GPU Nuclear

GPU Nuclear
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Writer's Direct Dial Number:

April 27, 1982

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US NUCLEAR REGULATORY COMMISSION
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Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Attention: Document Control Desk

Dear Sir:

Subject: Oyster Creek Nuclear Generating Station
Docket No. 50-219
Annual Financial Report

Enclosed with this letter are ten copies of the General Public Utilities Corporation 1981 Annual Report as required by 10 CFR Part 50, Appendix C, Section III and 10 CFR 50.71(b).

Very truly yours,

Peter B. Fiedler
Vice President and Director
Oyster Creek

PBF:CMC:lse
Enclosures

cc: NRC Resident Inspector
Oyster Creek Nuclear Generating Station
Forked River, New Jersey 08731

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GPU

GENERAL
PUBLIC
UTILITIES
CORPORATION

1981

ANNUAL REPORT

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designated

Inside GPU's 1981 Annual Report

The General Public Utilities System Companies

General Public Utilities Corporation
100 Interpace Parkway
Parsippany, NJ 07054
(201) 263-6500

GPU Service Corporation
GPU Nuclear Corporation
(Addresses and telephone numbers same as GPU Corp.)

Jersey Central Power & Light Company
Madison Avenue at Punchbowl Road
Morristown, NJ 07960
(201) 455-8200

Metropolitan Edison Company
2800 Pottsville Pike
Reading, PA 19640
(215) 929-3601

Pennsylvania Electric Company
1001 Broad Street
Johnstown, PA 15907
(814) 533-8111

1982 Annual Meeting
The Annual Meeting of Stockholders of General Public Utilities Corporation will be held at 10 A.M. EDT, May 6, 1982 at the Warner Theater in the Erie Civic Center, Erie PA.

Quarterly Stock Price Data 1980-1981

	Price	
1981	High	Low
First Quarter	5 1/2	3 7/8
Second Quarter	5 3/4	4 1/8
Third Quarter	5 3/8	4 3/8
Fourth Quarter	6 7/8	4 3/8
1980		
First Quarter	9 3/8	3 3/8
Second Quarter	7 1/8	4 1/4
Third Quarter	7	5
Fourth Quarter	5 7/8	4 1/8

GPU is listed on the New York Stock Exchange. At December 31, 1981 there were 135,933 registered holders of GPU Common Stock. With respect to restriction on the payment of common stock dividends by GPU, see Note 10 to the Financial Statements, page 30.

1981
Financial Summary

	1981*	1980*
Net Income Before Extraordinary Items (000)	$ 20,544	$ 20,591
Net Income (Loss) After Extraordinary Items (000)	$ (15,904)	$ 20,591
Per Share (Before Extraordinary Items)	$ .33	$ .34
Per Share (After Extraordinary Items)	$ (.26)	$ .34
Common Shares Outstanding, Year-End (000)	61,264	61,264
Number of Stockholders	135,933	150,965
Megawatt-Hour Sales (000)	32,012	31,838
Operating Revenues (000)	$ 2,065,487	$ 1,831,741
Construction Expenditures (000)	$ 263,960	$ 245,740
Cost of Fuel and Purchased Power (000)	$ 934,425	$ 831,915
Total Assets (000)	$ 5,054,021	$ 5,042,972
Generating Capacity (megawatts)**	8,251	8,254
Peak Load (megawatts)	6,215	6,161
Customers Served at Year-End	1,597,557	1,577,966
Number of Employees at Year-End	12,030	11,490

*See Notes 1 and 3 to Consolidated Financial Statements and Report of Auditors.
**Includes both TMI Units rated at a total of 1,706 megawatts.

Stockholder Profile:

Third survey confirms earlier studies

As shown in the 1978 and 1980 surveys, a December 1981 sampling of GPU shareholders revealed that two thirds of GPU's shareowners are retired or within five years of retirement, and the median annual family income is $24,934. About 25% have incomes under $15,000 a year. The typical GPU stockholder owns 180 shares. Some 46,670 stockholders responded to the 1981 questionnaire. According to the December 1981 survey, about 75% of current GPU stockholders held company stock prior to the TMI accident. Some 25% have purchased their holdings since the accident.

Of those owning stock prior to the accident, 11.1% have increased their holdings, 7.5% have reduced their holdings and 81.4% have made no change since the accident.

To the Stockholders:

1981 was a year of transition for General Public Utilities. The earnings slide in the two years since the Three Mile Island accident was slowed. The year's results — excluding extraordinary items — leveled out at about the same as 1980. However, the extraordinary items involving the abandonment of the Forked River Nuclear Plant and other adjustments produced a 1981 loss of 26 cents per share. The overall earnings results, continuing cash restraints and the near-term outlook prevented a resumption of the quarterly dividend.

Despite the disappointing financial results for 1981, we believe that in the past year and in the early months of 1982, some of the essential building blocks leading toward the financial recovery of GPU were put in place. Much, however, remains to be done, with several important milestones yet to be achieved.

Two critical items for financial recovery were significantly advanced in the last twelve months, but it is not yet possible to forecast the exact date of their accomplishment. These events are: progress toward the return to both customer service and base rates of TMI Unit 1, the undamaged nuclear unit at Three Mile Island, and the establishment of a cost-sharing program to fund the cleanup of the damaged facility, TMI-2.

After nine months of public hearings on TMI-1 restart, the Atomic Safety & Licensing Board of the Nuclear Regulatory Commission (NRC) rendered favorable recommendations on the issues of management competence, plant modifications and emergency response. The hearings were reopened, however, at our request, to consider the question of cheating by operators on examinations. The hearings have since been completed and the exams re-administered; enough operators have passed to permit operation of the Unit.

We were looking forward to a Nuclear Regulatory Commission vote on startup approval that could have had TMI-1 on line in April. However, a January court ruling on a case brought by an anti-nuclear group against the NRC has raised the possibility of further delays by requiring the NRC to address the issue of potential psychological stress affecting area residents. In addition, tube leaks in a considerable portion of the Unit's steam generators were found in November. Leakage was not evident during hot functional testing conducted three months earlier. Further analytical and diagnostic work is required to ascertain the time and cost of corrective measures. The combination of these events now puts TMI-1 restart six months to a year off.

On the second key item, that of putting in place a broad cost-sharing program for the cleanup of TMI-2, a number of major moves that began in mid-1981 are progressing.

Cleanup cost sharing

A plan calling for the sharing of cleanup costs among GPU, the nuclear industry and the state and federal governments was introduced last July by Governor Thornburgh of Pennsylvania, and has since gained wide national acceptance.

The board of directors of the investor-owned utility industry trade association has endorsed participation by the industry and has committed itself to the $190 million program share designated by the Thornburgh plan. In Washington, discussions are currently centered on federal legislation aimed at facilitating such utility participation.

The U.S. Department of Energy (DOE) has agreed to accept the radioactive waste generated during TMI-2 cleanup which cannot be disposed of at a commercial site. The DOE has also earmarked $34 million in its fiscal 1982 budget for the research and development related to the cleanup effort. The Reagan administration identified a federal role in the cleanup program involving tasks estimated to cost about $123 million over a five-year period. The General Accounting Office has estimated that about half of these DOE research and development dollars can be considered as directly offsetting the cleanup funds needed at Three Mile Island. There is growing acceptance in both industrial and government circles of the nationwide value of research and development information to be gained from TMI cleanup operations.

Key rate case settlements

In a January 1982 action that was vital to furthering national financial participation in cleanup funding, the Pennsylvania Public Utility Commission adopted the Thornburgh plan as a part of rate case settlements for our two Pennsylvania subsidiaries on requests filed in June 1981. This was the first time that customer participation in cleanup funding was recognized by regulatory action. The rate case request for our New Jersey subsidiary, currently before the regulatory body in that state, also contains proposed customer cleanup participation.

The Pennsylvania rate case settlements represent a very significant turning point. They address the most important areas of financial uncertainty facing the Company. In addition to TMI-2 cleanup funding, the settlements provide for the eventual return of TMI-1 to base rates and the recovery of the subsidiaries' investment in TMI-2. This recovery of the TMI-2 investment does not indicate a decision on the ultimate future of that facility.

Credit agreement extended

The Pennsylvania rate settlements were deemed satisfactory by the banks participating in our Revolving Credit Agreement, who decided in January to continue to supply credit through 1982 under the terms of the existing agreement.

There was increasing recognition this past year that bankruptcy was not a solution to GPU's post-accident financial problems. Reports by the U.S. General Accounting Office and the management consulting firm of Arthur Young and Company confirm that conclusion. The study by Arthur Young, while ruling out bankruptcy, suggested that some options involving state public power agencies be examined to assist in solving TMI cleanup funding and the financial future of GPU's subsidiary, Jersey Central Power & Light Company (JCP&L).

Dividend outlook

We recognize the importance of a dividend to our shareholders. Currently, and in the near-term future, our revenues do not support a dividend resumption. The Company must first deal with its substantial bank debts, must achieve a level of earnings sufficient to support normal financing and must eliminate the major causes of financial uncertainty. The return of TMI-1 to service and the adoption in New Jersey of the Pennsylvania rate settlement pattern would be important items in such recovery. Completion of a program for sharing the cost of TMI-2 remains a significant challenge facing the Company.

Your management must balance the impact of a cash dividend on that process. Political pressures today against a dividend payment are a reality while our work to establish a national program of shared cleanup funding is under discussion among congressional, state, consumer and regulatory bodies.

System Planning

In addition to our efforts to rebuild the Company's financial health and press the key Three Mile Island recovery issues, we must assure GPU's continued ability to serve its franchised territory. It is in the best interests of the stockholders to maintain recognition of GPU as a long-term provider of reliable electric service. In order to serve the customers, it is essential that we hold down load growth, maximize the use of available facilities, minimize new capital investments and achieve early regulatory participation in any new projects required. Considerable effort was devoted to these areas in 1981.

The GPU Conservation and Load Management Master Plan, initiated several years ago and one of the first of its kind in the nation, has already produced solid results in shifting customer demand to off-peak times, thus cutting back on the need for new generating capacity.

Long-term energy supply plans were brought into line with expected lower growth rates of about 2% per year through the year 2000. An aggressive program to reach both near and mid-term contract agreements to purchase power from utility sources to the west of GPU was an important part of our overall power supply strategy.

During 1981 we reached agreement with Ontario Hydro for the joint construction of a cable tie across Lake Erie through which electricity from Canadian coal-fired plants would flow to JCP&L customers. A unique "project-financing" approach was developed that involves JCP&L customers, banks and even the equipment suppliers. Regulatory review and approval will be obtained before authorizing a final go-ahead for the project.

Summary

Despite the positive steps accomplished this year, your Company's financial recovery moves slowly and major hurdles remain before us. The return to service of TMI-1 is critical. The actual cash flow from a TMI-2 cleanup funding program is a necessity. Reliable operation of our coal and nuclear plants is important so as to maintain low energy costs. The capital required for plant modifications must be held within available limits. Revenues and regulatory treatment in the months ahead must be sufficient to meet our obligation and reduce bank credit to the levels called for by our Revolving Credit Agreement lenders. Favorable resolution of these problems should make possible a more normal investor perception of risks and facilitate our return to the capital markets, an event that is crucial to the full financial recovery of the GPU System.

1981 has been a difficult year for all, but it has seen movement toward your Company's recovery. 1982 offers the opportunity for more progress. We pledge the utmost energies of your management and the GPU employees to that objective. Your patience and support over the past three years deserve nothing less.

W G Kuhns

William G. Kuhns
Chairman and Chief Executive Officer

H. Dieckamp

Herman Dieckamp
President and Chief Operating Officer

March 4, 1982

The financial report

Since the accident at TMI in March 1979, the GPU System's earnings have been severely affected by the removal from customer rates of the capital and operating costs associated with both Three Mile Island generating units. GPU's stockholders have been bearing — and continue to bear — the burden of these costs, together with the fixed charges related to the abandoned Forked River nuclear project.

Consequently, GPU has not paid a common stock dividend since November 1979 and System earnings have dropped from $139 million or $2.30 per share in 1978 to $21 million or 33 cents per share, before extraordinary items, in 1981 (See "Management's Discussion and Analysis," page 12 and Notes 1 and 3 to the Financial Statements for additional details.)

1981: Earnings and extraordinary items

1981 earnings (before extraordinary items) were $21 million, the same as last year. After extraordinary items there was a net loss in 1981 of $16 million, or 26 cents per share.

Although earnings (before extraordinary items) were flat compared with last year, there were a number of significant offsetting increases and decreases. Decreases to income resulted from the full-year effect of the loss of TMI-1 revenues, which began in the spring of 1980, together with the increases in operating and maintenance expenses resulting from inflation and from GPU's nuclear improvement program. These decreases were offset by the full-year effect of the May 1980 emergency rate increase awarded to Jersey Central Power & Light (JCP&L) and by rate increases received by the System companies in April and July, 1981.

Extraordinary items reduced 1981 income by $36.4 million or 59 cents per share as follows:

1). JCP&L abandoned the Forked River Nuclear Plant and requested the New Jersey Board of Public Utilities (BPU) to authorize amortization of that investment. The BPU did so in July 1981 but denied the recovery of the capitalized financing costs from March 1979 to April 1980, resulting in a current write-off of $26.9 million or 44 cents per share.

2). GPU has carried on its balance sheet the excess of its investments in its subsidiaries over their related net assets since 1946, when the Company was formed. The Company concluded that in light of present and proposed ratemaking, this excess investment has no realizable value and wrote off such excess ($30.8 million or 50 cents per share).

3). Rate orders in Pennsylvania in 1981 and early 1982 have provided for Met-Ed and Penelec to recover their original investments in the TMI plant. The rate orders specify recovery of the net value of assets at the dates they were taken out of rate base plus capital additions since those dates. Accordingly, depreciation charges accrued on these assets since those dates are being restored to income as follows: for TMI-2, since January 1979 for Met-Ed and March 1979 for Penelec, equal to $18.6 million or 31 cents per share; and for TMI-1 since June 1980, $2.7 million or 4 cents per share.

Further details are presented in Notes 1 and 3 to the Financial Statements.

Credit agreement renewed

The consortium of 45 banks participating in the Revolving Credit Agreement (RCA) agreed on October 1, 1981, (the original expiration date) to extend the GPU System agreement to December 31, 1982.

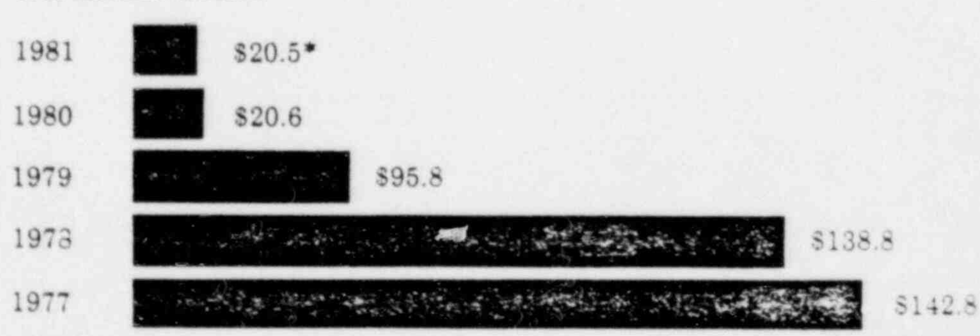
Credit potentially available under the renewed agreement is $200 million for the GPU System, compared with $412 million under the original agreement. Of the total credit, $150 million is currently available; the remaining $50 million would require additional approval of the banks.

The new agreement revised the individual company borrowing limits and established a loan reduction schedule for Met-Ed and GPU Corporation under which they must reduce borrowings to zero by the end of 1982. Penelec does not expect to borrow under the RCA in 1982.

At year-end 1981, the System had $73 million of short-term debt outstanding under the RCA compared to $169 million the year before and a peak of $282 million outstanding in May 1980.

The banks participating in the RCA decided on January 15, 1982, to

Net Income (millions)



*Excluding effect of extraordinary items

continue Met-Ed's credit under the agreement. By so doing, the banks have viewed the recent Met-Ed rate case settlement as satisfactory and have recognized Met-Ed's ability to maintain its borrowings under the limits established by the banks.

The recent rate relief granted in Pennsylvania should enable Met-Ed to meet its 1982 and 1983 tax obligations and a major 1983 bond refunding requiring only a relatively small level of short-term borrowing for working capital. Anticipated rate relief for Jersey Central Power & Light later this year should enable JCP&L to meet its 1982 cash needs within present credit limits. Significant cash needs in 1983 for JCP&L's construction program and a bond refunding will require additional actions from JCP&L's regulators.

Through the end of 1981, GPU had incurred $223 million of cleanup and recovery costs associated with the accident. These costs have been offset by $230 million of insurance proceeds. Delays in the restart of TMI-1 will postpone customer participation in the cleanup as provided in the January 1982 Pennsylvania rate case settlements. (For further information about cleanup costs and insurance recoveries, see "Management's Discussion and Analysis" page 12 and Note 1 to Financial Statements, page 19.)

Post-accident capital expenditures cut by half

Before the TMI accident, GPU expected to spend about $1.7 billion for construction in the years 1979 through 1981, with about half of these requirements funded from external capital markets. Actually, GPU spent about $861 million during these three years, about 50 percent less than originally planned, with almost 70 percent of that money coming from internal sources such as depreciation, amortization and other non-cash charges.

The dramatic reductions from pre-accident plans have stemmed from the TMI accident. Immediately after the accident, GPU initiated extensive cash control measures, including the suspension and subsequent abandonment of the Forked River project, which were required to keep the System solvent.

1981 outlays generated internally

In 1981, GPU's capital requirements totaled $294 million, compared to $279 million spent in 1980. About $264 million in 1981 and $246 million in 1980 of total requirements was spent in maintaining and upgrading System facilities. In 1981, $30 million was used to retire matured securities and sinking fund payments compared with $33 million in 1980. The 1981 and 1980 capital requirements were primarily met through internally generated funds. In 1981 and 1980 we sold assets which generated external sources of funds of $15 million and $16 million, respectively.

Short-term borrowings were reduced by $96 million from 1980 levels. This reduction is primarily attributable to a $77 million reduction in the deferred energy balance.

Subject to available cash resources and timely rate relief, capital expenditures for 1982 are expected to be about $355 million, of which $320 million will be spent for construction and $35 million for retirement of maturing securities and sinking fund requirements. It is expected that these funds will be internally generated.

