

The floodlighted dome of the Pennsylvania Capitol Building in Harrisburg provides the backdrop as PP&L troubleman Paul Marshall replaces a streetlight bulb.

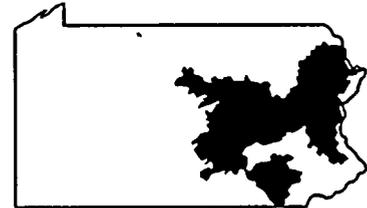
Streetlight maintenance is just one of many ways PP&L people contribute to the company's goal of providing long-term reliable and economical electric service to customers.

Throughout this report, both words and photographs give glimpses of the company's story of SERVICE.

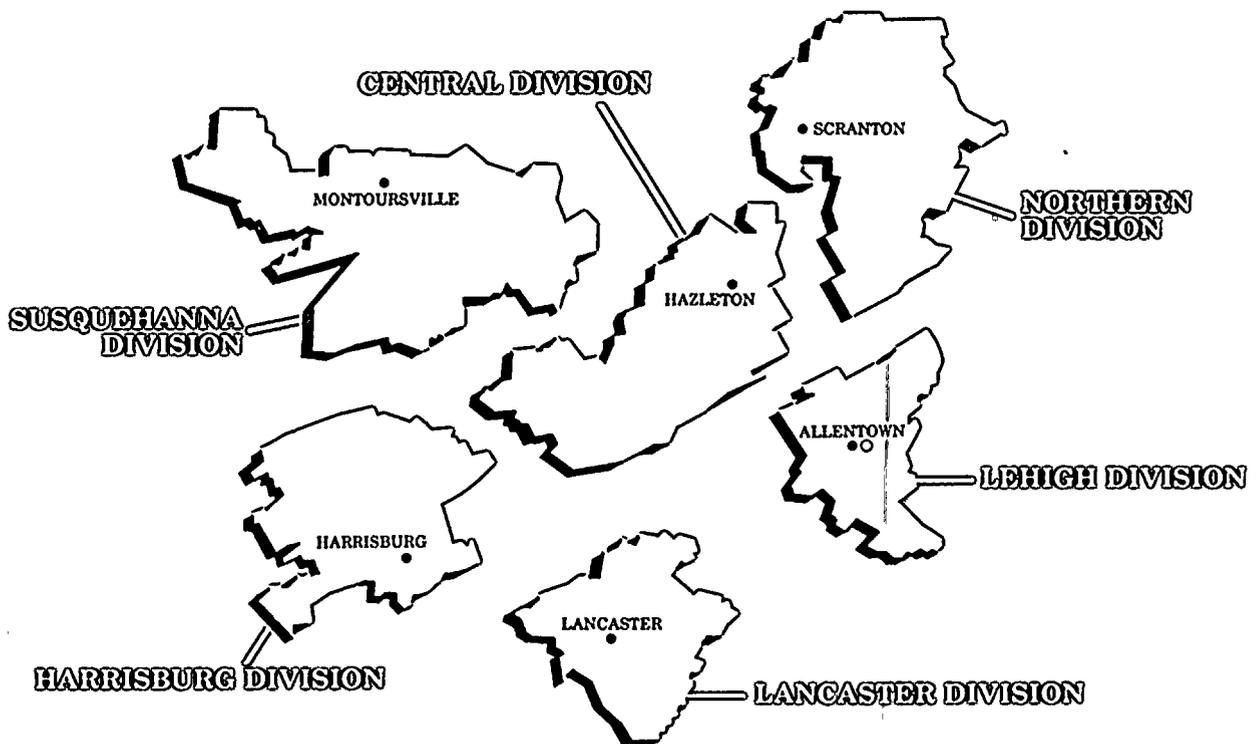
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Service Area

Pennsylvania Power & Light Company is based in Allentown. It provides electric service to more than a million homes and businesses throughout a 10,000-square-mile area in 29 counties of central eastern Pennsylvania. PP&L is divided into six operating divisions, as shown below, serving principal cities of Allentown, Bethlehem, Harrisburg, Hazleton, Lancaster, Scranton, Williamsport and Wilkes-Barre.



○ GENERAL OFFICE ● DIVISION HEADQUARTERS



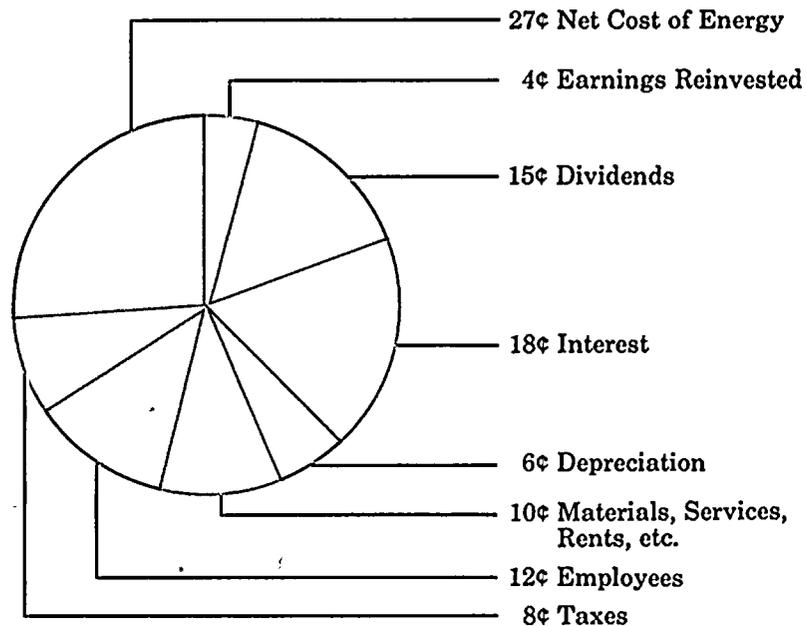
Highlights

	1982	1981
Customers (a)	1,013,623	1,006,570
Common Shareowners (a)	169,127	165,096
Kilowatt-hours of Electric Energy Sales		
Customers	22.3 Billion	23.0 Billion
Interchange Power	6.9 Billion	6.3 Billion
Kilowatt-hours of Electricity Generated ...	29.6 Billion	30.2 Billion
Operating Revenues	\$1.2 Billion	\$1.1 Billion
Capital Provided by Investors (a)	\$5.0 Billion	\$4.6 Billion
Utility Plant (a)		
Net Plant in Service	\$2.1 Billion	\$2.1 Billion
Construction Work in Progress	\$2.9 Billion	\$2.3 Billion
Common Stock Data		
Return on Average Common Equity (b) ..	13.60%	12.74%
Earnings Per Share (b)	\$3.35	\$3.17
Dividends Declared Per Share	\$2.32	\$2.24
Book Value Per Share (a)	\$24.71	\$24.52
Times Interest Earned Before Income		
Taxes (b)	2.08	1.94

(a) At year-end.

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

Where the PP&L Income Dollar Went for the Year 1982



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

President's Letter

Significant progress was made in 1982 toward bringing PP&L's Susquehanna nuclear units into commercial operation. This objective continues to be the focus of the company's priorities because both our commitment to serve customers with economical and reliable electric service and our commitment to provide a fair return to shareowners are dependent on the timely completion and the safe and efficient operation of these generating units.

Susquehanna

PP&L people continue to meet the demanding schedule required to bring the first unit into commercial operation during the second quarter of 1983, and the second unit in the fourth quarter of 1984. Consistent with this timetable, the company received a full-power license from the Nuclear Regulatory Commission last November and, a few days later, PP&L's customers were first served with electric power generated from Susquehanna.

During the period when the plant is being tested, before going into full commercial operation, the energy savings produced by generating electricity from low-cost nuclear fuel will be used to reduce the plant's capital cost.

This relatively smooth transition from construction to operation is being directed by a strong PP&L Nuclear Department in which all of the company's nuclear activities are now concentrated. Building and safely operating a nuclear power plant require strong technical and organizational support. And being responsive to public concerns for the safe operation of a nuclear plant requires striving for a level of perfection that virtually amounts to self-regulation.

PP&L's Nuclear Department was established about three years ago to assure that the company fully meets its responsibility for the safe operation of Susquehanna. This commitment has been and will continue to be our highest priority.

Construction, Financing and Earnings

Since the construction phase of the first Susquehanna unit is now complete, the company's 1983 construction and financing budgets are significantly reduced from the peak levels reached last year.

New generating plants are, by far, the most costly projects in an electric-utility construction program. Fortunately, when the Susquehanna units are on line, PP&L's strong capacity position is expected to permit the company to defer construction of another major new power plant for the balance of the century.

Phasing out the construction of new generating plants not only significantly reduces the company's need for outside financing, but it also permits us to concentrate our resources on the important job of extending the life and maintaining the operating efficiency of the company's existing generating plants. This very important objective recognizes that PP&L's present power plants are vital and irreplaceable energy resources necessary to meet our cus-

tomers' future needs without incurring the very large financial burdens and risks of new plant construction.

The company's 1982 earnings of \$3.35 per share were up 18 cents per share from 1981. This is the second successive year that the company has reported higher earnings. A \$73 million base-rate increase, which became effective in January of 1982, helped offset the effects of higher operating costs and reduced sales resulting from the generally depressed state of the economy. Although the company's earnings continued at a reasonable level last year, the 1983 earnings outlook is largely dependent on the outcome of the rate-increase request filed in November of 1982.

Rate Filing and PP&L's Price for Electric Service

The petition filed with the Pennsylvania Public Utility Commission last November would increase the company's current level of charges by 19.4 percent. A commission decision is not expected until late August, some 20 months after PP&L's previous rate increase. About two-thirds of the \$315 million request relates to the net cost of bringing the first Susquehanna unit in service.

The net cost referred to includes an anticipated annual energy savings of \$186 million resulting from the use of nuclear fuel, which will offset the capital and operating costs of the new generating plant. Combining Susquehanna cost increases with associated fuel-related reductions in cost is significant in this case because of the magnitude of the energy savings produced.

Using nuclear fuel to generate electricity on PP&L's system produces energy savings for the company's customers in two ways. First, Susquehanna provides electricity for PP&L customers that otherwise would have been generated by coal- or oil-fired plants having much higher fuel costs. These are the savings that result from using nuclear fuel, rather than fossil fuels, in directly serving PP&L customers.

Second, having Susquehanna in operation also enables the company to sell increased amounts of electricity to neighboring utilities from our fossil-fuel-fired plants. These power sales produce large additional savings for PP&L customers.

Although the total annual energy savings of \$186 million anticipated in this request for higher rates do not fully offset the investment and operating costs in the first year of Susquehanna operation, the company expects that within the first five to 10 years of operation, PP&L's rates will be lower because of these energy savings than they would have been if the Susquehanna units were not a part of the PP&L system.

And, most importantly, over the long run, the energy savings realized from lower-cost nuclear fuel will play a crucial role in keeping PP&L's rates significantly below the average charged by other utility companies, both regionally and nationally. The average price of electricity elsewhere in Pennsylvania

during 1982 was about 15 percent higher than the average price paid by PP&L customers.

Again last year, the outstanding performance of PP&L's power plants was a major reason for the company's relatively low electric rates. In 1982, our power plants achieved a system equivalent availability of 80.6 percent—one of the highest levels PP&L has ever reached—while also continuing to maintain total outage rates at the level of the best attained within the 11-member Pennsylvania-New Jersey-Maryland power pool.

Last year's outstanding power-plant availability record permitted the company to sell 6.9 billion kilowatt-hours to neighboring utilities, which resulted in benefits to PP&L customers of about \$72 million. And because these sales will continue to play an important role in holding down our cost of service, the company is actively expanding its efforts to increase power sales, both within our PJM power pool and to other regional utility companies.

Economic Development and Marketing

In the year ahead, we will be stepping up our efforts to attract and hold job-producing businesses in our service area, which has been suffering a disturbing loss of industries and employment.

PP&L's exceptionally strong coal and nuclear generating capacity and competitive electric-power rates are important resources in promoting area economic development, particularly since electricity is more essential than ever in achieving the productivity advantages of modern technologies.

PP&L's future economic-development programs will include marketing initiatives to promote efficient business uses of electricity and will emphasize the importance of the company's strong competitive position as a supplier of electric power.

Although the basic thrust of PP&L's new marketing programs is to promote economic development, the company also will be actively promoting efficient uses of electricity in selective residential applications where there is often a general lack of understanding of the efficiency and cost advantages of electricity.

Managing the growth of peak loads will continue to be emphasized to minimize future investment. This will be accomplished by combining load management with our efforts to promote efficient uses of electricity.

Another fundamental objective of PP&L's new marketing activities is to match the company's strong capacity position with our customers' choice of when and how much electric service they choose to use. Both short- and long-term economies can be achieved by helping to shape our customers' demand to bring it into better balance with our capability to serve.

An essential part of PP&L's efforts to promote efficient uses of electricity is the new off-peak electric rates proposed by the company in the recent request. These proposed rates offer residential customers a wide choice of options and strong

economic incentives to shift significant portions of their electric usage to off-peak hours.

Because these off-peak rates provide substantial benefits compared to the standard rates for residential service, customers will be able to achieve cost savings while increasing their electric usage.

Expanding the use of electricity in this way minimizes PP&L's cost of service by helping to assure the most effective use of the company's facilities, including our strong coal and nuclear generating capabilities. And shifting demand for electricity to off-peak hours also helps to defer the financial burden of building new power plants.

It is specifically because managing demand growth provides these significant benefits both for customers and the company that PP&L is promoting the expanded use of electricity in all applications where electricity can offer productivity improvements or other customer benefits.

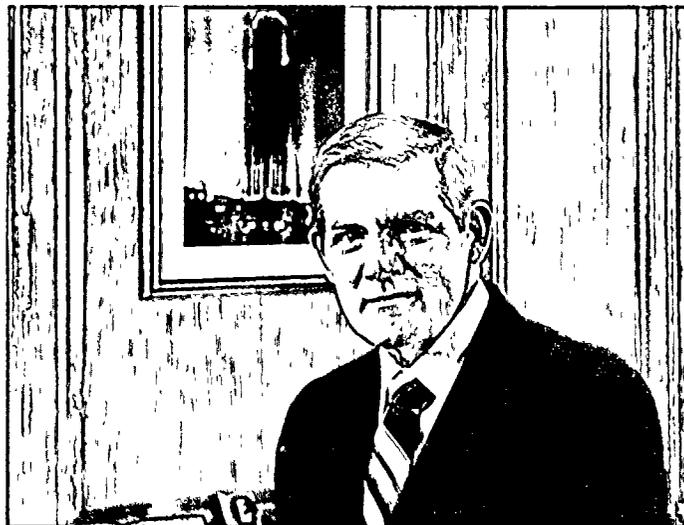
Meeting these essential interests of the public we serve requires the company to maintain the high standards of reliable service our customers have been receiving and to do so at the lowest possible cost. We are confident that PP&L people will continue to successfully meet these basic objectives. In these demanding times, their dedication and high professional standards are more vital and appreciated than ever.

We are also grateful for the continued support and interest of you, our shareowners. As always, your comments and questions are appreciated and helpful.

Respectfully submitted,



Robert K. Campbell
March 1, 1983



Year in Review

PP&L's Corporate Mission is to meet its customers' ongoing needs for economical and reliable electric service in ways that merit the trust and confidence of the public. At PP&L, SERVICE is the bottom line. Throughout this Year in Review are photos of PP&L people at work, depicting some of the ways the company serves its customers' needs and carries out that mission on a daily basis.

Operations

Earnings for 1982 were \$3.35 per share of common stock—compared to \$3.17 for 1981. The increase over the previous year reflects higher base rates allowed by the Public Utility Commission to go into effect in January 1982. A further analysis of the year's financial results is found on page 22.

Dividend Increased

The quarterly dividend on PP&L's common stock was increased 2 cents to 58 cents per share beginning with the April 1, 1982 dividend. The quarterly dividend had been 56 cents per share since April 1, 1981.

Revenues and Sales

Revenues from energy sales increased slightly to \$1.22 billion from \$1.13 billion a year earlier, reflecting increases in base rates and energy charge adjustments granted the company by the PUC.

Sales to residential customers were down about ½ percent, and commercial sales were up about 1 percent. The depressed state of the economy—particularly the steel industry—brought about an 8 percent reduction in kilowatt-hour sales to industrial customers. As a result, total sales were about 3 percent under 1981 sales.

During 1982, PP&L worked on a goal of identifying opportunities and developing strategies to sell electricity in other than its traditional markets. As a result, the company, in September, began selling energy to Northeast Utilities in Connecticut and in December to Consolidated Edison in New York City. An agreement was reached late in the year to begin selling to Orange and Rockland Utilities in southern New York.

Record Peak Demand

Cold winter weather boosted PP&L's one-hour customer peak demand figure to an all-time high of 5.2 million kilowatts on Jan. 11, 1982—an increase of about 5.3 percent over the previous peak hour in January 1981. PP&L is a winter-peaking company in the summer-peaking Pennsylvania-New Jersey-Maryland power pool.

Construction

Construction expenditures for the company's Susquehanna nuclear plant accounted for \$638 million of the \$758 million that PP&L

spent in 1982 to build electric-service facilities.

For 1983, construction expenditures are projected to be \$605 million—of which \$494 million is expected to be spent on the Susquehanna plant.

For the period 1983 through 1985, the company will spend about \$1.2 billion for the construction of new electric-service facilities—\$755 million of it Susquehanna-related.

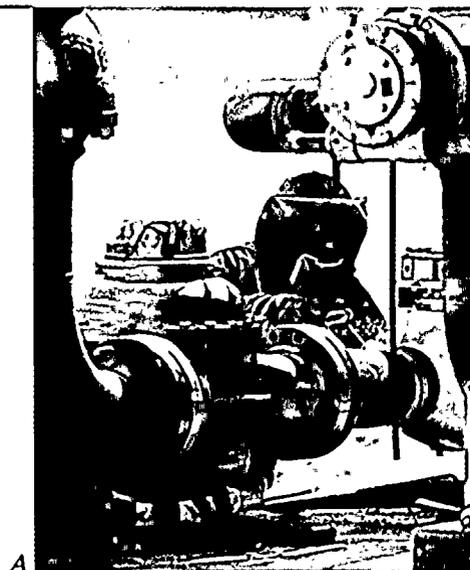
Rate Activities

A \$73 million, or 7.3 percent, increase in rates was approved in late 1981 by the PUC and allowed to go into effect Jan. 1, 1982. The amount granted was the result of a settlement agreement worked out among PP&L, the PUC staff, the state consumer advocate, and the parties who opposed the request. The company had requested a \$112 million increase in August 1981, which was later suspended for investigation and hearings. As a result of the settlement agreement, higher rates became effective nearly five months before the statutory limit of May 1982.

Rate "Window" Approved

In response to a request by the company in May, the PUC agreed on July 1, 1982, to modify the process for securing rate recognition of new power plants such as Susquehanna. Without such a change, the company would have

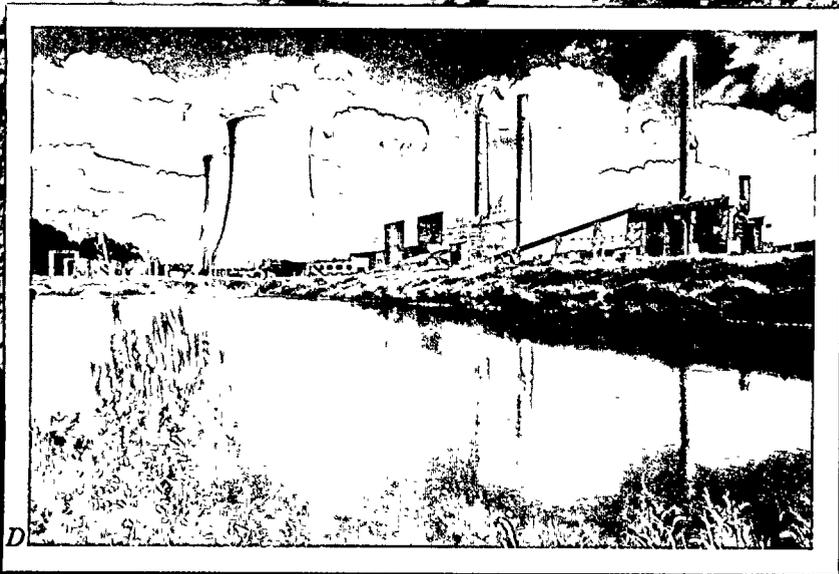
SERVICE begins where electricity is made—at PP&L's power plants. Dedicated PP&L people like (A) welder Patrick Rissmiller and (B) mechanic Bill Romanishan at the company power plants, such as (C) Brunner Island and (D) Martins Creek, helped attain an equivalent availability in 1982 that was better than the 10-year average of all other units in the country. Equivalent availability is the percentage of time a unit is available to operate at its rated capacity.



