the deferred costs.

4. Sales of Generating Capacity and Energy

Since April 1985, the Company has been providing JCP&L capacity and energy from the Company's generating facilities. Under the terms of the agreement, JCP&L is entitled to 945,000 kilowatts of the Company's generating capacity and related energy through 1995, with the amount then declining uniformly each year until the end of the agreement in 1999.

Sales to JCP&L are 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. JCP&L is permitted to defer payment of a portion of the amount due under the agreement until 1990. During 1985, JCP&L did not elect to defer any payments.

The Company also has an agreement which provides that Atlantic City Electric Company (Atlantic) will purchase 125,000 kilowatts of the Company's share of capacity and related energy from the Susquehanna units. When this agreement expires in 1991, another agreement provides that Atlantic will purchase

125,000 kilowatts of capacity and energy from the Company's coal-fired stations until the year 2000.

The Company is pursuing additional sales of generating capacity and energy to other utilities. The Company cannot predict whether it will be successful in this effort, but if a sale is completed, it would lessen the adverse earnings effect of the PUC's April 1985 rate decision regarding excess capacity.

5. Income Taxes

Taxable income for 1985 was sufficient for the Company to utilize all of its loss carryforwards, which were approximately \$100 million for both federal and state income tax purposes at the end of 1984. The current provision for income tax expense for 1985 has been reduced by approximately \$58.5 million to reflect the utilization of the carryforwards. The reduction in the current provision for income taxes has been offset on the Statement of Income by

an equal decrease in the allowance for funds used during construction. (See Note 6).

The Company has unused investment and payroll-based tax credits aggregating approximately \$256 million (\$32 million applicable to the employee stock ownership plan) at December 31, 1985 which may be used to reduce future federal income tax liabilities. The carryforward period for these credits expires in the years 1994 to 2000.

The Company has not recorded deferred income taxes for certain timing differences in accordance with PUC rate treatment. The cumulative net amount of such timing differences for which deferred income taxes have not been recorded approximated \$640 million at December 31, 1985. The Company would expect to recover through electric revenues the taxes due when such timing differences reverse.

6. Allowance for Funds Used During Construction (AFUDC)

AFUDC is recorded on an after-tax basis with the equity component reduced by the income tax savings realized due to the tax deductibility of construction-related interest. The Company had tax losses during the period 1982-1984 due in part to the large amount of construction interest incurred. As a result, the income tax reduction reflected in AFUDC

in those years was limited to the tax applicable to construction interest determined to be usable as a tax deduction. The combined federal and state income tax effect of the construction interest that could not be used as a deduction was approximately \$60 million for the years 1982-1984.

Taxable income for 1985 was suf-

ficient to permit the Company to utilize all of its loss carryforwards that existed at the end of December 1984. Accordingly, AFUDC for 1985 was reduced by the tax effect of prior year construction interest included in the loss carryforwards.

7. Stock Held for Dividend Reinvestment Program

At December 31, 1985, 424,259 shares of Common Stock of the Company were held temporarily for dis-

tribution to participants under the Company's Dividend Reinvestment Program. The stock was purchased

on the open market and is carried at cost.

8. Leases

Property under capital leases consists of the following (thousands of dollars):

	December 31 1985	1984
Nuclear fuel, net of accumulated amortization— 1985, \$137,974; 1984, \$66,440.....	\$317,212	\$329,630
Vehicles, oil storage tanks and other property, net of accumulated amortization— 1985, \$44,259; 1984, \$39,348.....	<u>79,318</u>	<u>71,897</u>
Net property under capital lease	<u>\$396,530</u>	<u>\$401,527</u>

Future minimum lease payments for capital leases at December 31, 1985 (excluding nuclear fuel) would aggregate \$110.3 million, including \$31.0 million of imputed interest. During the five years ending 1990, such payments would decrease from \$20.8 million per year to \$9.9 million per year.

Nuclear fuel lease payments, which are charged to expense as the fuel is used for the generation of

electricity, were \$78.5 million in 1985 and \$35.4 million in 1984. Future nuclear fuel lease payments will be based on the quantity of electricity produced by the Susquehanna units. The maximum amount of unamortized nuclear fuel leasable under current arrangements is \$350 million.

Interest on capital lease obligations was recorded as operating expenses on the Statement of Income

in the following amounts (thousands of dollars): 1985, \$18,256; 1984, \$13,836 and 1983, \$10,914.

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

9. Credit Arrangements

To provide short-term funds required for general corporate purposes, the Company issues commercial paper notes and, from time to time, borrows from banks.

The Company maintains revolving credit arrangements with a group of domestic banks principally as a back-up for its commercial paper issuances. The banks have committed to lend the Company up to \$200 million on a revolving basis in return for the payment of commitment fees. Any loans made under

these credit arrangements would mature on June 30, 1990 and, at the option of the Company, interest rates would be based upon domestic certificate of deposit rates, Eurodollar deposit rates or the prime rate.

The Company also maintains lines of credit aggregating \$35 million with various domestic banks in return for the maintenance of compensating balances or the payment of commitment fees. Bank borrowings generally bear interest at rates negotiated at the time of the

borrowing.

Reflecting the Company's reduced need for construction funds, the Company reduced its total credit arrangements from \$720 million at the end of 1984 to \$235 million in 1985. There were no borrowings outstanding at the end of 1985 under these credit arrangements.