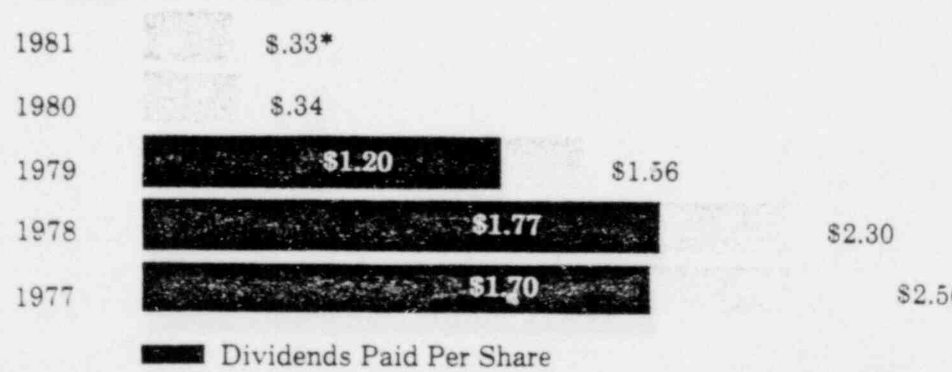
The severe impact on earnings of the removal of the TMI units from customer rates has precluded GPU from raising funds from the external capital markets. Although GPU does not plan, in 1982, to raise capital through long-term financings, the return of TMI-1 to service, other timely rate increases and the continued progress on funding TMI-2 cleanup should begin to form the basis of our ability to re-enter external capital markets.

The regulatory situation

Progress in Pennsylvania rate cases

In January 1982, the Pennsylvania commission entered rate orders for Metropolitan Edison Company (Met-Ed) and Pennsylvania Electric Company (Penelec) which could allow significant improvement in the financial stability of both companies when TMI-1 restarts. Prior to that, rate actions by the state regulatory commissions in New Jersey and Pennsylvania in response to the TMI-2 accident generally had been only marginally sufficient to permit GPU to meet its obligations.

Earnings Per Average Share



***Excluding effect of extraordinary items**

State responses

In 1981, although both state commissions continued to allow full recovery from customers of current energy costs, including TMI replacement energy costs, the commissions also continued the exclusion of the capital and substantially all of the operating costs of the TMI units, beginning in 1979 for TMI-2 and 1980 for TMI-1.

The effect of this regulatory treatment has been to place an inordinate and unfair portion of the financial burden of the accident on GPU's stockholders. Additionally, our ability to raise capital through normal external financing, particularly needed by JCP&L, has been precluded. In 1981, we vigorously pursued redress of previous commission actions through court appeals and more responsive rate regulation through our rate cases.

The Pennsylvania commision's January 1982 rate orders offer prospects for significant progress. In that month, the Pennsylvania commission accepted the settlement petitions concerning the Met-Ed and Penelec rate cases filed in June 1981. The settlements were entered into mutually by the companies and the major, active parties to the rate cases. The terms are described in detail in the chronological display at right. The settlements provide for three-step base rate increases for Met-Ed and Penelec which, in terms of increased customer bills, will be substantially offset by reductions in energy cost charges when TMI-1 returns to service.

In approving the settlements, the commission stated that it would rescind its September 1980 order prohibiting the use of operating revenues to pay for the TMI-2 cleanup. As part of the settlements, Met-Ed and Penelec agreed not to file for general base rate increases before January 1, 1983. However, the companies may file requests for emergency interim rate relief prior to that time if events, presently unforeseen, warrant such filings.

In reaching these settlements, we believed a credit crisis for Met-Ed in January would be averted. The RCA banks' decision, subsequent to the settlements, to continue to extend credit to Met-Ed substantiated our belief. We believe the recognition of customer participation in the funding of TMI-2's cleanup will serve as a strong impetus for the further development in 1982 of Governor Thornburgh's broad-based cleanup funding plan. These settlements, barring seriously adverse events, should provide Met-Ed and Penelec with a significantly greater degree of financial stability into 1983 than we have experienced since the TMI-2 accident.

JCP&L rate case pending

JCP&L, at this writing, has pending before the New Jersey BPU a retail base rate request to provide for TMI-1 capital and operating costs, recognition of the TMI-2 investment, customer participation in TMI-2 cleanup funding consistent with Governor Thornburgh's plan, and other cost increases.

The New Jersey BPU in late December 1981 approved the concept of the Ontario Hydro cable connection (see page 10). Hearings on the customer financing portion of the project are ended and a decision is expected shortly.

In July 1981, JCP&L was granted an annual retail base rate increase of about $109 million of the $173 million request filed in April 1980. Included in this allowance were revenues to recover, over 15 years, most of the investment in the cancelled Forked River nuclear project. However, the commission excluded from recovery some 7% of the investment representing credits to income for allowance for funds used during construction (AFUDC) accrued from March 1979 to April 1980. In addition, our request for a return on the unamortized investment in Forked River was denied. These actions have compounded JCP&L's financing problems.

Major regulatory actions in 1981 and 1982

In New Jersey

January 1981 . . .

JCP&L seeks $104.6 million Levelized Energy Adjustment Clause (LEAC) increase.

April 1981 . . .

Supreme Court of New Jersey affirms the 1980 BPU actions in removing TMI-1 from JCP&L's base rates within the context of other Board actions taken during that period. The Supreme Court further indicated that the BPU would have to give full attention to the continued exclusion of TMI-1 from base rates in the pending base rate proceeding.

A study for the Board of Public Utilities recommends consideration of a regional power authority to operate TMI and of a state power authority to take over JCP&L. It also recommends interim, additional rate increases to insure JCP&L's survival.

JCP&L granted $85.1 million LEAC increase; 95 percent of award reflects non-TMI related energy costs; a substantial portion is tied to planned maintenance outages at Oyster Creek.

July 1981 . . .

Final BPU decision and order, delivered on July 23, 1981, provides JCP&L with $109.2 million of its $173.5 million overall retail base rate request filed in April 1980. This includes the $60 million retail interim increase granted in May 1980 and made permanent by this action.

August 1981 . . .

JCP&L files petition for $238.5 million increase in retail base rates, later reduced to $214 million. Petition seeks the return of TMI-1 to

base rates, revenues to support the TMI-2 investment, a provision for funding the decontamination of TMI-2, and revenues for a variety of other capital and operating costs.

September 1981 . . .
JCP&L files a Notice of Appeal with the Superior Court of New Jersey, Appellate Division regarding the BPU Decision and Order of July 23, 1981 on JCP&L's base rate application.

October 1981 . . .
BPU approves GPU Nuclear Corporation, allows it to assume operating responsibilities for Oyster Creek and JCP&L's share in TMI units.

November 1981 . . .
JCP&L files a Petition regarding the Ontario Hydro Interconnection Project which requests, among other things, authorization to proceed with the project; to organize a separate subsidiary of JCP&L to finance, construct, maintain and operate the interconnection facilities; and asks appropriate ratemaking for the provision of funds to provide the equivalent of the project's equity capital during the period of construction.

December 1981 . . .
The BPU indicates approval in concept of the Ontario-Hydro project and authorizes JCP&L to organize a wholly-owned subsidiary to carry out the project. Board also directs that evidentiary hearings begin, so that a final determination can be made in a timely fashion.

January 1982 . . .
JCP&L files a brief with the Superior Court of New Jersey in support of its appeal of the BPU Decision and Order of July 23, 1981 on JCP&L's base rate application.

JCP&L files for $97.5 million increase in levelized energy adjustment clause charges.

In Pennsylvania

April 1981 . . .
PUC approves base rate increases of about $51 million for Met-Ed and about $55 million for Penelec. PUC order provides a total of $16 million for TMI-1 expenses related to restart. Requests were filed in July 1980.

May 1981 . . .
PUC rejects complaints filed, in July 1980 by Met-Ed and Penelec, against temporary rates set by PUC in May 1980 in which TMI-1 costs were excluded from the companies' rates.

PUC approves formation of GPU Nuclear Corporation.

June 1981 . . .
Met-Ed and Penelec ask PUC to reconsider its decision of May 8, 1981 which rejected companies' complaints against temporary rates fixed in June 1980 following Commission's removal of undamaged TMI Unit 1 from rates of customers served by the utilities.

Met-Ed files for $206 million and Penelec for $113 million in annual retail base rate increases. The requests, largest in the histories of the companies, seek to restore TMI-1 to base rates, recognize the TMI-2 investment and, for first time, ask customers to provide funding for TMI-2 cleanup.

July 1981 . . .
PUC denies requests for reconsideration of complaints against temporary rates. Met-Ed and Penelec file appeals in Commonwealth Court.

August 1981 . . .
Met-Ed's and Penelec's June 1981 base rate increase requests are suspended and proceedings commence.

The companies file court appeals on PUC's April and May 1981 orders.

November 1981 . . .
Met-Ed and Penelec file for annual Energy Cost Rate (ECR) increases for 1982 of $23.7 million and $76.8 million, respectively.

Met-Ed and Penelec reduce their June 1981 rate requests by $43.0 million and $20.5 million, respectively, to reflect Penna. Governor Thornburgh's plan for sharing costs of the TMI-2 cleanup.

December 1981 . . .
PUC approves Met-Ed and Penelec ECRs for 1982.

Met-Ed and Penelec settlement agreements reached and presented to Administrative Law Judge who recommends adoption by PUC.

January 1982 . . .
PUC accepts settlements of the Met-Ed and Penelec rate cases calling for immediate granting of annual retail base rate increases of $72 million for Met-Ed and $49 million for Penelec as Step 1 of three-step increases. These increases provide for the accelerated recovery of the companies' investments in TMI-2 and for non-TMI cost increases. Subsequently, upon TMI-1's return to service, the related energy cost reductions will be partially offset by base rate increases to provide about $35.5 million yearly towards the TMI-2 clean-up — $24.2 million for Met-Ed and $11.3 million for Penelec. This level is consistent with the plan proposed by Governor Thornburgh. As part of this step, TMI-1's capital and operating costs will be recognized in base rates. In another step, the energy cost reductions due to the completion of recovery of prior deferred energy costs would be partially offset by base rate increases for additional recovery of the companies' TMI-2 investment. No provision is made for any earnings on the investment in TMI-2.

February 1982 . . .
Penelec's 1982 ECR is challenged in Commonwealth Court.

TMI-1: a status report

Changes reflecting the lessons learned from the TMI-2 accident are being completed at TMI-1. These improvements encompass not only hardware and technical systems but, just as importantly, the "human" side of plant operations—training, procedures and human engineering. For example, the control room design has been modified so that controls and instrument readouts are more closely interrelated.

Some of the more fundamental improvements are the changes that reflect the way operators are trained to understand and diagnose plant conditions. The operators today have a keener understanding of reactor operation under both normal and abnormal plant conditions. Shift technical advisors with bachelor of science degrees provide around-the-clock technical assistance to plant operators at each of our nuclear facilities.

Detailed emergency plans have been developed to improve response to any future accident. The plans call for improved in-plant communications response; for prompt and continuing communication with the public as well as local, state and federal officials; and for possible local evacuation.

The emergency plans have been thoroughly tested through a series of detailed simulated drills during 1981. GPU Nuclear Corp., which operates the plants, received generally high marks from the NRC and the Federal Emergency Management Agency for the effectiveness of these drills.

NRC committee cites improvements

In July 1981, the NRC's Advisory Committee on Reactor Safeguards reported that TMI-1 could be operated without undue risk to public health and safety. The Committee said that TMI-1 management had been expanded and improved, that emergency procedures and response capabilities had been upgraded at all levels, and that mechanisms for keeping responsible agencies and the public informed had been satisfactorily developed. Although the NRC is not bound by this report, it will be weighed along with the findings of the Atomic Safety and Licensing Board (see below).

INPO audits TMI-1

The Institute of Nuclear Power Operations (INPO) a nuclear industry group formed following the TMI-2 accident, reviewed TMI-1 operations in a searching, two-week analysis and found the plant ready for safe operation. It complimented GPU for its commitment "to acquire top-level talent," for its operator training, quality control, excellent communications and dedication and positive morale of station personnel.

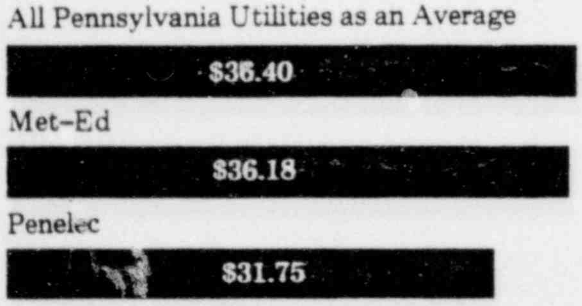
Unit-1 licensing hearings completed

The Atomic Safety and Licensing Board (ASLB) in July 1981 completed nine months of hearings concerning the restart of TMI-1. A month later, the Board advised the NRC in an initial, 269-page partial report that plant management is competent to operate the unit safely. And in December, the ASLB issued an 800-page, second partial report on its assessment of TMI-1 modifications and emergency preparedness, recommending that Unit-1 could be permitted to operate initially at 5 percent of full power.

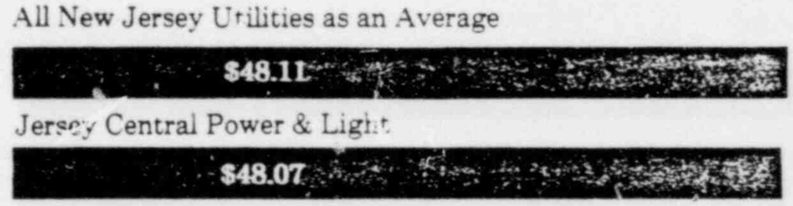
The hearings were re-opened at our suggestion in October 1981 after two former TMI operators confessed to cheating on an NRC licensing examination. The ASLB review included looking at the administration of management's testing procedures. Meanwhile, the examinations have been readministered and enough operators have passed to effectively man TMI-1 when it returns to service.

A January 1982 U.S. Court of Appeals order, requiring the NRC to make an environmental assessment

Comparative Rates: The GPU System Companies and Neighboring Utilities as of December 1981.



*Residential customers without electric heating, 500 kilowatt-hours per month.



*Residential customers without electric heating, 500 kilowatt-hours per month.

of psychological stress that might result from the restart of TMI-1, has raised the possibility of further delays in the Unit 1 restart date.

Steam tube leaks cause delays

September saw the successful completion of the hot functional testing program for TMI-1's major systems, procedures and modifications. While the tests showed the unit to be service-ready, it was found in November that some of the steam generator tubes were leaking, even though they had not leaked during or before the hot functional testing.

The Company had expected the unit to be ready for restart in March or April, but more recent testing of the steam generator tubes indicates that repairs to the damaged tubes will probably result in at least a six-month further delay in preparing Unit 1 for restart. Extensive efforts are being made to identify the cause and extent of the problem and the time required and cost of corrective measures.

Thus, at this time it remains uncertain as to whether the ultimate Unit 1 restart date will be determined by the solution of the steam generator problem or by the U.S. Court of Appeals ruling on psychological stress. In either case, it now appears as though TMI-1 restart is, at best, six months to a year away.

TMI-2—cleanup progresses

Unit-2 cleanup activity in 1981 focused on the removal and treatment of the reactor containment building's highly radioactive water . . . while continuing to place the utmost attention on public health and safety.

By mid-March 1982, essentially all of the building's 600,000 gallons of high level radioactive water will have been treated by the Submerged Demineralizer System (SDS). The sophisticated SDS mechanism is submerged in the TMI-2 fuel pool where contaminated water is pumped through specially constructed casks containing resins. The resin beads filter the water and trap virtually all of the radioactive contaminants except tritium.

Later, the water is further cleaned in the Epicor II System and then transferred to two large tanks in which it is currently stored at the plant site.

As the contaminated water in the containment building's basement was reduced to minimum levels, the SDS began cleaning the water used for further decontamination, including the scrubbing of the inside of the building as well as the 100,000 gallons of radioactive water remaining inside the reactor's cooling system.

GPU Nuclear began a large scale decontamination, research and development effort in late October with a stepped-up series of entries into the containment building funded by the U.S. Department of Energy (DOE).

The accelerated series provided opportunities for the government, GPU Nuclear and other utilities to assess the effectiveness of the cleanup technology and techniques being tested by TMI personnel.

Waste management: an important agreement

Waste management has remained a top priority throughout the cleanup program, with particular emphasis placed upon reducing the amount of liquid and solid wastes.

Key to the success of that effort has been the DOE's agreement to accept virtually all of the cleanup program's abnormal radioactive wastes for research and development purposes and ultimate disposal at a U.S. Government disposal site. It is expected that during the course of the cleanup program, 12 to 15 containers of the SDS zeolite radioactive wastes will be taken by DOE along with 49 canisters from the operation of Epicor II.

The technology for the total cleanup of TMI-2 is known and available, but the timetable rests heavily on the availability of funds. Tentatively, however, the cleanup has been scheduled for completion in 1987, with the reactor core to be removed in 1985.

GPU proceeds with TMI law suits

GPU is moving forward with its lawsuits against the U.S. government (NRC) and Babcock & Wilcox, supplier of the nuclear steam system at TMI-2.

A suit against the NRC was filed in December 1981. This follows by six months the NRC denial of the GPU claim for damages against the agency. Federal law requires seeking reimbursement for damages from the charged agency before an action for damages can be filed in federal court.

The suit seeks $4 billion in damages, alleging that negligence and omissions by NRC in performance of its duties were responsible for the TMI-2 accident. These alleged omissions include the failure of the NRC to give GPU and other utilities a warning, based on a previous accident at an Ohio nuclear plant 18 months earlier, that would have prevented the TMI-2 mishap.

The suit against Babcock and Wilcox and its parent corporation, J. Ray McDermott, Inc., was originally filed in March 1980, seeking damages of $500,000,000. Subsequently, on December 14, 1981, the suit was amended to increase damages sought to $4 billion. The judge has scheduled this trial to begin in October, 1982.

Modifications underway at Oyster Creek

Jersey Central's Oyster Creek nuclear station was taken off-line in April 1981 to complete several modifications mandated by the NRC, two of which resulted from lessons learned through the TMI-2 accident. During the year, there were several additional lengthy outages because of repairs to the plant's condenser system, a heat exchanger and other equipment.