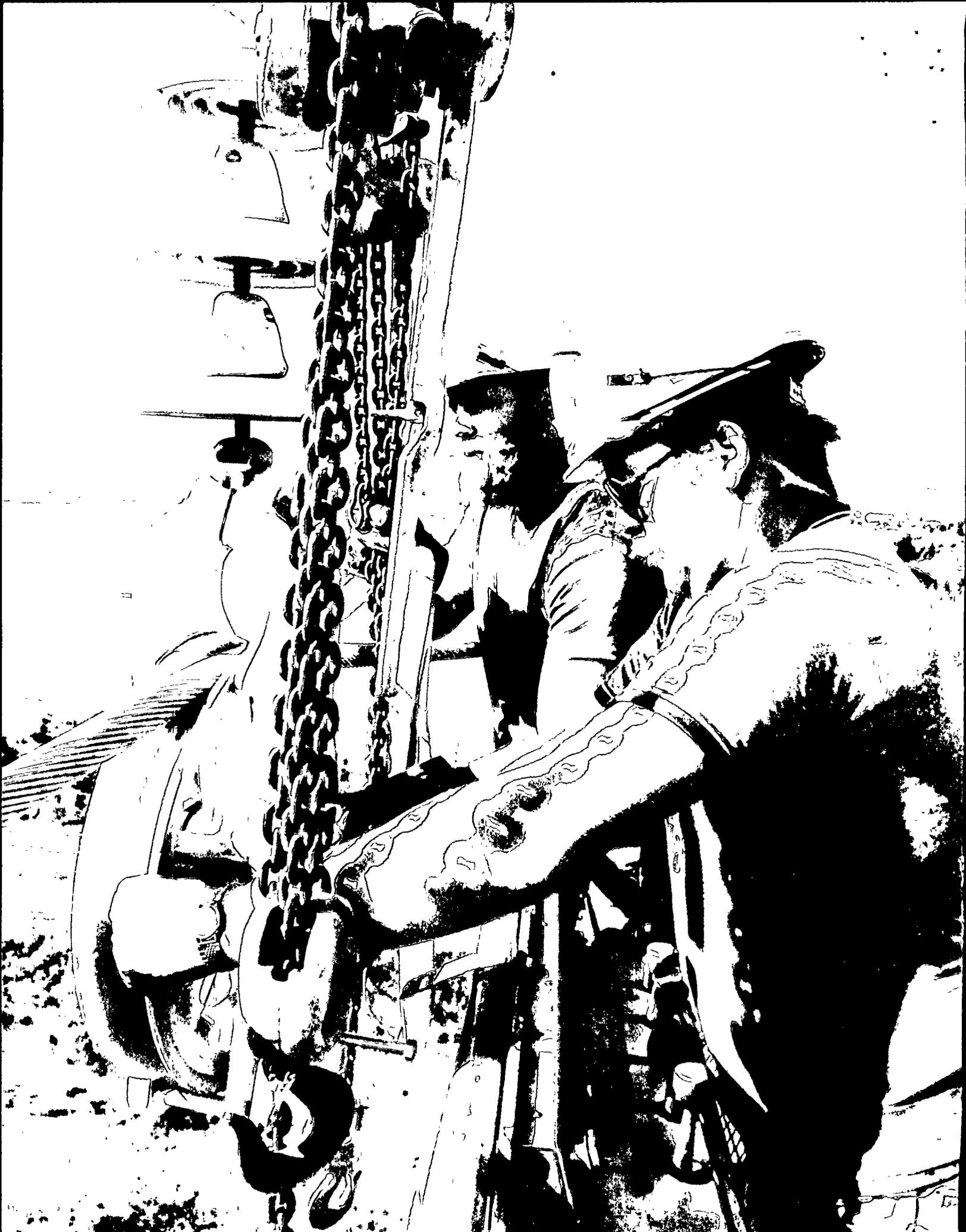
A



B



D



been required to predict precisely the commercial operation date of Unit 1 and coordinate the process for securing rate recognition of the plant with that date.

In granting the petition, the PUC recognized that synchronization of a rate filing with commercial operation of a new power plant is sheer coincidence, and that innovative solutions beyond those provided by traditional rate-making procedures are required. A different approach is especially appropriate here because the estimated investment in Unit 1 will about double PP&L's rate base.

The PUC action provides a "window in time" in which Susquehanna Unit 1 can begin commercial operation without the risk to the company of severe financial penalty. PP&L will be permitted to account for Unit 1 costs and benefits (energy savings) on a deferred basis from the beginning of commercial operation until the costs of Unit 1 are recognized in rates. The method and timing of collection of these deferred costs and crediting of fuel savings will be determined during the rate proceedings.

If commercial operation of Unit 1 occurs later than the test year ending July 1983, upon which the increase is based, non-Susquehanna-related rates found appropriate by the PUC will become effective at the end of the case. Unit 1-related rates approved by the PUC will become effective 15 days after the plant begins commercial operation.

Wholesale Rates

Effective July 4, 1982, the company was allowed by the Federal Energy Regulatory Commission to raise rates to its wholesale customers by about \$3 million, or an average 17 percent.

The increase applies to the 14 boroughs and one investor-owned utility that purchase bulk power from PP&L and then provide that power to customers through their own distribution systems. The company was permitted to put the increase into effect, subject to refund, pending the disposition of several complaints filed against the request.

Rate-Increase Request

On Nov. 22, 1982, the company asked the PUC for an increase in electric rates that would increase customer charges by 19.4 percent over current levels.

The requested net increase amounts to about \$315 million, which would be apportioned among the company's residential, commercial and industrial customers. About two-thirds of the request is related to Susquehanna Unit 1. The remaining one-third represents other increased costs of providing electric service.

The amount of the increase anticipates an estimated reduction in the company's annual energy costs of about \$186 million resulting from lower nuclear-fuel costs and the projected increase in sales of power to other utilities.

On Dec. 3, 1982, the PUC suspended the request to allow for investigation and public hearings. A decision on the request is not anticipated until late August 1983.

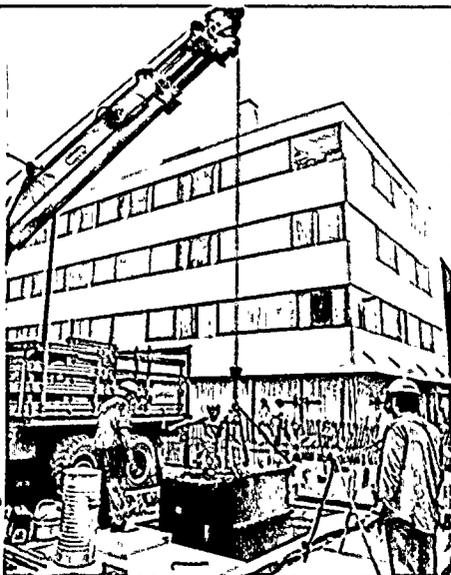
Billing Options

A budget-billing option has been available for PP&L's residential customers since the 1960s when electrically heated homes became popular. The plan allows monthly payments by the customer to be nearly the same throughout the year—a big help in managing the household budget.

However, only a small number of customers have taken advantage of this option. As inflation continues to put greater pressures on the residential ratepayer, the company initiated a program to encourage more customers to elect this option. In addition to making enrollment extremely easy, the company began crediting customer accounts with interest on their credit balance whenever their budget-billing payments exceed the cumulative cost of actual use.

In December 1982, the PUC approved PP&L's request to establish a budget-billing option for non-residential customers.

Moreover, to further moderate the impact of an increase in rates on our customers, PP&L is proposing, as part of its rate-increase request, to offer customers the option of a trended-billing program which is designed to phase in the increase over



SERVICE depends greatly on an efficient electric-transmission system from the company's power plants to the areas it serves.

Such a system needs capable workers, like (A) linemen Ron Vogle (left) and Charles Thourot, who build, maintain and repair transmission lines; (B) substation and underground crews, who perform jobs like lowering this transformer into a downtown area vault in Williamsport; and (C) local system operators Don Nauss (on ladder) and Mike Halick, who direct the minute-to-minute operation of PP&L's system in the Harrisburg area.

a 16-month period instead of making it effective all at one time.

Operation Help

Even though PP&L's rates are among the lowest in the state, there is a large number of elderly on fixed incomes, unemployed or otherwise economically disadvantaged people in the company's service area who are finding it difficult to pay energy bills, and other increased expenses.

Because the need for assistance in paying energy bills goes beyond the resources committed by the federal and state governments, PP&L has initiated a pilot program called Operation Help.

The program is intended to be a joint company/community project to supplement existing governmental efforts.

The company committed \$69,000, including \$54,000 in matching funds, to the project, and many PP&L employees are contributing 50 cents or more from each paycheck. Beginning in early March 1983, PP&L customers were given the opportunity to voluntarily add \$1 to each monthly bill payment to supplement the Operation Help fund.

All funds collected by PP&L are being turned over to committees in each of the company's six operating divisions. The committees, made up of representatives of social-service agencies, fuel vendors, business, and governmental agencies, will decide who is eligible. Contributions from employees and cus-

tomers can be allocated to pay any energy bill—not just electric bills. The company's matching funds, however, are applicable only to electric bills. A variety of social-service agencies and church groups also agreed to help administer the program.

CARES Program

Customers having difficulty paying their electric bills because of a serious hardship have an additional resource available to them through a new service offered systemwide by the company in 1982.

CARES (Customer Assistance and Referral Evaluation Service) is being offered throughout the PP&L system, with a representative assigned in each of the company's divisions.

These PP&L employees offer basic budget counseling and energy-conservation information, assist in arranging realistic payment agreements and, when necessary, refer the customers to appropriate social-service agencies.

Financing

With a total of \$1.1 billion raised from the capital markets, 1982 was the largest financing year ever for PP&L.

In April, the company sold \$100 million of 16½ percent bonds in a public offering. In August, \$92.5 million of 16½ percent bonds were sold to a group of institutional investors. The money from the bond sales

was used for general purposes, including the financing of construction expenditures.

In October, another \$100 million of first-mortgage bonds was sold through competitive bidding to an investment banking group at 13¼ percent. The proceeds were used for the refinancing of 10⅞ percent bonds, which matured on Oct. 1.

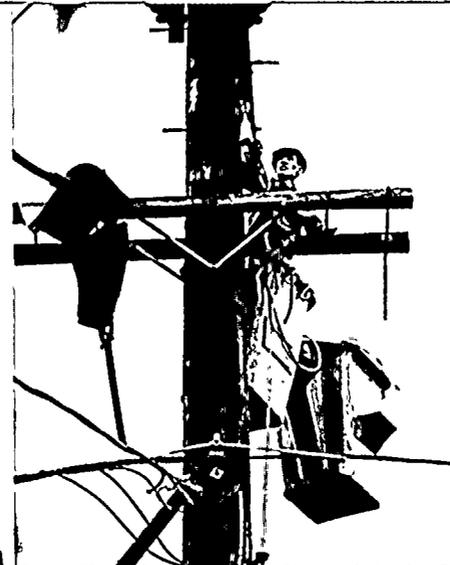
In late October, the Lehigh County Industrial Development Authority offered \$70 million of its tax-exempt pollution-control revenue bonds to the public through a group of underwriters—\$15 million at 11¼ percent and \$55 million at 11½ percent. The money was used to retire \$70 million of the authority's tax-exempt bonds, due April 1, 1983, that were issued in 1980 to finance pollution-control facilities for the company. The bonds issued by the authority in 1982 are backed by a series of PP&L's first-mortgage bonds in the same amounts.

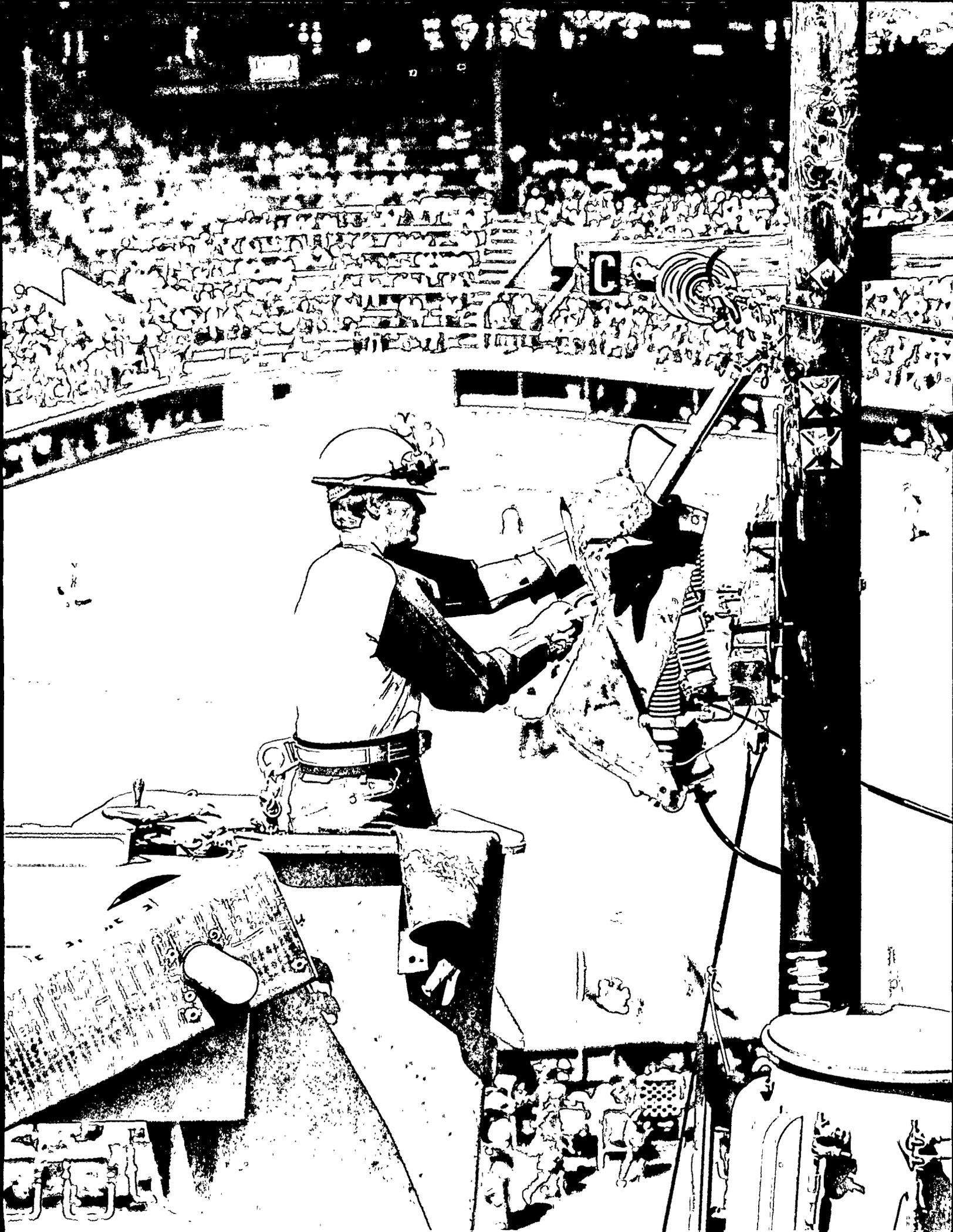
In July, the company issued \$300 million of secured-term notes, due 1991, to a group of six banks. The company used \$200 million of that amount to prepay unsecured notes with the same banks that would have matured in 1986. In addition to extending the maturity dates, the refinancing provided the company with lower interest rates for the loans.

Arrangements were completed in February 1982 that permit the company to lease its 90 percent share of nuclear fuel for the Susquehanna units up to a maximum of

SERVICE means delivering electricity to PP&L customers in their homes and businesses—whenever they need it. Replacing decayed poles and worn-out equipment, trimming trees, keeping electric equipment in good condition and responding quickly in emergencies helped the company meet its long-term objective of maintaining quality and reliable service that is better than average among comparable utilities.

(A) Lineman Charles Hurd, (B) equipment operators Jim Grube (left) and Steven Smith and (C) troubleman Jim Campbell (at the Little League World Series in Williamsport) are a few of the many PP&Lers who help provide a high level of service quality and reliability.







\$350 million. Under these arrangements, the company sold and leased back \$214 million of nuclear fuel during 1982.

Through the sales of common, preferred and preference stocks during the year, the company raised \$232 million, which was used to provide financing for construction expenditures.

A public sale of 4 million shares of common stock in May provided \$77 million, with an additional \$71 million coming from the company's dividend-reinvestment and employee stock-ownership plans.

In November, \$34 million of 14 percent preferred stock was sold to a group of institutional investors, and in December, \$50 million was raised from a public sale of depositary preference shares. The depositary shares, each representing one-quarter of a share of a new \$13 series of PP&L preference stock, were offered at \$25 per share.

Susquehanna Project

PP&L's Susquehanna nuclear plant near Berwick, Pa., generated its first electricity on Nov. 16. The following is a review of significant events concerning the project during 1982:

- In January, the company announced that, while Unit 1 at the plant was on schedule for commercial operation in the second quarter of 1983, the commercial operating date for Unit 2 was

being rescheduled to the fourth quarter of 1984.

Additionally, the estimated cost of the plant was increased by \$350 million to \$3.85 billion. PP&L is responsible for 90 percent of that amount, and Allegheny Electric Cooperative Inc. of Harrisburg, owner of 10 percent of the plant, is responsible for the remainder.

The increased cost and rescheduling of Unit 2's in-service date were due to a large increase in the work required to complete necessary design changes aimed at improved safety and operations at the plant, and the continued concentration of efforts to complete Unit 1.

- Also in January, a nuclear-industry assessment team gave PP&L good marks during an evaluation of the company's readiness to operate the Susquehanna plant.

The week-long site visit and assessment were performed by a team from the Institute of Nuclear Power Operations, a group that sets standards of quality and excellence for nuclear operations, and rates companies on whether those standards are being met. A similar assessment conducted by the Nuclear Regulatory Commission during the period March 1981 through February 1982 also gave the company good marks.

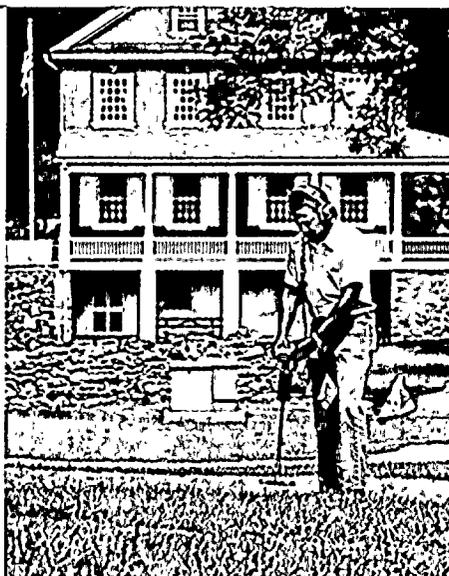
- After a series of full-scale dress rehearsals, the company conducted a comprehensive 24-hour

emergency drill on March 17 and 18 to test the ability of PP&L people and outside agencies to deal with an emergency, should one occur at the plant.

The drill, which was observed by about 10 NRC representatives, involved state and local emergency response teams and was a prerequisite to the NRC granting an operating license.

A senior NRC observer at the drill called it "one of the best exercises we've seen."