Commitment fees incurred to maintain the Company's credit arrangements were (millions of dollars): 1985, \$1.6; 1984, \$2.6 and 1983, \$2.6.

10. Retirement Plan and Other Postretirement Benefits

Pension costs were (millions of dollars): 1985, \$27.3; 1984, \$29.0 and 1983, \$27.7. Of these amounts, \$18.9 million in 1985, \$18.0 million in 1984 and \$16.0 million in 1983 were charged to operating expenses, and

the balance was charged to construction and other accounts. The decrease in pension costs for 1985, compared to 1984, was due to an increase in the assumed rate of return on investments to 6.5% for 1985,

from 6.0% for 1984.

The actuarial present value of accumulated retirement plan benefits and net assets at the end of the plan's recent fiscal years were as follows (thousands of dollars):

	June 30 1985	1984
Actuarial present value of accumulated plan benefits: (a)		
Vested	\$203,466	\$191,284
Nonvested	<u>12,584</u>	<u>10,185</u>
	<u>\$216,050</u>	<u>\$201,469</u>
Net assets available for benefits	<u>\$369,371</u>	<u>\$272,323</u>

(a) Excludes accumulated plan benefits which are the obligation of four insurance companies under insurance contracts.

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5% for both the June 30, 1985 valuation and the June 30, 1984 valuation.

Substantially all of the Company's employees will become eligible for certain health care and life insurance benefits upon retirement. The cost of these benefits for retired employees is generally recognized as

expense when premiums are paid. Such costs were approximately (millions of dollars): 1985, \$2.0; 1984, \$2.3 and 1983, \$2.2.

11. Joint Ownership of Generating Plants

At December 31, 1985, the Company owned undivided interests in three generating stations as follows (millions of dollars):

	Susquehanna	Keystone	Conemaugh
% Ownership	90.00%	12.34%	11.39%
Utility Plant in Service	\$3,724	\$36	\$36
Accumulated Depreciation	62	14	13
Construction Work in Progress	76	5	1

The Company receives a portion of the total station output equal to its percentage ownership. The State-

ment of Income reflects the Company's share of fuel and other operating costs associated with the

stations. Each participant provides its own financing.

12. Affiliated Company Transactions

The principal transactions with affiliated companies involve the purchase of electricity from Safe Harbor Water Power Corporation, the purchase of coal, the payment of other costs related to coal reserves and charges for transportation of oil by pipeline. Costs related to these

transactions with affiliates aggregated (millions of dollars): 1985, \$271.0; 1984, \$291.9 and 1983, \$290.9.

Under equity accounting, the operations of affiliated companies resulted in after-tax charges against the Company's net income of (mil-

lions of dollars): 1985, \$2.6; 1984, \$4.1 and 1983, \$4.2.

At December 31, 1985, the Company had guaranteed \$252.0 million of the obligations of affiliated companies.

13. Affiliated Coal-Mining Operations

The Company purchased approximately \$251 million of coal from its affiliated mining companies in 1985 at prices equal to the cost of mining. The cost of coal purchased is included in the energy costs collected from customers. The PUC has notified the Company that it is concerned with the relatively high cost of coal purchased from the Company's affiliated mining companies. The comparison of the cost of coal produced by affiliated companies with that acquired from other sources has been affected in recent years by low market prices due to the depressed condition of the coal industry. In addition, poor geological conditions and other problems at the Company's affiliated Greenwich mine have resulted in below normal

output levels and high costs.

In this regard, the Company is taking steps to reduce the cost of coal produced at the Greenwich mine and is also evaluating its overall affiliated coal-mining operations. The outcome of that evaluation could result in the phasing-out or divestiture of all or a part of those operations. Such action may adversely affect the Company's earnings in amounts which are not presently determinable. The impact on earnings would be affected by a number of factors, including the investment in affiliated mining operations, liabilities arising due to a termination of mining operations, income tax reductions and proceeds from the disposal of assets. At December 31, 1985, the capital investment by af-

filiated companies in coal-mining operations amounted to about \$103 million.

The PUC staff is currently evaluating possible coal cost standards that could limit the amount of affiliated coal costs that may be charged to customers. In the event the Company's coal costs exceed any standard that may be adopted by the PUC, the Company may not be allowed to recover the excess costs from customers.

In December 1985, the Company sold a subsidiary, The Arcadia Company, Inc. which was involved in surface coal-mining operations. The sale resulted in an after-tax charge against the Company's net income of approximately \$1.6 million.

14. Sale of Steam Heat Plant

In December 1985, the Company sold its steam heat plant and associated distribution system in the city of Harrisburg. Revenues from

steam heat operations were less than 1% of the Company's total operating revenues. The sale of the steam heat property resulted in an after-tax

charge against the Company's net income of approximately \$2.3 million.

15. Commitments and Contingent Liabilities

The Company's construction expenditures are estimated to aggregate \$288 million in 1986, \$234 million in 1987 and \$278 million in 1988, including the allowance for funds used during construction. See the section entitled Capital Expenditure Requirements on page 21 for additional information concerning the Company's planned construction expenditures.

The Company is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to \$1.1 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 during the current policy year is about \$19 million.