The upcoming refueling and maintenance outage planned for Oyster Creek will extend from July 1982 into the spring of 1983 to allow for major mandated structural improvements to the torus (part of the plant's emergency core cooling system). Also planned is the construction of a new cable spread room to provide for the installation or relocation of hundreds of electrical and control cables and associated conduits. Another major project during this span calls for the disassembly and inspection of the plant's turbine and generator.

During 1981, Jersey Central paid a \$80,000 fine levied by the NRC. The fine followed the company's report that relief valves at Oyster Creek were inadvertently blocked by scaffolds erected by an outside contractor during maintenance work in April. Improved controls have been established to prevent recurrence of such situations.

Future system planning

While TMI continues to demand much of GPU's attention and efforts, corporate management is moving forward with a variety of projects to insure reliable future electric service for GPU's customers and to assure the future integrity of the System.

Two major objectives in this area are (1) to provide sufficient power while the TMI Station is out of service and (2) to meet projected growth in demand in the latter part of the 1980s and in the 1990s.

\$400 million-plus saved

Special short-term power purchases since the TMI accident have saved GPU customers more than \$420 million compared to Pennsylvania-New Jersey-Maryland Power Pool purchase costs. The special purchases have been negotiated with neighboring utilities and others as far away as Indiana and Canada. It is anticipated that purchased power needs will decline by about a third when TMI-1 again is in service.

Ontario cable link agreement reached

In mid-November, GPU entered into an agreement with Ontario Hydro of Canada to design, install and maintain a five-cable 1,200 megawatt underwater transmission line stretching across the bottom of Lake Erie and ultimately providing a firm source of coal-fired generating capacity for Jersey Central Power & Light customers.

The cost of the approximately \$700 million project will be shared by JCP&L and Ontario Hydro. Regulatory approval for JCP&L's unique project funding, which involves the participation of customers, banks and equipment suppliers, is pending.

Equal to the output of a large coal-fired generating station, the cable project will provide enough electricity to meet the needs of a half-million residential customers. This project requires about one-half the time and about one-third the capital investment required to build a new coal-fired station of the same capacity.

The project is expected to provide JCP&L with approximately 40 percent of its energy needs from the mid-1980s through the mid-1990s. Beyond that, the cable will establish a high-capacity transmission link for ongoing power exchange between the two utility systems.

Coal plant delayed

It was decided late in 1981 that in view of the financial constraints under which the GPU System is operating, it would be economically impractical to proceed with the coal-fired Seward 7 project. The unit had been planned for completion in 1985, with a capacity of 625 megawatts. Major power purchases from other utilities will make delay of this project possible.

Coal cleaning plant opened

Initial operations were started in September at the nation's newest and most advanced coal cleaning research, development and demonstration facility. It is located at Homer City, Pennsylvania, the site of the GPU System's largest coal-fired generating station and its own coal-cleaning facility. Penelec is a participant in the \$15 million project with the Electric Power Research Institute and other utilities. Known as the Coal Cleaning Test Facility, the project is an investment by the electric industry in research seeking to stabilize the cost of meeting clean air standards by removing sulphur from coal before it is burned.

Conservation plan underway

A key portion of GPU's "Master Plan" for energy conservation, presented for approval to the state regulatory bodies in 1980, has been cleared for action by Penelec, which has received approval to switch its standard rate for new residential customers to a time-of-day (TOD) rate.

Penelec also has received permission to invest in customer-owned conservation and load-shifting equipment, such as special controls

and heat storage devices. JCP&L and Met-Ed are seeking regulatory approval for similar programs.

Meanwhile, the GPU System's overall load management program, started seven years ago to enhance conservation and shift demand for electricity from day to night, has saved 600 megawatts of electric power that otherwise would have had to be generated during costly peak demand periods.

The GPU companies also are currently seeking regulatory approval for special cogeneration rates and programs.

Administrative changes

Final approvals for operation of the System's nuclear stations by GPU Nuclear Corporation were received in late December 1981 from the NRC and, on January 1, 1982, the new GPU subsidiary undertook this responsibility.

Even before the TMI-2 accident, GPU management had recognized the advantages of separate management of its nuclear facilities by an organization skilled in the technology of nuclear plant operation. The various investigations following the accident further emphasized this need and GPU started formation of a specialized Nuclear Group in 1979. This group has evolved into corporate status since that time.

The new corporation's sole task is the management of GPU's nuclear facilities — Oyster Creek and both TMI units.

With the granting of final regulatory approvals, Robert C. Arnold assumed the title of president and chief operating officer of GPU Nuclear Corporation and Philip R. Clark, that of Executive Vice President. A month later, the new corporation announced the appointment of Peter B. Fiedler to the position of Vice President of GPU Nuclear and Director of the Oyster Creek Generating Station.

Management moves

Early in 1982, a number of significant changes in the System management structure were made to better focus management resources and match individual strengths and expertise with the continuing and emerging formidable challenges facing the GPU companies as they adjust priorities toward more normal utility operations.

Key among the organizational moves was the February 1 reorganization of the three operating utilities' top management posts and realignment of financial responsibilities within the GPU Service Corporation (GPUSC).

Effective that date, William A. Verrochi, moving over from his position with Penelec as President and Chief Operating Officer, assumed the corresponding position at JCP&L while James R. Leva, JCP&L's Vice President of Consumer Affairs, became the new Penelec President and Chief Operating Officer. Concurrently, Floyd J. Smith moved up from his position as Vice President of Administration for the GPU Service Corporation (GPUSC) and his temporary assignment as Met-Ed's Senior Vice President and General Manager to serve as Met-Ed's President and Chief Operating Officer.

At GPUSC, former JCP&L President Shepard Bartnoff has been named to the newly created position, Executive Vice-President-Electric Operations, which encompasses the responsibilities for the System's fossil generation facilities and bulk power supplies. GPU Treasurer John G. Graham has assumed the additional responsibilities of Vice-President-Financial Planning for the Service Corporation with Verner H. Condon remaining Vice President and Chief Financial Officer of GPU.

Equal opportunity stressed

GPU's policy of equal employment opportunity was continued as emphasis on Affirmative Action programs increased employment levels of women and minorities during 1981.

The total number of System employees increased over the 1980 level as efforts to strengthen the GPU Nuclear Corporation staff continued. However, staffing at the operating company subsidiaries was held to below pre-accident levels.

Statement of management

The management of General Public Utilities Corporation is responsible for the information and representations contained in the financial statements and other sections of this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

To fulfill its responsibilities for the reliability of the financial statements, management has developed and maintains a system of internal accounting control. This system is intended to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The Board of Directors, through its Audit Committee, consisting solely of outside directors of the Company, is responsible for reviewing and monitoring the Company's financial reporting and accounting practices. The Audit Committee meets with management and internal auditors periodically to review the work of each and to monitor the discharge by each of its responsibilities. The audit committee also meets periodically with the independent auditors who have free access to the Audit Committee, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

Coopers & Lybrand, independent public accountants, are engaged to examine and express an opinion on the financial statements. Their opinion, which appears on page 14, refers to the contingencies and uncertainties resulting from the nuclear accident at Three Mile Island.

Reference is made to Notes 1 and 3 to the accompanying financial statements and to Management's Discussion and Analysis of Financial Condition and Results of Operations on this page for further discussion of the effects and impact of the accident.

Management's discussion and analysis of financial condition and results of operations

Liquidity and Capital Resources:

The rate making treatment accorded TMI-1 and 2 and Forked River after the nuclear accident in March 1979 at Three Mile Island (TMI) has left the GPU System with assets of about $1.5 billion which are not earning a return.

As part of the January 1982 Pennsylvania PUC orders, TMI-1's capital and operating costs will be restored to rates upon the restart of the unit and operation at a specified level. The PUC had removed the unit from base rates in June 1980. Also, the January 1982 orders allowed for the recovery in rates of the Pennsylvania Companies' investments in TMI-2, but does not allow any earnings on the unamortized investment. (For further information see "The Regulatory Situation" beginning on page 5.)

With respect to the abandoned Forked River nuclear generating project, JCP&L is recovering most of the original cost of its investment in the project, through rates, but is not earning a return on the unamortized investment. Such recovery is over a 15-year period beginning in mid-1981 at $24.5 million annually (see Note 3 to consolidated financial statements).

The severe constraints placed upon the GPU System as a result of the TMI accident have precluded the Corporation and its subsidiaries from raising long-term capital from external securities markets. The ratings of the System's securities have been lowered by Moody's and Standard & Poor's investor services and are below investment grade.

GPU's only major source of outside funding has been in the form of short-term borrowings under a revolving credit agreement with a consortium of banks (see Note 5 to consolidated financial statements, page 28). Short-term borrowings (including $13 million issued as bonds) were $73 million at December 31, 1981.

Such short-term financing has been and continues to be used largely to meet costs resulting from increased power purchases necessitated by the loss of generation from both TMI units. The short-term funding has bridged the gap between cash payments for power and the recovery of such payments through rates to customers.

Expenditures for the cleanup of TMI-2 are anticipated to aggregate $1 billion and such cleanup is expected to be completed by 1987. The subsidiaries, through December 31, 1981, have received insurance proceeds of $230 million with about $70 million remaining to be recovered in order to aggregate the maximum $300 million available under their policy for property damage at TMI-2.

Although funding of the cleanup costs in excess of insurance proceeds continues to be an uncertainty, major progress has been made toward establishing a broad cost sharing program. The plan introduced by Governor Thornburgh of Pennsylvania in mid-1981, calling for a sharing of cleanup costs among GPU customers, the nuclear industry and the state and federal governments has gained wide acceptance. Further, in January 1982, the Pennsylvania PUC

approved rate requests that for the first time included customer participation in cleanup funding with the restart of TMI-1. Our rate case request for Jersey Central Power & Light Company also contains proposed cleanup participation. (For further information see Letter to the Stockholders, page 2).

GPU is unable to determine at this time if any adverse effects may result from the TMI-1 tube leak problem and the Oyster Creek extended outages as discussed in Note 1 to the financial statements.

Results of Operations:

The results of operations discussed below compare 1981 with 1978. The year 1978 is used as a basis for comparison because it represents the last year of normal operations for the Corporation and its subsidiaries.

Although operating revenues for 1981 were $739 million higher than those in 1978, earnings per share declined from $2.30 in 1978 to 33 cents in 1981 (before extraordinary items). This reflects a decline in net income from $139 million in 1978 to $21 million (before extraordinary items) in 1981.

The substantial increase in operating revenues from 1978 to 1981 is mainly a result of the recovery of higher fuel and purchased power costs through the subsidiaries' energy clauses. Such additional revenues of $533 million reflect the recovery of higher energy costs incurred by the GPU System and have no impact on net earnings (loss).

The decline in net income between 1978 and 1981 of $118 million is primarily the result of regulatory response to the accident at TMI-2. As previously indicated, the subsidiaries are not recovering in their base rates the capital and most of the operating costs associated with TMI-1 and TMI-2. The capital and operating costs associated with TMI-1 were removed from base rates in the second quarter of 1980 while similar costs for TMI-2 were removed from base rates during 1979.

Other factors contributing to the decline in earnings between 1978 and 1981 include (a) the increase in operating and maintenance expenses, resulting primarily from inflation and additional expenditures at the nuclear stations (b) increased interest expenses from increased borrowings at higher rates (c) cessation of the accrual to income in April 1980, of allowance for funds used during construction (AFUDC) to cover the carrying cost of funds associated with the construction of the Forked River project.

GPU had a net loss after extraordinary items of $16 million or 26 cents per share for 1981. A discussion of extraordinary items appears elsewhere in this annual report.

For a further discussion of events subsequent to the TMI accident, see Note 1 to Consolidated Financial Statements.

Quarterly Financial Data (Unaudited)

(In Thousands Except Per Share Data)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1981	1980	1981	1980	1981	1980	1981	1980
Operating Revenues	$523,877	$448,714	$476,159	$425,010	$538,724	$490,201	$526,727	$467,815
Operating Income	$ 62,641	$ 66,862	$ 50,206	$ 51,410	$ 66,979	$ 67,539	$ 53,844	$ 58,784
Income (Loss) Before Extraordinary Items	$ 7,825	$ 17,068	$ (2,357)	$ (8,354)	$ 14,050	$ 10,458	$ 1,026	$ 1,419
Extraordinary Items (Note 3)			$ (24,313)				$ (12,135)	
Net Income (Loss)	$ 7,825	$ 17,068	$ (26,670)	$ (8,354)	$ 14,050	$ 10,458	$ (11,109)	$ 1,419
Earnings (Loss) per share Before Extraordinary Items	$ .13	$ .28	$ (.04)	$ (.14)	$ .23	$ .17	$ .01	$ .03
Extraordinary Items (per share)			$ (.40)				$ (.19)	
Earnings (Loss) per share	$ .13	$ .28	$ (.44)	$ (.14)	$ .23	$ .17	$ (.18)	$ .03
Average Shares	61,264	61,264	61,264	61,264	61,264	61,264	61,264	61,264

See Note 1 which contains information with respect to rate orders and their effect on quarterly earnings.

Report of Auditors

To the Board of Directors and Stockholders
GENERAL PUBLIC UTILITIES CORPORATION
Parsippany, New Jersey

We have examined the consolidated balance sheets of General Public Utilities Corporation and Subsidiary Companies as of December 31, 1981 and 1980, and the related consolidated statements of income, retained earnings and changes in financial position for each of the five years in the period ended December 31, 1981. 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.

As more fully discussed in Note 1 to Consolidated Financial Statements, the Corporation is unable to determine the ultimate consequences of the accident at Unit No. 2 of the Three Mile Island Nuclear Generating Station (TMI-2) and of the response of rate-making and other regulatory agencies to that accident. Among the contingencies and uncertainties which have resulted as a direct or indirect consequence of this accident are questions concerning:

a. The recovery of the approximately $159 million investment by the Corporation's New Jersey subsidiary in TMI-2;
b. The recovery of the indeterminable amount of uninsured costs yet to be incurred, in connection with the anticipated cleanup of TMI-2;
c. The recovery of the approximately $425 million investment in Three Mile Island Unit No. 1 Nuclear Generating Station;
d. The recovery of the excess, if any, of amounts which might be paid in connection with claims for damages resulting from the accident over available insurance proceeds; and
e. Any action of rate-making agencies with respect to any portion of the replacement power costs for which recovery is now permitted.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles applicable to a going concern which contemplates, among other things, the realization of assets and the liquidation of liabilities in the normal course of business. The Corporation's subsidiaries are currently not receiving a level of revenues sufficient to assure their ability to continue as a going concern. The continuation of the Corporation as a going concern is dependent upon obtaining adequate and timely rate relief, including recognition of TMI costs, receiving financial assistance for the cleanup costs required for TMI-2, maintaining and increasing the availability of credit under the restated revolving credit agreement (see Note 5 to Consolidated Financial Statements), and obtaining access to long-term capital markets. The eventual outcome and effect of the foregoing on the consolidated financial statements cannot presently be determined.

As more fully discussed in Note 1 to Consolidated Financial Statements, the Corporation's New Jersey subsidiary is engaged in litigation with a nuclear fuel supplier involving the pricing of nuclear fuel. At this time, the outcome of the litigation and the rate-making treatment of any increased fuel costs which might result from an adverse legal determination are uncertain.

In our report dated March 5, 1981, our opinion on the 1980 and 1979 consolidated financial statements was qualified as being subject to the effect on those consolidated financial statements of such adjustments, if any, as might have been required had the outcome of contingencies regarding the recovery of certain plant investments been known. As explained in Notes 1 and 3 to Consolidated Financial Statements, the Pennsylvania Public Utility Commission has authorized, effective January 1982, the Corporation's Pennsylvania subsidiaries to recover their investment in TMI-2 and the New Jersey Board of Public Utilities has authorized, effective July 1981, the Corporation's New Jersey subsidiary to recover its net investment in the Forked River Nuclear project after requiring the write-off, in the current period, of a portion of such investment. Our aforementioned report on the consolidated financial statements was also qualified as to the outcome of a contingency for refunds to customers by the Corporation's Pennsylvania subsidiaries for certain payments made for fuel purchases. These subsidiaries have made provision for this contingency. Accordingly, our present opinion on the indicated consolidated financial statements, as presented herein, is different from that expressed in our previous report in that our present opinion is no longer qualified for these particular matters.