- In April, the NRC's Atomic Safety and Licensing Board recommended that the plant be licensed to operate.
- On July 17, a 40-year operating license was issued by the NRC, and PP&L was authorized to load fuel in Unit 1 and to proceed to bring the reactor up to 5 percent of its heat-producing capability.
- On July 27, the first fuel element was lowered into the reactor and on Sept. 10, the first sustained nuclear chain reaction was achieved in Unit 1.
- The NRC, on Nov. 12, authorized the company to proceed to full-power operation.
- On Nov. 16, Unit 1 was synchronized with the remainder of the PP&L system and began providing its first electricity for the company's customers.
- By year-end, the unit was being tested at 75 percent of its generating capacity and was brought up to full power in early February.



SERVICE includes dealing personally with PP&L customers' concerns, questions and needs every day. In each of its six divisions, qualified people read meters at residences, businesses and other locations; answer questions about bills; and respond promptly to requests for electric service.

(A) Meter reader Benny Velez, (B) customer representative Lynn Dunkleberger, (C) serviceman Melvin Monroe (locating underground cable) and many others fill important customer-service functions at PP&L.

Energy Management

PP&L continues to help its customers use energy wisely and to help them find ways to get the most value for their energy dollars.

Operation Conserve

A highlight of energy-management activities sponsored by PP&L in 1982 was a comprehensive program called Operation Conserve.

The cornerstone of the program was the public display of thermograms, or infrared photographs, to show customers where heat is being wasted through the roofs of homes and commercial buildings with inadequate insulation.

More than 17,000 people from major population areas in the PP&L system attended the programs. PP&L consultants were available to answer questions about insulation, temperature control, solar heating, storm doors and windows and other energy-related topics.

Energy Pioneers

During 1982, agreements were signed with several "energy pioneers" who plan to sell electricity to the company under its Pioneer Rate program established in 1981.

Under the program, the company will purchase electricity generated by customer-owned facilities that use such renewable resources as wind, solar, small-scale hydro, municipal waste and biomass conversion.

The projects include a small hydroelectric-generating facility

once owned by a PP&L-predecessor company, a 160-year-old grain mill, converted to enable it to generate power, and several wind turbine-generators.

Other Programs

Industrial and commercial customers were offered half-day energy-management workshops designed to acquaint medium- and large-use customers with methods and equipment available to control electric-power usage.

Participants attended workshops dealing with subjects such as demand control, temperature monitoring, load shedding, computer-controlled load management and microprocessor-based controllers. Also explained were the advantages of off-peak rates, which are proposed as part of the company's rate-increase request.

Load management holds significant promise for PP&L and customers alike. For the company, a reduction in the rate of demand growth can defer construction of new generating capacity to meet that demand. For the customer, reduced demand and usage translates into immediate and long-range dollar savings.

Environmental Concerns

Early in 1982, 75 electric utility and regulatory representatives from across the nation met in Allentown for a two-day environmental-auditing workshop spon-

sored by PP&L. The workshop focused on developing procedures and guidelines for setting up and operating an environmental-auditing program. PP&L was one of the first utilities in the country to establish such a program back in 1976.

Brodhead Creek

An innovative solution to a pollution problem that became evident in 1981 was applied by PP&L's environmental-management people in 1982.

Coal tar remaining from an old coal-gasification plant along Brodhead Creek near Stroudsburg, Pa., was found on a portion of property purchased several years ago by PP&L for use as a substation site.

The federal Environmental Protection Agency ordered an underground retaining wall built between the major coal-tar deposit and the Brodhead Creek as an immediate step to keep the coal tar from contaminating the waterway.

PP&L studies concluded that a long-term solution to the problem would be to sink recovery wells and pump out the coal tar.

An automated system pumps coal tar from the wells to a recovery tank. By the fall of 1982, approximately 7,500 gallons of essentially pure coal tar had been recovered.

Research & Development

The most visible research projects conducted by PP&L in 1982 centered around the use of power plant waste

SERVICE involves helping customers learn more about energy and how to use it wisely—and to save money in the process. It also involves assisting less-fortunate customers find ways to cope with rising energy costs.

These photos illustrate some of these company activities. (A) Residential consultant Paul Burke provides a customer with a home energy audit; (B)

Dolly Cantrel (center), Customer Assistance and Referral Evaluation Service (CARES) representative, discusses energy-payment assistance with a customer; and (C) business consultant Bob Geist (left) shows customers how to find their home on PP&L thermograms, or infrared photographs, which help them determine heat loss through their roof.





- IS -
OUR
People

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ice

JUICES

A 7 B
SALAD DRESSINGS
KETCHUP
PAPER CUPS
SNACKS
SOFT DRINKS
DIET DRINKS
POTATO CHIPS

Price
The DIFFERENCE



heat produced through the cycle of heating water to steam and condensing it back to water after it has gone through a turbine-generator.

Fish Farm

In September 1982, PP&L completed renovations to its fish farm, which uses warm water discharged from the company's Brunner Island generating plant to provide an ideal environment for raising catfish.

A small amount of the Susquehanna River water that has been used to cool equipment and to condense steam at the Brunner Island plant south of Harrisburg is channeled into concrete pools—called raceways—where the catfish are raised. The warm water, along with a special, computer-assisted feeding schedule, accelerates the catfish growth cycle, making the fish available for commercial use much faster than they would be in a natural environment.

Catfish at the fish farm have grown in 36 weeks to a size that would be reached in a natural environment in two to three years.

The fish-farm site also includes an 8,100-square-foot greenhouse heated by the plant's warm-water discharge.

The structure will be used as a fish hatchery from late March until August. During the remainder of the year, the greenhouse will be used as a plant nursery, where small crops of vegetables will be grown using a hydroponic method.

With this agricultural method, no soil is used. Instead, water and nutrients are circulated around the plant roots, providing a "nutrient film" in which the plants thrive.

PP&L is operating the project to demonstrate the commercial feasibility of using power-plant discharge heat. Eventually, the company plans to sell or lease the fish farm to a private commercial operator.

Pepperidge Farm Venture

Farther north, in rural Montour County, a waste-heat industrial park is beginning to take shape near PP&L's Montour generating plant.

Since December 1980, a local florist, Bryfogle's Inc., has been growing a variety of flowers in a three-acre greenhouse near the power plant.

That project was joined in the fall of 1982 by a one-acre greenhouse, where Pepperidge Farm Inc. is raising tomatoes for the fresh-produce market.

Both greenhouses make use of power-plant waste heat for space heating. A 20-inch-diameter underground pipeline transfers warm water from the power plant's condenser-cooling system to the Bryfogle greenhouse, located a half-mile away. The system uses 7,000 feet of piping to establish a loop to supply the warm water to the greenhouse and return it to the plant. The pipeline system was extended 800 feet during 1982 to serve the

Pepperidge Farm greenhouse.

Inside each greenhouse, ¾-inch-diameter plastic pipes are embedded in gravel just beneath the porous concrete floor. This unique floor-heating system acts as a heat exchanger. When the water reaches the greenhouse, it is between 95 and 115 degrees F. The water heats the greenhouse floor to about 70 degrees F., a temperature that has proven ideal for the plants—and comfortable for employees.

The Pepperidge Farm tomatoes are being grown in a controlled environment, using a hydroponic method.

If Pepperidge Farm determines that the early crops, being test-marketed in the greater Philadelphia and New York City areas, are an economically successful venture and that a competitive business could be developed, the Connecticut-based company would then build a production-scale facility that would consist of between five and eight acres of growing area.

The potential for such an industrial park is great when considering that the greenhouses together use less than 1 percent of the waste heat from the Montour power plant.

Through its cooperation in these projects, the company is trying to demonstrate that there can be a future for these kinds of businesses in the Northeast. Rising prices of traditional energy sources for greenhouses have forced many operators out of the market because of competition from southern and western



SERVICE includes PP&L's commitment to the area it serves—through company-sponsored energy-management programs like those illustrated on these pages.

(A) Engineer Bob Gunns (left) helps a grocery store manager find more energy-efficient ways to run his business, while (B) energy management engineer Bill Taylor (right) assists a local foundry in designing a heat exchanger.

states, and by foreign countries with warmer climates, which do not have high heat-related overhead costs.

Wind-Turbine Project

The company decommissioned its Harwood Wind Electric Station after almost three-and-one-half years of operation.

The 45-kilowatt facility was the first wind-driven turbine-generator installed by a Pennsylvania electric utility. Unfortunately, the unit never performed up to expectations. It produced only about 6,000 kilowatt-hours of electricity while it was in service. It had a capacity factor of only about 1 percent—partly because the 8.5 mile-per-hour average wind speed was not enough for electric generation.

Such a machine would be better suited to a site where the average annual wind speed is 20 mph or greater.

The Harwood installation generally served its purpose. The company gained experience in the installation, operation, maintenance and testing of small wind-driven turbine-generators. This broad base of data will be made available to help customers decide under what conditions their own wind-turbine projects could be economically justified.

Industry Projects

The projects PP&L conducts reflect but a part of the research and development in which the company is involved. In-house projects in

1982 accounted for \$1 million of the total \$5 million R & D budget. From this budget, PP&L gives financial support to a variety of projects being conducted by EPRI (Electric Power Research Institute), the electric-industry research facility with headquarters in Palo Alto, Calif.

Industrial Relations

The completion of transmission-line construction associated with the Susquehanna nuclear plant led to the need to displace nearly one-third of PP&L's Construction Department transmission workforce of 237 people.

By the end of 1982, all of the 71 displaced workers had been transferred to fill vacancies in other areas of the company.

Contracts Negotiated

New three-year labor agreements were negotiated between the company and about 5,200 employees represented by locals 1600 and 1520 of the International Brotherhood of Electrical Workers.

The agreements provide an 8.14 percent wage increase the first year and 7.53 percent in the second year of the contracts—an average increase of 80 cents an hour each year. Wage increases will be negotiated in the third year. Benefit improvements amount to an additional 25.3 cents an hour over the three years.

Management Changes

Fred Kornet Jr., vice president of Corporate Planning and a member of the company's corporate management committee, retired on July 1. He had been with the company since 1976.

Board of Directors

Ralph R. Cranmer, a director of Lamco Communications Inc., Williamsport, Pa., retired as a PP&L director in April after serving on the company's board for 15 years.

Jeffrey J. Burdge, president and chief executive officer of Harsco Corp., Camp Hill, Pa., was elected to the board in July 1982.

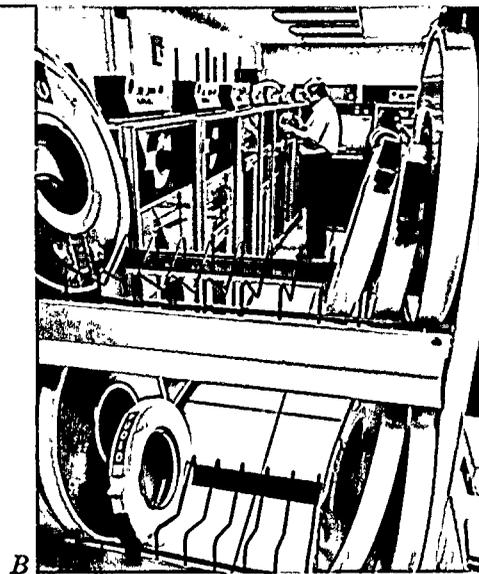
Burdge joined Harsco, a producer of processed and fabricated metals, in 1953. He was appointed president of Heckett, a division of Harsco, in 1969. Named Harsco's executive vice president and chief operating officer in 1975, he was appointed president and chief operating officer in 1976. He became Harsco's chief executive officer the following year.

Edward Donley, chairman and chief executive officer of Air Products and Chemicals Inc. of Allentown, was elected a PP&L director in December 1982.

Donley joined Air Products, a manufacturer of gases and chemicals for industrial and commercial uses, in 1943 as an engineer. He became president in 1966, chief executive officer in 1973 and chairman in 1978.

SERVICE means providing customers with electricity in homes, businesses, industries, hospitals, schools and other institutions. And in this increasingly technological world, reliable electric service is more valuable than ever.

These photos show a few high-technology electric applications that represent important contributions to a better society. (A) An operating room at The Lehigh Valley Hospital Center, (B) the data processing facility at Allentown's Merchants Bank Operations Center and (C) a father and son in Whitehall Township, near Allentown, enjoying their personal computer—all rely on PP&L's service every day.





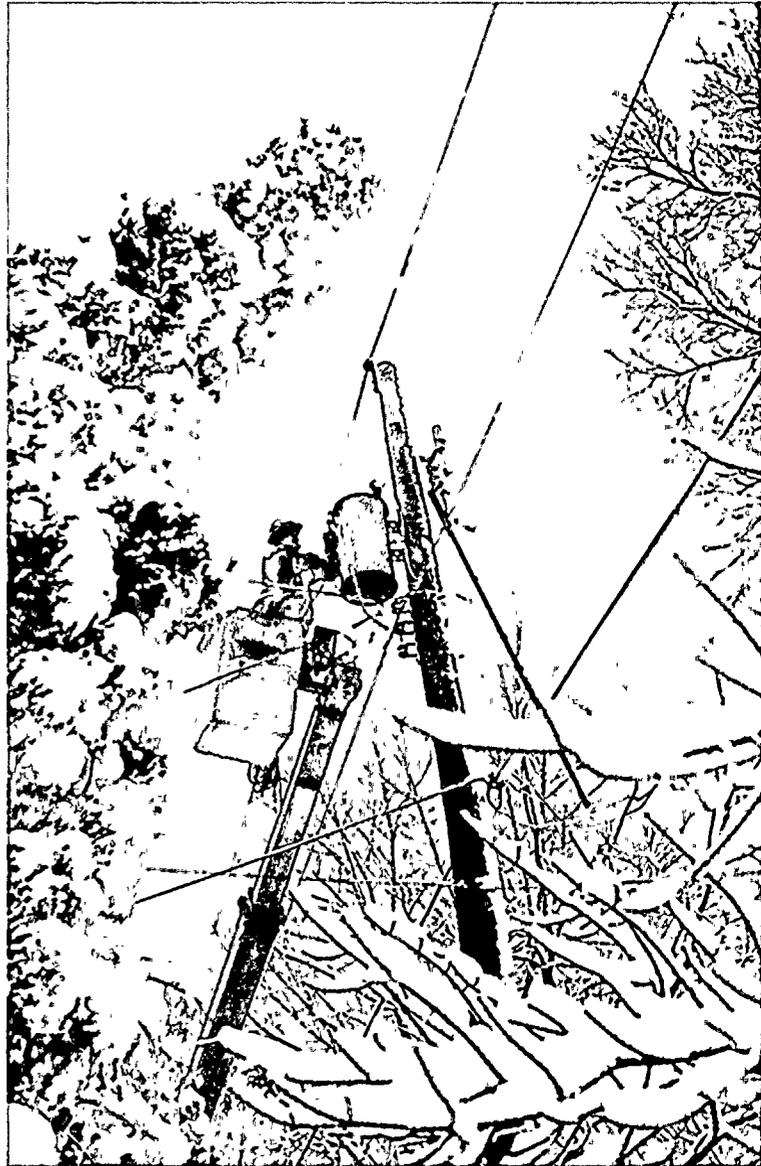
1982 Review in Pictures

Photographs of 1982 events show PP&L people involved in many activities that contribute to the overall company effort to provide reliable and economical electric service to its customers.

More than 8,200 employees were involved in a wide variety of service-related functions, from researching acid rain in Pocono lakes to turning the switch that brought power from the Susquehanna plant's Unit 1 generator into the PP&L system.

This Review in Pictures shows some of those activities that made 1982 an important year for PP&L.

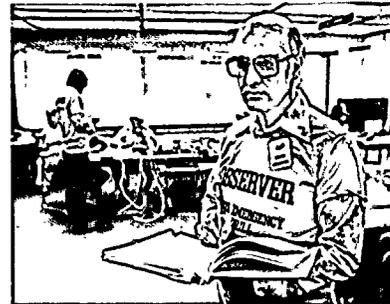
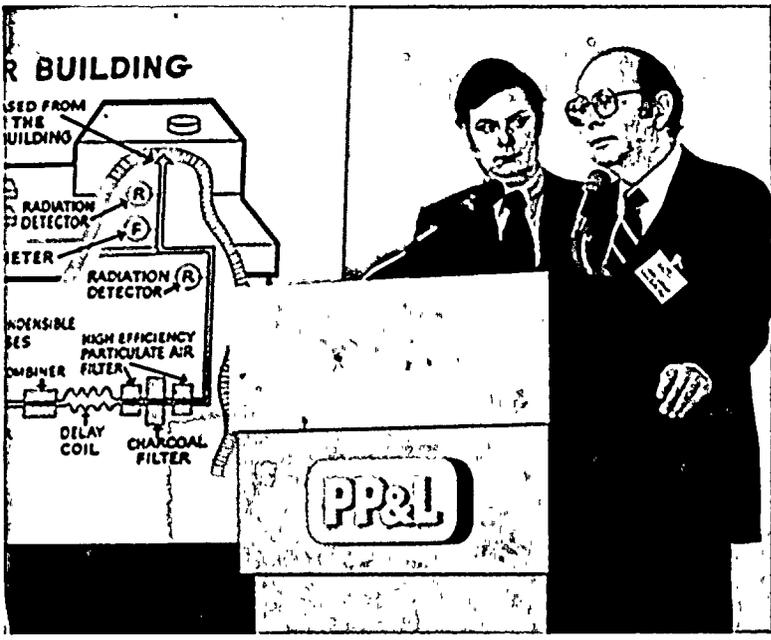
Right: During 1982, there were fewer storm-related power interruptions than usual, but a spring snowstorm and high winds in April affected about 20,000 customers and challenged PP&L's emergency-response capabilities. Crews from throughout the service area worked together around the clock to restore service.



Below left: PP&L's Wetlands Nature Area, a new 100-acre section of the Susquehanna Riverlands, opened in October. Lorraine Weidner, naturalist at the Riverlands, explains to a young visitor the life cycle of a leaf.

Below right: "Maple Sugarin'," a traditional and popular attraction at PP&L's Montour Preserve, last year attracted about 3,000 people. Pam Chapman of St. Ann's Elementary School in Williamsport samples some maple syrup, as friend Tiffany Flexer waits her turn. Preserve worker John Raub provides the samples.





A drill at the Susquehanna plant in March tested the company's and outside agencies' abilities to respond to an emergency, should one ever occur at the plant. At far left, John Saeger, special assistant to the president—Susquehanna community representative, briefs the media during the drill, while technical briefer Rich Henry stands ready to assist in explaining the theoretical events. Above left, Nuclear Regulatory Commission observer Bob DeFayette monitors drill progress. Below left, as another part of the exercise, a Pennsylvania Emergency Management Agency official plots radiological data on a map of the Berwick area.



Left: Dev Basudev (left) and Antoinette Maniatty, high school students and members of PP&L's General Office Explorer Post 1879 in Allentown, inspect glass capsules containing bacteria that are part of an experiment the post prepared and the National Aeronautics and Space Administration accepted for inclusion in its eighth space-shuttle flight in 1984. The experiment is expected to help pinpoint changes, or mutations, that occur in the bacteria from exposure to space radiation.