The Company's public liability for claims resulting from a nuclear incident is currently limited to \$650 million under provisions of the Price-Anderson Act (Act). The Company is protected against this potential liability by a combination of commercial insurance and an industry assessment program. In

the event of a nuclear incident at any of the facilities owned by others and covered by the Act, the Company could be assessed up to \$10 million per incident, but not more than \$20 million in a calendar year in the event more than one incident is experienced.

The Act is scheduled to expire in August 1987, and Congress is considering several proposals to amend the Act. The Company is unable to predict what action Congress might ultimately take regarding the Act and what effect such action might have on the Company's potential liability.

See Note 12 for information concerning the Company's guarantee of the obligations of certain affiliated companies.

16. Quarterly Financial Data (Unaudited)

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Applicable to Common Stock	Earnings Per Share of Common Stock (a)
<i>(Thousands of Dollars, Except Per Share Amounts)</i>					
1985					
March	\$486,495	\$122,122	\$104,551	\$81,221	\$1.09
June	479,762	122,003	58,949	35,940	0.48
September	483,782	136,733	60,573	38,042	0.51
December	526,463	145,630	66,540	44,124	0.59
1984					
March	\$479,484	\$119,964	\$ 98,244	\$76,059	\$1.07
June	351,310	93,055	66,003	42,851	0.59
September	349,994	99,132	76,509	53,049	0.72
December	381,994	94,807	78,147	54,799	0.74

(a) Based on the average number of shares outstanding during the quarter.

17. Supplementary Information on Changing Prices (Unaudited)

The following supplementary information on the effects of changing prices is presented in accordance with the requirements of the FASB. Customary financial reporting generally has not attempted to specifically reflect the effects of inflation. The FASB requires that certain aspects of inflation be computed in accordance with prescribed techniques and reported as supplementary information on an experimental basis.

The FASB recognizes, and the Company cautions users of this information, that there is no consensus on the general practical usefulness of this supplementary information. There are also unresolved imple-

mentation problems and conceptual differences regarding the manner in which the effects of changing prices should be measured.

The effects of changing prices set forth below is presented using current cost information. In a period of inflation, prices of most goods and services increase but not necessarily all at the same time. The current cost method shows the impact of inflation on a company by measuring the estimated change in prices of the specific goods and services used by that company.

In the Supplementary Statement of Income data shown below, utility plant, net of accumulated depreciation, nuclear fuel expense and de-

preciation expense are the only items restated to reflect specific price changes (current cost).

Fossil fuel inventories and the cost of such fuel have not been restated from their historical cost because they are stated close to current cost and the expense is generally recovered within a relatively short time through adjustment clauses. Revenues, income taxes and expenses other than nuclear fuel and depreciation are presented at the amounts reported in the basic financial statements.

Set forth under Other Impacts of Changing Prices are the following:

1. Gain from decline in purchasing

Supplementary Statement of Income for 1985

	As Reported In Financial Statements (Historical Cost) (Thousands of Dollars)	Adjusted on the Basis of Price Changes Experienced (Current Cost) (a)
Operating revenues.....	\$1,976,502	\$1,976,502
Operating expenses		
Fuel	756,295	752,266
Depreciation (b)	141,912	300,979
Other	551,807	551,807
	<u>1,450,014</u>	<u>1,605,052</u>
Interest expense	289,221	289,221
Other income and deductions—net.....	(53,346)	(53,346)
Dividends on preferred and preference stock	91,286	91,286
	<u>1,777,175</u>	<u>1,932,213</u>
Earnings applicable to common stock.....	<u>\$ 199,327</u>	<u>\$ 44,289</u>
Other Impacts of Changing Prices		
Gain from decline in purchasing power of net amounts owed		<u>\$ 157,290</u>
Increase in net utility plant during the year due to price changes		
As a result of specific price changes experienced (c)		\$ 114,252
As a result of changes in general price level		<u>(391,128)</u>
Excess of increase in general price level over increase in specific prices.....		<u>\$ (276,876)</u>
Adjustment of net utility plant to net recoverable amount—write-up		<u>\$ 202,535</u>

(a) Stated in average 1985 dollars.

(b) The current cost of utility plant was determined by applying construction cost indices maintained by the Company to the historical cost. The adjusted provision for depreciation

was determined by applying the functional class depreciation accrual rates to the respective average year-end balances of depreciable plant adjusted for specific price changes.

(c) At December 31, 1985, the current cost of net utility plant was \$10.71 billion, while the historical cost or net amount recoverable through depreciation was \$6.39 billion.

power of net amounts owed.

Inflation also affects monetary assets, such as cash and receivables, which lose purchasing power during inflationary periods since these assets will in time purchase fewer goods or services. Conversely, holders of monetary liabilities benefit during such periods because less purchasing power will be required to satisfy these obligations.

Monetary liabilities include preferred and preference stock issues with sinking fund requirements, long-term debt, current liabilities, capital lease obligations, deferred taxes and tax credits and other deferred

credits. The Company is in a net monetary liability position.

2. Increase in net utility plant during the year due to price changes.

The increase in net utility plant is shown as a result of both specific price changes (current cost) and changes in the general price level as measured by the U.S. Government Consumer Price Index for All Urban Consumers (CPI-U).

3. Adjustment of net utility plant to net recoverable amount.

Under the rate-making prescribed by regulatory commissions, only the historical cost of utility plant is recoverable in

revenue as depreciation. Therefore, any difference between the amount of utility plant stated in terms of current cost (after deducting the effects of general inflation) and historical cost must be adjusted to net recoverable amount. The amount of such difference that occurred as a result of price changes in 1985 is shown as a write-up of net utility plant to net recoverable amount because the general price level increased substantially more than specific prices.