In our opinion, subject to the effect, if any, on the 1981, 1980 and 1979 consolidated financial statements of such adjustments as might have been required had the outcome of the uncertainties discussed in the second through fourth paragraphs been known, the aforementioned statements (pages 15 through 32) present fairly the consolidated financial position of General Public Utilities Corporation and Subsidiary Companies at December 31, 1981 and 1980 and the consolidated results of their operations and the consolidated changes in their financial position for each of the five years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

March 4, 1982
1251 Avenue of the Americas
New York, New York 10020

Consolidated Statements of Income (Note 1)

General Public Utilities Corporation and Subsidiary Companies

For the Years Ended December 31,	1981	1980	1979	1978	1977
	(In Thousands)				
Operating Revenues	$2,065,487	$1,831,741	$1,490,154	$1,326,644	$1,252,013
Operating Expenses:					
Fuel	437,931	401,922	347,079	326,083	270,612
Power purchased and interchanged, net	496,494	429,993	268,210	133,741	186,235
Deferral of energy costs, net (Note 2)	74,157	25,058	(69,832)	(17,916)	(17,937)
Other operation and maintenance (Note 13)	452,755	390,797	309,653	305,400	252,006
Depreciation (Notes 2 and 3)	145,962	147,086	141,224	109,505	96,508
Amortization of property losses (Note 3)	11,312	1,265	1,168	1,186	739
Taxes, other than income taxes (Note 13)	189,260	172,565	149,445	129,862	114,682
Total	1,807,871	1,568,686	1,146,947	987,861	902,845
Operating income before income taxes	257,616	263,055	343,207	338,783	349,168
Income taxes (Notes 2 and 11)	23,946	18,460	65,905	84,354	95,805
Operating Income	233,670	244,595	277,302	254,429	253,363
Other Income and Deductions:					
Allowance for other funds used during construction (Note 4)	7,486	12,014	24,744	49,888	47,787
Other income, net	15,913	7,462	8,937	3,682	274
Income taxes on other income, net (Notes 2 and 11)	(6,411)	(4,513)	(5,146)	(2,461)	(996)
Total other income and deductions	16,988	14,963	28,535	51,109	47,065
Income Before Interest Charges and Preferred Dividends	250,658	259,558	305,837	305,538	300,428
Interest Charges and Preferred Dividends:					
Interest on long-term debt	178,226	176,754	168,325	155,320	142,632
Other interest	31,122	41,786	24,387	4,527	9,117
Allowance for borrowed funds used during construction—credit (net of tax) (Note 4)	(15,229)	(15,226)	(18,296)	(22,255)	(22,269)
Income taxes attributable to the allowance for borrowed funds (Notes 4 and 11)	(6,432)	(7,404)	(7,977)	(14,758)	(12,514)
Preferred stock dividends of subsidiaries	42,427	43,057	43,615	43,930	40,683
Total interest charges and preferred dividends	230,114	238,967	210,054	166,764	157,649
Income Before Extraordinary Items	20,544	20,591	95,783	138,774	142,779
Extraordinary Items, Net of Taxes (Note 3)	(36,448)				
Net Income (Loss)	$ (15,904)	$ 20,591	$ 95,783	$ 138,774	$ 142,779
Earnings Per Average Share Before Extraordinary Items	$.33	$.34	$1.56	$2.30	$2.50
Extraordinary Items Per Share	(.59)				
Earnings (Loss) Per Share	$(.26)	$.34	$1.56	$2.30	$2.50
Average Common Shares Outstanding	61,264	61,264	61,218	60,217	57,208

Consolidated Statements of Retained Earnings (Note 1)

General Public Utilities Corporation and Subsidiary Companies

For the Years Ended December 31,	1981	1980	1979	1978	1977
	(In Thousands)				
Balance, beginning of year	$ 506,162	$ 485,571	$ 463,173	$ 430,823	$ 385,653
Add, net income (loss) (Note 3)	(15,904)	20,591	95,783	138,774	142,779
Total	490,258	506,162	558,956	569,597	528,432
Deduct, dividends on common stock			73,385	106,424	97,609
Balance, end of year (Note 10)	$ 490,258	$ 506,162	$ 485,571	$ 463,173	$ 430,823

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets (Note 1)

General Public Utilities Corporation and Subsidiary Companies

December 31,	1981 (In Thousands)	1980*
Assets		
Utility Plant (at original cost):		
In service	$3,689,536	$3,514,535
Less, accumulated depreciation (Note 2)	1,072,150	975,409
Net	2,617,386	2,539,126
Investment in Three Mile Island (Note 1):		
Unit 1	469,462	435,590
Unit 2	745,490	747,719
Less, accumulated depreciation (Notes 1 and 3)	97,347	123,242
Net	1,117,605	1,060,067
Construction work in progress	120,495	132,442
Held for future use	47,074	33,674
Nuclear fuel, net of amortization (Notes 2 and 5)	201,346	201,405
Net utility plant	4,103,906	3,966,714
Excess of investments in subsidiaries over related net assets (Note 3)		30,805
Investments:		
Other physical property, net	5,482	941
Loans to non-affiliated coal companies (Note 12)	16,575	18,275
Other, at cost	740	759
Total	22,797	19,975
Current Assets:		
Cash	8,251	6,845
Special deposits (Note 1)	13,052	37,407
Temporary cash investments	42,294	48,300
Accounts receivable:		
Customers, net (Note 5)	147,001	135,196
Others (Note 11)	8,457	37,886
Inventories, at average cost or less:		
Materials and supplies for construction and operation	71,149	66,229
Fuel (Note 5)	66,446	42,572
Prepayments	14,391	13,967
Total	371,041	388,402
Deferred Debits:		
Deferred energy costs (Notes 1, 2 and 5)	70,554	147,712
Unamortized property losses (Note 3)	376,807	420,216
Deferred costs-nuclear accident, net of insurance recoveries (Note 1)	(6,635)	(21,735)
Deferred income taxes (Notes 2 and 11)	66,898	43,614
Other	48,653	47,269
Total	556,277	637,076
Total Assets	$5,054,021	$5,042,972

**Reclassified to conform with 1981's presentation.*

The accompanying notes are an integral part of the consolidated financial statements.

	(In Thousands) 1981	1980*
Liabilities and Capital		
Long-Term Debt, Capital Stock and Consolidated Surplus:		
Long-term debt (Notes 5 and 6)	$2,109,336	$2,105,439
Cumulative preferred stock-mandatory redemption (Note 7)	79,700	85,050
Less, capital stock expense	2,365	2,674
Total	77,335	82,376
Cumulative preferred stock-no mandatory redemption (Note 8)	423,391	423,391
Premium on cumulative preferred stock	1,348	1,348
Less, capital stock expense	328	831
Total	424,411	423,908
Common stock and consolidated surplus (Notes 5, 9 and 10):		
Common stock	153,229	153,229
Consolidated capital surplus	773,473	772,958
Less, capital stock expense	18,056	18,056
Consolidated retained earnings	490,258	506,162
Total	1,398,904	1,414,293
Less, reacquired common stock	70	70
Total	1,398,834	1,414,223
Total	4,009,916	4,025,946
Current Liabilities:		
Securities due within one year (Notes 6 and 7)	80,567	76,067
Notes payable to banks (Note 5)	60,300	156,000
Accounts payable	139,418	138,616
Customer deposits	7,587	7,190
Taxes accrued (Note 11)	64,884	55,910
Interest accrued	41,962	42,343
Accrued costs—Forked River abandonment (Note 3)	13,090	27,277
Other	51,021	37,406
Total	458,829	540,809
Deferred Credits and Other Liabilities:		
Deferred income taxes (Notes 2 and 11)	465,936	385,011
Unamortized investment credits (Notes 2 and 11)	63,393	66,377
Reserve capacity (Note 2)	23,160	
Other	32,787	24,829
Total	585,276	476,217
Commitments and Contingencies (Note 1)		
Total Liabilities and Capital	$5,054,021	$5,042,972

Consolidated Statements of Changes in Financial Position

(Note 1)

General Public Utilities Corporation and Subsidiary Companies

(In Thousands)

For the Years Ended December 31,	1981	1980	1979	1978	1977
Source of Funds					
Operations:					
Income before extraordinary items	$ 20,544	$ 20,591	$ 95,783	$138,774	$142,779
Principal non-cash charges (credits) to income:					
Depreciation (Note 2)	145,962	147,086	141,224	109,505	96,508
Amortization of nuclear fuel (Note 2)	9,908	7,260	21,314	21,443	17,764
Amortization of property losses (Note 3)	11,312	1,265	1,168	1,186	739
Investment tax credits, net (Notes 2 and 11)	(4,104)	(53,155)	(11,830)	41,733	42,496
Deferred income taxes, net (Notes 2 and 11)	25,093	77,406	67,882	58,285	35,296
Allowance for other funds used during construction (Note 4)	(7,486)	(12,014)	(24,744)	(49,888)	(47,787)
Total from operations	201,229	188,439	290,797	321,038	287,795
Extraordinary items, net of taxes (Note 3)	(36,448)				
Extraordinary items (non-cash portion)	36,448				
Long-term debt (Note 6)	32,848	15,783	153,800	154,082	155,920
Common stock, net of expense (Note 9)			4,771	22,273	82,166
Preferred stock (Notes 7 and 8)					50,000
Increase in bank borrowings (Note 5)			87,400	24,625	19,125
Deferred energy costs, net (Note 2)	74,157	25,058			
Reserve capacity (Note 2)	23,160				
Sale of nuclear fuel	15,094	15,798			
Decrease in working capital (excluding debt) (a)	26,581		17,954		
Other, net	22,182	7,634		1,957	
Total source of funds	$395,251	$252,712	$554,722	$523,975	$595,006
Application of Funds:					
Construction expenditures—Utility plant	$239,627	$191,980	$281,912	$376,812	$343,909
Nuclear fuel	24,333	53,760	69,114	30,878	67,268
Allowance for other funds used during construction (Note 4)	(7,486)	(12,014)	(24,744)	(49,888)	(47,787)
Decrease in bank borrowings (Note 5)	95,700	15,000			
Retirement or redemption of long-term debt and preferred stock	29,677	32,602	54,463	32,908	73,389
Dividends on common stock			73,385	106,424	97,609
Deferred energy costs, net (Note 2)			69,832	17,916	17,937
Deferred costs-nuclear accident, net (Note 1)	15,100	(46,108)	24,373		
Loans to non-affiliated coal companies (Note 12)	(1,700)	(1,100)		625	2,350
Increase in working capital (excluding debt) (a)		18,592		8,300	21,239
Other, net			6,387		19,092
Total application of funds	$395,251	$252,712	$554,722	$523,975	$595,006

(a) Changes in components of working capital (excluding debt):	1981	1980	1979	1978	1977
Cash and temporary investments	$ (4,600)	$ (13,475)	$ 50,639	$ (9,298)	$ (10,390)
Special deposits	(24,355)	15,599	9,969	(3,307)	4,531
Accounts receivable	(17,624)	48,734	(26,441)	43,788	2,433
Inventories	28,794	(13,960)	35,772	(18,284)	30,620
Accounts payable	(802)	23,546	(67,709)	(12,386)	(20,129)
Taxes accrued	(8,974)	(15,350)	(19,903)	7,845	24,698
Interest accrued	381	1,134	(4,838)	(131)	(3,218)
Accrued cost—Forked River abandonment	14,187	(27,277)			
Other, net	(13,588)	(359)	4,557	73	(7,306)
Total	$ (26,581)	$ 18,592	$ (17,954)	$ 8,300	$ 21,239

The accompanying notes are an integral part of the consolidated financial statements.

Notes To Consolidated Financial Statements

1. Commitments and Contingencies

THREE MILE ISLAND NUCLEAR ACCIDENT:
On March 28, 1979, an accident occurred at Unit No. 2 of the Three Mile Island nuclear generating station (TMI-2) resulting in significant damage to TMI-2, and a release of some low level radiation which published reports of governmental agencies indicate did not constitute a significant public health or safety hazard. TMI-2 is jointly owned by the Corporation's subsidiaries, Jersey Central Power & Light Company (JCP&L), 25%; Metropolitan Edison Company (Met-Ed), 50%; and Pennsylvania Electric Company (Penelec), 25%. At December 31, 1981, total net investment by the subsidiaries in TMI-2 was $723 million ($745 million investment less $22 million accumulated depreciation), including the unamortized investment of $37 million in the nuclear fuel core.

Three Mile Island nuclear generating station Unit No. 1 (TMI-1), which adjoins TMI-2, was out of service for a scheduled refueling and was not involved in the accident. TMI-1 is jointly owned by the Corporation's subsidiaries in the same percentages as TMI-2. At December 31, 1981, total net investment by the subsidiaries in TMI-1 was $395 million ($469 million investment less $74 million accumulated depreciation), excluding the unamortized investment in the nuclear fuel core of $30 million.

By orders dated July 2, 1979 and August 9, 1979, the Nuclear Regulatory Commission (NRC) directed that TMI-1 remain in a shutdown condition until resumption of operation is authorized by the NRC, after public hearings and the satisfaction of various requirements set forth in such orders. Hearings before the NRC's Atomic Safety and Licensing Board (ASLB) on the restart of TMI-1 commenced on October 15, 1980. The ASLB has issued two partial initial decisions, in which it found, among other things that the licensee "has demonstrated (its) managerial capability and technical resources to operate Unit 1 ..." and recommended that subject to various conditions set forth in its partial initial decisions, short-term operation of TMI-1 not to exceed five percent of design power should be permitted. The ASLB reopened the record in these proceedings to consider incidents of cheating on, and test administration procedures used in connection with, operator training examinations given to TMI-1 control room operators. Hearings on the reopened proceedings have been concluded. The NRC has not yet acted on the partial initial decisions. The Corporation and its subsidiaries are uncertain as to the outcome of these proceedings.

On January 7, 1982 the U.S. Court of Appeals for the District of Columbia entered a judgement ordering the NRC to prepare an environmental assessment regarding the effects of the proposed restart of TMI-1 on the "psychological health of the neighboring residents and on the well being of the surrounding community", and on the basis of this environmental assessment to determine whether the National Environmental Policy Act requires preparation of a full Environmental Impact Statement. The Court further ordered that the NRC shall not make a decision on the restart of TMI-1 until it has complied with this requirement. In addition, the Court ordered the NRC to prepare a statement of its reasons for determining that psychological health is not cognizable under the Atomic Energy Act. The Court's opinion in support of its judgement has not yet been issued. The Corporation and its subsidiaries are uncertain as to the effect of the Court of Appeals' order on the restart of TMI-1. It is expected that a petition for reconsideration by the Court of Appeals will be filed and, if it is unsuccessful, that review by the U.S. Supreme Court will be sought.

In late 1981, it was discovered that a number of tubes in the TMI-1 steam generators were defective. Recent testing has indicated a substantial fraction of the tubes probably will require corrective measures. The effect of the steam generator problem on the schedule for restart of TMI-1 is uncertain at this time, but it is expected that corrective measures will take at least until the fall of 1982. Further analytical and diagnostic work is required to ascertain the time and cost of such corrective measures.

The NRC has proposed certain technical specifications or license conditions to govern the maintenance of TMI-2 in a safe shutdown condition. Two individuals and one organization have intervened in a hearing to contest the adequacy of the proposed technical specifications. A hearing on this matter before an NRC licensing board is still in a preliminary stage. The NRC has directed that the hearing should focus on the technical specifications and not on the TMI-2 cleanup or whether TMI-2 should be allowed to operate again.

Cost of Cleanup and Restoration:
Current projections provide for the cleanup of TMI-2 to be completed by 1987, at a cost of $909 million (in 1982 dollars). Escalation of these costs to give effect to inflation by amounts ranging from 8% to 10% per annum result in an anticipated aggregate expenditure for the cleanup of TMI-2 of $1,034 million. The above estimate does not provide for: (i) the restoration of the unit, including the replacement of the fuel core which is expected to be completed by 1988, at a preliminary estimate of $300 million (in 1982 dollars — $415 million when adjusted for inflation ranging from 8% to 10% per annum) or (ii) the cost of modification to meet post-accident regulatory requirements, estimated at about $80

million after escalation for inflation.

The above estimates are subject to major uncertainties, including (a) the regulatory environment, (b) the full scope of the challenges in decontaminating the reactor, (c) the effect of government regulations on the issue of waste disposal, (d) the reusability of major components and (e) the availability of funds.

The subsidiaries, as of December 31, 1981, in responding to the accident at TMI-2, have deferred $223 million of costs associated with the cleanup and recovery process. These deferred costs have been offset by insurance proceeds of $230 million received through December 31, 1981. The unamortized investment in the TMI-2 nuclear fuel core, included in deferred costs — nuclear accident in the 1980 financial statements, has been reclassified in 1981 as part of the investment in TMI-2.

The subsidiaries' first mortgage bond indentures provide for insurance proceeds to be held by their respective trustees for reimbursement to the company for either expenditures on repair of damaged property or construction of other bondable property. Insurance proceeds of $9.3 million remained on deposit with the subsidiaries' trustees at December 31, 1981. Such amounts are recorded on the balance sheet as special deposits and included in the aforementioned insurance proceeds.

The subsidiaries carried the maximum insurance coverage then available ($300 million) for damage to the unit and core and for decontamination expenses. It is the Corporation's belief that the recoveries from the insurance companies will approximate the amount of the insurance carried, as estimated cleanup expenditures are expected to exceed significantly the available insurance coverage.

The subsidiaries do not know the extent, if any, to which the expenditures for repair and restoration of the unit to operation will represent plant improvements or other items that are capitalizable and which may be recoverable in the future through rates charged to customers by amortization or depreciation charges. In addition, the subsidiaries are seeking financial assistance from the Federal government and the utility industry. Management believes that any loss suffered by the subsidiaries for which they do not receive financial assistance, or reimbursement from suppliers or others, should be recoverable in rates. Moreover, it is management's intent to seek to recover such costs in rate and/or judicial proceedings. Under these circumstances, the amount of loss, if any, suffered by the Corporation and its subsidiaries resulting from damages to TMI-2 is not presently determinable and, therefore, no provision has been made in their accounts.

Various funding proposals for the cleanup and decontamination of TMI-2 have been put forth by federal and state officials. The rate settlement agreements approved by the Pennsylvania Public Utility Commission (PaPUC) on January 8, 1982 referred to below, contemplate that, coincident with the resumption of generation by TMI-1, Met-Ed and Penelec will receive a level of revenues for the cleanup and decontamination of TMI-2 consistent with the plan proposed by the Governor of Pennsylvania. The plan provides for the remaining estimated cost of the cleanup ($760 million) to be shared as follows: The Corporation's subsidiaries, $245 million; the Federal government, $190 million; the nuclear utility industry, $190 million; insurance, $90 million; the state of New Jersey, $15 million; and the state of Pennsylvania, $30 million. The national trade association of the investor-owned electric utilities has approved the level of participation for the industry called for by the plan and it is contemplated that legislation to facilitate such participation will be introduced. The Reagan Administration has proposed federal assistance for certain activities engaged in during the course of the cleanup. The Corporation and its subsidiaries do not know what the final outcome of these developments will be.

Accounting for the Investment in TMI:
As indicated below, most of the operating expenses and capital costs associated with the investment in TMI-1 and TMI-2 are not currently being recovered in rates charged to customers. Such capital costs are reflected in the financial statements in that the interest and preferred stock dividend components of these investments are being accrued and the earnings per share of common stock are determined on a basis which reflects all outstanding shares including the shares issued to finance the common stock components of these investments.

The April 9, 1981 rate orders of the PaPUC referred to below directed Met-Ed and Penelec to cease the accrual of depreciation effective approximately when the operating and capital costs of TMI-1 and TMI-2 were eliminated from base rates (TMI-1, June 1, 1980 for both Met-Ed and Penelec; TMI-2, January 1, 1979 for Met-Ed and April 1, 1979 for Penelec). In June 1981, Met-Ed and Penelec ceased the accrual of depreciation, effective June 1, 1980, on that portion of their investment in TMI-1 subject to the PaPUC's jurisdiction (Met-Ed — 97%; Penelec — 92%). With respect to their revenues applicable to their remaining investment in TMI-1, which are subject to the Federal Energy Regulatory Commission's rate jurisdiction, Met-Ed and Penelec have continued to accrue depreciation. Met-Ed and Penelec continued until December 1981 to accrue depreciation on TMI-2 for financial reporting purposes since the PaPUC's orders of April 9, 1981 did not address the future rate treatment to be accorded possible material retirements at TMI-2.

