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 AUTH. NAME AUTHOR AFFILIATION
 CAMPBELL, R.K. Pennsylvania Power & Light Co.
 CURTIS, N.W. Pennsylvania Power & Light Co.
 RECIP. NAME RECIPIENT AFFILIATION

DENTON, H.R. Office of Nuclear Reactor Regulation, Director

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Pennsylvania Power & Light Company

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

Norman W. Curtis
Vice President-Engineering & Construction-Nuclear
215/770-7501

MAR 21 1985

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

SUSQUEHANNA STEAM ELECTRIC STATION
ANNUAL FINANCIAL REPORT
ER 100450 FILE 841
PLA-2437

Docket Nos. 50-387
50-388

Dear Mr. Denton:

In accordance with 10CFR50.71(b), attached are ten copies of the 1984 annual report for Pennsylvania Power & Light Co. The annual report for Allegheny Electric Cooperative, Inc., will be forwarded when it is issued later this year.

Very truly yours,

N. W. Curtis
Vice President-Engineering & Construction-Nuclear

Attachments

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

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COVER

PP&L's illuminated 23-story corporate headquarters stands as a visible symbol of PP&L's optimism and commitment to Central Eastern Pennsylvania's bright future. Except for a period during World War II, the building was continuously illuminated from 1929 to the mid-1970s when the lights were turned out and removed in response to the energy crisis. With the company's Susquehanna nuclear units now on line, the relighting of the company's General Office building demonstrates PP&L's ability to serve customers with adequate generating capacity now and in the future. The symbolic gesture also provides an excellent example of the efficient use of electricity. The high-pressure sodium and metal halide lighting, which replaced the earlier quartz lights, uses about one-fifth the electricity of the old system. Other photos in this report show additional applications of electricity that touch the lives of everyone.

SERVICE AREA

Pennsylvania Power & Light Co., based in Allentown, Pa., provides electric service to more than a million homes and businesses throughout a 10,000-square-mile area in 29 counties of Central Eastern Pennsylvania. Principal cities in the PP&L service area are Allentown, Bethlehem, Harrisburg, Hazleton, Lancaster, Scranton, Williamsport and Wilkes-Barre. With an abundant supply of reliable, economical electric energy, PP&L's service area is poised at the core of an industrial and commercial market area where 70 million people live within a 300-mile radius. Please contact Joseph R. Lesko, manager of Economic Development, toll-free at (800) 523-9854 to talk about plant location opportunities in the heartland of this great Northeast marketing area.

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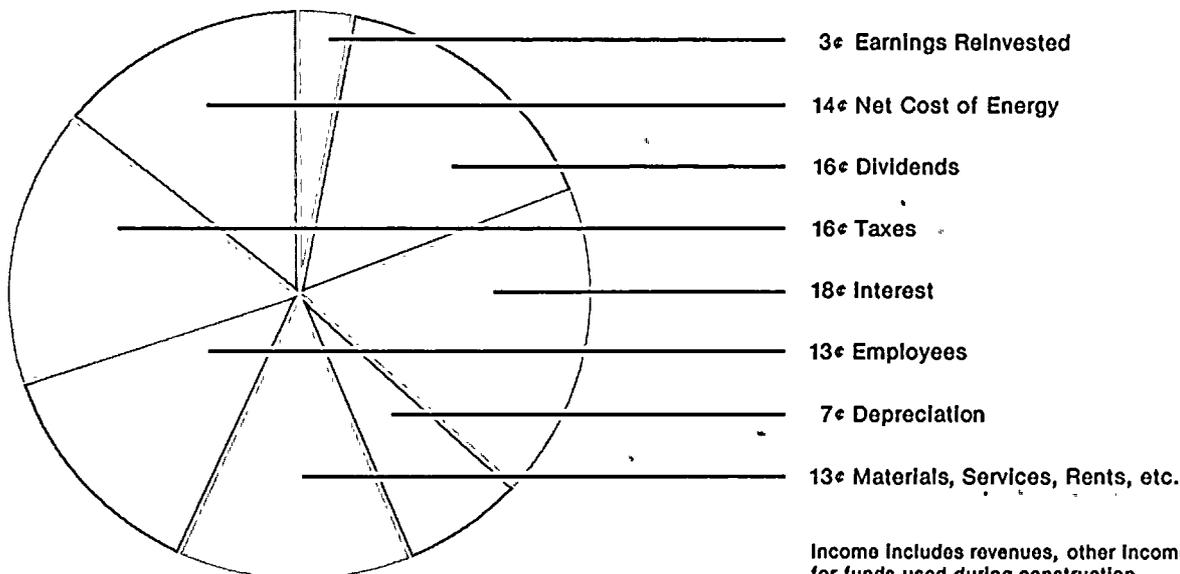
HIGHLIGHTS