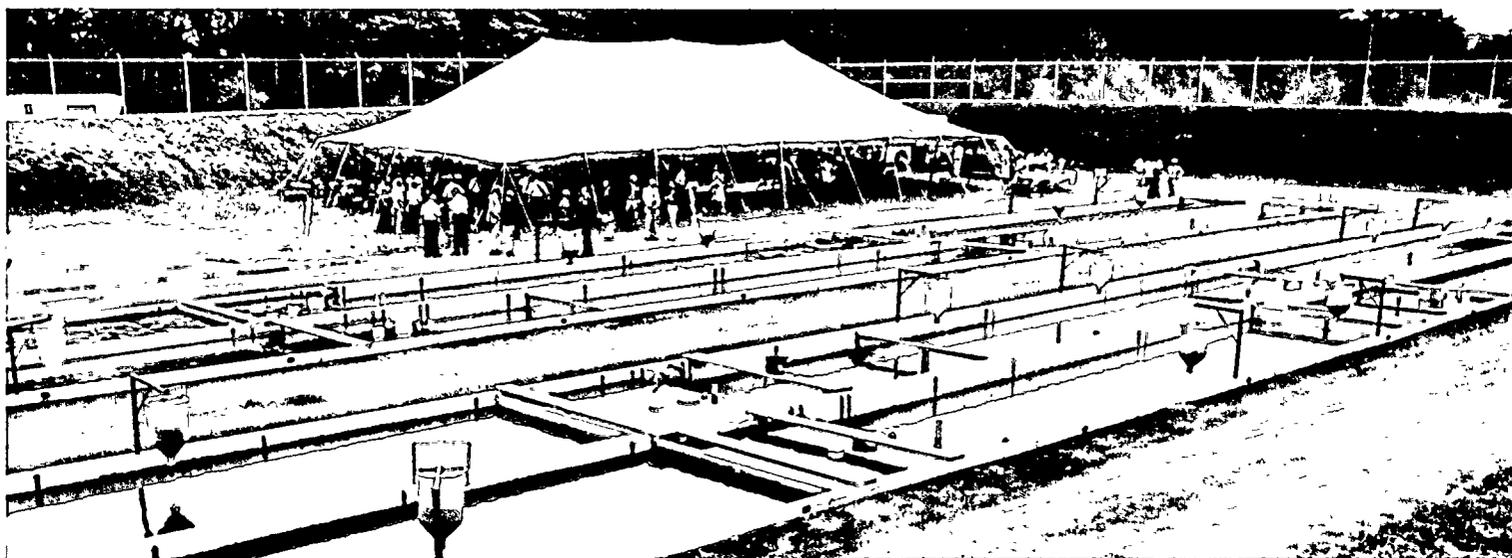
Left: Marty Berg, a researcher at Lehigh University, takes acidity/alkalinity measurements at a lake in the Pocono Mountains. In cooperation with Lehigh, PP&L is funding a five-year study of three Pocono lakes to collect data on the extent and causes of acid rain.

Left: Chemical environmental scientist Bob Domermuth (left) and project scientist Ric Skinner measure young minnows taken from the Chillisquaque Creek near PP&L's Montour plant. PP&L opened a new lab near Allentown in October, where these employees continue to monitor the health of rivers and streams near the company's power plants.

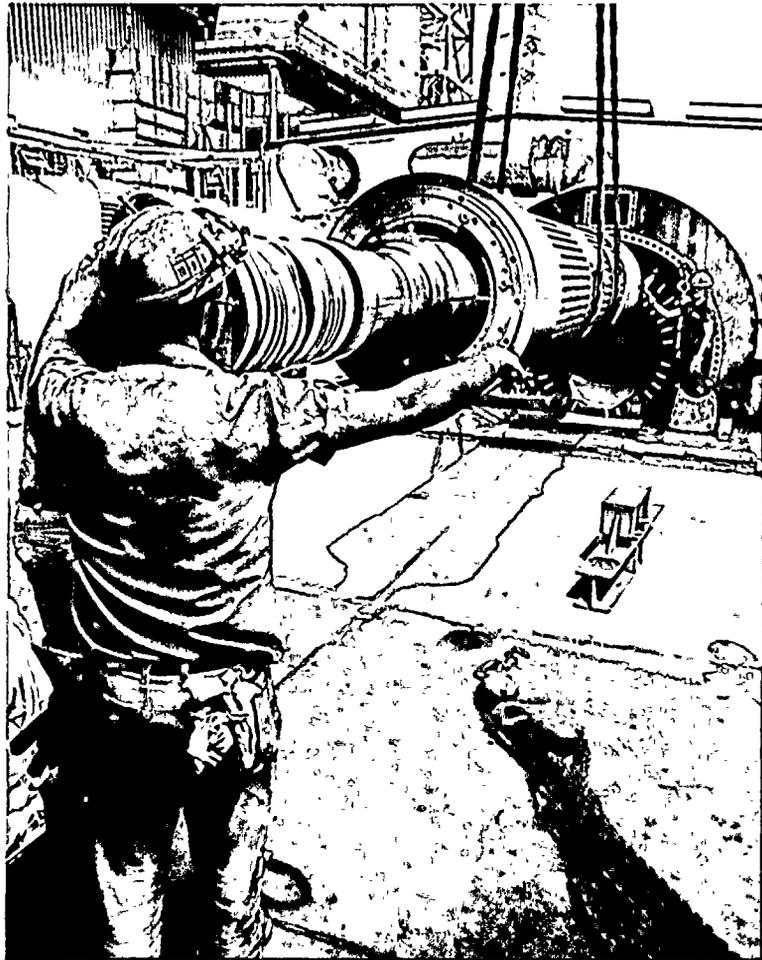
Right: PP&L President Robert Campbell (center) and executives from the research institute of the Campbell Soup Co. and Pepperidge Farm Inc. tour the greenhouse Pepperidge Farm opened last fall. The Connecticut-based company is marketing tomatoes grown in a soilless system that uses water containing all the nutrients needed by the plant. Heat for the greenhouse comes from the Montour plant's condenser-cooling system.



PP&L is researching, at its Brunner Island Fish Farm, the feasibility of raising catfish commercially. Heat released when condensing steam back into water at the Brunner Island plant provides warm water for the fish-farm raceways and a plant-nursery/fish-hatchery building. Below: At an open house in September, nearly 100 state and local officials, representatives from other utilities, aquaculture specialists, reporters and others were introduced to the catfish farm. Right: Among the guests was Public Utility Commission Chairman Susan Shanaman, who got a close-up look at a commercial-size catfish held by Mike Smyser, a fish-farm worker.



Below: Construction Department employees Garry Reese (left) and John Harper, at the Brunner Island plant, reassemble the Unit 2 generator after a maintenance inspection in August.



Above: Plant control operator Jim Tolerico (right) turns the switch that synchronized Susquehanna's Unit 1 generator with the rest of PP&L's power system Nov. 16. Jim Cullen, unit supervisor, records plant conditions.



Left: About 100 representatives of firms that offer energy-saving products and services were on hand in October, when PP&L sponsored the 1982 Industrial & Commercial Energy Conference & Exposition in Hershey for its industrial and commercial customers.

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

This review focuses on the items and events affecting the Company's financial condition and results of operations during the three years 1980-1982. Certain items expected to have an important financial effect on the Company in the future are also discussed.

The financial statements with accompanying schedules and notes, the selected financial data and the supplementary information on changing prices presented elsewhere in this report provide basic information on the Company's financial condition and results of operations.

Construction Program

The construction and purchase of new facilities are required to meet the future energy needs of customers, to comply with pollution control, safety and other standards and to replace worn out or obsolete equipment. Generally, new generating units represent the most costly projects in an electric utility's construction program.

Construction of the Susquehanna nuclear plant—a facility requiring substantial capital expenditures over an extended period—has resulted in extensive financing requirements. Not unlike the pattern experienced by other electric utilities in similar circumstances, the extended construction period of the Susquehanna plant—with its heavy financing demands—has adversely affected the Company's financial condition over a period of time as evidenced by such trends as: a decline in interest coverage; an increase in the portion of net income represented by the allowance for funds used during construction; and an increase in net cash outflow for interest and dividend payments.

At December 31, 1982, the Company had \$2.92

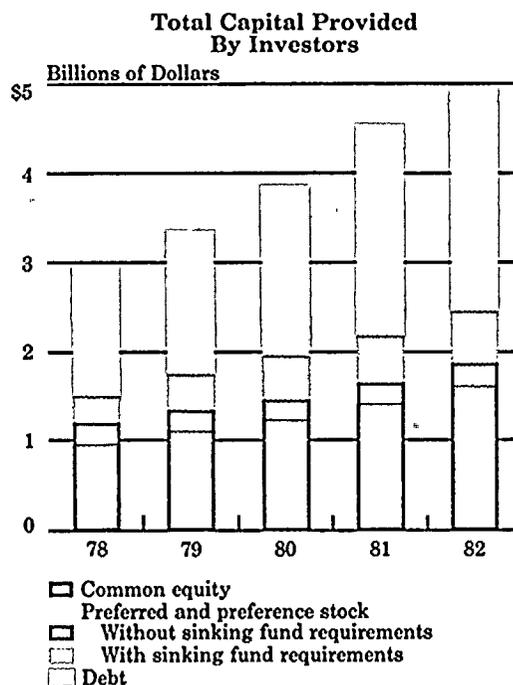
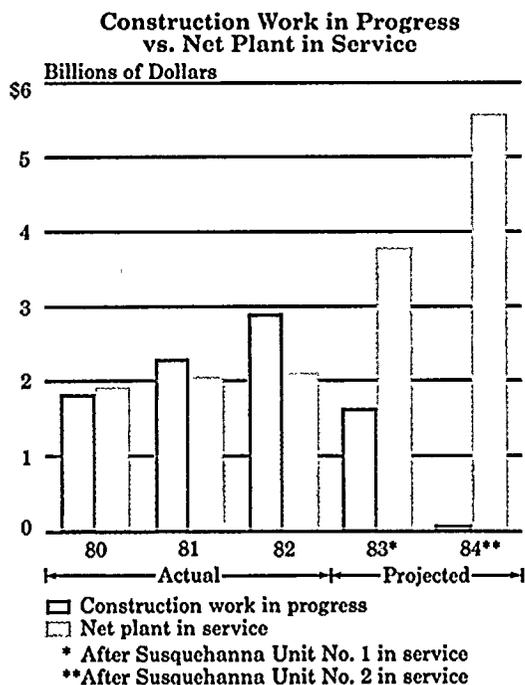
billion of construction work in progress, of which the Susquehanna units accounted for \$2.87 billion. This compares to \$2.11 billion of net utility plant in service at the same date. The relationship between construction work in progress and net utility plant in service provides a general indication of the portion of assets presently contributing to the Company's cash flow.

The Company's needs for cash are expected to substantially decrease after the two Susquehanna units are completed and placed in commercial operation. With the units in operation, increased electric revenues are expected to be obtained which adequately support the investment in each unit, resulting in general improvement in the Company's financial condition. In November 1982, the Company filed with the Pennsylvania Public Utility Commission (PUC) for a \$315 million rate increase which reflects the net effect of placing Susquehanna Unit No. 1 in service and other cost increases. A decision by the PUC on the rate filing is not expected until August 1983. See Note 3 to Financial Statements for additional information concerning the rate increase request.

Susquehanna Plant

The Susquehanna plant will consist of two nuclear-fueled generating units. Allegheny Electric Cooperative, Inc. owns a 10% undivided ownership interest in the Susquehanna plant and pays on a current basis its proportionate share of expenditures for construction and nuclear fuel.

Each Susquehanna unit will have a net capability of 1,050,000 kilowatts, the Company's 90% share of the capability of each of the units being 945,000 kilowatts.



The Company currently estimates that its 90% share of the total in-service cost of the Susquehanna units, excluding nuclear fuel, will be about \$3.5 billion.

Test operation of Unit No. 1 began in September 1982 after the receipt of an operating license from the Nuclear Regulatory Commission (NRC). In November 1982, the NRC approved full power operation and the generation of electricity began on November 16, 1982. The unit reached full power output on February 4, 1983. The Company expects to finish testing Unit No. 1 and place it in commercial operation during the second quarter of 1983. Unit No. 2 has a scheduled in-service date of the fourth quarter of 1984 and was about 75% completed on December 31, 1982.

Expenditure Requirements

The schedule at the bottom of this page shows actual construction and nuclear fuel expenditures for the years 1980-1982 and current projections for the years 1983-1985. The amounts shown in the schedule for the Susquehanna plant and nuclear fuel reflect the Company's 90% share of those costs.

As shown in the schedule, construction expenditures are expected to drop substantially in 1984 then decrease again in 1985 reflecting the anticipated completion of the two Susquehanna units. Construction expenditures for the three years 1983-1985 are expected to be about \$730 million less than they were during the prior three years.

The Company's construction plans are revised from time to time to reflect changes in customer demand, business and economic conditions, the cost and availability of capital and other factors. Actual construction costs for various projects may vary from those projected in the schedule at the bottom of this page

because of changes in construction plans and completion dates; cost fluctuations; the availability of labor, materials and equipment; environmental regulations; licensing delays and other factors.

Financing

The financing of its construction program requires the Company to engage in frequent sales of securities, including debt and preferred, preference and common stocks. Interim construction financing is obtained principally from the sale of commercial paper notes.

Outside financing totaled \$2.1 billion during the three years 1980-1982. In addition to securities sales, a nuclear fuel lease arrangement was completed in 1982 resulting in the sale and leaseback of \$214 million of nuclear fuel. Details as to the amount of securities sold and other information on sources and uses of funds during 1980-1982 are set forth in the Statement of Changes in Financial Position on page 37.

The Company presently estimates that outside financing during the three years 1983-1985 will be approximately three quarters of a billion dollars. This amount is needed primarily to finance construction expenditures, to repay \$216 million of maturing long-term debt obligations and to meet \$84 million of preferred and preference stock sinking fund requirements.

The charts on the bottom of page 24 show historical and projected capital requirements and sources of capital. The projected data are based on the currently estimated construction costs and scheduled in-service dates for the Susquehanna units and assume that adequate and timely rate relief will be granted when those units are placed in service.

Construction and Nuclear Fuel Expenditures
(Millions of Dollars)

	Actual			Projected		
	1980	1981	1982	1983	1984	1985
Construction expenditures						
Susquehanna plant	\$380	\$495	\$638	\$494	\$222	\$ 39
Transmission and distribution facilities	102	76	69	72	82	113
Environmental	48	31	19	12	12	12
Other	19	21	32	27	49	66
	<u>549</u>	<u>623</u>	<u>758</u>	<u>605</u>	<u>365</u>	<u>230</u>
Nuclear fuel requirements (a)	44	67	53	73	75	54
Total	<u>\$593</u>	<u>\$690</u>	<u>\$811</u>	<u>\$678</u>	<u>\$440</u>	<u>\$284</u>
Allowance for funds used during construction (which is included in the above amounts)	<u>\$141</u>	<u>\$194</u>	<u>\$246</u>	<u>\$169</u>	<u>\$115</u>	<u>\$ 11</u>

(a) All nuclear fuel requirements through 1983 are expected to be financed through a sale and leaseback arrangement (see Note 8 to Financial Statements). About 50 percent of the nuclear fuel requirements in 1984 and 1985 are also expected to be sold and leased back.

The decrease in projected outside financing requirements is due to the reduction in construction expenditures associated with the scheduled completion of the two Susquehanna units, and an increase of internally-generated funds resulting from higher electric rates expected after completion of each of the Susquehanna units.

Tentative Securities Sales

The Company tentatively plans to issue approximately \$500 million of securities in 1983. The exact amount, nature and timing of sales of securities in 1983 and subsequent years will be determined in the light of market conditions, the Company's ability to meet legal restrictions on the issuance of certain securities and other factors, including the granting of timely and adequate rate increases.

Restrictions on the Issuance of Certain Securities

The Company's mortgage indenture and charter contain provisions that limit the amount of additional mortgage bonds and preferred stock, respectively, that the Company can issue. The most restrictive of the mortgage provisions requires that (except in the case where mortgage bonds are being issued in connection with the retirement of a similar amount of bonds) additional bonds can be issued only if earnings (as defined in the mortgage) for a specified twelve-month period are at least equal to twice the annual interest requirements on all bonds to be outstanding.

The more restrictive of the charter limitations provides that additional preferred stock can be issued only if gross income (calculated in accordance with the terms of the charter) is not less than 1.5 times the

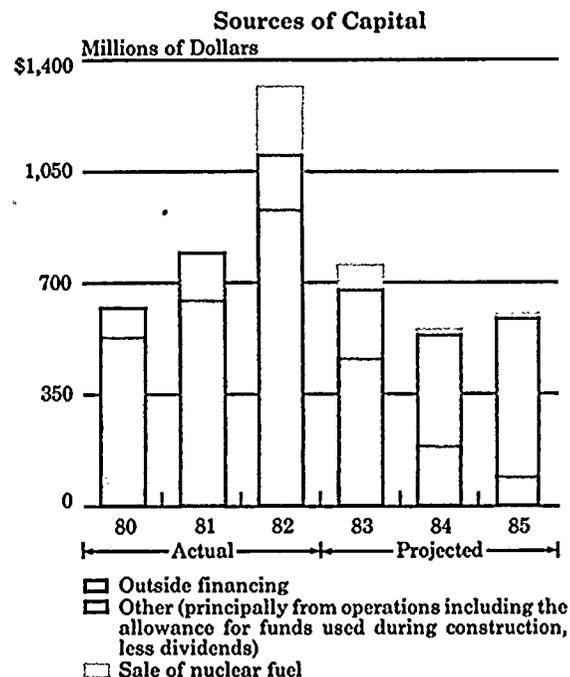
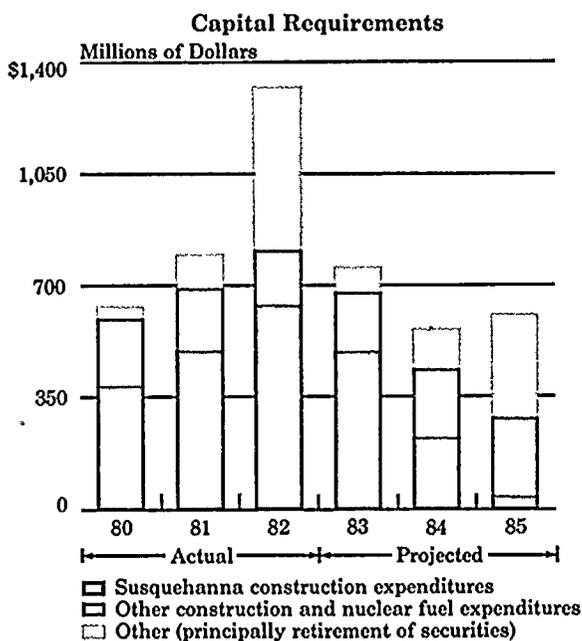
sum of the annual interest on all outstanding debt and the annual dividend requirement on outstanding preferred stock. There are no charter provisions limiting the issuance of preference stock.

Based on the Company's earnings for the year 1982 and after giving effect to the planned sale of \$50 million of first mortgage bonds in February 1983, the earnings coverage test would permit the Company to issue only a minimal amount of additional bonds. The Company does not expect to be able to issue a substantial amount of additional first mortgage bonds (other than for refunding purposes) until additional revenues are received as a result of the requested rate increase now being reviewed by the PUC. Until such time, borrowings under existing credit arrangements will provide funds necessary to meet the long-term debt portion of the Company's tentative financing plans for 1983.

Under the charter limitations, and based on the Company's earnings for the year 1982, the amount of debt and preferred stock outstanding at the end of the year and interest rates then in effect, the Company could issue in excess of \$150 million of additional preferred stock (12% dividend rate assumed). However, the issuance test must be calculated based on current data at the time the preferred stock is issued.

Credit Arrangements

The Company currently has credit arrangements with various banks aggregating \$820 million. The Company can also make borrowings from the nuclear fuel trust under certain circumstances. These arrangements are available to assist the Company in meeting its financing requirements during the next several years. For additional information concerning these



credit arrangements see Note 5 to Financial Statements.

Financial Indicators

Certain key financial indicators are shown in the Selected Financial Data on page 28. Both earnings per share of common stock and the return on average common equity improved in 1982 compared with 1981. However, the return on common equity of 13.60% in 1982 was still below the 15.75% return granted the Company by the PUC in its last rate decision.

The times interest charges earned before income taxes, a key indicator of the ability to pay interest incurred in borrowing money, has declined from 2.98 times in 1978 to 2.08 times in 1982 and was one of the reasons rating agencies lowered their rating of the Company's securities during the last few years.

The recent decline in interest rates has lowered the cost of new capital. The market price of the Company's common stock was \$21 per share at the end of 1982, up 23% from the end of 1981. Another favorable trend is the ratio of the market price per share of common stock to its book value which has increased from 70% at the end of 1981 to 85% at the end of 1982.