Supplementary Comparison of Selected Data

The following schedule presents a summary of selected data comparing items as they are normally reported in financial statements or other statistical summaries to items adjusted for changing prices.

	1985	1984	1983	1982	1981
	<i>(Thousands of Dollars, Except Per Share Amounts)</i>				
Operating revenues					
As reported.....	\$1,976,502	\$1,562,782	\$1,248,397	\$1,219,548	\$1,133,278
Average 1985 dollars (a).....	1,976,502	1,618,542	1,347,968	1,359,178	1,340,463
Earnings applicable to common stock (b)					
As reported.....	199,327	226,758	210,173	210,572	170,801
Current cost in average 1985 dollars.....	44,289	65,263	84,020	98,138	80,456
Earnings per share of common stock (b)					
As reported.....	2.68	3.12	3.06	3.35	3.17
Current cost in average 1985 dollars.....	0.59	0.90	1.22	1.56	1.49
Amount by which the increase in general price level of net utility plant is greater than or (less than) the increase in specific prices of net utility plant.....	276,876	(82,142)	(119,385)	(297,921)	(71,574)
Adjustment of net utility plant to net recoverable amount—write-up (reduction) at current cost in average 1985 dollars.....	202,535	(160,826)	(186,862)	(357,555)	(365,516)
Gain from decline in purchasing power of net amounts owed.....	157,290	163,862	135,694	125,656	265,427
Net assets at year-end (c)					
As reported.....	2,137,075	2,128,362	1,999,324	1,875,070	1,666,812
Current cost in average 1985 dollars.....	2,103,132	2,173,561	2,122,511	2,066,168	1,907,804
Cash dividends declared per common share					
As reported.....	2.56	2.48	2.40	2.32	2.24
Average 1985 dollars (a).....	2.56	2.57	2.60	2.58	2.67
Market price per common share at year-end					
As reported.....	28.75	25.12	20.62	21.00	17.12
Average 1985 dollars (a).....	28.29	25.66	21.90	23.14	19.60
Average consumer price index (CPI-U).....	322.2	311.1	298.4	289.1	272.4

(a) Adjusted to average 1985 dollars by applying the CPI-U index to items as normally reported.

(b) 1981 excludes a nonrecurring credit related to an accounting change in

recording unbilled revenues.
(c) Net assets (shareowners' equity) for purposes of this supplementary disclosure includes common equity and the preferred and preference stocks

without sinking fund requirements. The preferred and preference stocks with sinking fund requirements have been excluded since they were treated as monetary items.

Selected Financial and Operating Data

	1985	1984	1983	1982	1981
Income Items—thousands					
Operating revenues	\$1,976,502	\$1,562,782	\$1,248,397	\$1,219,548	\$1,133,278
Operating income	526,488	406,958	289,930	223,083	211,050
Allowance for funds used during construction	(29,301)	168,938	251,548	246,423	193,861
Net income (a)	290,613	318,903	296,011	278,886	244,077
Earnings applicable to common stock (a)	199,327	226,758	210,173	210,572	183,182
Balance Sheet Items—thousands (b)					
Net utility plant in service	\$5,776,687	\$3,860,960	\$3,847,301	\$2,112,169	\$2,054,039
Construction work in progress	161,684	2,020,839	1,730,228	2,923,841	2,312,292
Total assets	6,965,639	6,910,783	6,418,509	5,829,138	5,097,550
Long-term debt	2,604,936	2,604,506	2,387,249	2,323,318	2,165,381
Preferred and preference stock					
With sinking fund requirements	691,010	738,027	714,830	621,634	544,231
Without sinking fund requirements	231,375	231,375	231,375	231,375	231,375
Common equity	1,905,700	1,896,987	1,767,949	1,643,695	1,435,437
Short-term debt	95,500	104,800	190,000	160,545	175,489
Total capital provided by investors	5,528,521	5,575,695	5,291,403	4,980,567	4,551,913
Financial Ratios					
Return on average common equity—% (a)	10.42	12.30	12.29	13.60	12.74
Embedded cost rates (b)					
Long-term debt—%	11.24	11.12	10.98	10.81	10.80
Preferred and preference stock—%	10.02	9.94	9.66	9.41	8.93
Times interest earned before income taxes (a)	2.37	2.35	2.29	2.05	1.91
Ratio of earnings to fixed charges—total					
enterprise basis (a) (c)	2.19	2.06	2.04	1.81	1.78
Depreciation as % of average					
depreciable property	2.2	2.5	2.7	3.3	3.2
Common Stock Data					
Number of shares outstanding—thousands					
Year-end	74,513	74,513	70,335	66,461	58,447
Average	74,513	72,767	68,642	62,809	53,912
Earnings per share (a)	\$ 2.68	\$ 3.12	\$ 3.06	\$ 3.35	\$ 3.17
Dividends declared per share	\$ 2.56	\$ 2.48	\$ 2.40	\$ 2.32	\$ 2.24
Taxability of dividend income—% (d)	100.00	63.29	0	0	0
Book value per share (b)	\$25.58	\$25.46	\$25.12	\$24.71	\$24.52
Market price per share (b)	\$ 28¾	\$ 25½	\$ 20¾	\$ 21	\$ 17¾
Dividend payout rate—% (a)	96	80	79	70	72
Dividend yield—% (d) (e)	9.81	11.00	10.48	11.95	13.34
Price earnings ratio (a) (e)	9.76	7.24	7.48	5.79	5.30
Fuel Cost Data					
Cost per kwh generated—cents					
Coal-fired steam stations	1.78	1.75	1.68	1.77	1.64
Nuclear steam station (g)	0.61	0.54	0.66		
Oil-fired steam station	5.02	5.31	5.23	5.62	5.75
Combustion turbines and diesels (oil)	9.31	9.82	10.21	10.74	10.51
Average	1.81	1.98	2.15	2.20	2.30
Cost of fossil fuel received at steam stations					
Coal—per ton	\$42.00	\$42.75	\$39.37	\$42.32	\$39.59
Residual oil—per bbl.	\$28.42	\$31.32	\$29.79	\$30.94	\$33.47
Employees (b)	8,433	8,386	8,160	8,208	7,999