The settlement agreements approved by the PaPUC on January 8, 1982, referred to below, provide for the amortization of Met-Ed's and Penelec's investment in TMI-2 based on the unrecovered original cost of the

facility, the nuclear fuel in the reactor at the time of the accident in March 1979 and capital additions from that time to the date of the settlement. Moreover, the settlements make allowance for the future recognition in Met-Ed's and Penelec's base revenues for the operating and capital costs associated with TMI-1, contingent upon that facility's generating power at a specified level. Pursuant to the settlement agreements, in December 1981, Met-Ed and Penelec ceased the accrual of depreciation on that portion of their investment in TMI-2 subject to the PaPUC's jurisdiction retroactive to January 1, 1979 and April 1, 1979, respectively, the approximate dates the unit's operating and capital costs were removed from base rates. (See Note 3)

The New Jersey Board of Public Utilities (NJBPU) has not issued a directive to JCP&L with respect to the accrual of depreciation on the TMI plant. Accordingly, JCP&L has continued to accrue depreciation on both TMI-1 and TMI-2. On August 14, 1981, JCP&L petitioned the NJBPU for authorization to cease the accrual of depreciation on TMI-1 retroactive to April 1, 1980, the date its operating and capital costs were removed from base rates. In September 1981, the NJBPU indicated that it would reserve this issue for determination in the proceedings on JCP&L's August 11, 1981 request for an increase in base rates of $238 million.

Rate Proceedings — New Jersey:
On January 31, 1979, JCP&L was granted a $33.8 million annual rate increase by the NJBPU which, among other things, reflected in base rates the capital and operating costs then associated with its investment in TMI-2. On June 18, 1979, the NJBPU issued a rate order reducing JCP&L's annual base revenues by $29 million which represented the amount allowed by the NJBPU in its January 31, 1979 order for JCP&L's annual capital and operating costs associated with its interest in TMI-2.

By order dated April 1, 1980, the NJBPU removed from JCP&L's base rates the capital and operating costs associated with TMI-1 of $17.9 million annually. That order did not reduce JCP&L's charges to customers; instead, it directed that an equivalent amount (after adjustment for revenue taxes) be applied to accelerate the amortization of its deferred energy costs incurred prior to the TMI-2 accident. In removing TMI-1 from JCP&L's base rates, the NJBPU determined that "given the extended period of unavailability and the impossibility of ascertaining when the unit may return to service, TMI-1 is not used and useful in supplying energy . . . ." JCP&L appealed that order to the New Jersey Supreme Court which, on April 8, 1981, affirmed the NJBPU order stating that the issues raised by JCP&L should be considered by the NJBPU in the rate proceeding referred to in the next paragraph.

By an order dated July 31, 1981, the NJBPU granted JCP&L an annual increase in its retail base rates of $109.2 million effective immediately. Of this amount, JCP&L had been collecting $60 million annually, on an interim basis, effective May 15, 1980. On September 11, 1981, JCP&L appealed this order to the Appellate Division of the New Jersey Superior Court. The New Jersey Public Advocate and the County of Ocean have filed cross appeals. Reference is made to Note 3 for information regarding the rate treatment accorded by such order for JCP&L's investment in the Forked River nuclear project.

On August 11, 1981, JCP&L filed a petition with the NJBPU requesting an annual increase in base rates of $238 million. Subsequently, the amount requested was reduced to $214 million to be consistent with the plan of the Governor of Pennsylvania, referred to above. Of this amount, $43 million pertains to operating and capital costs associated with TMI-1. The balance of the request consists of (i) $14 million for the funding of the decontamination of TMI-2, (ii) $35 million for the return requirement on the investment in TMI-2 and (iii) $122 million for non-TMI-2 related factors, including increased costs of capital, and operation and maintenance expenditures. The effect of this rate increase is expected to eventually be partially offset by a reduction in the levelized energy adjustment clause (LEAC) resulting from the availability of TMI-1 generation and the expiration of current charges for deferred energy costs.

On September 4, 1981, the NJBPU agreed to consider JCP&L's August 11, 1981 rate request in two stages. Stage I consists of $43 million, representing the operating and capital costs associated with TMI-1, and the August 14, 1981 petition to cease the accrual of depreciation on TMI-1 retroactive to April 1, 1980. Stage II includes the remainder of the base rate increase request in the August 11, 1981 petition. With respect to Stage I, on January 8, 1982, the parties to the proceedings filed a stipulation with the NJBPU providing for (i) an annual increase in base revenues of approximately $35 million associated with TMI-1's operating and capital costs, and (ii) the reversal of depreciation accrued on TMI-1 subsequent to April 1, 1980. The increase in base rates would be partially offset by a reduction of $17.9 million annually in the rate of amortization of JCP&L's deferred energy costs. The effective date of the proposed increase in base rates and the related reduction in energy revenues has been left to the discretion of the NJBPU. JCP&L is uncertain as to what effect the delay in the restart of TMI-1 will have on the NJBPU's decision.

With respect to additional energy costs, including those resulting from the outage at TMI-1 and TMI-2, the NJBPU has allowed JCP&L to recover these costs from ratepayers over current and future periods. In January 1982, JCP&L petitioned the NJBPU for an increase in its LEAC charges of $97.5 million annually, effective March 1, 1982.

During the pendency of the proceedings which re-

sulted in the June 18, 1979, April 1, 1980 and July 31, 1981 rate orders of the NJBPU and in the rate proceeding related to JCP&L's August 11, 1981 petition, certain intervenors requested that the NJBPU consider the issue of fault regarding the causation of the TMI-2 accident. In this connection, motions were filed by intervenors requesting that the NJBPU (i) undertake a formal proceeding to determine the fault issue and (ii) defer consideration of LEAC and base rate relief pending the final outcome of such fault proceedings. On April 23, 1981, the NJBPU denied these motions, but indicated that it would require JCP&L to develop and submit a plan for review as to the allocation to ratepayers of potential recoveries by JCP&L from suits instituted for damages as a result of the TMI-2 accident. In their cross appeals from the NJBPU's July 31, 1981 order referred to above, the New Jersey Public Advocate and the County of Ocean have also appealed the April 23, 1981 order of the NJBPU.

In its cross appeal, the Public Advocate has argued that the replacement power costs resulting from the accident should not be charged to customers until the NJBPU had determined their reasonableness, that the costs were not reasonable if the accident were the fault of JCP&L, that the Public Advocate had improperly been denied an opportunity to litigate the issue of JCP&L's asserted fault, that the NJBPU's order of July 31, 1981, did not adequately validate the prior LEAC increases, and that the matter should be remanded to the NJBPU for additional hearings, with direction that the revenues which have been and are currently being collected under the tarriffs established by such order and the earlier LEAC orders are subject to refund if the rates are found to be unjust and unreasonable due to inclusion of imprudently incurred expenses as the Public Advocate maintains. Although differently phrased, the contentions of the County of Ocean are similar in end result. Another participant in the rate case has filed a cross appeal raising the fault and other issues.

Rate Proceedings — Pennsylvania:
During the first quarter of 1979, Met-Ed and Penelec were granted retail rate increases by the PaPUC which, among other things, reflected in base rates the capital and operating costs associated with their investment in TMI-2. On April 19, 1979 and April 25, 1979, following the TMI-2 accident, the PaPUC established temporary rates for Met-Ed and Penelec, respectively, reducing annual base revenues by amounts approximating the operating and capital costs associated with their interests in TMI-2 that had been allowed in their pre-accident rate increase orders. These actions effectively revoked, prior to becoming effective, the $46.6 million annual increase in base rates granted Met-Ed on March 22, 1979, returning the rates to levels in effect prior to that rate order. In Penelec's case, the PaPUC prospectively reduced by $25 million the $56.2 million annual rate increase which Penelec had been billing since January 27, 1979 pursuant to the prior PaPUC order. On June 19, 1979, the PaPUC directed that such temporary rates be made permanent.

On May 23, 1980, the PaPUC dismissed a show cause order it had issued regarding the revocation of Met-Ed's franchise to conduct public utility operations. The PaPUC stated that it had found "no imminent and foreseeable threat to continued provision of adequate and reliable service at reasonable rates." In addition, the PaPUC found in this decision that TMI-1 is not "used and useful in the public service" and prescribed temporary base rates for Met-Ed and Penelec, effective June 1, 1980, which removed the capital and operating costs (Met-Ed — $27 million annually; Penelec — $12 million annually) associated with the unit from the companies' base rates.

The PaPUC's decision of May 23, 1980 further allowed for levelized energy cost rates that provided for the full recovery of energy costs for the period June 1, 1980 through December 31, 1980. Moreover, the decision provided for the recovery of the then outstanding post-accident deferred energy costs over an 18 month period, in the form of a surcharge, effective June 1, 1980, to Met-Ed's and Penelec's customers. In this regard the PaPUC stated: "Those amounts are subject to audit and review by the Commission and to a later determination that specific amounts of energy costs were imprudently or unreasonably incurred. If the courts and/or the NRC should ultimately conclude that Met-Ed was imprudent or negligent in its operation or management of Three Mile Island, then this Commission will take notice of such determinations and their relevance to any portion of the replacement power costs for which current recovery is permitted today."

The PaPUC, on April 9, 1981, granted Met-Ed and Penelec annual increases in their retail base rates of $51 million and $54.1 million, respectively, effective immediately. By the same order, the PaPUC reduced Met-Ed's deferred energy surcharge by $28.7 million annually, thereby reducing the current amortization and extending the amortization period of Met-Ed's deferred energy balances. Although the orders did not restore the capital and operating costs associated with TMI-1 to base rates, they made allowance for $11 million (Met-Ed) and $5.5 million (Penelec) annually for operating costs associated with the restart of TMI-1.

On January 8, 1982, the PaPUC issued orders approving settlements reached by the parties to the rate proceedings instituted on June 30, 1981 by Met-Ed and Penelec. The orders call for changes in rates to go into effect in three steps. Under the first step, Met-Ed and Penelec received, effective January 14, 1982, annual increases in their retail base rates of $71.7 million and $48.9 million, respectively. These increases represent (i) $62 million and $29.5 million, respectively, for the amortization of Met-Ed's and Penelec's investments in

TMI-2, and (ii) $9.7 million and $19.4 million, respectively, for attrition.

A further step, which will become effective upon the resumption of substantial generation of power at TMI-1, would result in annual net reductions of $53.3 million and $24.9 million, respectively, in rates charged to customers of Met-Ed and Penelec. The timing for the resumption of substantial generation by TMI-1 is dependent upon resolution of the restart proceedings and the steam generator tube matters referred to above. The components of such net decreases are (i) the return to base rates of the capital and operating costs associated with the investment in TMI-1, resulting in increases in Met-Ed's and Penelec's base rates of $39.7 million and $18.6 million, respectively, (ii) the reduction of the TMI-2 amortization instituted in the first step by amounts equal to the increases authorized with respect to TMI-1 capital and operating costs, (iii) the recognition of a level of participation by customers in the cleanup of TMI-2 consistent with the plan proposed by the Governor of Pennsylvania, resulting in increased revenues of $24.2 million and $11.3 million for Met-Ed and Penelec, respectively, and (iv) the estimated reduction of energy cost revenues by $77.5 million and $36.2 million, respectively, representing the estimated savings to customers brought about by the return to service of TMI-1.

Another step, which will go into effect about mid-1982, would result in net decreases in Met-Ed's and Penelec's retail rates of $18.4 million and $6.4 million, respectively. These net decreases represent, (i) the scheduled expiration of the deferred energy surcharge and the elimination from base rates of an allowance for the collection of pre-TMI-2 accident deferred energy balances, reducing retail revenues by $34.6 million and $10.9 million for Met-Ed and Penelec, respectively, and (ii) additional TMI-2 amortization of $16.2 million for Met-Ed and $4.5 million for Penelec.

The settlements also provide that, except under extraordinary conditions, Met-Ed and Penelec will not petition the PaPUC for further base rate increases before January 1, 1983.

With respect to additional energy costs, including those resulting from the outage at TMI-1 and TMI-2, the PaPUC has allowed Met-Ed and Penelec to recover those costs over current and future periods.

Investigations:
On October 30, 1979, the President's (Kemeny) Commission on the Accident at Three Mile Island issued its report. The report states, in part, that its "investigation has revealed problems with the 'system' that manufactures, operates and regulates nuclear power plants" and the shortcomings which turned the incident into a serious accident "are attributable to the utility, to suppliers of equipment and to the federal commission that regulates nuclear power." The NRC's Special Inquiry Group (Rogovin) and the U.S. Senate Subcommittee on Nuclear Regulation (Hart Committee) issued the results of their investigations of the accident at TMI-2 on January 23, 1980 and July 2, 1980, respectively. Their conclusions with respect to these matters were similar to those of the Kemeny Commission. On January 23, 1980, the NRC imposed civil penalties against Met-Ed of $155,000 for safety, maintenance, procedural and training violations at TMI. The NRC has also stated that, depending upon the findings of continuing investigations into the TMI-2 accident, it may take additional enforcement action such as assessing additional civil penalties or ordering the suspension, modification or revocation of the license to operate TMI-2. The Corporation and its subsidiaries do not know what the ultimate outcome of this matter will be.

In March 1980, the NJBPU requested an independent analysis of strategic options for JCP&L in response to the extreme financial pressures experienced by JCP&L following the TMI-2 accident. The intent of this study was to identify options that would minimize additional costs to JCP&L's customers and continue to provide an adequate supply of power. The report was completed in April 1981 and submitted to the NJBPU. It recommends, in part, that (i) a Regional Power Authority owning and operating TMI would best provide the financing capability to fund the cleanup and reduce its cost to the ratepayer and (ii) some form of public ownership of JCP&L has the greatest likelihood of significantly moderating the growth in electric rates. The other options, as stated in the report, including "merger, divestiture, bankruptcy and a state-owned generating company would provide limited long-term benefits to the ratepayer and involve substantial legal, economic and political risks." Regardless of the option selected, the study further indicates that immediate and consistent rate relief is necessary to restore JCP&L's earnings, improve its cash flow and begin to restore its access to capital markets to ensure that needed construction and cleanup programs continue. On February 11, 1982, the NJBPU directed that hearings begin in March 1982 on the options identified in the study.

The Corporation does not know what effect, if any, these reports will have upon it or its subsidiaries.

Other investigations and inquiries into the nature, causes and consequences of the TMI-2 accident commenced by various federal and state bodies are continuing. The Corporation and its subsidiaries are unable to estimate the full scope and nature of these continuing investigations or the potential consequences thereof to the investors in the securities of the Corporation and its subsidiaries. The Corporation is also unable to determine the impact, if any, the results of such investigations may have on (i) the proceedings to return TMI-1 to operation (ii) the efforts to clean up and rehabilitate TMI-2 and (iii) the rate regulatory agency decisions with respect to the ultimate recoverability from ratepayers of the replacement power costs necessitated by the unavailability of TMI-1 and TMI-2.

Litigation:
As a result of the accident, the Corporation and/or its subsidiaries have been named as defendants in various lawsuits. The suits include (i) individual suits as well as purported and actual class actions for alleged personal and property damages (including claims for punitive damages) resulting from the accident and (ii) suits to enjoin the future operation of TMI-2.

The suits described in (i) above involve questions as to whether certain of such claims, that are material in amount and arise out of both the accident itself and the cleanup and decontamination efforts, are (a) subject to limitation of liability set by the Price-Anderson Act and (b) outside the insurance coverage provided pursuant to the Price-Anderson Act. These questions have not yet been resolved.

In February 1981, the insurance companies and representatives in the class actions reached an agreement for the proposed settlement of the class action claims for economic losses and claims for the costs of medical detection services resulting from the TMI-2 accident for persons, businesses and entities within a 25 mile radius of TMI-2. The settlement, which was approved in September 1981 by the court in which class action claims are pending, provides for the insurance companies to establish a fund of $20 million for economic loss claims and a separate fund of $5 million for public health purposes. Earlier, the court had held that personal injury claims (other than for medical detection services) could not be pursued in class action proceedings and the February 1981 agreement does not deal with such claims. Individual and purported class action complaints for alleged economic injury by reason of increased charges for electricity and for alleged economic losses of persons, businesses and entities outside the 25 mile radius area, as well as individual complaints for alleged personal injury, are pending. In January 1982, a group of customers of the subsidiaries, seeking class action certification to assert claims for all customers of the subsidiaries residing or doing business at a distance greater than 25 miles from TMI for alleged economic injury by reason of increased charges for electricity as a result of the TMI-2 accident, filed a petition with the PaPUC seeking a declaratory order as to whether the PaPUC has jurisdiction to determine liability for damages or to award damages to customers of Met-Ed and Penelec for increased costs of electricity.

Class suits for alleged damages on behalf of purchasers of GPU common stock during the period August 25, 1975 through April 1, 1979 have also been instituted against the Corporation and certain of its directors as a result of the accident. These suits have raised questions, which have not yet been resolved, as to whether certain claims are beyond the insurance coverage for directors' and officers' liability carried by the Corporation and its subsidiaries. The directors have filed a third-party complaint against the insurance company providing such primary insurance coverage. That insurance company has filed an answer to such complaint denying liability. In May 1981, the court entered an order striking certain of the defenses asserted by the insurance company.

On December 14, 1981, the Corporation and its subsidiaries filed an amended complaint against the supplier (and its parent) of the nuclear steam supply system and associated services, training and procedures for TMI-2, for damages, estimated at about $4 billion, suffered by the Corporation and its subsidiaries and their customers as a result of the accident. The defendants have answered the amended complaint denying liability and seeking approximately $4 million, plus finance charges, from the Corporation and its subsidiaries for services rendered and equipment allegedly provided under the contract for the TMI-2 nuclear steam supply system.

On December 3, 1981, the Corporation and its subsidiaries filed a complaint against the U.S. Government for damages and losses, estimated at about $4 billion, suffered by the Corporation and its subsidiaries and their customers as a result of the accident. The complaint alleges that the NRC violated its statutory and common law duties to warn plaintiffs of defects and hazardous conditions in equipment, analyses, procedures and training in use at TMI-2. The complaint also charges that, following a similar incident at a nuclear power plant operated by a non-affiliated utility which the NRC had investigated, the NRC failed to take and recommend appropriate action and to warn Met-Ed and other licensees of similar reactors of any defects. The complaint seeks to recover the cost of cleanup and restoration, replacement power costs, lost revenues and increased financing costs. The U.S. Government has not yet responded to the complaint.