Results of Operations

Earnings per share of common stock were \$3.35 in 1982, \$3.17 in 1981 (excluding \$0.23 applicable to a nonrecurring credit related to an accounting change for unbilled revenues) and \$2.64 in 1980. See Note 2 to Financial Statements for additional information regarding the 1981 accounting change.

The improvements in per share earnings in 1982 over 1981 and in 1981 over 1980 reflect additional

revenues from the base rate increases which became effective January 1, 1982 and January 30, 1981.

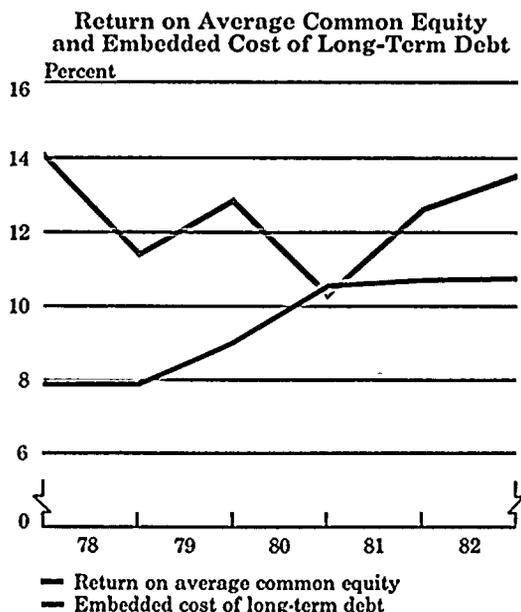
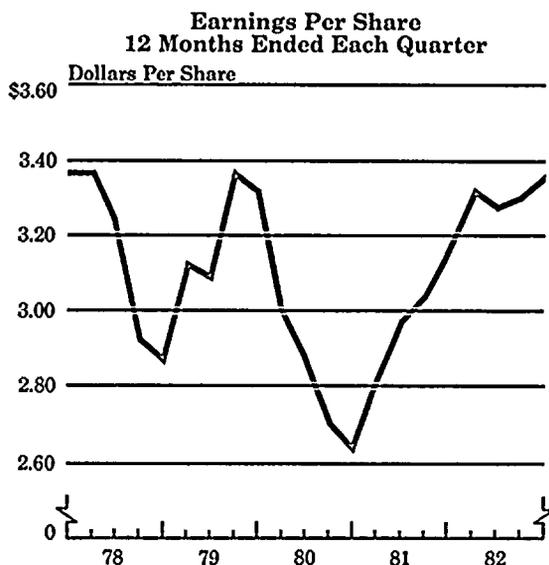
Electric Sales and Operating Revenues

Electric energy sales decreased 2.9% in 1982 compared with 1981. In 1981, sales increased 2.0% over 1980. The decline in energy sales in 1982 was due primarily to the depressed economic conditions in the Company's service area, with sales to industrial customers down 644 million kwh or 8.1% from 1981. Sales to commercial customers in 1982 increased 0.9% from 1981 levels while sales to residential customers were down 0.5% in 1982.

The Selected Financial Data shows the detail of revenues from energy sales by customer classification and tariff components. The increases over the prior year in total operating revenues were attributable to the following (millions of dollars):

	1982	1981	1980
Electric			
Base rate increases ...	\$ 81.6	\$ 84.6	
Recovery of higher fuel and energy costs	9.1	142.2	\$ 8.7
Sales volume and mix of customers.....	(11.0)	11.2	0.3
Other	7.5	7.8	14.9
	<u>87.2</u>	<u>245.8</u>	<u>23.9</u>
Steam heat	(0.9)	2.0	1.1
	<u>\$ 86.3</u>	<u>\$247.8</u>	<u>\$ 25.0</u>

Sales to ultimate customers accounted for approximately 98% of the Company's revenues from electric sales over the past three years. Rates applicable to such sales are under the jurisdiction of the PUC. The remaining 2% of revenues from electric sales are sales



to others for resale which are regulated by the Federal Energy Regulatory Commission (FERC) as are interchange power sales, which are classified as a credit to operating expenses.

See Notes 2 and 3 to Financial Statements for additional information concerning revenues.

Net Cost of Energy

The net cost of energy (fuel, plus power purchases, less interchange power sales to other utilities) was about \$2 million less in 1982 than it was in 1981. In 1982, generation from coal-fired units was 25.5 billion kwh, an increase of 636 million kwh or 2.6% over 1981. This change reflects the improved availability of certain coal-fired units that had equipment problems in 1981. Generation from the Company's oil-fired steam station declined about 1.5 billion kwh compared with 1981. This decline is primarily attributable to less oil-fired generation purchased by other utilities because customer usage of electricity has been adversely affected by the economic conditions, and also because more economical power was available from other power pools. Fuel expense in 1982 was \$50.9 million less than in 1981 primarily due to the decline in generation from oil-fired steam units which have a fuel cost per kwh generated about 3 times greater than coal-fired units.

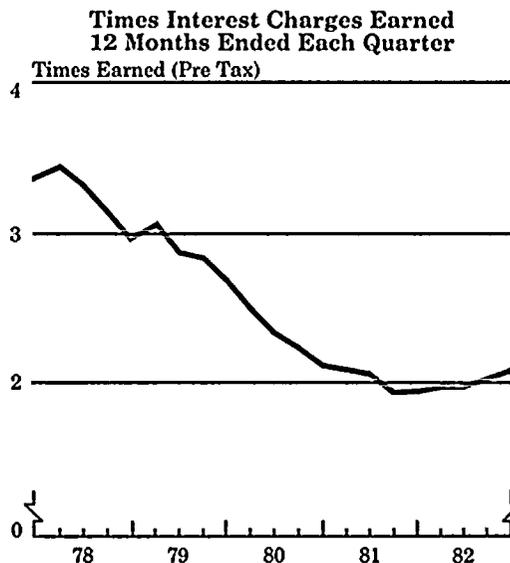
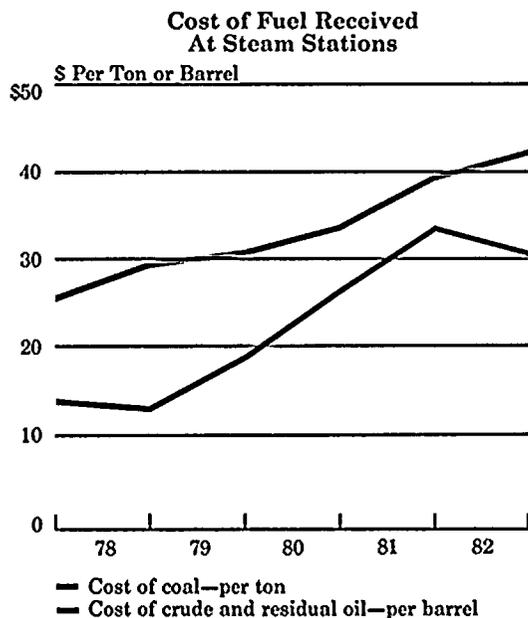
The quantity of energy sold to other utilities in 1982 was 6.9 billion kwh or 626 million kwh greater than that sold in 1981. About 348 million kwh of interchange sales were to utilities in New York and New England under separate agreements entered into in late 1982. These transactions permitted the Company to make more efficient use of its generating capability

and provided benefits to customers of both the Company and the purchasing utilities.

The average price received for interchange sales decreased from 5.09 cents per kwh in 1981 to 4.38 cents per kwh in 1982 reflecting the general decline in oil prices. However, the average cost incurred by the Company for energy sold to other utilities decreased from 4.07 cents per kwh in 1981 to 3.33 cents per kwh in 1982 principally because more lower-cost coal-fired generation and less higher-cost oil-fired generation was sold in 1982 than in 1981. The decrease in the average cost of energy sold and the increase in the quantity of energy sold offset the drop in the price received.

The Company entered into an agreement in 1982 which permits it to purchase economic energy from other power pools. In addition, during the test period of Susquehanna Unit No. 1, the Company purchases from Allegheny Electric Cooperative, Inc. its 10 percent share of the unit's generation. These transactions together with recording the Company's share of the test output of Susquehanna Unit No. 1, as described below, were the major reasons for the \$30.8 million increase in power purchases in 1982 over 1981.

Susquehanna Unit No. 1 generated 293 million kwh during test operation in November and December 1982. This energy was valued at \$10.8 million, an amount equal to the reduction in power purchases and increase in power sales to other utilities which can be attributed to the energy generated by the unit. This amount is included in the cost of "Power purchases" on the Statement of Income and an equal amount was credited to the cost of the plant and will thereby reduce depreciation charges over the life of the plant.



Income Taxes

In 1982, the Company had a loss for income tax purposes. The large amount of interest expense incurred to finance construction expenditures and tax depreciation of Susquehanna Unit No. 1 were major factors causing the tax loss. Carryback of this loss for federal income tax purposes will result in a refund of about \$12 million of federal income taxes paid in the years 1979-1981 and the Company will incur only a minimum federal income tax liability for 1982. For state income tax purposes, the Company has a \$70 million tax loss carryforward which can be used to reduce its state income tax liability in 1983 and 1984.

The Company's construction expenditures have enabled it to qualify for substantial investment tax credits. At the end of 1982, an estimated \$197 million of investment tax credits was available in excess of the amount used to reduce federal income tax payments. These unused investment tax credits may be used to reduce future federal income tax liabilities.

For additional information concerning income taxes, see the Schedule of Taxes on page 31 and Note 4 to Financial Statements.

Allowance for Funds Used During Construction

The allowance for funds used during construction (allowance) is a non-cash item which serves to offset on the Statement of Income the interest expense and preferred and preference dividends incurred to finance facilities under construction. In addition, the allowance provides a return on common equity invested in construction projects.

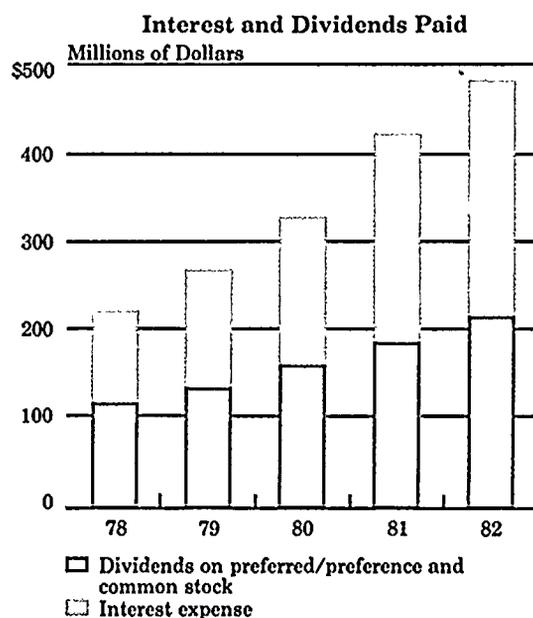
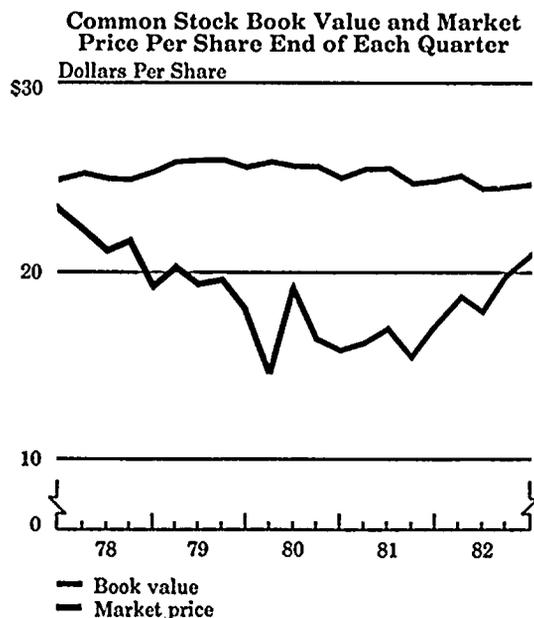
Increases in the amount of both the equity and

borrowed funds components of the allowance recorded from 1980 to 1982 were due principally to the higher level of construction work in progress related to construction of the Susquehanna plant and increased costs of financing construction. The amount of allowance included in the Company's net income and earnings applicable to common stock has increased during the last three years.

Construction of Susquehanna accounted for about \$538 million of the total \$582 million of allowance recorded during the three years 1980-1982. The amount of allowance recorded is expected to decrease during the next three years as the Susquehanna units are placed in commercial operation (See the "Schedule of Construction and Nuclear Fuel Expenditures" on page 23). After each unit is placed in service, the Company would expect to recover through electric rates, a return on, and depreciation of, its investment in that unit, including the capitalized allowance.

Interest Charges and Preferred/Preference Stock Dividends

During the 1980-1982 period, the Company's outstanding long-term debt increased \$766 million and outstanding preferred and preference stock increased \$180 million. The annual interest requirements on long-term debt increased from \$140 million at the end of 1979 to \$250 million at the end of 1982 and the annual dividend requirements on preferred and preference stock increased from \$55 million to \$78 million during the same time period. This represents a \$133 million or 68% increase in the annual cost of such securities over the three-year period.



Selected Financial Data

	1982	1981	1980	1979	1978
Income Items—thousands					
Operating revenues	\$1,219,548	\$1,133,278	\$ 885,451	\$ 860,498	\$ 798,339
Operating income	223,083	211,050	168,659	182,823	168,602
Allowance for funds used during construction	246,423	193,861	141,241	105,205	71,035
Net income (a)	278,886	244,077	179,759	182,198	149,035
Earnings applicable to common stock (a)	210,572	183,182	120,384	133,532	107,365
Balance Sheet Items—thousands (b)					
Net utility plant in service	\$2,112,169	\$2,054,039	\$1,954,762	\$1,885,978	\$1,835,550
Construction work in progress	2,923,841	2,312,292	1,874,397	1,473,220	1,105,010
Total assets	5,530,939	5,037,986	4,300,080	3,782,228	3,339,270
Long-term debt	2,323,318	2,165,381	1,811,692	1,557,158	1,257,365
Preferred and preference stock					
With sinking fund requirements	621,634	544,231	510,800	441,400	312,000
Without sinking fund requirements	231,375	231,375	231,375	231,375	231,375
Common equity	1,643,695	1,435,437	1,250,717	1,113,441	982,368
Short-term debt	160,545	175,489	56,324	30,775	192,003
Total capital provided by investors	4,980,567	4,551,913	3,860,908	3,374,149	2,975,111
Financial Ratios					
Return on average common equity—% (a)	13.60	12.74	10.38	12.91	11.47
Embedded cost rates (b)					
Long-term debt—%	10.81	10.80	10.60	9.02	7.92
Preferred and preference stock—%	9.41	8.93	8.49	8.43	8.39
Times interest earned before income taxes (a)	2.08	1.94	2.10	2.72	2.98
Ratio of earnings to fixed charges—total					
enterprise basis (a) (c)	1.92	1.78	1.90	2.40	2.59
Depreciation as % of average depreciable property ..	3.3	3.2	3.2	3.2	3.2
Common Stock Data					
Number of shares outstanding—thousands					
Year-end	66,461	58,447	50,627	43,497	39,074
Average	62,809	53,912	45,598	40,231	37,587
Earnings per share (a)	\$ 3.35	\$ 3.17	\$ 2.64	\$ 3.32	\$ 2.86
Dividends declared per share	\$ 2.32	\$ 2.24	\$ 2.12	\$ 2.04	\$ 1.92
Taxability of dividend income—% (d)	0	0	0	39	93
Book value per share (b)	\$24.71	\$24.52	\$24.68	\$25.57	\$25.12
Market price per share (b)	\$ 21	\$ 17½	\$ 15½	\$ 17¾	\$ 19¼
Dividend payout rate—% (a)	70	72	82	62	68
Dividend yield—% (d) (e)	11.95	13.34	12.01	10.38	9.00
Price earnings ratio (a) (e)	5.79	5.30	6.68	5.92	7.46
Fuel Cost Data					
Cost per kwh generated—cents					
Coal-fired steam stations	1.77	1.64	1.40	1.30	1.26
Oil-fired steam station	5.62	5.75	4.55	3.20	2.23
Combustion turbines and diesels (oil)	10.74	10.51	7.89	4.68	4.10
Total	2.20	2.30	1.96	1.65	1.47
Cost of fuel received at steam stations					
Coal—per ton	\$42.32	\$39.59	\$33.78	\$30.70	\$29.54
Crude and residual oil—per bbl.	\$30.94	\$33.47	\$26.44	\$18.81	\$13.09
Employees (b)	8,208	7,999	7,702	7,590	7,244

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

(b) Year-end.

(c) Fixed charges consist of interest on short- and long-term debt, other interest charges and the estimated interest component of rentals of the Company and its associated companies.

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

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

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

(g) The Company's first nuclear unit began generating electricity in November 1982.

Sales Data	1982	1981	1980	1979	1978
Electric customers (b)	1,013,623	1,006,570	999,525	987,005	972,993
Electric energy sales billed—millions of kwh					
Residential	8,045	8,088	8,056	8,066	7,764
Commercial	5,946	5,893	5,743	5,554	5,408
Industrial	7,324	7,968	7,910	8,135	7,891
Other	982	1,005	784	800	781
	<u>22,297</u>	<u>22,954</u>	<u>22,493</u>	<u>22,555</u>	<u>21,844</u>
Sources of energy sold—millions of kwh					
Generated					
Coal-fired steam stations	25,477	24,841	26,596	26,487	24,167
Nuclear steam station (g)	293				
Oil-fired steam station	3,186	4,705	5,692	5,777	6,426
Combustion turbines and diesels (oil)	13	32	33	37	106
Hydroelectric stations	612	622	533	799	701
	<u>29,581</u>	<u>30,200</u>	<u>32,854</u>	<u>33,100</u>	<u>31,400</u>
Power purchases	1,414	744	1,415	2,124	1,319
Interchange power sales	(6,900)	(6,274)	(9,798)	(11,089)	(9,010)
Company uses and line losses	(1,798)	(1,716)	(1,978)	(1,580)	(1,865)
Total electric energy sales billed	<u>22,297</u>	<u>22,954</u>	<u>22,493</u>	<u>22,555</u>	<u>21,844</u>
Average annual residential kwh use	9,039	9,157	9,205	9,353	9,166
Electric Revenue Data					
By class of service—thousands					
Residential	\$ 503,557	\$ 411,668	\$349,714	\$341,987	\$315,691
Commercial	363,233	292,984	246,024	232,610	216,787
Industrial	347,726	295,006	245,513	244,265	224,209
Other energy sales	47,731	39,484	28,480	27,664	26,652
Total from energy sales billed	<u>1,262,247</u>	<u>1,039,142</u>	<u>869,731</u>	<u>846,526</u>	<u>783,339</u>
Unbilled revenues, net	(61,652)	76,884			
Other operating revenues	12,708	10,142	10,595	9,941	10,659
Total electric operating revenues	<u>\$1,213,303</u>	<u>\$1,126,168</u>	<u>\$880,326</u>	<u>\$856,467</u>	<u>\$793,998</u>
By tariff components—thousands					
Base rates	\$1,052,094	\$ 833,675	\$734,622	\$733,194	\$541,042
Fuel and energy clauses	142,315	123,208	57,009	49,633	200,157
Recovery of deferred fuel cost		18,603	22,870	22,717	3,670
Tax surcharge	67,838	63,656	55,230	40,982	38,470
Total from energy sales billed	<u>\$1,262,247</u>	<u>\$1,039,142</u>	<u>\$869,731</u>	<u>\$846,526</u>	<u>\$783,339</u>
Average price per kwh billed—cents					
Residential	6.26	5.09	4.34	4.24	4.07
Commercial	6.11	4.97	4.28	4.19	4.01
Industrial	4.75	3.70	3.10	3.00	2.84
Total for ultimate customers	5.74	4.59	3.90	3.79	3.62
Total for all customers	5.66	4.53	3.87	3.75	3.59
Generation Data					
Generating capability—thousands of kw (b)	6,546	6,546	6,546	6,546	6,536
Winter peak demand—thousands of kw (f)	4,489	5,207	4,945	4,427	4,701
Generation by fuel source—%					
Coal	86.1	82.2	81.0	80.0	77.0
Nuclear (g)	1.0				
Oil	10.8	15.7	17.4	17.6	20.8
Hydroelectric	2.1	2.1	1.6	2.4	2.2
Steam station availability—%					
Coal-fired	79.1	74.7	78.7	76.6	73.5
Oil-fired	80.4	73.4	79.6	80.0	73.4
Steam station utilization—%					
Coal-fired	70.2	68.4	73.0	73.1	66.6
Oil-fired	22.2	32.8	39.5	40.2	44.7