(a) 1981 net income and earnings applicable to common stock include a nonrecurring credit related to an accounting change, while indicated financial ratios and common stock data for that year are computed excluding the nonrecurring credit from earnings.

(b) Year-end.

(c) 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) Based on holding one share of common stock for the entire year.

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

(f) The winter peaks shown were reached early in the subsequent year.

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

	1985	1984	1983	1982	1981
Sales Data					
Electric customers (b)	1,055,546	1,039,381	1,026,144	1,013,623	1,006,570
Average annual residential kwh use	9,034	9,282	9,051	9,039	9,157
Electric energy sales billed—millions of kwh					
Residential	8,354	8,454	8,138	8,045	8,088
Commercial	6,728	6,527	6,119	5,946	5,893
Industrial	7,907	8,117	7,623	7,324	7,968
Other	1,082	1,043	968	982	1,005
System sales	24,071	24,141	22,848	22,297	22,954
Contractual sales to other utilities	4,048	357	209		
Total electric energy sales billed	28,119	24,498	23,057	22,297	22,954
Sources of energy sold—millions of kwh					
Generated					
Coal-fired steam stations	26,237	26,695	26,885	25,477	24,841
Nuclear steam station (g)	11,534	6,295	4,509	293	
Oil-fired steam station	4,316	4,121	5,581	3,186	4,705
Combustion turbines and diesels (oil)	18	32	45	13	32
Hydroelectric stations	612	747	700	612	622
Power purchases	42,717	37,890	37,720	29,581	30,200
Interchange power sales	3,716	3,765	3,880	1,414	744
Company use, line losses and other	(16,235)	(15,377)	(16,405)	(6,900)	(6,274)
Total electric energy sales billed	(2,079)	(1,780)	(2,138)	(1,798)	(1,716)
Total electric energy sales billed	28,119	24,498	23,057	22,297	22,954
Electric Revenue Data					
By class of service—thousands					
Residential	\$ 634,669	\$ 591,922	\$ 529,911	\$ 503,557	\$ 411,668
Commercial	492,686	441,651	386,617	363,233	292,984
Industrial	438,427	411,533	367,950	347,726	295,006
Other energy sales	64,223	59,526	47,275	47,731	39,484
System sales	1,630,005	1,504,632	1,331,753	1,262,247	1,039,142
Contractual sales to other utilities	232,598	31,809	18,494		
Total from energy sales billed	1,862,603	1,536,441	1,350,247	1,262,247	1,039,142
Unbilled revenues, net	78,545	(9,725)	(119,539)	(61,652)	76,884
Other operating revenues	30,059	29,960	12,972	12,708	10,142
Total electric operating revenues	\$1,971,207	\$1,556,676	\$1,243,680	\$1,213,303	\$1,126,168
Average price per kwh billed—cents					
Residential	7.60	7.00	6.51	6.26	5.09
Commercial	7.32	6.77	6.32	6.11	4.97
Industrial	5.55	5.07	4.83	4.75	3.70
Total for ultimate customers	6.85	6.30	5.91	5.74	4.59
Total for all customers	6.62	6.27	5.86	5.66	4.53
Total for system sales	6.77	6.23	5.83	5.66	4.53
Generation Data					
Generating capability—thousands of kw (b)	7,513	7,484	7,494	6,546	6,546
Winter peak demand—thousands of kw (f)	4,981	5,519	4,869	4,489	5,207
Generation by fuel source—%					
Coal	61.4	70.4	71.3	86.1	82.2
Nuclear (g)	27.0	16.6	11.9	1.0	
Oil	10.2	11.0	14.9	10.8	15.7
Hydroelectric	1.4	2.0	1.9	2.1	2.1
Steam station availability—%					
Coal-fired	78.6	75.2	78.8	79.1	74.7
Nuclear (g)	70.7	66.7	67.7		
Oil-fired	87.2	68.0	75.8	80.4	73.4
Steam station utilization—%					
Coal-fired	72.3	73.3	74.0	70.2	68.4
Nuclear (g)	70.5	65.7	67.5		
Oil-fired	30.0	28.6	38.8	22.2	32.8

Common Stock Price and Dividend Data

The principal trading market for the Company's common stock is the New York Stock Exchange. The common stock is also listed on the Philadelphia Stock Exchange. The number of record holders of common stock was 151,025 as of December 10, 1985. The high and low sales prices of the Company's common stock on the Composite Tape for the past two years as reported by The Wall Street Journal were as follows:

Quarter Ended	High	Low
1985		
March	\$27 $\frac{3}{8}$	\$24 $\frac{1}{8}$
June	27 $\frac{3}{4}$	23 $\frac{3}{8}$
September	27 $\frac{3}{8}$	23 $\frac{1}{2}$
December	29	23 $\frac{3}{4}$
1984		
March	\$22 $\frac{3}{8}$	\$19 $\frac{1}{4}$
June	22 $\frac{3}{8}$	19 $\frac{1}{2}$
September	23 $\frac{3}{8}$	21
December	25 $\frac{3}{8}$	23

The Company has paid quarterly cash dividends on its common stock in every year since 1946. The dividends paid per share in 1985 and 1984 were \$2.54 and \$2.46, respectively. The most recent regular quarterly dividend declared by the Company was 64 cents per share (equivalent to \$2.56 per annum) paid January 1, 1986. Future dividends will be dependent upon future earnings, financial requirements and other factors.

Fiscal Agents

TRANSFER AGENTS FOR PREFERRED, PREFERENCE AND COMMON STOCK

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, Pennsylvania 18101

REGISTRARS FOR PREFERRED, PREFERENCE AND COMMON STOCK

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, Pennsylvania 18101

DEPOSITARY FOR DEPOSITARY PREFERENCE SHARES

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

DIVIDEND DISBURSING OFFICE AND DIVIDEND REINVESTMENT PLAN AGENT

Vice President and Treasurer
Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, Pennsylvania 18101

Securities Listed on Exchanges

NEW YORK STOCK EXCHANGE

4½% Preferred Stock (Code: PPLPRB)
4.40% Series Preferred Stock (Code: PPLPRA)
8.60% Series Preferred Stock (Code: PPLPRG)
9.24% Series Preferred Stock (Code: PPLPRM)
Preference Stock, \$8.00 Series (Code: PPLPRJ)
Preference Stock, \$8.40 Series (Code: PPLPRH)
Preference Stock, \$8.70 Series (Code: PPLPRI)
Preference Stock, \$11.00 Series (Code: PPLPRL)
Preference Stock, \$13.00 Series (Code: PPLPRK)
Depositary Preference Shares, \$2.90 Series (Code: PPLPRP)
Depositary Preference Shares, \$3.25 Series (Code: PPLPRO)
Common Stock (Code: PPL)

PHILADELPHIA STOCK EXCHANGE

4½% Preferred Stock
3.35% Series Preferred Stock
4.40% Series Preferred Stock
4.60% Series Preferred Stock
8.60% Series Preferred Stock
9% Series Preferred Stock
9.24% Series Preferred Stock
Preference Stock, \$8.00 Series
Preference Stock, \$8.40 Series
Preference Stock, \$8.70 Series
Preference Stock, \$11.00 Series
Preference Stock, \$13.00 Series
Depositary Preference Shares, \$2.90 Series
Depositary Preference Shares, \$3.25 Series
Common Stock

Officers

ROBERT K. CAMPBELL, *President and Chief Executive Officer*
MERLIN F. HERTZOG, *Executive Vice President-Corporate Services*
JOHN T. KAUFFMAN, *Executive Vice President-Operations*
BRUCE D. KENYON, *Senior Vice President-Nuclear*
LEON L. NONEMAKER, *Senior Vice President-Division Operations*
CHARLES E. RUSSOLI, *Senior Vice President-Financial*

JOHN R. BIGGAR, *Vice President-Finance*
GENNARO D. CALIENDO, *Vice President and General Counsel*
ROBERT S. GOMBOS, *Vice President-Human Resource & Development*
CHARLES J. GREEN, *Vice President-Harrisburg Division*
WILLIAM F. HECHT, *Vice President-System Power*
HAROLD W. KEISER, *Vice President-Nuclear Operations*
JOHN P. KIERZKOWSKI, *Vice President and Treasurer*
CARL R. MAIO, *Vice President-Lehigh Division*
GRAYSON E. McNAIR, *Vice President-Marketing & Customer Services*
EDWARD M. NAGEL, *Vice President and Secretary*
HERBERT D. NASH JR., *Vice President-Central Division*
CLAIR W. NOLL, *Vice President-Procurement & Computer Services*
JOHN E. ROTH, *Vice President-Northern Division*
JOHN H. SAEGER, *Vice President-Susquehanna Division*
EDWIN H. SEIDLER, *Vice President-Engineering & Construction-System Power & Engineering*
BRENT S. SHUNK, *Vice President-Lancaster Division*
JEAN A. SMOLICK, *Assistant Secretary*
GEORGE F. VANDERSLICE, *Vice President and Comptroller*
PAULINE L. VETOVITZ, *Assistant Secretary*
WILLIAM R. WHITE, *Vice President-Power Production*
HELEN J. WOLFER, *Assistant Secretary and Assistant Treasurer*

Corporate Management Committee: Robert K. Campbell, chairman; Merlin F. Hertzog, John T. Kauffman, Bruce D. Kenyon, Leon L. Nonemaker, Charles E. Russoli, and Edward F. Reis, Director-Corporate Planning, serving as the committee's executive secretary.