The Corporation and its subsidiaries are presently unable to estimate the likelihood of an unfavorable outcome on any of the matters set forth in the preceding paragraphs or their financial exposure with respect thereto.

Insurance:
The property damage insurance, and the $300 million limit of coverage, was applicable to both TMI-1 and TMI-2. This property insurance had been reduced by claims paid. The insurance carriers have reinstated the coverage for the TMI site. However, with regard to property insurance for TMI-2, coverage has been reinstated only for possible damage which might result from a non-nuclear accident during the unit's restoration period. Effective January 10, 1982 on a prospective basis, the property damage insurance coverage was raised to $450 million on the site.

Effective April 1, 1981 JCP&L became a member of Nuclear Mutual Limited (NML). Such membership provides JCP&L with $450 million of property damage insurance for its Oyster Creek station. As a member of

NML, JCP&L is subject to annual assessments of up to 14 times its annual premium, or approximately $25.1 million, in the event of an accident at a nuclear plant of any member company.

Damages in excess of $450 million are not covered by the aforementioned insurance. However, effective January 15, 1982, the subsidiaries increased their property damage insurance for damages in excess of $500 million at each of their nuclear generating sites. The policy currently limits coverage to the sum of $186 million and 12.2% of the amount of the loss in excess of $500 million up to $1 billion. This excess property insurance is provided by Nuclear Electric Insurance Limited (NEIL), a mutual insurance company. Under this policy, the subsidiaries are subject to a retrospective premium of up to $14.9 million in the event of an accident at a nuclear plant of any member company.

The Price-Anderson Amendments to the Atomic Energy Act limit liability to third parties to $560 million for each nuclear incident. Coverage of the first $140 million (raised to $160 million following the accident) of such liability is provided by private insurance. The next $365 million is provided by assessments of up to the limit of $5 million per nuclear reactor per incident, but not more than $10 million per reactor in any calendar year. The remainder is provided by a government indemnity. Based on the ownership of three nuclear reactors, the subsidiaries' maximum potential assessment under these provisions would be $15 million per incident but not more than $30 million per calendar year for claims covered by this insurance.

Effective September 15, 1980, JCP&L, with respect to incremental replacement power costs resulting from an extended accidental outage at its Oyster Creek nuclear generating station only, became a member of NEIL. Coverage under NEIL provides for a weekly indemnity of $2.3 million, beginning 26 weeks after an accidental outage, for the incremental cost of replacement power. The policy limits covered outages to 52 weeks at 100% of the weekly indemnity and 52 additional weeks at 50% of the weekly indemnity. As a member of NEIL, JCP&L is subject to a retrospective premium adjustment limited to $7.65 million, which is five times its annual premium, in the event that losses exceed the accumulated funds available to NEIL. The subsidiaries expect to obtain similar coverage with respect to TMI-1 upon that unit's return to operation.

NUCLEAR FUEL LITIGATION:

In 1971, JCP&L entered into a contract for the purchase of three nuclear fuel reloads for the Oyster Creek station, with an option for five additional annual reloads beginning in 1976. In 1974, the supplier offered an extension of that contract to cover five additional annual reloads beginning in 1981. JCP&L believes that it effectively exercised the option in the initial contract and accepted the offer to extend the contract to cover the annual reloads through 1985. The supplier disputes this position and, in November 1978, submitted bills for material and services in the aggregate amount of approximately $33 million, covering reloads supplied in 1977, 1978 and 1979. The supplier stated that its objective was to establish revised prices and other terms and conditions rather than to diminish supplies and, without prejudice to its legal position, provided the 1979 annual fuel reload. Of the $33 million claimed by the supplier to be due, JCP&L has paid approximately $3.8 million and is of the opinion that the balance of approximately $29 million is not payable by it and has so informed the supplier. On January 26, 1979, the supplier filed suits against JCP&L, the Corporation and GPU Service Corporation (GPUSC). JCP&L has filed a counterclaim for a declaratory judgment confirming its view of the contractual status and for damages and has also filed another suit against the supplier and its parent seeking damages. Oral argument, following a trial on the issues of liability (but not the amount of any damages), was completed on December 23, 1981 and briefs have been filed. The matter is currently awaiting a decision. JCP&L believes that any additional amount that it might be required to pay if the supplier is successful in its suit would be valid costs and should be recognized for ratemaking purposes. However, there can be no assurance that this will be the case. If the suits were to be resolved in the supplier's favor, JCP&L would incur $14.2 million in additional fuel expense, based on the amount of fuel consumed through December 31, 1981.

OTHER:

The subsidiaries' construction programs, which extend over several years, contemplate expenditures of approximately $320 million during 1982. In connection with these construction programs, the subsidiaries have incurred commitments.

The staff of the Federal Energy Regulatory Commission (FERC) conducts periodic audits of the accounts of electric utilities subject to the Federal Power Act. In the course of its current audit of Met-Ed, the FERC staff has raised various questions, the most material of which concerns the issue of whether the accrual by Met-Ed of allowance for funds used during construction (AFC) on completed fabricated fuel assemblies held for use at TMI-1 is appropriate. If such accruals are ultimately disallowed, the FERC will presumably take a similar position with respect to JCP&L and Penelec. At December 31, 1981, the subsidiaries had accrued approximately $7.7 million of AFC on the subject fuel assemblies since completion of their fabrication. In addition, the FERC staff reserved judgement on the propriety of Met-Ed's accounting for nuclear fuel in process and the AFC accrued thereon, pending the issuance of a rulemaking by FERC addressing nuclear fuel accounting.

The Corporation's subsidiaries have entered into long-

term commitments with the U.S. Department of Energy (DOE) for the purchase of substantial amounts of nuclear fuel enrichment services. The terms of the contracts with the DOE provide for significant termination charges. In the aftermath of the TMI-2 accident,the Corporation's subsidiaries had an excess of commitments for nuclear fuel enrichment services. With respect to most excess commitments through 1984 the subsidiaries have assigned such service to other nuclear fuel users at a discount or provided for termination charges. The subsidiaries are unable to determine to what extent, if any, future commitments for enrichment services subsequent to 1984 may be in excess of those required.

Subject to regulatory approval and the securing of the necessary financing, JCP&L has agreed to enter into a long-term contract for the purchase of large quantities of electricity from a major Canadian supplier. In order to effect the transmission of such power to the GPU System, the parties to the proposed agreement intend to construct an interconnection, the cost of which will be shared equally. JCP&L's portion of such cost, approximately $330 million, to be incurred through 1986, is expected to be financed by contributions from its customers and by borrowings from suppliers and institutional lenders. Such commitments are not presently reflected in the construction program budget.

The subsidiaries have entered into long-term contracts with non-affiliated mining companies for the purchase of coal for certain of their generating stations. These contracts, which expire between 1997 and the remaining life of the generating station, require the subsidiaries to purchase minimum amounts of the stations' coal requirements from these mining companies. The price of the delivered coal is established by formulas described within the contracts and provides for the recovery by the mining companies of their costs. Coal purchases under these agreements amounted to $84 million, $87 million, $79 million, $61 million and $54 million for the years 1981, 1980, 1979, 1978 and 1977, respectively.

The subsidiaries have suspended or delayed construction on various proposed generating projects. On November 11, 1981, the subsidaries, as a result of financial constraints, suspended, for a minimum of two years, plans for the construction of the Seward 7 generating station. At December 31, 1981, the subsidaries' investment in suspended and delayed generating projects aggregated $27.2 million, of which $19.3 million is related to Seward 7.

The Oyster Creek nuclear generating station, owned by JCP&L, is expected to experience two extended outages of approximately ten months each, for refueling, maintenance and modifications to the unit, during the period from July 1982 through 1985.

The subsidiaries are engaged in negotiations with various suppliers relating to the latters' claims for delay or termination charges or increased fees which such suppliers assert result from the subsidiaries' revisions of their construction plans and schedules and/or from the increased scope of supply. The subsidiaries' managements do not expect at this time that such negotiations will result in any material increase in costs that would not be valid costs properly recognizable through the ratemaking process.

Claims for damages arising out of the operation of the Oyster Creek station have been asserted. JCP&L's management believes that such liability, if any, as it may have for such damages in the pending suits and for all asserted and potential similar claims would not be material.

2. Summary of Significant Accounting Policies

GENERAL:

The consolidated financial statements include the accounts of all subsidiaries.

It is the general policy of the Corporation's subsidiaries to record additions to utility plant at cost, which includes material, labor, overhead and AFC. The cost of current repairs (except those related to the nuclear accident described in Note 1) and minor replacements is charged to appropriate operating expense and clearing accounts and the cost of renewals and betterments is capitalized. The original cost of utility plant retired, or otherwise disposed of, is charged to accumulated depreciation.

OPERATING REVENUES:

Revenues are generally recorded on the basis of billings rendered.

DEFERRED ENERGY COSTS:

Energy costs are recognized in the period in which the related energy clause revenues are billed (See Note 1).

RESERVE CAPACITY CREDIT:

Effective April 1981, Met-Ed and Penelec are recognizing future anticipated payments to other members of the Pennsylvania-New Jersey-Maryland Interconnection as a charge to current expense equivalent to the revenues provided for that purpose.

DEPRECIATION:

The Corporation's subsidiaries provide for depreciation at annual rates determined and revised periodically, on the basis of studies, to be sufficient to amortize the original cost of depreciable property over estimated remaining service lives, which are generally longer than those employed for tax purposes. The subsidiaries use depreciation rates which, on an aggregate composite basis, resulted in an approximate annual rate of 3.21%, 3.18%, 3.17%, 3.07%, and 3.02% for the years 1981, 1980, 1979, 1978, and 1977 respectively. Reference is made to Notes 1 and 3 regarding the accrual of depreciation on TMI-1 and TMI-2.

NUCLEAR PLANT DECOMMISSIONING COSTS:

In accordance with ratemaking determinations (a) JCP&L is charging to expense and crediting to a non-

funded reserve amounts intended to provide over their service lives for the cost of decommissioning nuclear plants at the end of their useful lives (estimated for purposes of the ratemaking determinations to range between $27 and $36 million per unit in then current dollars assuming in-place entombment), and (b) Met-Ed and Penelec, prior to the cessation of depreciation accruals discussed in Note 1, were charging to expense amounts intended to provide over their service lives for the decommissioning of their shares of the radioactive components of their nuclear units (approximately $24 million per unit in then current dollars). During 1981, such charges to expense were discontinued retroactive to the dates that the TMI units were removed from rate base in Pennsylvania. In accordance with ratemaking requirements, these charges have made no provision for possible inflation in decommissioning costs during the period prior to decommisssioning but are expected to be subject to modification to take cognizance of that factor.

AMORTIZATION OF NUCLEAR FUEL:
The amortization of nuclear fuel is provided on a unit of production basis. Rates are determined and periodically revised to amortize the cost over the useful life. JCP&L is providing for estimated future handling costs for the spent Oyster Creek nuclear fuel, and similar treatment will be provided for future handling costs for the spent TMI nuclear fuel when required. Previously accumulated estimated residual credits, net of previously accumulated estimated costs of reprocessing, for the Oyster Creek station nuclear fuel are being amortized to fuel expense on a unit of production basis.

INCOME TAXES:
The Corporation and its subsidiaries file consolidated Federal income tax returns. All participants in a consolidated Federal income tax return are severally liable for the full amount of any tax, including penalties and interest, which may be assessed against the group.

The revenues of the Corporation's subsidiaries in any period are dependent to a significant extent upon the costs which are recognized and allowed in that period for ratemaking purposes. In accordance therewith, the Corporation's subsidiaries have employed the following policies:

Tax Depreciation: The Corporation's subsidiaries generally utilize liberalized depreciation methods and the shortest depreciation lives permitted by the Internal Revenue Code in computing depreciation deductions and provide for deferred income taxes where permitted in the ratemaking process. However, in 1980, with respect to TMI-2, the subsidiaries elected to utilize straight-line tax depreciation.
Investment Credits: Investment credits are being amortized over the estimated service lives of the related facilities.

3. Extraordinary Items

As a direct or indirect consequence of the nuclear accident at TMI-2, consolidated net income for 1981 reflects the following extraordinary items net of any related income tax effects:

	In Millions
(a) Abandonment of the Forked River nuclear generating project	$(26.9)
(b) Reversal of depreciation on TMI-1	2.7
(c) Reversal of depreciation on TMI-2	18.6
(d) Write-off of the excess of investments in subsidiaries over related net assets	(30.8)
Net extraordinary charge	$(36.4)

(a) In November 1980, as a result of regulatory, cost and other uncertainties following the accident at TMI-2, JCP&L abandoned its effort to proceed with the construction of the Forked River nuclear project. Subsequent to this decision, the investment of $413.7 million in the project was reclassified to deferred debits (unamortized property losses). The NJBPU, on July 31, 1981, issued a rate order which permits JCP&L to recover, in part, over a 15 year period its investment in the Forked River project. The order provides for JCP&L to recover $225.4 million of its net investment of $252.3 million after giving effect to $142.2 million in anticipated income tax benefits and $19.2 million in anticipated salvage value. However, the order excludes the recovery of AFC accrued during the period April 4, 1979, the date of the suspension of construction activities at the project, through March 31, 1980, the effective date JCP&L ceased the accrual of AFC on the project. In view of this order, in June 1981, JCP&L recorded an extraordinary charge of $26.9 million.
(b) As described in Note 1, Met-Ed and Penelec, pursuant to the April 9, 1981 orders of the PaPUC, ceased the accrual of depreciation on their investment in TMI-1 subject to the PaPUC's jurisdiction retroactive to June 1, 1980. Met-Ed and Penelec, during the five months ended May 31, 1981, charged to operations depreciation expense for TMI-1 of $4 million. The adjustment to reflect the reversal of $9.3 million of depreciation accrued from June 1, 1980 through May 31, 1981, net of $6.6 million of related income tax charges, was accounted for as an extraordinary item in June 1981.
(c) As described in Note 1, pursuant to the January 8, 1982 rate orders of the PaPUC, Met-Ed and Penelec have ceased the accrual of depreciation on their investment in TMI-2 subject to the PaPUC's jurisdiction retroactive to the approximate dates the unit's operating and capital costs were removed from base rates (in Met-Ed's case January 1, 1979 and in Penelec's case April 1, 1979). Met-Ed and Penelec, for the eleven months ended November 30, 1981, charged to operations depreciation expense for TMI-2 of $15.5 million. The adjustment to reflect the reversal of $45.6 million of depreciation accrued by Met-Ed from January 1, 1979 through November 30, 1981 and by Penelec from April 1, 1979 through November 30, 1981, net of $27 million of related income tax charges, was accounted for as an extraordinary item in December 1981.
(d) Since 1946, in accordance with applicable regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act, the Corporation has carried its investment in its subsidiaries at amounts that were $30.8 million in excess of the related net assets. In December 1981, the Corporation concluded that, in light of present and proposed ratemaking, the investment in the subsidiaries in excess of related net assets had no realizable value and wrote off such excess as an extraordinary charge.

The effective tax rates applicable to the reversal of depreciation on TMI-1 and TMI-2 (items (b) and (c) above) are greater than the statutory rate, since deferred income taxes are currently being provided on the portion of the excess of tax over book depreciation on both units which was previously flowed through to net income. In addition, investment tax credits associated with TMI-1 and TMI-2 that were previously amortized have been reversed. Items (a) and (d) above do not result in any income tax benefits.

4. Allowance for Funds Used During Construction

The applicable regulatory Uniform System of Accounts provides for AFC which is defined as including the net cost during the period of construction of borrowed funds (allowance for borrowed funds used during construction) used for construction purposes and a reasonable rate on other funds (allowance for other funds used during construction) when so used. While AFC results in a current increase in utility plant to be recognized for ratemaking purposes and represents, in this fashion, current compensation, AFC is not an item of current cash income; instead, AFC is realized in cash after the related plant is placed in service by means of the allowance for depreciation charges based on the total cost of the plant, including AFC.

To the extent permitted in the ratemaking proceedings of the subsidiaries, the income tax reductions associated with the interest component of AFC have been allocated to reduce interest charges and, correspondingly, have not reduced income taxes charged to operating expenses. Pursuant to such rate orders, the Pennsylvania subsidiaries employ a net of tax accrual rate for AFC. JCP&L, effective September 1977, began employing a net of tax accrual rate for AFC on certain construction projects while using a gross AFC rate on others.

The subsidiaries have accrued AFC using rates which, on an aggregate composite basis, resulted in annual rates of 10.64%, 8.91%, 8.60%, 7.99%, and 9.03% for the years 1981, 1980, 1979, 1978 and 1977, respectively.

5. Short-Term Borrowing Arrangements

In June 1979, the Corporation and its subsidiaries entered into a revolving credit agreement, which expired on October 1, 1981, with a group of banks under which they had available $292 million of credit. On October 1, 1981, the Corporation and its subsidiaries entered into a restated revolving credit agreement with the banks. The restated credit agreement, which expires on December 31, 1982, provides for an initial aggregate of $150 million in credit to the Corporation and its subsidiaries, which may be increased to $200 million with the consent of the banks holding 85% of the outstanding notes. Individual borrowing sublimits are applicable to each company. Such individual sublimits are: The Corporation — $43 million; JCP&L — $125 million; Met-Ed — $50 million (including $13 million of bonds sold to the banks in January 1980 and refinanced on October 1, 1981); and Penelec — $75 million. In addition, borrowings by the companies under the credit agreement are further restricted as follows:

The Corporation — The $43 million sublimit is reduced such that the Corporation's borrowings outstanding after October 1, 1981 are fully amortized during the period January 1, 1982 through December 31, 1982.

JCP&L — The $125 million sublimit is subject to the further restriction that outstanding borrowings are limited to the sum of (i) $60 million plus (ii) the amount of JCP&L's deferred energy account from time to time. Such sublimit was $110 million at December 31, 1981.

Met-Ed — The $50 million sublimit is subject to the further restriction that outstanding borrowings are limited to the sum of (i) the value ascribed from time to time by the banks to the uranium pledged by Met-Ed as collateral (presently $18 million), (ii) the amount of Met-Ed's deferred energy account from time to time, (iii) 80% of Met-Ed's customer accounts receivable pledged as collateral and (iv) 50% (but not in excess of $5 million) of the market value of Met-Ed's coal inventories pledged as collateral; less, $10 million. Moreover, the sublimit and the permissible amount of Met-Ed's outstanding borrowings are to be reduced ratably commencing April 30, 1982 in a manner to require full repayment by December 31, 1982. At December 31, 1981, Met-Ed's sublimit was $43 million.