Statement of Income (Thousands of Dollars)

	1982	1981	1980
Operating Revenues (Notes 2 and 3)	<u>\$1,219,548</u>	<u>\$1,133,278</u>	<u>\$885,451</u>
Operating Expenses			
Net cost of energy			
Fuel	633,694	684,636	635,778
Power purchases	59,571	28,743	41,399
Interchange power sales	(302,149)	(320,240)	(419,587)
Deferral of energy costs (Note 2)			(4,391)
	<u>391,116</u>	<u>393,139</u>	<u>253,199</u>
Wages and employee benefits	171,182	148,317	131,618
Other operating costs	142,788	129,587	107,583
Depreciation	92,222	85,513	80,726
Income taxes (Note 4)	87,489	59,402	55,730
Taxes, other than income	111,668	106,270	87,936
	<u>996,465</u>	<u>922,228</u>	<u>716,792</u>
Operating Income	<u>223,083</u>	<u>211,050</u>	<u>168,659</u>
Other Income and Deductions			
Allowance for equity funds used during construction .	90,295	75,218	62,189
Income tax credits	77,744	65,612	42,852
Other—net	(588)	2,086	1,833
	<u>167,451</u>	<u>142,916</u>	<u>106,874</u>
Income Before Interest Charges	<u>390,534</u>	<u>353,966</u>	<u>275,533</u>
Interest Charges			
Long-term debt	239,769	210,549	154,590
Short-term debt and other	28,007	30,364	20,236
Allowance for borrowed funds used during construction	(156,128)	(118,643)	(79,052)
	<u>111,648</u>	<u>122,270</u>	<u>95,774</u>
Income Before Nonrecurring Credit	278,886	231,696	179,759
Nonrecurring Credit Related to Accounting Change, Net of Income Taxes (\$13,236) (Note 2)		12,381	
Net Income—Before Dividends on Preferred and Preference Stock	278,886	244,077	179,759
Dividends on Preferred and Preference Stock	68,314	60,895	59,375
Earnings Applicable to Common Stock	<u>\$ 210,572</u>	<u>\$ 183,182</u>	<u>\$120,384</u>
Earnings Per Share of Common Stock (Note 2) (a)			
Before Nonrecurring Credit	\$ 3.35	\$ 3.17	\$ 2.64
Nonrecurring Credit23	
	<u>\$ 3.35</u>	<u>\$ 3.40</u>	<u>\$ 2.64</u>
Average Number of Shares Outstanding (thousands) ...	62,809	53,912	45,598
Dividends Declared Per Share of Common Stock	\$ 2.32	\$ 2.24	\$ 2.12

(a) Based on average number of shares outstanding.

See accompanying Schedules and Notes to Financial Statements.

Balance Sheet at December 31 (Thousands of Dollars)

Assets	1982	1981
Utility Plant		
Plant in service—at original cost		
Electric	\$2,939,242	\$2,809,759
Steam heat	8,593	8,470
	2,947,835	2,818,229
Less accumulated depreciation	835,666	764,190
	2,112,169	2,054,039
Construction work in progress—at cost	2,923,841	2,312,292
Nuclear fuel in process—at cost (Notes 8 and 11)	8,562	171,160
	5,044,572	4,537,491
 Investments		
Associated companies—at equity	13,514	10,872
Receivable from litigation settlement (Note 11)	29,500	30,500
Nonutility property and other—at cost or less	7,017	6,322
	50,031	47,694
 Current Assets		
Cash	6,562	5,735
Accounts receivable (less reserve: 1982, \$4,732; 1981, \$3,836)		
Customers	85,924	75,909
Interchange power sales	39,233	3,924
Other	22,603	7,033
Unbilled revenues (Note 2)	82,887	144,543
Fuel (coal and oil)—at average cost	157,082	163,828
Materials and supplies—at average cost	22,435	23,064
Other	10,256	15,449
	426,982	439,485
 Deferred Debits		
	9,354	13,316
	\$5,530,939	\$5,037,986

See accompanying Schedules and Notes to Financial Statements.

Liabilities	1982	1981
Capitalization		
Common equity		
Common stock	\$1,141,649	\$ 994,174
Capital stock expense	(14,116)	(12,622)
Earnings reinvested	<u>516,162</u>	<u>453,885</u>
	1,643,695	1,435,437
Preferred and preference stock		
With sinking fund requirements	621,634	544,231
Without sinking fund requirements	231,375	231,375
Long-term debt	<u>2,264,238</u>	<u>2,056,967</u>
	<u>4,760,942</u>	<u>4,268,010</u>
 Current Liabilities		
Long-term debt due within one year	59,080	108,414
Commercial paper notes	160,545	175,489
Accounts payable	83,487	66,870
Taxes accrued	28,762	24,843
Interest accrued	57,695	48,890
Dividends payable	55,875	47,767
Deferred income taxes	16,507	14,294
Other	<u>33,125</u>	<u>30,428</u>
	495,076	516,995
 Deferred and Other Credits		
Deferred investment tax credits	110,466	142,608
Deferred income taxes	123,862	71,316
Other (Note 11)	<u>40,593</u>	<u>39,057</u>
	274,921	252,981
 Commitments and Contingent Liabilities (Notes 8 and 12) .	 <u><u>\$5,530,939</u></u>	 <u><u>\$5,037,986</u></u>

See accompanying Schedules and Notes to Financial Statements.

Schedule of Capital Stock at December 31

	Shares Authorized	Shares Outstanding 1982	Outstanding Thousands of Dollars	
			1982	1981
Preferred Stock—\$100 par, cumulative (a)				
4½%	629,936	530,189	\$ 53,019	\$ 53,019
Series	10,000,000	4,702,116	<u>470,212</u>	<u>439,479</u>
			<u>\$ 523,231</u>	<u>\$492,498</u>
Preference Stock—no par, cumulative (a)	5,000,000	3,297,777	<u>\$ 329,778</u>	<u>\$283,108</u>
Common Stock—no par (a)	75,000,000	66,461,144	\$1,140,550	\$992,795
Dividend reinvestment installments received and employee subscriptions			1,099	1,379
			<u>\$1,141,649</u>	<u>\$994,174</u>

Details of Preferred and Preference Stock (b)

	Sinking Fund Provisions(c)		Optional Redemption	Shares Outstanding 1982	Outstanding Thousands of Dollars	
	Shares to be Redeemed Annually	Redemption Period	Price Per Share 1982		1982	1981
With Sinking Fund Requirements						
Series Preferred						
7.40%	16,000	1983-2003	\$104.74	336,000	\$ 33,600	\$ 35,200
7.50%	150,000	1985	112.00	150,000	15,000	15,000
7.75%	120,000	1984-1988	112.00	600,000	60,000	60,000
8.00%	25,000	1983-2002	112.00	500,000	50,000	50,000
8.00%, Second	20,000	1985-1989	112.00	100,000	10,000	10,000
8.25%	100,000	1985-1989	112.00	500,000	50,000	50,000
8.75%	30,000(d)	1985-2004	115.00	600,000	60,000	60,000
9.24%	30,000(d)	1983-2005	115.00	677,560	67,756	69,423
10.75%(e)	53,000(d)	1986-1990	115.00	265,000	26,500	26,500
14.00%(e)	(f)	(f)	125.00	340,000	34,000	
Preference						
\$8.625(e)	102,000	1986-1990	None	510,000	51,000	51,000
\$11.00	25,000(d)	1983-2000	107.15(g)	440,880	44,088	45,859
\$13.00	12,500(d)	1983-1998	107.80(g)	196,897	19,690	21,249
\$13.00, Second(h)	25,000(d)	1989-2008	114.00	500,000	50,000	
\$15.00(h)	25,000(d)	1988-2007	120.00	500,000	50,000	50,000
					<u>\$621,634</u>	<u>\$544,231</u>
Without Sinking Fund Requirements						
4½% Preferred			110.00	530,189	\$ 53,019	\$ 53,019
Series Preferred						
3.35%			103.50	41,783	4,178	4,178
4.40%			102.00	228,773	22,878	22,878
4.60%			103.00	63,000	6,300	6,300
8.60%			107.00	222,370	22,237	22,237
9.00%			107.00	77,630	7,763	7,763
Preference						
\$8.00			103.00	350,000	35,000	35,000
\$8.40			107.00	400,000	40,000	40,000
\$8.70			103.00	400,000	40,000	40,000
					<u>\$231,375</u>	<u>\$231,375</u>

See accompanying Notes to Financial Statements.

Changes in Capital Stock

The increases and (decreases) in common stock and in preferred and preference stock during the three years 1980-1982 were as follows (shares and amount in thousands):

	1982		1981		1980	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Public offering	4,000	\$77,124	4,000	\$65,440	3,500	\$55,037
Dividend reinvestment plan	3,971	69,930	3,657	55,989	2,963	48,712
Employee stock ownership plan	43	702	163	2,676	174	3,321
Acquisition of The Arcadia Co.....					493	9,235
Series Preferred Stock						
7.40%	(16)	(1,600)	(16)	(1,600)	(16)	(1,600)
9.24%	(17)(i)	(1,667)	(56)(i)	(5,577)		
10.75%					265	26,500
14.00%	340	34,000				
Preference Stock						
\$8.625					510	51,000
\$9.25			(40)	(4,000)	(40)	(4,000)
\$11.00	(18)(i)	(1,771)	(41)(i)	(4,141)		
\$13.00	(16)(i)	(1,559)	(13)(i)	(1,251)	(25)	(2,500)
\$13.00, Second	500	50,000				
\$15.00			500	50,000		

(a) Each share of preferred, preference and common stock is equal in voting power and entitles the holder to one vote on any question presented to any shareowners' meeting.

(b) Liquidation prices per share of preferred stock (payable in preference over the preference stock) and preference stock are as follows (plus in each case any unpaid dividends):

Class	Involuntary Liquidation	Voluntary Liquidation
4½% Preferred	\$100	\$100
Series Preferred	\$100	Redemption price in effect.
Preference	\$100	Redemption price in effect, except for the \$8.625 Series which is \$100.

(c) The aggregate amount of sinking fund redemption requirements through 1987 are (thousands of dollars): 1983, \$10,850; 1984, \$22,850; 1985, \$52,850; 1986, \$61,850 and 1987, \$61,850.

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

(e) In the event there is a loss of certain federal income tax benefits to corporate holders of these stocks, the Company would be required to make indemnity payments to the owners upon the sale or redemption of the stocks to provide an agreed upon effective yield after federal income taxes. The Company estimates that as of December 31, 1982 it could be required to make such indemnity payments in the future not in excess of \$5.0 million.

(f) The 14.00% Preferred Stock has a sinking fund provision which requires redemption of the following number of shares annually at \$100 per share: October 1, 1986-1987, 85,000; 1988-1989, 51,000 and 1990, 68,000.

(g) The \$11.00 and \$13.00 Preference Stocks may not be refunded through certain refunding operations prior to July 1, 1985 and October 1, 1984, respectively.

(h) Ownership of the \$13.00, Second Series and \$15.00 Preference Stocks may be evidenced by holding Depository Preference Shares, each representing ¼ share of Preference Stock.

(i) Represents stock reacquired and cancelled by the Company. The sinking fund requirements for these stocks were satisfied with reacquired shares.

Schedule of Long-Term Debt at December 31

First Mortgage Bonds (a)	Maturity Date (b)	Outstanding Thousands of Dollars	
		1982	1981
3½%	September 1, 1982		\$ 7,500
10½%	October 1, 1982		100,000
3½%	March 1, 1983	\$ 25,000	25,000
9½%	June 1, 1983	33,342	33,342
15%	February 1, 1984	16,665	16,665
9½%	June 1, 1984	33,329	33,329
11¾%	December 15, 1984	30,000	30,000
15%	February 1, 1985	16,665	16,665
9½%	June 1, 1985	33,329	33,329
3¾%	August 1, 1985	25,000	25,000
15%	February 1, 1986	16,670	16,670
16½%	August 1, 1986	30,900	
14¾%	December 12, 1986	50,000	50,000
16½%	August 1, 1987	36,000	
16½%	September 1, 1987	10,400	10,400
4½% to 16½%	1988-1992	322,200	196,600
4½% to 6¾%	1993-1997	90,000	90,000
7% to 9%	1998-2002	265,000	265,000
7½% to 9¾%	2003-2007	635,000	635,000
13¼% to 15½%	2008-2012	200,000	100,000
Pollution control			
4½% to 5½% Series A	(c)	25,000	25,500
6% Series B	April 1, 1983		70,000(d)
7½% to 8½% Series C	(c)	20,000	20,000
11¼% to 11½% Series D	(c)	70,000	
Less amount held in construction fund			(3,174)
		<u>1,984,500</u>	<u>1,796,826</u>
Other Long-Term Debt			
Bank loans (e)	March 31, 1986		200,000(f)
Revolving credit agreement (e)	February 28, 1985		175,000(f)
Secured term notes (a)(e)	March 31, 1991	300,000	
Nuclear fuel trust (e)	February 1, 1987	50,000(g)	
Miscellaneous promissory notes	1983-1989	924	1,305
		<u>2,335,424</u>	<u>2,173,131</u>
Unamortized (discount) and premium—net		(12,106)	(7,750)
		<u>2,323,318</u>	<u>2,165,381</u>
Less amount due within one year		59,080	108,414
		<u>\$2,264,238</u>	<u>\$2,056,967</u>

(a) Substantially all utility plant is subject to the lien of the Company's first mortgage and certain utility plant is also subject to the lien of a second mortgage.

(b) Aggregate long-term debt maturities through 1987 are (thousands of dollars): 1983, \$59,080; 1984, \$81,040; 1985, \$76,027; 1986, \$98,581 and 1987, \$97,411. Maximum sinking fund requirements aggregate \$30.9 million through 1987 and may be met with property additions or bonds.

(c) Pollution control bonds mature annually as follows (thousands of dollars): (i) Series A on May 1, 1983, \$500; 1984-2002, \$900 and 2003, \$7,400 (ii) Series C on April 1, 2000, \$4,000; 2006-2009, \$2,000 and 2010, \$8,000 (iii) Series D on November 1, 2002, \$15,000; 2012, \$55,000.

(d) Refunded in 1982 with the issuance of \$70 million of pollution control bonds Series D.

(e) Variable interest rate.

(f) Prepaid in 1982.

(g) \$100 million of borrowings made in 1982 were repaid in that year.

See accompanying Notes to Financial Statements.

Statement of Changes in Financial Position (Thousands of Dollars)

	1982	1981	1980
Source of Funds			
Funds from operations			
Net income (1981 includes \$12,381 nonrecurring credit)	\$ 278,886	\$244,077	\$179,759
Charges (credits) to income not involving working capital			
Depreciation	92,222	85,513	80,726
Noncurrent deferred income taxes and investment tax credits—net	20,404	7,830	(3,707)
Allowance for funds used during construction ..	(246,423)	(193,861)	(141,241)
Other	1,208	(42)	(1,762)
	<u>146,297</u>	<u>143,517</u>	<u>113,775</u>
Outside financing (a)			
Common stock	147,475	124,729	116,045
Preferred and preference stock	84,000	50,000	77,500
First mortgage bonds	365,674	179,071	314,756
Revolving credit agreement		175,000	
Secured term notes	300,000		
Nuclear fuel trust obligations, net	50,000		
Short-term debt—net increase (decrease)	(14,944)	119,165	25,549
	<u>932,205</u>	<u>647,965</u>	<u>533,850</u>
Working capital (excluding debt)—decrease (b)	54,862		22,502
Sale of nuclear fuel	215,897		
	<u>\$1,349,261</u>	<u>\$791,482</u>	<u>\$670,127</u>
Application of Funds			
Construction expenditures	\$ 757,878	\$623,594	\$548,744
Nuclear fuel expenditures	53,299	66,704	44,055
Allowance for funds used during construction	(246,423)	(193,861)	(141,241)
	<u>564,754</u>	<u>496,437</u>	<u>451,558</u>
Securities retired (a)			
Preferred and preference stock	6,597	16,569	8,100
First mortgage bonds	178,000	500	37,500
Bank loans	200,000		20,000
Revolving credit agreement	175,000		
	<u>559,597</u>	<u>17,069</u>	<u>65,600</u>
Dividends on preferred, preference and common stock	216,601	183,886	157,881
Working capital (excluding debt)—increase (b)		112,561	
Other—net (a)	8,309	(18,471)	(4,912)
	<u>\$1,349,261</u>	<u>\$791,482</u>	<u>\$670,127</u>
 (a) 1981 and 1980 reclassified to conform to current presentation.			
(b) Changes in components of working capital (excluding debt)			
Cash	\$ 827	\$ (419)	\$ (9,396)
Accounts receivable	60,894	(17,363)	(2,327)
Repayment of note receivable			(27,500)
Unbilled revenues, net of deferred taxes	(63,869)	130,249	
Fuel (coal and oil)	(6,746)	36,951	22,409
Recoverable fuel and energy costs, net of deferred taxes ..		(18,394)	10,609
Accounts payable and accrued taxes	(20,536)	(608)	(7,611)
Other—net	(25,432)	(17,855)	(8,686)
Increase (Decrease)	<u>\$ (54,862)</u>	<u>\$112,561</u>	<u>\$ (22,502)</u>

See accompanying Schedules and Notes to Financial Statements.

Statement of Earnings Reinvested (Thousands of Dollars)

	1982	1981	1980
Balance, January 1	\$453,885	\$393,708	\$371,903
Add Net Income (1981 includes \$12,381 nonrecurring credit)	<u>278,886</u>	<u>244,077</u>	<u>179,759</u>
	<u>732,771</u>	<u>637,785</u>	<u>551,662</u>
Deduct			
Cash dividends declared			
Preferred stock—at required annual rates	38,730	38,513	36,578
Preference stock—at required annual rates	29,584	22,382	22,797
Common stock—per share: 1982, \$2.32; 1981, \$2.24; 1980, \$2.12	148,287	122,991	98,506
Issuance cost of retired preferred and preference stock ..	<u>8</u>	<u>14</u>	<u>73</u>
	<u>216,609</u>	<u>183,900</u>	<u>157,954</u>
Balance, December 31 (Note 7)	<u>\$516,162</u>	<u>\$453,885</u>	<u>\$393,708</u>

Notes to Financial Statements

1. Summary of Accounting Policies

Accounting Records

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

Associated Companies

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

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

Utility Plant

Additions to utility plant and replacement of units of property are capitalized at cost. The cost of depreciable property retired or replaced is removed from utility plant and such cost, plus removal costs,

less salvage, is charged to accumulated depreciation. Cost of land retired or sold is removed from utility plant and any gain or loss is reflected on the Statement of Income. Expenditures for maintenance and repairs of property and the cost of replacement of items determined to be less than units of property are charged to operating expenses.

Allowance for Funds Used During Construction

As provided in the Uniform System of Accounts, the cost of funds used to finance construction projects is capitalized as part of construction cost. After a project is placed in service, the Company is permitted to include in rates charged for utility service a return on, and depreciation of, the cost of funds so capitalized. The components of the allowance shown on the Statement of Income under other income and deductions and interest charges are non-cash items equal to the cost of funds capitalized during the period. The allowance serves to offset on the Statement of Income the interest charges on debt and dividends on preferred and preference stock incurred to finance construction. In addition, a return on common equity used to finance construction is imputed.