Directors

CLIFFORD L. ALEXANDER JR., Washington, D.C.
President, Alexander & Associates Inc. Consultants to business, government and industry
ROSWELL BRAYTON SR., Woolrich
Chairman of the Board and Chief Executive Officer, Woolrich Woolen Mills Inc. Manufacturer of garments for outdoor activities
JEFFREY J. BURDGE, Camp Hill
Chairman of the Board and Chief Executive Officer, Harsco Corporation. Manufacturer of processed and fabricated metals
ROBERT K. CAMPBELL, Allentown
President and Chief Executive Officer
EDGAR L. DESSEN, Hazleton
Physician-Radiologist
EDWARD DONLEY, Allentown
Chairman of the Board and Chief Executive Officer, Air Products and Chemicals Inc. Manufacturer of industrial and commercial gases and chemicals
MERLIN F. HERTZOG, Allentown
Executive Vice President-Corporate Services
FRANCES R. HESSELBEIN, New York City
National Executive Director, Girl Scouts of the U.S.A.
HARRY A. JENSEN, Lancaster
Director and former Chief Executive Officer, Armstrong World Industries Inc. Manufacturer of interior furnishings and specialty products
JOHN T. KAUFFMAN, Allentown
Executive Vice President-Operations
HAROLD S. MOHLER, Hershey
Former Chairman of the Board, Hershey Foods Corporation. Diversified manufacturer of food products
RALPH W. RICHARDSON JR., State College
Consultant, agricultural and environmental sciences
NORMAN ROBERTSON, Pittsburgh
Senior Vice President and Chief Economist, Mellon Bank, N.A.
DAVID L. TRESSLER, Scranton
Chairman of the Board and Chief Executive Officer, Northeastern Bank of Pennsylvania

Executive Committee: Robert K. Campbell, chairman; Edgar L. Dessen, Harry A. Jensen and Norman Robertson.

Audit Committee: David L. Tressler, chairman; Clifford L. Alexander Jr., Roswell Brayton Sr., Harold S. Mohler and Ralph W. Richardson Jr.

Corporate Responsibility Committee: Edgar L. Dessen, chairman; Jeffrey J. Burdge, Frances R. Hesselbein, Harold S. Mohler and David L. Tressler.

Management Development and Compensation Committee: Roswell Brayton Sr., chairman; Clifford L. Alexander Jr., Edward Donley and Norman Robertson.

Nominating Committee: Ralph W. Richardson Jr., chairman; Jeffrey J. Burdge, Edward Donley, Frances R. Hesselbein and Harry A. Jensen.

10-K and PP&L Profile

The company's annual report filed with the Securities and Exchange Commission on Form 10-K will be available mid-March. Each year the company publishes the PP&L Profile, a 10-year statistical review, containing in-depth information about the company. The 1975-1985 Profile will be available in May. A shareowner may obtain a copy of these publications, at no cost, by writing to Pennsylvania Power & Light Company, Two North Ninth Street, Allentown, Pa. 18101, attention: Mr. George I. Kline, Manager-Investor Services.