Penelec — The $75 million sublimit is subject to the further restriction that outstanding borrowings are limited to the sum of (i) $50 million plus (ii) the amount of Penelec's deferred energy account from time to time. Such sublimit was $69 million at December 31, 1981.

The notes issued by the Corporation and its subsidiaries evidencing borrowings under the restated credit agreement bear interest at 107% of the higher of (i) Citibank's base rate as in effect from time to time, or (ii) one-half of 1% above the three-week moving average of offering rates for three month certificates of deposit of major banks. The agreement provides for a commitment fee of $1 million annually.

In connection with the restated revolving credit agreement, the Corporation has entered into a revised term loan agreement with the five banks who were parties to the original term loan agreement which expired by its terms on October 1, 1981. The revised term loan agreement provides, among other things, that the Corporation's $39 million of outstanding borrowings will bear interest at the same rate as borrowings outstanding under the restated revolving credit agreement and will be amortized ratably commencing January 1, 1982 so as to provide for full repayment by December 31, 1982.

The Corporation has guaranteed all borrowings by its subsidiaries outstanding under the restated revolving credit agreement. As collateral for such guarantee, the Corporation's $39 million revised term loan referred to above, and the guarantee by the Corporation of $4.4 million of certain mortgage loans of GPUSC, the Corporation has pledged the common stock of JCP&L, Met-Ed, Penelec and GPUSC.

·JCP&L and Met-Ed have secured their notes under the restated revolving credit agreement by pledging as collateral certain nuclear fuel in the process of refinement, conversion, enrichment and fabrication. Such nuclear fuel was recorded on the December 31, 1981 balance sheet at a cost of $41.9 million. In addition, Met-Ed has pledged as collateral for its indebtedness under the restated revolving credit agreement, (i) $40 million of first mortgage bonds (ii) its customer accounts receivable ($29.7 million at December 31, 1981) and (iii) its coal inventory ($12.2 millio] at December 31, 1981).

The restated revolving credit agreement and the purchase agreements for certain bonds sold by JCP&L ($97.5 million) and Penelec ($50 million) subsequent to the accident at TMI-2 contain provisions for the immediate payment of the indebtedness involved upon the occurrence of an event deemed by specified majorities of the lenders or holders of an issue to have a materially adverse effect on the borrower.

6. Long-Term Debt

At December 31, 1981, the Corporation and its subsidiaries had long-term debt outstanding, excluding amounts due within one year, as follows:

	(In Thousands) Interest Rates			
Maturities	*1% to 6⅞%*	*7% to 8⅞%*	*9% to 13¾%*	*Total*
First Mortgage Bonds:				
1983-1990	$215,409	$	$211,502	$ 426,911
1991-2000	278,952	134,869	189,736	603,557
2001-2009	25,120	392,742	407,729	825,591
Total	$519,481	$527,611	$808,967	1,856,059
Debentures:				
1986-1990	$ 45,980	$	$	45,980
1991-1998	24,500	129,400	19,500	173,400
Total	$ 70,480	$129,400	$ 19,500	219,380
Other long-term debt				36,949
Unamortized net discount				(3,052)
Total				$2,109,336

For the years 1982, 1983, 1984, 1985, and 1986 the Corporation and its subsidiaries have long-term debt maturities of $76,467,000, $117,054,000, $109,967,000, $126,896,000 and $53,387,000, respectively, including cash sinking fund requirements.

Substantially all of the subsidiaries' properties are subject to the lien of their respective mortgages.

On July 28, 1981, GPUSC and the DOE entered into an agreement for the repayment of amounts owed DOE by the Corporation's subsidiaries under certain uranium enrichment contracts. Such amounts had been deferred since 1979. Interest on these amounts is accrued using the Current Value of Funds Rate, as determined quarterly by the U.S. Treasury Department (18.35% at December 31, 1981). The amounts due, and the schedule for their repayment, are as follows:

(i) Oyster Creek related charges of $13.5 million will be paid in 48 equal monthly installments, beginning January 29, 1982.

(ii) Amounts related to the TMI units, $22.2 million, will be paid in 48 equal monthly installments beginning on the earlier of (a) the last day of the month in which TMI-1 resumes commercial operation or (b) January 19?3.

As a result of the foregoing, amounts payable by the subsidiaries, due after December 31, 1982, which are recorded as accounts payable on the December 31, 1980 balance sheet, are reflected as other long-term debt on the December 31, 1981 balance sheet.

7. Cumulative Preferred Stock — Mandatory Redemption

At December 31, 1981 and 1980, the subsidiaries had outstanding the following issues of cumulative preferred st ck which are subject to mandatory redemption requirements:

	Shares Outstanding		*Stated Value (In Thousands)*	
	1981	1980	1981	1980
JCP&L:				
13.5% Series F	162,500	175,000	$16,250	$17,500
11% Series G	212,500	225,000	21,250	22,500
Due within one year	(12,500)	(12,500)	(1,250)	(1,250)
Penelec:				
11.72% Series J	175,000	187,500	17,500	18,750
10.88% Series K	288,000	304,000	28,800	30,400
Due within one year	(28,500)	(28,500)	(2,850)	(2,850)
Total	797,000	850,500	$79,700	$85,050

JCP&L has had annual r demption requirements of 12,500 shares of the Series F preferred stock since 1975 and 12,500 shares of the Series G preferred stock since 1980.

Penelec has had annual redemption requirements of 12,500 shares of the Series J preferred stock since 1976 and 16,000 shares of the Series K preferred stock since 1980.

All redemptions are at the stated values of the shares, plus accrued dividends. No redemptions of preferred stock may be made unless dividends on all preferred stock for all past quarterly dividend periods have been paid or declared and set aside for payment. If dividends upon any shares of preferred stock of any subsidiary are in arrears in an amount equal to the annual dividend, the holders of preferred stock, voting as a class, are entitled to elect a majority of the board of directors of that subsidiary until all dividends in arrears have been paid.

• The subsidiaries' aggregate mandatory redemption requirement for all issues of cumulative preferred stock outstanding at December 31, 1981 is $5,350,000 per year, through 1986.

No shares of cumulative preferred stock-mandatory redemption have been sold during the five years ended December 31, 1981.

8. Cumulative Preferred Stock — No Mandatory Redemption

At December 31, 1981 and 1980, the subsidiaries had outstanding the following issues of cumulative preferred stock, which are redeemable solely at the option of the issuers:

	Shares Outstanding	*Stated Value (In Thousands)*
JCP&L:		
4% Series	125,000	$ 12,500
9.36% Series	250,000	25,000
8.12% Series	250,000	25,000
8% Series	250,000	25,000
7.88% Series	250,000	25,000
8.75% Series H	2,000,000	50,000
Met-Ed:		
3.90% Series	117,729	11,773
4.35% Series	33,249	3,325
3.85% Series	29,175	2,917
3.80% Series	18,122	1,812
4.45% Series	35,637	3,564
8.12% Series	160,000	16,000
7.68% Series G	350,000	35,000
8.32% Series H	250,000	25,000
8.12% Series I	250,000	25,000
8.32% Series J	150,000	15,000
Penelec:		
4.40% Series B	56,810	5,681
3.70% Series C	97,054	9,705
4.05% Series D	63,696	6,370
4.70% Series E	28,739	2,874
4.50% Series F	42,969	4,297
4.60% Series G	75,732	7,573
8.36% Series H	250,000	25,000
8.12% Series I	250,000	25,000
9.00% Series L	1,400,000	35,000
Total	6,783,912	$423,391

At December 31, 1981 and 1980, the subsidiaries were authorized to issue 37,035,000 shares (JCP&L — 15,600,000 shares, Met-Ed — 10,000,000 shares, and Penelec — 11,435,000 shares) of cumulative preferred stock, no par value. In 1977 JCP&L sold 200,000 shares of cumulative preferred stock — no mandatory redemption, stated value $25 per share. No shares of cumulative preferred stock — no mandatory redemption have been sold since 1977.

9. Common Stock and Capital Surplus

Of the 75 million authorized shares of $2.50 par value common stock of the Corporation at December 31, 1981 and 1980, 61,264,000 shares were issued and outstanding and 28,000 shares were recorded as reacquired at $2.50 per share.

During the period January 1, 1977 through December 31, 1981, the Corporation issued additional shares of common stock as follows:

		(In Thousands)	
Year	*Number of Shares*	*Par Value Credited to Common Stock*	*Excess over Par Value Credited to Capital Surplus*
1977	4,458,000	$11,146	$72,767
1978	1,250,000	3,124	19,467
1979	293,000	732	4,187
1980	—	—	—
1981	—	—	—

10. Consolidated Retained Earnings

Under the restated revolving credit agreement, the balance of consolidated retained earnings must be at least $400,000,000.

In accordance with JCP&L's supplemental indenture dated June 1, 1979, common dividends payable by JCP&L are limited, to the extent they are not matched by cash capital contributions from the Corporation, to an amount equal to 25% of earnings for the years 1979 and 1980 and 100% of earnings thereafter. As of December 31, 1981, $12,108,000 of retained earnings of $75,187,000 was available for declaration or payment of dividends on JCP&L's common stock. There is presently no restriction by the NJBPU on the payment of common dividends by JCP&L. However, JCP&L believes it would be appropriate to notify the NJBPU of any plans to resume the payment of common dividends.

In accordance with Met-Ed's supplemental indenture dated March 1, 1952, $3,360,000 of the balance of Met-Ed's retained earnings is restricted as to the payment of dividends on its common stock. At December 31, 1981, $21,058,000 of retained earnings of $24,418,000 was available for declaration or payment of dividends on Met-Ed's common stock.

In accordance with Penelec's supplemental indenture dated June 1, 1979, the aggregate amount of any declaration or payment of dividends on common stock after December 31, 1978 cannot exceed Penelec's earnings available for common stock for the period commencing January 1, 1979 and terminating at the end of the last fiscal quarter preceding the date of such restricted payment. As of December 31, 1981, $14,081,000 of retained earnings of $51,128,000 was available for declaration or payment of dividends on Penelec's common stock.

Under the Public Utility Holding Company Act of 1935, the subsidiaries are prohibited from making any loans or extending any credit to the Corporation without first obtaining authorization from the SEC.

11. Income Taxes

Examinations of Federal income tax returns through 1978 have been completed.

Income tax expense for the years 1977 through 1981 was less than the amount computed by applying the statutory rate to book income subject to tax as follows:

	(In Millions)				
	1981	1980	1979	1978	1977
Operating income before income taxes	$258	$263	$343	$339	$349
Other income, net	16	7	9	4	
Total	274	270	352	343	349
Interest expense	(209)	(218)	(193)	(160)	(152)
Book income subject to income tax	$ 65	$ 52	$159	$183	$197
Income tax at statutory rate (a)	$ 30	$ 24	$ 73	$ 88	$ 95
Effect of difference between tax and book depreciation for which deferred taxes were not provided (Note 2)	2	(1)	(2)	(10)	(7)
Amortization of accumulated investment credits (Note 2)	(3)	(4)	(5)	(4)	(4)
Other adjustments	(5)	(4)	(3)	(2)	
Income tax expense	$ 24	$ 15	$ 63	$ 72	$ 84
Effective income tax rate	37%	29%	40%	39%	43%

(a) Effective January 1, 1979, the statutory rate was changed from 48% to 46%.

Income tax expense is comprised of the following:

	(In Millions)				
	1981	1980	1979	1978	1977
Federal income tax	$ (2)	$ (8)	$ 3	$(20)	$ 9
State income tax	5	2	7	5	9
Income taxes on other income, net	7	6	5	2	1
Income taxes attributable to the allowance for borrowed funds (Note 4)	(6)	(7)	(8)	(15)	(13)
Provisions for taxes currently payable (refundable)	4	(7)(a)	7	(28)	6
Deferred income taxes, net	24	75	68	58	35
Current investment credits (c)	(1)	(49)(b)	(7)(b)	46	47
Amortization of accumulated investment credits	(3)	(4)	(5)	(4)	(4)
Income tax expense	$24(d)	$15	$63	$ 72	$84

(a) As a result of the abandonment of the Forked River nuclear generating project, the Corporation and its subsidiaries incurred a consolidated net operating loss for tax purposes of $304 million in 1980. At December 31, 1980, $144 million of this amount was carried back to prior years resulting in a Federal income tax refund of $9 million which is reflected in that year's Accounts receivable — Others. The unused balance of the net operating tax loss of $160 million at December 31, 1980 was available as a carryforward, which can be used to reduce future current taxable income through 1995. During 1981, $99 million of such loss carryforward was utilized, resulting in a reduction of $45 million in Federal income tax currently payable which was offset by an equivalent charge to deferred income taxes.

(b) Redetermination of prior years' investment tax credits resulting from net operating losses. These amounts are reflected in unused investment credits.

(c) Unused investment tax credits available for carryforward to future years aggregate $126 million (which includes $17 million of credits related to the Corporation's Tax Reduction Act Employee Stock Ownership Plan) of which $12 million, $48 million, $23 million, $21 million and $22 million expire in 1992, 1993, 1994, 1995, and 1996, respectively.

(d) Does not include $34 million (deferred income tax expense related to liberalized depreciation — $33 million and amortization of accumulated investment credits — $1 million) related to extraordinary items (see Note 3).

The provisions for deferred income taxes, net, result from the following timing differences:

	(In Millions)				
	1981	1980	1979	1978	1977
Liberalized depreciation (Note 2):					
Federal	$42	$36	$50	$37	$24
State	2			5	4
Deferral of energy costs (Note 2):					
Federal	(38)	(11)	33	7	8
State	(1)	(1)	(2)	1	
Forked River abandonment loss (Note 3)	42	7[illegible]			
Revenue taxes — energy clause revenues (Note 13)	(7)	(1[illegible]	(4)		
Reserve capacity credit (Note 2)	(12)				
Other	(4)	(9)	(9)	8	(1)
Total	$24	$75	$68	$58	$35

12. Loans to Non-Affiliated Coal Companies

Penelec is providing financing to non-affiliated mining companies supplying coal to the Homer City generating station under long-term contracts. These loans bear interest at a rate which is 1 ½% per annum above the prime interest rate.

13. Supplementary Income Statement Information

Maintenance and other taxes charged to operating expenses consisted of the following:

	(In Millions)				
	1981	1980	1979	1978	1977
Maintenance	$135	$120	$ [illegible]	$108	$ 87
Other taxes:					
State and local gross receipts	$114	$103	$ 87	$ 75	$ 67
Gross revenue and franchise	30	26	20	17	14
State surtax	13	11	9	7	6
Capital stock	5	6	11	11	10
Real estate and personal property	13	16	12	11	11
Other	14	11	10	9	7
Total	$189	$173	$149	$130	$115

The liability for New Jersey State franchise and gross receipt taxes and surtax is established in each year of ex-

ercise of such franchise based on the preceding year's gross receipts and no liability exists in a current year to pay a tax based on that year's gross receipts. Prior to 1979, JCP&L made provision in its accounts for such taxes on this basis. For ratemaking purposes (including the operation of the energy adjustment clause) the NJBPU computes allowable expenses as including provision for such taxes based on the current year's gross receipts rather than those of the preceding year. Effective January 1, 1979, pursuant to a recommendation by the FERC, JCP&L began recording state revenue taxes related to energy clause revenues in the period the revenues are collected. In July 1981, pursuant to an NJBPU rate order, $300 million of energy clause revenues were rolled into the base rates of JCP&L. Following the precedent set by the FERC in 1979, JCP&L continued to record revenue taxes currently on the portion of energy clause revenues that were rolled into base rates and also recorded revenue tax expense on the incremental base revenues resulting from this order.

14. Pension Plans

The Corporation's subsidiaries have several pension plans applicable to all employees, the accrued costs of which are being funded. Prior service costs applicable to all plans are being amortized and funded over 25-year periods.

Total pension cost for the years 1981, 1980, 1979, 1978, and 1977 amounted to approximately $25.9 million, $24.2 million, $22.8 million, $19.6 million and $16.8 million, respectively.

Based on the latest available actuarial reports, the subsidiaries' plans had accumulated benefits and net assets as follows:

	(In Millions)	
	January 1, 1981	January 1, 1980
Actuarial present value of accumulated benefits:		
Vested	$246.5	$227.1
Nonvested	36.5	33.9
	$283.0	$261.0
Net Assets available for benefits	$285.2	$234.4

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent for both 1981 and 1980.

15. Jointly Owned Generating Stations

The Corporation's subsidiaries participated, with non-affiliated utilities, in the following jointly owned generating stations at December 31, 1981:

		Balance (In Thousands)	
Station	% Ownership	In Service	Accumulated Depreciation
Homer City	50	$309,785	$52,450
Keystone	16.67	$ 37,268	$11,565
Conemaugh	16.45	$ 45,262	$11,184
Yards Creek	50	$ 16,289	$ 2,734
Seneca	20	$ 13,317	$ 1,948

Each participant in a jointly owned generating unit finances its own portion and charges the appropriate operating expenses with its share of direct expenses. The dollar amounts shown above represent only those portions of the units owned by subsidiaries of the Corporation.