The allowance rate is computed in accordance with a FERC order on an after-tax basis. The borrowed funds component is the pre-tax amount of interest capitalized. The remainder of the total allowance is recorded as allowance for equity funds.

Depreciation

For financial statement purposes, the straight-line method of depreciation is used to accumulate an

amount equal to the cost of utility plant and removal costs, less salvage, over the estimated useful lives of property. Provisions for depreciation as a percent of the average original cost of depreciable property approximated 3.3% in 1982, and 3.2% in 1981 and 1980.

Revenues

Revenues are recorded on the basis of electricity delivered to customers to the end of each accounting period. Prior to 1981, revenues were recorded based on electricity used by customers at the time meters were last read during each month. See Note 2 to Financial Statements for information concerning this accounting change.

Income Taxes

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

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

Deferred income taxes are recorded for timing differences between book and taxable income to the extent they are permitted in rate determinations by regulatory agencies. The two principal items for which deferred taxes have not been recorded are (i) certain pension costs and employee-related taxes capitalized for book purposes but deducted currently for income taxes and (ii) a portion of tax depreciation in excess of book depreciation.

Prior to 1981, the Company recorded deferred income taxes applicable to the difference between tax depreciation computed using the class life system and the amount computed using guideline lives. Providing deferred income taxes for this item was discontinued in 1981, since in its January 1981 rate order, the PUC disallowed tax normalization on this timing difference.

Effective January 1, 1981, in accordance with a PUC order, the Company has recorded deferred federal income taxes relative to the accelerated cost recovery system (ACRS) of tax depreciation principally on the difference between tax depreciation on post-1980 property additions computed using ACRS and that computed using book depreciation lives and methods.

Investment tax credits, which result in a reduction of federal income taxes payable, are generally equal to 10% of (i) the cost of certain property placed in service and (ii) progress payments for the construction of certain facilities that have a construction

period of at least two years. Such 10% tax credits are deferred and amortized over the average lives of the related property.

An employee stock ownership plan (ESOP) permits the Company to claim up to an additional 1½% investment tax credit. An amount equal to the additional credit utilized is paid to the ESOP trustee to acquire common stock from the Company for employees.

See Note 4 to Financial Statements for additional information concerning income taxes.

Retirement Plan

The Company has a noncontributory retirement plan covering substantially all employees. Company contributions to the plan include current service costs and all amounts required to amortize unfunded prior service costs over periods of not more than 20 years.

2. Change in Accounting for Revenues

In order to more closely match recorded revenues with related costs, the Company, effective as of January 1, 1981, adopted a policy of recording revenues collectible from customers based on electricity delivered to customers to the end of the month. Prior to 1981, revenues were recorded when bills were rendered to customers based on electricity used at the time of monthly cycle meter readings.

The Nonrecurring Credit of \$12,381,000 (after related income tax of \$13,236,000) shown on the Statement of Income for 1981 represents the cumulative effect prior to January 1, 1981 of the accounting change. Allocation of the Nonrecurring Credit to prior years would not materially affect reported earnings for the year 1980. Unbilled revenues applicable to 1981 operations did not materially affect net income for that year.

3. Rate Matters

In accordance with rate orders issued by the PUC, electric base rates for ultimate customers were increased by approximately \$97 million annually effective for electricity used on and after January 30, 1981 and approximately \$73 million annually effective for electricity used on and after January 1, 1982.

The FERC approved a settlement agreement which permitted a \$2 million increase in rates for wholesale customers to become effective in August 1981. A \$3 million increase was permitted to become effective in July 1982, subject to refund, pending hearings and a final decision by the FERC.

In November 1982, the Company filed with the PUC for an increase in electric rates of 19.4% over current levels. The increase amounts to approximately \$315 million based on annualized revenues for the forward looking test year ending July 31, 1983 and reflects: (i) the net effect of placing Susquehanna

Unit No. 1 in service (increased investment and operating costs associated with the unit offset by a reduction of the energy cost rate resulting from lower nuclear fuel costs and an increase in sales to other utilities); and (ii) other increased costs of providing electric service. In December 1982, the PUC ordered an investigation and public hearings on the Company's request for increased rates. If the PUC does not reach a final decision by August 22, 1983, the rates filed by the Company would go into effect at that time subject to refund.

The PUC has adopted a declaratory order which provides that if Susquehanna Unit No. 1 begins commercial operation prior to the end of the future test year (July 31, 1983), the Company may accrue a carrying charge on its investment in the unit and defer all operating costs and energy cost savings associated with the unit until new electric rates go into effect. Rate treatment of the deferrals would be addressed in the rate proceeding. If Unit No. 1 begins commercial operation after the end of the future test year, only the higher electric rates determined by the PUC to be related to non-Susquehanna costs would be allowed to go into effect. New rates, as approved by the PUC, reflecting the Susquehanna-related costs would go into effect 15 days after the unit begins commercial operation.

The Company's PUC tariffs include an energy cost rate under which customers are billed for energy costs that vary from the levels allowed in base rate schedules. The energy cost rate is established annually, but may be revised during a year to adjust for a material change in the level of energy costs. Any over or under collection of costs is reflected in the rate for the subsequent year. At December 31, 1982, the Company had not yet collected from customers \$48.9 million of energy costs incurred prior to that date. This amount will be included in the 1983 energy cost rate computation.

A proceeding before an administrative law judge is in process to review complaints filed with the PUC challenging the level of the Company's 1982 energy cost rate. The 1982 energy cost rate was billed in accordance with a PUC order, and the Company does not believe that the complaints warrant a change in the rate. However, the Company is unable to predict what action may be taken by the PUC as a result of this proceeding.

In August 1982, the PUC requested public comment on the merits of the existing energy cost rate used by electric utilities in Pennsylvania. The outcome of this proceeding could result in a modification or elimination of that adjustment clause. The Company is unable to predict what further action the PUC may take with respect to this matter but an elimination of the energy cost rate could delay reflecting in rates both increases and decreases in energy costs covered by the clause.

A fuel adjustment clause applies to substantially all customers billed under the FERC tariffs and that clause provides for an automatic adjustment of any over or under recovery of costs two months after such costs are incurred.

4. Income Taxes

The Internal Revenue Service (IRS) has examined the Company's federal income tax returns for the years 1973 through 1978. A tentative agreement has been reached on adjustments proposed by the IRS for the period 1973-1976 and adjustments proposed for the years 1977-1978 are not material in amount. The Company therefore does not expect any material change in its income tax liability for the years 1973-1978.

Following guidelines established in various IRS rulings, the Company believes that Susquehanna Unit No. 1 was in-service for federal income tax purposes in 1982. Accordingly, the Company will claim about \$113.1 million of tax depreciation of the unit as a deduction on its 1982 income tax return.

The Company will incur a loss for federal income tax purposes of about \$98.4 million in 1982. The large amount of interest expense incurred to finance construction expenditures and tax depreciation of Susquehanna Unit No. 1 were major factors causing the tax loss. For federal income tax purposes, the tax loss will be carried back to offset taxes paid in prior years and will result in a refund of approximately \$12 million of federal income taxes paid in 1979, 1980 and 1981. Approximately \$5 million of the federal income tax loss is available as a carryforward loss to reduce future tax liabilities through 1997. Investment tax credits aggregating \$30.7 million utilized in the 1979-1981 period to reduce federal income tax payments have been reversed to the extent they were replaced by the tax loss carryback. Reflecting these changes, investment tax credits not yet utilized aggregated approximately \$197 million at December 31, 1982 and may be carried forward to reduce future federal income tax liabilities. The carryforward period for these credits expires in the years 1994 to 1997.

Pennsylvania income tax laws do not permit the carryback of tax losses to prior years. For state income tax purposes, the Company has a tax loss carryforward at December 31, 1982 of approximately \$70 million which may be used to reduce its state income tax liability in 1983 and 1984.

5. Credit Arrangements

The Company maintains informal lines of credit aggregating \$120 million with various domestic banks. The arrangements require the maintenance of compensating balances (not material in amount to the Company's financial position and borrowing costs) or the payment of commitment fees. Borrowings under these lines of credit are generally for one year at the prime interest rate and may be prepaid at any time without penalty.

During 1982, the Company also maintained revolving credit and term loan agreements with a group of domestic banks pursuant to which the Company could borrow up to \$500 million. In January 1983, the Company terminated the existing agreements and entered a new revolving credit and

term loan agreement pursuant to which the banks commit to lend the Company up to \$600 million on a revolving basis with loans to mature on February 27, 1987. At the option of the Company, the interest rate on borrowings would be based on the prime rate or interest rates applicable to certificates of deposit or Eurodollar deposits. At the time any revolving credit borrowing matures on February 27, 1987, the agreements permit the Company to borrow up to \$600 million as a term loan, the principal amount of which would be repayable in six equal semi-annual installments over the three-year period ending February 1990.

A revolving credit agreement with a group of foreign banks permits the Company to make short-term borrowings up to \$100 million through June 15, 1984. Borrowings under this agreement would bear interest at rates based on the average rate at which certain participating banks accept Eurodollar deposits.

To the extent that the full \$350 million commitment under the nuclear fuel lease is not being utilized to finance nuclear fuel, the Company may borrow from the trust for general corporate purposes (See Note 8). Any such borrowings would bear interest at the average rate of the trust's outstanding debt, would mature on February 1, 1987 and may be prepaid at any time without penalty.

At December 31, 1982, there were no borrowings outstanding under the informal lines of credit, the revolving credit and term loan agreements with domestic banks and the revolving credit agreement with foreign banks. There were \$50 million of borrowings outstanding under the nuclear fuel lease borrowing arrangements at December 31, 1982.

All revolving credit agreements are maintained by the payment of commitment fees. Commitment fees incurred to maintain the Company's credit arrangements aggregated \$2.9 million in 1982, \$2.8 million in 1981 and \$2.4 million in 1980.

6. Retirement Plan

Pension costs charged to expense for 1982, 1981 and 1980 were \$23.8 million, \$19.7 million and \$17.3 million, respectively. The actuarial present value of accumulated plan benefits and net assets at the end of the plan's recent fiscal years are as follows (thousands of dollars):

	June 30	
	1982	1981
Actuarial present value of accumulated plan benefits: (a)		
Vested	\$169,318	\$151,897
Nonvested	10,452	8,063
	<u>\$179,770</u>	<u>\$159,960</u>
Net assets available for benefits	<u>\$173,995</u>	<u>\$162,093</u>

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

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for both 1982 and 1981.

Under a plan amendment effective July 1, 1981, approximately \$18.6 million was refunded to employees representing their contributions to the plan, including interest. The refund had no effect on the employees' pension benefits and did not materially affect the actuarial present value of vested accumulated plan benefits. This amendment increased 1982 pension costs by about \$1.5 million.

Effective July 1, 1982 the plan was amended to provide increased retirement benefits. The amendment increased the actuarial present value of accumulated plan benefits at June 30, 1982 by \$5.6 million, and is expected to increase annual pension costs by about \$1.6 million beginning in 1983.

7. Dividend Restrictions

The Company's charter, mortgage indenture and provisions of Part I of the Federal Power Act restrict the payment of cash dividends on common stock under certain conditions. Under the most limiting of these provisions, \$3.1 million of earnings reinvested were restricted as to the payment of dividends at December 31, 1982.

8. Leases

Arrangements with a trust were completed in 1982 which permit the Company to (i) lease up to a maximum of \$350 million of nuclear fuel to be used at the Susquehanna plant and (ii) make borrowings from the trust to the extent the \$350 million commitment is not utilized for nuclear fuel leasing. Under these arrangements, the Company sold and leased back \$214 million of nuclear fuel in 1982. Borrowings under this arrangement at December 31, 1982 were \$50 million.

Certain of the Company's leases are capital leases in accordance with criteria established by the Financial Accounting Standards Board (FASB). An accounting standard issued by the FASB in December 1982 requires that the Company record such leases on its balance sheet by 1987. If such leases had been capitalized at December 31, 1982 and 1981, approximately \$298.2 million and \$59.7 million, respectively, would have been recorded as an asset and the same amount would have been recorded as lease obligations. Recording capital leases would not affect income since the total of amortization of the leased asset and interest on the lease obligation would equal the rental expense allowed for rate-making purposes. Most of the capital leases obligate the Company to pay maintenance, insurance and other related costs.

The rental cost of capitalizable leases amounted to \$18.6 million in 1982, \$16.1 million in 1981 and \$14.7 million in 1980. The major portion of such rental cost was charged to operating expenses. Future minimum rentals on capitalizable leases to which the

Company was committed at December 31, 1982, excluding the leased nuclear fuel, are estimated as follows (millions of dollars): 1983, \$12.8; 1984, \$11.1; 1985, \$9.8; 1986, \$8.7; 1987, \$7.0 and 1988 to expiration of the leases, \$40.0.

Nuclear fuel rentals cover the amortization of the cost of nuclear fuel based on the quantity of heat produced plus applicable financing charges. Including financing costs capitalized by the lessor, the unamortized cost of nuclear fuel under lease was \$233 million at December 31, 1982. Upon completion of heat production, the Company will receive title to the fuel and will assume responsibility for disposal of the spent fuel.

At December 31, 1982, minimum rental commitments under operating leases were not material with respect to the Company's financial position.

9. Joint Ownership of Generating Plants

At December 31, 1982, the Company owned undivided interests in three generating stations as follows (millions of dollars):

Generating Station	Plant Investment	% Ownership
Susquehanna (under construction)	\$2,875.0	90.00%
Keystone	30.4	12.34
Conemaugh	34.0	11.39

The Company receives a portion of the total station output equal to its percentage ownership. The Statement of Income reflects the Company's share of fuel and other operating costs associated with the two operating stations. Each participant provides its own financing.

10. Associated Company Transactions

The Company purchases bituminous coal from associated companies at a price generally equal to the entire operating costs of those companies. Purchases of coal from associated companies were (thousands of dollars): 1982, \$255,090; 1981, \$183,535; and 1980, \$191,909. An oil pipeline subsidiary transports oil to one of the Company's generating stations in accordance with a PUC approved tariff. The oil transportation charges were (thousands of dollars): 1982, \$8,209; 1981, \$8,998; and 1980, \$7,922. See Note 12 to Financial Statements for information concerning the Company's guarantee of certain obligations of associated companies.

One of the Company's subsidiaries holds certain undeveloped coal reserves and is not engaged in any income producing activity. In 1983, the subsidiary will begin to expense certain interest costs and property taxes that were previously capitalized as part of the cost of the reserves. This change is expected to result in a loss for the subsidiary and, under equity accounting, such loss will be charged against the Company's net income. The amount of such a charge will depend on the level of interest rates and whether the Company's consolidated federal taxable income will be sufficient to use the subsidiary's loss as a deduction. Based on the

present level of interest rates, the charge against income, before any realized income tax reductions, would approximate \$8 million in 1983.

11. Settlement of Nuclear Fuel Litigation

In accordance with the terms of a litigation settlement entered into in 1980 between the Company and a supplier of uranium and fabricated nuclear fuel assemblies, the supplier is obligated to make certain cash payments to the Company. The remaining payments totaled \$29.5 million at December 31, 1982 and are to be received during the years 1983-1987. Ten percent of this amount will be paid to Allegheny Electric Cooperative, Inc., the joint owner of the Susquehanna plant. The settlement also provides for the supplier to provide certain future quantities of uranium at prices not to exceed the market price.

To conform with current presentation, the amount of payments receivable by the Company at December 31, 1981 were reclassified on the Balance Sheet from a credit to nuclear fuel to other deferred credits.

12. Commitments and Contingent Liabilities

The Company's construction expenditures are expected to aggregate \$605 million in 1983, \$365 million in 1984 and \$230 million in 1985, including the allowance for funds used during construction. Approximately \$755 million of the estimated expenditures in the three years are for the two Susquehanna nuclear-fueled generating units now under construction. See the sections entitled "Construction Program", "Susquehanna Plant" and "Expenditure Requirements" on pages 22 and 23 for additional information concerning the Company's planned construction expenditures and the Susquehanna units.

The Price-Anderson Act presently limits the public liability of a licensee of a nuclear power plant to \$560 million for a single nuclear incident. The Company's insurance for this exposure is provided by private insurance and an indemnity agreement with the Nuclear Regulatory Commission pursuant to which the Company could be assessed not more than \$5 million in the event there is a nuclear incident involving any licensed nuclear power facility in the United States, with a maximum assessment not to exceed \$10 million in any one year in the event of more than one incident during a year.

Facilities at the Susquehanna plant are insured against property damage losses up to \$983 million. A portion of this coverage is provided by policies pursuant to which the Company could be assessed a retrospective premium of up to approximately \$9.4 million in the year in which losses are incurred at any of the plants insured by the insurance company in excess of the accumulated funds available to the insurance company.

At December 31, 1982, the Company had guaranteed capital and other obligations of other companies (principally subsidiary coal companies and a subsidiary pipeline company) totaling \$261.6 million.

Management's Report on the Financial Statements

The management of Pennsylvania Power & Light Company is responsible for the preparation, integrity and objectivity of the financial statements and other sections of this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. In preparing the financial statements, management makes informed estimates and judgments of the expected effects of events and transactions based upon currently available facts and circumstances.

The Company maintains a system of internal accounting controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions and events are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits derived and that there are inherent limitations in the effectiveness of any system of internal accounting controls. Fundamental to the control system is the selection and training of qualified personnel, an organizational structure that provides appropriate segregation of duties and the utilization of written policies and procedures. In addition, the Company

maintains an internal auditing program to evaluate the adequacy, application and compliance with the Company's internal accounting controls, policies and procedures.

Deloitte Haskins & Sells, independent certified public accountants, are engaged to examine and to render an opinion as to whether the financial statements, considered in their entirety, present fairly the Company's financial position, operating results and changes in financial position, in conformity with generally accepted accounting principles. Their examination is conducted in accordance with generally accepted auditing standards and includes such procedures believed by them to be sufficient to provide reasonable assurance that the financial statements are not materially misleading and do not contain material errors.

The Board of Directors, acting through its Audit Committee, oversees management's responsibilities in the preparation of the financial statements. In performing this function, the Audit Committee, which is composed of directors who are not employees of the Company, meets periodically with management, the internal auditors and the independent certified public accountants to review the work of each. Deloitte Haskins & Sells and the internal auditors have free access to the Audit Committee and to the Board of Directors, without management present, to discuss internal accounting control, auditing and financial reporting matters.

Auditors' Opinion

**DELOITTE
HASKINS & SELLS**
Certified Public Accountants

One World Trade Center
New York, New York 10048

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

We have examined the balance sheets of Pennsylvania Power & Light Company as of December 31, 1982 and 1981 and the related statements of income, earnings reinvested, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Company at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in 1981 in the method of accounting for unbilled revenues, as described in Note 2 to the financial statements.



February 4, 1983

Summary of Quarterly Results of Operations (Unaudited)

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Applicable to Common Stock	Earnings Per Share of Common Stock (a)
	Thousands of Dollars				
1981(b)					
March	\$314,529	\$56,984	\$67,201	\$51,943	\$1.01
June	252,707	47,047	50,790	35,619	0.68
September	266,908	55,370	52,480	37,343	0.69
December	299,134	51,649	61,225	45,896	0.79
1982					
March	\$363,764	\$72,802	\$83,386	\$66,486	\$1.12
June	279,262	48,690	56,970	40,088	0.66
September	284,450	49,735	65,028	48,220	0.74
December	292,072	51,856	73,502	55,778	0.84

(a) Based on the average number of shares outstanding during the quarter. The total of the four quarterly earnings per share amounts may not equal earnings per share for the year due to changes in the number of common shares outstanding during the year and rounding.

(b) Results for the four quarters of 1981 have been restated to reflect a change in the method of accounting for revenues adopted in 1981. Restated 1981 earnings exclude the \$12,381

nonrecurring credit related to the accounting change. (See Note 2 to Financial Statements.) Earnings applicable to common stock, as reported prior to the accounting change, amounted to \$51,665 (\$1.01 per share), \$35,638 (\$0.68 per share) and \$37,494 (\$0.69 per share) for the quarters ended March 31, June 30 and September 30, 1981, respectively.