Board of Directors



Alexander



Brayton



Burdge



Dessen



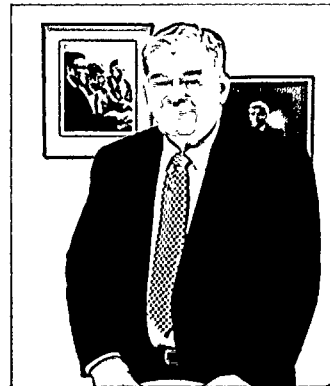
Donley



Hesselbein



Jensen



Mohler



Richardson

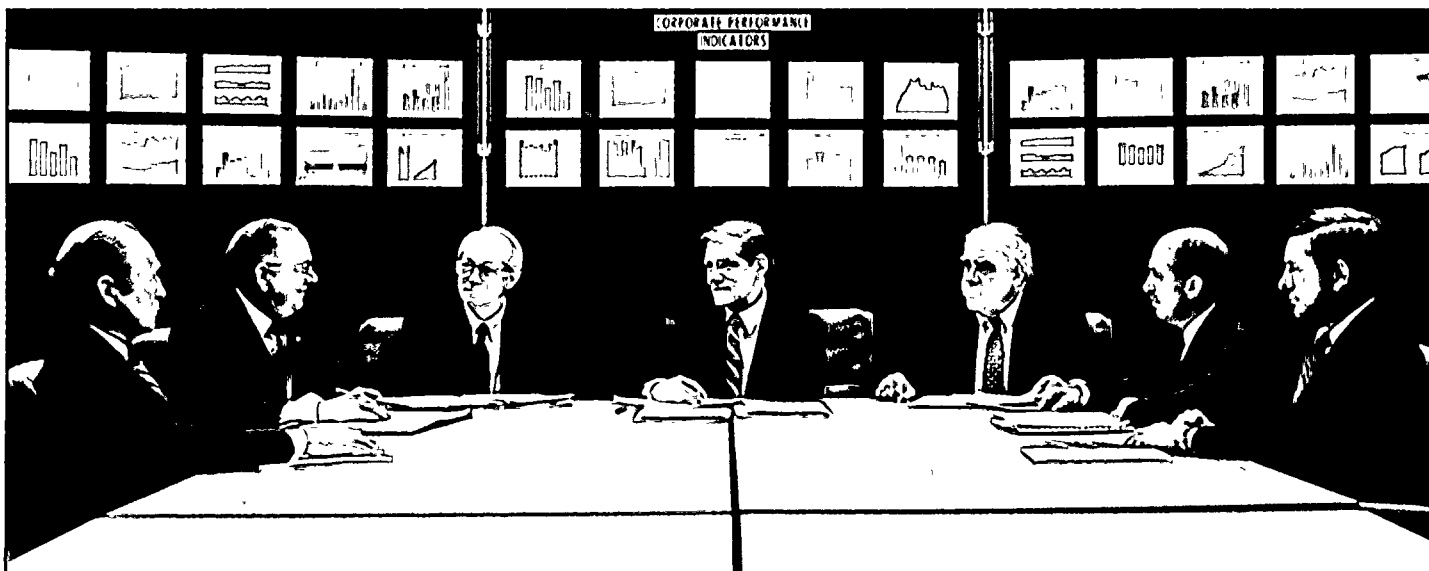


Robertson



Tressler

Corporate
Management
Committee



Reis

Nonemaker

Hertzog

Campbell

Kauffman

Russoli

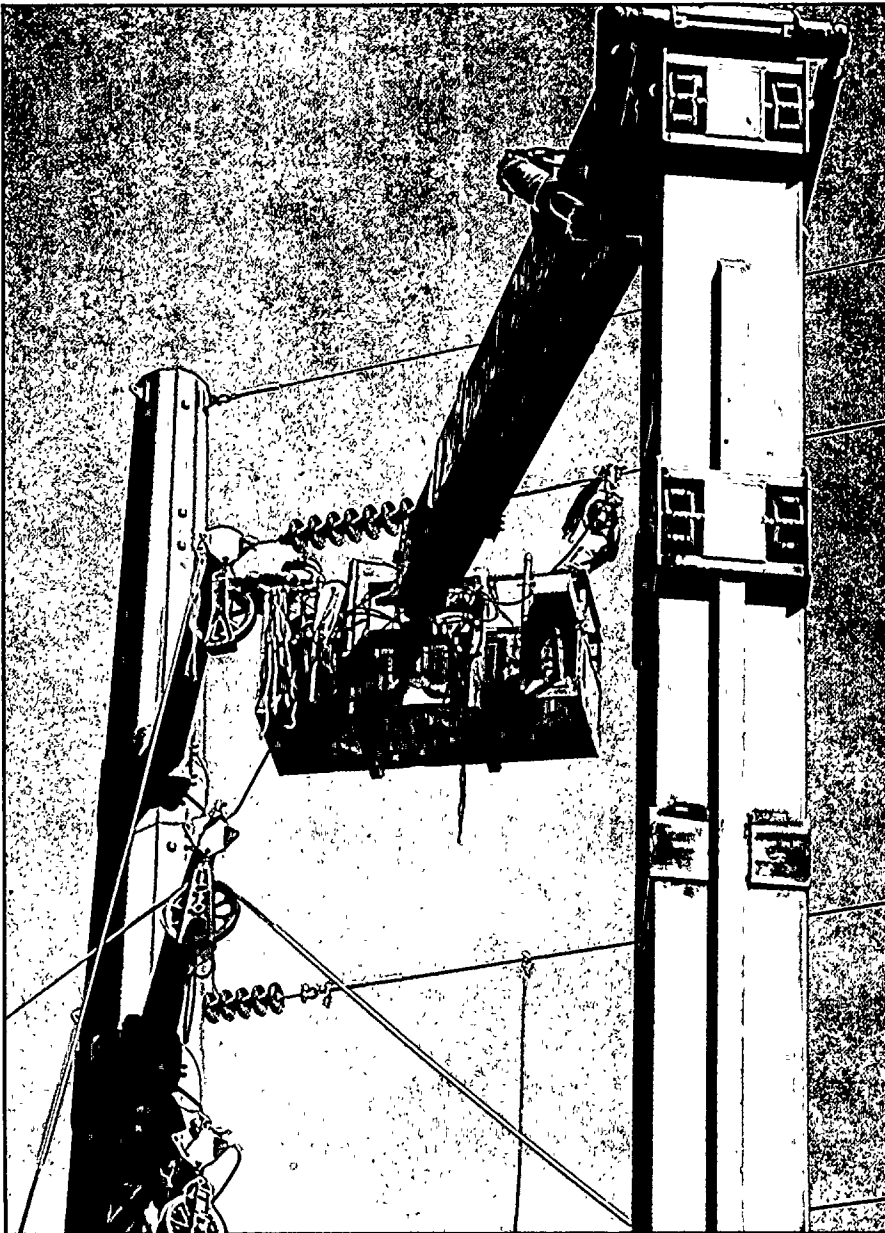
Kenyon



Pennsylvania Power & Light Company

Two North Ninth Street • Allentown, PA 18101 • 215 / 770-5151

Transmission



In addition to keeping its plants well-maintained, and in good operating condition to make electricity, PP&L must be able to deliver its product wherever it's needed. This means building, rebuilding and maintaining nearly 3,400 miles of PP&L transmission lines, like this new line being constructed near Allentown. The loading and dispatch of power from PP&L's plants is centrally coordinated in the Power Control Center two stories underground in the company's Allentown General Office complex. The specially lighted map board shows the condition of major transmission lines and substations across PP&L's service territory.