System Statistics

General Public Utilities Corporation and Subsidiary Companies

	1981	1980	1979	1978	1977
Generating Capacities and Peaks (MW):					
Installed capacity (at year end)(a)	8,251	8,254	8,262	8,281	7,190
Annual hourly peak load	6,215(c)	6,161(b)	6,173(c)	5,898(c)	5,760(c)
Reserve (%)(a)	32.8	34.0	33.8	40.4	24.8
Net System Requirements (in thousands of MWH):					
Net generation	22,266	22,659	26,891	29,747	26,576
Power purchased and interchanged, net	12,659	12,346	7,982	4,275	5,926
Total Net System Requirements	34,925	35,005	34,873	34,022	32,502
Load Factor (%)	64.1	64.9	64.5	65.8	64.4
Production Data:					
Cost of fuel (in mills per KWH of generation):					
Coal	16.11	13.76	12.95	13.17	11.15
Oil	62.29	62.49	39.01	28.62	29.74
Nuclear	3.83	3.80	3.18	2.31	2.06
Other	56.82	42.29	35.77	27.58	22.82
Average	19.06	17.17	12.48	11.17	10.17
Generation by fuel type (%):					
Coal	78	81	67	57	56
Oil	3	5	6	9	10
Nuclear	11	8	25	34	33
Other (gas & hydro)	8	6	2		1
Totals	100	100	100	100	100
Electric Energy Sales (in thousands of MWH):					
Residential	10,707	10,810	10,754	10,715	10,257
Commercial	7,949	7,687	7,359	7,208	6,832
Industrial	11,535	11,520	11,974	11,447	10,849
Other	1,821	1,821	1,908	1,900	1,832
Totals	32,012	31,838	31,995	31,270	29,770
Electric Operating Revenues (in thousands):					
Residential	$ 793,056	$ 719,166	$ 597,757	$ 544,571	$ 515,522
Commercial	548,367	470,123	360,859	328,081	308,904
Industrial	609,177	531,369	431,104	365,456	342,487
Other	91,591	87,535	77,512	67,421	64,541
Totals from KWH Sales	2,042,191	1,808,193	1,467,232	1,305,529	1,231,454
Other Revenues	20,097	21,102	20,479	18,721	18,222
Totals	$2,062,288	$1,829,295	$1,487,711	$1,324,250	$1,249,676
Customers—Year End (in thousands):					
Residential	1,422	1,405	1,386	1,364	1,339
Commercial	163	161	157	154	151
Industrial	10	9	10	9	9
Other	3	3	5	5	5
Totals	1,598	1,578	1,558	1,532	1,504
Price per KWH—all customers (cents)	6.38	5.68	4.59	4.18	4.14

(a) Includes the installed capacity of the Three Mile Island nuclear generating station Unit No. 1 of 800 MW for all periods and Unit No. 2 of 906 MW for 1978 through 1981. The reserve (%), excluding these units for 1981, 1980 and 1979 would be 8.9%, 6.3%, and 6.2%, respectively.
(b) Summer peak.
(c) Winter peak.

Supplementary Information Concerning Inflation Effects (Unaudited)

INTRODUCTION: The following supplementary information is supplied in accordance with the requirements of FAS No. 33, "Financial Reporting and Changing Prices". FAS No. 33 requires companies to explain the effects of inflation upon their operations by applying two methods to adjust conventional historical cost financial statements for the effects of changing prices. These methods are: (1) the "constant dollar" method, and (2) the "current cost" method.

Both methods employ a number of judgements and experimental estimating procedures prescribed by FAS No. 33 in an attempt to approximate the effects of inflation. Consequently, the Corporation cautions readers to view these data as estimates, rather than as any precise measurement.

Consolidated Statement of Income Adjusted for Changing Prices

	In Thousands		
	Conventional	In Average 1981 Dollars	
For the Year Ended December 31, 1981	Historical Cost	Constant Dollar	Current Cost
Income Statement			
Operating Revenues*	$2,065,487	$2,065,487	$2,065,487
Energy Costs	1,008,582	1,008,582	1,008,582
Depreciation	145,962	312,855	333,259
Other Operating Expenses	653,327	653,327	653,327
Income Taxes	23,946	23,946	23,946
Total Operating Expenses	1,831,817	1,998,710	2,019,114
Operating Income*	233,670	66,777	46,373
Other Income and Deductions	16,988	16,988	16,988
Interest Charges	187,687	187,687	187,687
Preferred Dividends	42,427	42,427	42,427
Income (Loss) Before Extraordinary Items	20,544	(146,349)	(166,753)
Extraordinary Items: TMI-1 and TMI-2	21,300	30,204	28,292
Other	(57,748)	(57,748)	(57,748)
Income (Loss) Available for Common (excluding current year reduction to recoverable cost)*	$ (15,904)	$ (173,893)	$ (196,209)
Earnings (Loss) per Common Share	$ (0.26)	$ (2.84)	$ (3.20)
Effect of Changing Prices on Assets and Liabilities			
Current Cost Increase in Net Plant Held During 1981			$ 662,743
Less: Increase in Current Cost Net Plant Attributed to General Inflation During 1981			643,196
Current Cost Increase, Net of General Inflation			19,547
Current Year Reduction to Recoverable Cost		$ (168,094)	(165,409)
Reductions Due to Depreciation Differences			
—Expensed		(166,893)	(187,297)
—Capitalized		(1,057)	(973)
—Extraordinary Items: TMI-1 and TMI-2		8,904	6,992
Total 1981 Reduction to Recoverable Cost		(327,140)	(327,140)
Gain from Decline in Purchasing Power of Net Amounts Owed		170,346	170,346
Net Erosion of Common Stockholders' Equity		$ (156,794)	$ (156,794)

*Revenues, operating income, and income (loss) available for common have been adversely affected by regulatory disallowances of operating expenses and return requirements associated with TMI-1 and TMI-2 (see Note 1).

CONSTANT DOLLAR BASIS: Constant dollar amounts represent dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). By this method, historical investments in physical plant items are restated, using the CPI-U, to amounts in present day dollars having the same purchasing power as the historical dollars had when originally invested.

CURRENT COST BASIS: Current cost amounts also restate historical physical plant investments to present day dollars. However, specific price indexes applicable to the various types of plant equipment are applied rather than the general inflation CPI-U index. Specific price indexes more closely reflect the changes in purchasing power of surviving plant investments from the dates these were originally acquired. The specific price indexes employed are individual company equipment cost indexes or the Handy-Whitman Indexes of Public Utility Construction Costs.

MONETARY AND NON-MONETARY ITEMS: A key concept in understanding the data adjusted for inflation is the distinction between monetary and non-monetary assets and liabilities.

Monetary items are those assets or liabilities which are or will be converted into, or paid by, a fixed number of dollars regardless of inflationary changes. Holding assets, such as receivables, prepayments, and inventories, during periods of inflation results in a loss of purchasing power because the amount of dollars received in the future will purchase less. Holding cash as an asset also results in a loss, similar to what happens to savings accounts, as these dollars will buy less in the future due to inflation. Conversely, holding monetary liabilities during periods of inflation results in a purchasing power gain because payment in the future will be made with dollars of diminished purchasing power, similar to what occurs with a home mortgage.

Non-monetary assets and liabilities, such as property, plant, and equipment, do not gain or lose purchasing power solely as a result of general price level changes, but rather are affected by changes in specific prices for the related physicial property. For this reason, the Corporation considers the current cost method to be preferable to the constant dollar method which applies the CPI-U to all physical property investments without regard to specific property and equipment price changes.

PLANT, PROPERTY, AND EQUIPMENT: These investments are considered to be non-monetary items. Estimated utility plant was determined under both the constant dollar and current cost methods by applying the indexes specified above to the historical cost of utility

plant by vintages and to related accumulated depreciation. Neither of these restatements of the purchasing power invested in surviving utility plant should be viewed as representing replacement cost or current value of existing plant productive capacity. The actual replacement of present facilities will occur over many years as future facilities, different in kind from present facilities, are constructed and placed into service.

GAIN FROM DECLINE IN PURCHASING POWER OF NET MONETARY ITEMS OWED: Since the Corporation owed net monetary liabilities (primarily long-term debt) during a period in which the purchasing power of the dollar declined, the inflation adjusted statements show the Corporation experiencing a net gain in purchasing power. This gain is strictly an economic concept and unfortunately is not realized in cash. As a result, this gain amount does not represent funds available for actual use or for distribution to shareholders.

DEPRECIATION EXPENSE: The current year's provision for depreciation for each inflation cost method was determined by applying the same methods and rates as used in the historical financial statements to the restated property, plant, and equipment investments.

OTHER ITEMS: In accordance with FAS No. 33, revenues and all expenses other than depreciation are considered to reflect the average price level for the year and accordingly remain unchanged from those amounts as reported in the Corporation's primary financial statements.

Energy costs, including fuel, power purchased and interchanged, and changes in deferred energy cost balances, have not been restated from their historical costs. Regulation limits the Corporation's recoveries of these items to actual historical cost through energy cost adjustment clauses in basic rate schedules. Consequently, energy and fuel costs, and related fuel inventories, are effectively monetary items.

Income taxes included in the inflation adjusted statements remain unchanged from those amounts presented in the primary financial statements, since present tax laws do not allow deductions for depreciation adjusted for inflationary effects.

INFLATION EFFECTS AND RATE REGULATION: Present regulatory ratemaking limits the Corporation's recovery of plant investments and other expenses to historical cost amounts in charges for service to customers. Therefore, the excess of constant dollar or current cost utility plant over historical cost is not recoverable in rates. The amount of this excess that accumulated as a result of inflation during 1981 is shown as a current year reduction to recoverable historical cost plant. Further non-recoverable amounts are included in the constant dollar and current cost depreciation amounts for 1981. The total of these reductions for 1981 are indicative of the additional cash flow from depreciation required to preserve the purchasing power of invested capital. While this effect is partially offset by the gain from holding long-term debt, the Corporation has a net purchasing power loss that erodes common shareholder interests and which can be overcome only as a result of appropriate recognition in the rate regulatory process.

Five Year Comparison of Selected Financial Data*

	In Thousands Except Per Share Data				
Year Ended December 31,	1981	1980	1979	1978	1977
Operating revenues					
As reported	$2,065,487	$1,831,741	$1,490,154	$1,326,644	$1,252,013
In 1981 average purchasing power	2,065,487	2,021,743	1,867,148	1,849,426	1,879,054
Income (Loss) before extraordinary items					
As reported	$ 20,544	$ 20,591	$ 95,783	$ 138,774	$ 142,779
In constant dollars	(146,349)	(133,172)	(14,906)		
In current cost dollars**	(166,753)	(159,932)	(54,054)		
Earnings (Loss) per share before extraordinary items					
As reported	$ 0.33	$ 0.34	$ 1.56	$ 2.30	$ 2.50
In constant dollars	(2.39)	(2.17)	(0.24)		
In current cost dollars**	(2.72)	(2.61)	(0.88)		
Cash dividends per common share					
As reported	$ 0.00	$ 0.00	$ 1.20	$ 1.77	$ 1.70
In 1981 average purchasing power	0.00	0.00	1.53	2.46	2.56
Market price per common share at year-end					
As reported	$ 6.750	$ 5.000	$ 8.625	$ 17.500	$ 20.875
In 1981 average purchasing power	6.532	5.271	10.219	23.494	30.555
Net plant assets (in 1981 year-end dollars)***					
In historical cost dollars	$3,871,243	$3,729,452	$4,084,619	$3,948,821	$3,687,615
In constant dollars	7,557,483	7,581,428	8,364,332		
In current cost dollars**	7,825,652	7,902,999	8,815,682		
Net assets at recoverable cost					
In historical cost dollars	$1,823,244	$1,807,323	$1,785,556	$1,757,554	$1,702,148
In constant dollars	1,764,330	1,905,283	2,116,309		
In current cost dollars**	1,764,330	1,905,283	2,116,309		
Current cost increases, net of general inflation, after current year reduction to recoverable cost**	$ (145,862)	$ (332,500)	$ (456,374)		
Gain from decline in purchasing power of net amounts owed	$ 170,346	$ 281,773	$ 352,841		
Selected balance sheet data at year end (historical costs)					
Total assets	$5,054,021	$5,042,972	$4,991,994	$4,612,683	$4,305,443
Long-term debt	2,109,336	2,105,439	2,148,972	2,017,123	1,924,650
Cumulative preferred stock—mandatory redemption	77,335	82,376	87,396	92,403	94,556
Average common shares outstanding	61,264	61,264	61,218	60,217	57,208
Average consumer price index	272.4	246.8	217.4	195.4	181.5
December consumer price index	281.5	258.4	229.9	202.9	186.1

*All constant dollar and current cost amounts expressed in 1981 average dollars, except as noted.

**Prior years' current cost amounts adjusted to 1981 by applying the CPI-U indexes, as required.

***Includes $5,482 for Other Physical Property and excludes $36,798 for the TMI-2 damaged core. The latter is treated as a monetary item for FAS No. 33 disclosure purposes.

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[2]Member of Compensation Committee
[3]Member of Nominating Committee

Officers

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Chairman and Chief Executive Officer

Herman Dieckamp
President and Chief Operating Officer

Verner H. Condon
Vice President and Chief Financial Officer

Edward J. Holcombe
Comptroller

John G. Graham
Treasurer

Helen M. Graydon
Secretary

Grace Wade
Assistant Secretary

Subsidiary Company Presidents and Chief Operating Officers

Robert C. Arnold
GPU Nuclear Corporation

Herman Dieckamp
GPU Service Corporation

James R. Leva
Pennsylvania Electric Company

Floyd J. Smith
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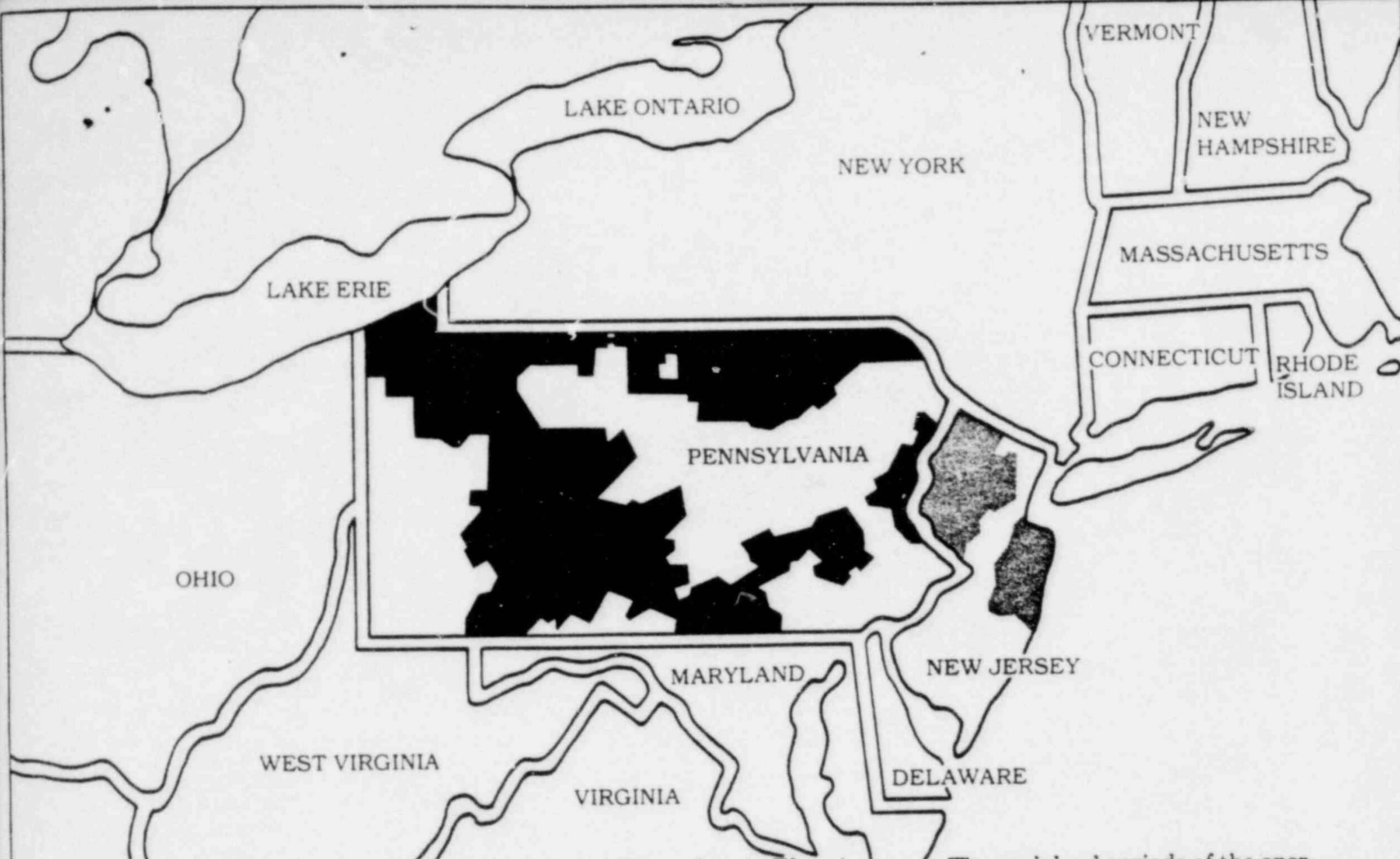
For further information
Copies of GPU's "System Statistics" and of the Corporation's 1981 annual report to the Securities and Exchange Commission will be available after March 31, 1982. Write to Miss Helen M. Graydon, Secretary, General Public Utilities Corporation, 100 Interpace Parkway, Parsippany, NJ 07054.



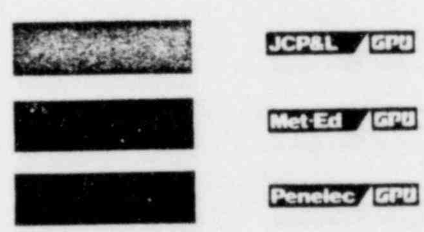
GPU—A Profile of the System and the Customers It Serves

The General Public Utilities System companies provide some 32 billion kilowatt-hours of electricity for about 1.6 million customers (more than 4 million people) in New Jersey and Pennsylvania. These customers live in about half the land area of the two states.

The operating companies of the System are Jersey Central Power & Light Company and, in Pennsylvania, Metropolitan Edison Company and Pennsylvania Electric Company. The GPU Service Corporation provides a broad range of professional services to the operating companies and a fifth, newly-formed subsidiary, GPU Nuclear Corporation, is responsible for operation of the System's nuclear generating facilities.

About 33 percent of the electricity distributed by these companies is used by residential customers, 25 percent by commercial accounts, 36 percent by industry and 6 percent by other customers.

The peak load periods of the operating companies are in balance with winter peaks in Pennsylvania and summer peaks in New Jersey.



Operating Companies' Statistics

	Revenues ($000)	Total Assets ($000)	Sales Mix: Residential	Commercial	Industrial	Customers-Year-End	Electric Sales (MWH)	Peak Load (MW)	Number of Employees
JCP&L / GPU	$1,013,595	$2,190,242	40%	29%	29%	714,779	12,924,999	2,517	3,724
Met-Ed / GPU	$ 478,771	$1,298,835	32%	23%	41%	364,874	7,759,206	1,521	2,882
Penelec / GPU	$ 579,194	$1,549,936	28%	22%	41%	517,904	11,327,581	2,177	4,052
GPU	$2,065,487	$5,054,021	33%	25%	36%	1,597,557	32,011,786	6,215	12,030*

*Includes employees of GPU Nuclear and GPU Service Corporations