Supplementary Information on Changing Prices (Unaudited)

The Financial Accounting Standards Board (FASB), an organization that establishes rules for accounting and financial reporting, has issued a statement that requires the presentation of certain information on the effects of general inflation and changes in the prices of certain specific types of assets. Customary financial reporting generally has not attempted to specifically reflect inflation. The FASB statement requires that certain aspects of inflation be computed in accordance with prescribed techniques and reported on an experimental basis.

The FASB recognizes, and the Company cautions users of this information, that there is no consensus on the general practical usefulness of this supplementary information. There are also unresolved implementation problems and conceptual differences regarding the manner in which the effects of changing prices should be measured.

The FASB statement attempts to measure the effects of changing prices in two different ways:

1. **Constant dollars**—In a period of inflation, the amount of goods and services one dollar will buy declines. Since financial data often involves dollars expended in different years, it is suggested that combining or comparing such dollars is misleading. The constant dollar method shows the effects of general inflation by adjusting data to dollars of the same purchasing power by applica-

tion of the U.S. Government Consumer Price Index for All Urban Consumers (CPI-U).

The constant dollar method simply restates amounts recorded on a company's books to the level of average dollars for the current year. For example, the average CPI-U was 195.4 in 1978 and 289.1 in 1982. The restatement of \$1.00 of property acquired in 1978 to average 1982 dollars would be accomplished by multiplying the \$1.00 by the ratio $289.1 \div 195.4$, resulting in \$1.48 of property in terms of average 1982 dollars.

2. **Current cost**—In a period of inflation, prices of most goods and services increase but not necessarily all at the same rate. The current cost method shows the impact of inflation on a company by measuring the estimated change in prices of the specific goods and services used by that company.

The Company has elected to present the "Supplementary Statement of Income" data in accordance with the partial restatement provision of the FASB statement. Under this provision, utility plant, net of accumulated depreciation, and depreciation expense are the only items restated to reflect general inflation (Constant Dollars) and specific price changes (Current Cost). Fuel inventories and the cost of fuel used in generation have not been restated from their historical cost since, under rate regulation, the recovery of the cost of fuel is limited to the actual cost of the fuel burned. Revenues, income taxes and expenses other than depreciation are presented at the amounts reported in the basic financial statements.

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

1. Gain from decline in purchasing power of net amounts owed.

Inflation also affects monetary assets, such as cash and receivables, which lose purchasing power during inflationary periods since these assets will in time purchase fewer goods or services. Conversely, holders of monetary liabilities benefit during such periods because less purchasing power will be required to satisfy these obligations. For purposes of this presentation, the preferred and preference stock issues with sinking fund requirements and the accumulated deferred investment tax credits are treated as monetary items. The Company's net monetary liability position is due primarily to the amount of outstanding debt and preferred and preference stock with sinking funds used to finance the construction of utility plant.

2. Increase in the current cost of net utility plant as a result of specific price changes experienced.

The increase in the current cost amount of net utility plant is shown before and after eliminating the effects of general inflation as measured by the CPI-U.

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

Under the ratemaking prescribed by the regulatory commissions to which the Company is subject, only the historical cost of utility plant is recoverable in revenues as depreciation. Therefore, the difference between the amount of utility plant stated in terms of constant dollars and current cost (after deducting the effects of general inflation) and the historical cost is reflected as an adjustment to net recoverable amount.

The adjustment in terms of constant dollars reflects only the effects of general inflation on the historical cost of utility plant and is a reduction in 1982. The adjustment in terms of current cost is computed after the general inflation effect is deducted from the increase in the specific price amount of net utility plant.

Supplementary Statement of Income for 1982 (Thousands of Dollars)	As Reported in Financial Statements (Historical Cost)	Adjusted on the Basis of General Inflation (Constant Dollar) (Stated in Average 1982 Dollars)	Adjusted on the Basis of Price Changes Experienced (Current Cost)
Operating revenues	\$1,219,548	\$1,219,548	\$1,219,548
Operating expenses			
Depreciation (a)	92,222	206,253	214,738
Other	904,243	904,243	904,243
	996,465	1,110,496	1,118,981
Interest expense	111,648	111,648	111,648
Other income and deductions—net	(167,451)	(167,451)	(167,451)
Dividends on preferred and preference stock ...	68,314	68,314	68,314
	1,008,976	1,123,007	1,131,492
Earnings applicable to common stock	<u>\$ 210,572</u>	<u>\$ 96,541(b)</u>	<u>\$ 88,056</u>
Other Impacts of Changing Prices			
Gain from decline in purchasing power of net amounts owed		<u>\$ 112,747</u>	<u>\$ 112,747</u>
Increase in specific prices (current cost) of net utility plant during the year (c)			\$ 571,971
Increase in current cost of net utility plant if change in general price level were applied			<u>(304,656)</u>
Excess of increase in specific prices over increase in general price level			<u>\$ 267,315</u>
Adjustment of net utility plant to net recoverable amount— (reduction)		<u>\$ (61,993)</u>	<u>\$ (320,823)</u>

(a) Constant dollar utility plant was determined by applying the CPI-U index to the historical cost of surviving plant. The current cost of utility plant was determined by applying construction cost indices maintained by the Company to the historical cost of surviving plant. The respective adjusted provisions for depreciation were determined by applying the functional class depreciation accrual rates to the respective average year-end balances of depreciable plant adjusted for general inflation (constant dollar) and specific price changes (current cost).

(b) Including the reduction to net recoverable amount, earnings applicable to common stock on a constant dollar basis would have been \$34,548 for 1982.

(c) At December 31, 1982, the current cost of net utility plant was \$8.81 billion, while the historical cost or net amount recoverable through depreciation was \$5.04 billion.

The following schedule presents a summary of selected data comparing items as they are normally reported in financial statements or other statistical summaries to items adjusted for changing prices. The "Income Items" are presented for only the four years

that the FASB has required that the calculations be made. Shown under "Other Supplementary Data" is a five-year comparison of items as normally reported and as adjusted to average 1982 constant dollars by applying the CPI-U index.

Supplementary Comparison of Selected Data (Thousands of Dollars)

	1982	1981	1980	1979	1978
Income Items—Constant Dollar and Current Cost Amounts in Average 1982 Dollars					
Earnings Applicable to Common Stock					
As reported (a)	\$ 210,572	\$ 170,801	\$ 120,384	\$ 133,532	
Constant dollars	96,541	74,095	42,017	90,761	
Current cost	88,056	72,191	32,713	70,036	
Earnings Per Share of Common Stock					
As reported (a)	3.35	3.17	2.64	3.32	
Constant dollars	1.54	1.37	0.92	2.26	
Current cost	1.40	1.34	0.71	1.74	
Amount by Which the Increase in General Price Level of Net Utility Plant is Greater Than or (Less Than) the Increase in Specific Prices of Net Utility Plant					
.....	(267,315)	(64,221)	385,795	245,348	
Adjustment of Net Utility Plant to Net Recoverable Amount—write-up (reduction)					
Constant dollars	(61,993)	(265,650)	(391,240)	(456,969)	
Current cost	(320,823)	(327,967)	3,860	(190,896)	
Gain from Decline in Purchasing Power of Net Amounts Owed					
.....	112,747	238,160	308,512	335,804	
Net Assets at Year-End (b)					
As reported	1,875,070	1,666,812	1,482,092	1,344,816	
Constant dollars	1,853,908	1,711,813	1,658,176	1,680,876	
Current cost	1,853,908	1,711,813	1,658,176	1,680,876	
Other Supplementary Data					
Operating Revenues					
As reported	\$1,219,548	\$1,133,278	\$ 885,451	\$ 860,498	\$ 798,339
Average 1982 constant dollars	1,219,548	1,202,756	1,037,212	1,143,770	1,181,166
Cash Dividends Declared Per Common Share					
As reported	2.32	2.24	2.12	2.04	1.92
Average 1982 constant dollars	2.32	2.39	2.48	2.72	2.84
Market Price Per Common Share at Year-End					
As reported	21.00	17.12	15.62	17.75	19.25
Average 1982 constant dollars	20.76	17.59	17.48	22.32	27.43
Average Consumer Price Index (CPI-U)	289.1	272.4	246.8	217.5	195.4

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

(b) Net assets (shareowners' equity) for purposes of this supplementary disclosure include common equity and the preferred and preference stocks without sinking fund requirements. The preferred and preference stocks with sinking fund requirements have been excluded since they were treated as monetary items.

Common Stock Price and Dividend Data

The principal trading market for the Company's common stock is the New York Stock Exchange. The stock is also listed on the Philadelphia Stock Exchange. The number of record holders of common stock was 169,127 as of December 10, 1982. The high and low sales prices of the Company's common stock on the Composite Tape for the past two years as reported by The Wall Street Journal were as follows:

Quarter Ended	High	Low
1981		
March	\$18	\$15½
June	18¼	16
September	17¾	15¼
December	18%	14%
1982		
March	19¾	16½
June	20%	17½
September	20¼	17%
December	21%	19%

The Company has paid quarterly cash dividends on its common stock in every year since 1946. The

dividends paid per share in 1982 and 1981 were \$2.30 and \$2.21, respectively. The most recent regular quarterly dividend declared by the Company was 58 cents per share (equivalent to \$2.32 per annum) paid January 1, 1983. Future dividends will be dependent upon future earnings, financial requirements and other factors.

The Company has estimated that all of its 1982 dividends paid on common stock and preference stock and 65.61% of its dividends paid on preferred stock will be nontaxable for federal income tax purposes as dividend income, but will constitute a return of capital which reduces the tax cost basis of the shares on which the dividends were paid.

Based on preliminary estimates, the Company expects that about one-half of common stock dividends paid in 1983 could constitute a return of capital. However, because of the uncertainties involved in such a determination, the Company is unable to estimate the exact amount of 1983 dividends that will constitute a return of capital. See Note 7 to Financial Statements for information concerning dividend restrictions.

Fiscal Agents

TRANSFER AGENTS FOR PREFERRED, PREFERENCE AND COMMON STOCK

Industrial Valley Bank and Trust Company
634 Hamilton Mall
Allentown, Pennsylvania—18101

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

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

REGISTRARS FOR PREFERRED, PREFERENCE AND COMMON STOCK

The First National Bank of Allentown
Hamilton Mall at Seventh
Allentown, Pennsylvania—18101

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

DEPOSITARY FOR DEPOSITARY PREFERENCE SHARES

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

DIVIDEND DISBURSING OFFICE AND DIVIDEND REINVESTMENT PLAN AGENT

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

Securities Listed On Exchanges

NEW YORK STOCK EXCHANGE

4½% Preferred Stock (Code: PPLPRB)
4.40% Series Preferred Stock (Code: PPLPRA)
8.60% Series Preferred Stock (Code: PPLPRG)
9.24% Series Preferred Stock (Code: PPLPRM)
Preference Stock, \$8.00 Series (Code: PPLPRJ)
Preference Stock, \$8.40 Series (Code: PPLPRH)
Preference Stock, \$8.70 Series (Code: PPLPRI)
Preference Stock, \$11.00 Series (Code: PPLPRL)
Preference Stock, \$13.00 Series (Code: PPLPRK)
Depositary Preference Shares Representing:
Preference Stock, \$13.00 Second Series (Code: PPLPRO)
Preference Stock, \$15.00 Series (Code: PPLPRN)
Common Stock (Code: PPL)

PHILADELPHIA STOCK EXCHANGE

4½% Preferred Stock
3.35% Series Preferred Stock
4.40% Series Preferred Stock
4.60% Series Preferred Stock
8.60% Series Preferred Stock
9% Series Preferred Stock
9.24% Series Preferred Stock
Preference Stock, \$8.00 Series
Preference Stock, \$8.40 Series
Preference Stock, \$8.70 Series
Preference Stock, \$11.00 Series
Preference Stock, \$13.00 Series
Depositary Preference Shares Representing:
Preference Stock, \$13.00 Second Series
Preference Stock, \$15.00 Series
Common Stock

Officers

ROBERT K. CAMPBELL, *President and Chief Executive Officer*
ROBERT R. FORTUNE, *Executive Vice President-Financial*
JOHN T. KAUFFMAN, *Executive Vice President-Operations*
JACK R. CALHOUN, *Senior Vice President-Nuclear*
HARLEY L. COLLINS, *Senior Vice President-System Power & Engineering*
MERLIN F. HERTZOG, *Senior Vice President-Human Resource & Development*
LEON L. NONEMAKER, *Senior Vice President-Division Operations*

JOHN R. BIGGAR, *Assistant Treasurer*
GENNARO D. CALIENDO, *Vice President and Chief Counsel-Regulatory Affairs*
NORMAN W. CURTIS, *Vice President-Engineering & Construction-Nuclear*
CHARLES E. FUQUA, *Vice President-Susquehanna Division*
CHARLES J. GREEN, *Vice President-Harrisburg Division*
BRUCE D. KENYON, *Vice President-Nuclear Operations*
JOHN P. KIERZKOWSKI, *Assistant Treasurer*
CARL R. MAIO, *Vice President-Lehigh Division*
GRAYSON E. McNAIR, *Vice President-Consumer & Community Services*
EDWARD M. NAGEL, *Vice President, General Counsel and Secretary*
HERBERT D. NASH JR., *Vice President-Central Division*
JOHN E. ROTH, *Vice President-Northern Division*
CHARLES E. RUSSOLI, *Vice President and Treasurer*
EDWIN H. SEIDLER, *Vice President-Engineering & Construction-System Power & Engineering*
BRENT S. SHUNK, *Vice President-Lancaster Division*
JEAN A. SMOLICK, *Assistant Secretary*
DONALD J. TREGO, *Assistant Treasurer*
GEORGE F. VANDERSLICE, *Vice President and Comptroller*
PAULINE L. VETOVITZ, *Assistant Secretary*
HELEN J. WOLFER, *Assistant Secretary*

Corporate Management Committee: Robert K. Campbell, chairman; Robert R. Fortune, John T. Kauffman, Jack R. Calhoun, Harley L. Collins, Merlin F. Hertzog, Leon L. Nonemaker and John M. Pavelko, manager-Corporate Planning Administration, serving as the committee's executive secretary.

Directors

CLIFFORD L. ALEXANDER JR., Washington, D.C.
President, Alexander & Associates Inc. Consultants to business, government & industry

ROSWELL BRAYTON, Woolrich
President and Chief Executive Officer, Woolrich Woolen Mills Inc. Manufacturer of garments for outdoor activities

JEFFREY J. BURDGE, Camp Hill
President and Chief Executive Officer, Harsco Corporation Manufacturer of processed and fabricated metals

ROBERT K. CAMPBELL, Allentown
President and Chief Executive Officer

EDGAR L. DESSEN, Hazleton
Physician-Radiologist

EDWARD DONLEY, Allentown
Chairman and Chief Executive Officer, Air Products and Chemicals Inc. Manufacturer of industrial and commercial gases and chemicals

ROBERT R. FORTUNE, Allentown
Executive Vice President-Financial

FRANCES R. HESSELBEIN, New York City
National Executive Director, Girl Scouts of the U.S.A.

HARRY A. JENSEN, Lancaster
President and Chief Executive Officer, Armstrong World Industries Inc. Manufacturer of interior furnishings and specialty products

JOHN T. KAUFFMAN, Allentown
Executive Vice President-Operations

W. DEMING LEWIS, Bethlehem
President Emeritus, Lehigh University

HAROLD S. MOHLER, Hershey
Chairman of the Board and Chairman of the Executive Committee, Hershey Foods Corporation Diversified manufacturer of food products

RALPH W. RICHARDSON JR., State College
Consultant, agricultural and environmental sciences

NORMAN ROBERTSON, Pittsburgh
Senior Vice President and Chief Economist, Mellon Bank, N.A.

DAVID L. TRESSLER, Scranton
President and Chief Executive Officer, Northeastern Bancorp, Inc.

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

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

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

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

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

The Company's annual report filed with the Securities and Exchange Commission on Form 10-K will be available mid-March. A shareowner may obtain a copy, at no cost, by writing to Pennsylvania Power & Light Company, Two North Ninth Street, Allentown, Pa. 18101, attention: Mr. George I. Kline, Investor Services Manager.

Board of Directors



Alexander



Brayton



Burdge



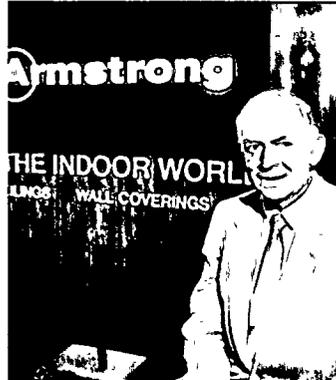
Dessen



Donley



Hesselbein



Jensen



Lewis



Mohler



Richardson



Robertson



Tressler

Corporate Management Committee



Pavelko Nonemaker Hertzog

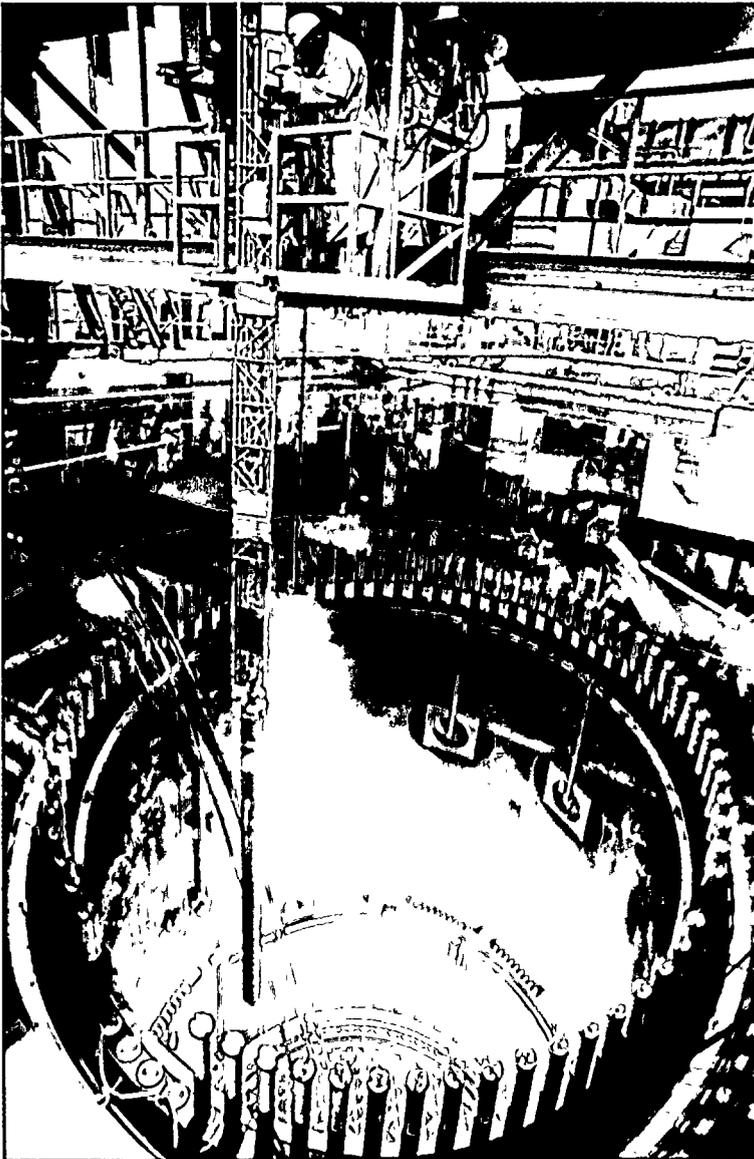
Campbell

Fortune Kauffman

Collins Calhoun



Unit 1 Comes To Life



Susquehanna Unit 1 went into test operation in 1982, bringing PP&L closer to the world of commercial nuclear power. At left, licensed plant-control operators load fuel assemblies into the core of the Unit 1 reactor through the use of a precisely positioned mechanical arm. Below, one of the last steps in the fuel-loading procedure was the lowering of the steel reactor-vessel dome onto the reactor pressure-vessel.