	1984	1983
Customers (a)	1,039,381	1,026,144
Common Shareowners (a)	162,903	169,142
Electric Energy Sales, Kilowatt-hours	24.5 Billion	23.1 Billion
Interchange Power Sales, Kilowatt-hours	15.4 Billion	16.4 Billion
Electricity Generated, Kilowatt-hours	37.9 Billion	37.7 Billion
Operating Revenues	\$1.6 Billion	\$1.2 Billion
Capital Provided by Investors (a)	\$5.6 Billion	\$5.3 Billion
Utility Plant (a)		
Net Plant in Service	\$3.9 Billion	\$3.8 Billion
Construction Work in Progress	\$2.0 Billion	\$1.7 Billion
Common Stock Data		
Return on Average Common Equity	12.30%	12.29%
Earnings Per Share	\$3.12	\$3.06
Dividends Declared Per Share	\$2.48	\$2.40
Market Price Per Share (a)	\$25 $\frac{1}{8}$	\$20 $\frac{5}{8}$
Book Value Per Share (a)	\$25.46	\$25.12
Times Interest Earned Before Income Taxes	2.35	2.29(b)

(a) At year-end.

(b) Restated to reflect change in accounting for capital leases.

Where the PP&L Income Dollar Went in 1984



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

PRESIDENT'S LETTER

When Susquehanna Unit 2 was put into commercial operation in February of 1985, it marked the successful completion of the largest construction project in the company's history. It also marked another outstanding year of progress in meeting the long-term needs of our customers for reliable and economical electric service. In addition, by concluding the largest financing program in the company's history, it marked a significant step forward in our efforts to earn a fair return for our shareowners.

With both Susquehanna nuclear units now in commercial operation, the company has met its construction needs for major new generating capacity for at least the balance of this century. This exceptionally strong capacity position, based on an efficient mix of coal and nuclear generation, opens up important opportunities to broaden the scope of energy services offered to our customers and to strengthen the financial position of the company.

The combination of PP&L's competitively priced electric power and relatively small future construction program provides an enormous long-term advantage for meeting the growth and economic development objectives of the communities we serve. Recognizing that the financial health of the company is linked to the prosperity of our service area economy, promoting economic development in Central Eastern Pennsylvania continues to be the focus of PP&L's marketing programs.

Reliable and competitively priced electric power is a vital economic development resource. As national trends clearly show, energy efficiency and improved productivity are increasingly being achieved in homes, businesses and industries through the use of electricity because of its versatility and high end-use efficiency.

The strength of PP&L's generating capacity and our relatively small future construction program also are factors which set PP&L apart from most of the nation's electric utilities. In the years ahead, we will emphasize the importance of this strong competitive position as a supplier of electric power to attract and hold job-producing businesses in the communities we serve.

Sales, Earnings and Financing

Aided principally by the recent economic recovery, kilowatt-hour sales increased by 6.3 percent in 1984 over 1983. This annual sales growth, PP&L's largest in eight years, was led by significant gains in our electrically heated home market and by increased sales to commercial and industrial customers. The company's total sales increase also reflected the benefit of the first full year of selling electric energy from Susquehanna under our long-term contract with the Atlantic City Electric Co.

The company also has a contract now awaiting approval by the New Jersey Board of Public Utilities to sell 945,000 kilowatts of electric power to the Jersey Central Power & Light Co. from a proportionate share of PP&L's total generating system. This agreement

will substantially increase the level of PP&L's contractual power sales to other utility companies over the fourteen-year life of the agreement.

The company's contract to sell power to Jersey Central is consistent with the Pennsylvania Public Utility Commission (PUC) ruling in our 1983 rate increase request. It was decided in that case that 945,000 kilowatts of PP&L's total generating system was surplus capacity. Selling the electric output from this portion of our total generating system to Jersey Central will enable the company to recover the return on investment disallowed in the 1983 rate case. It also permitted us to reduce the rate request now pending before the PUC.

The rate increase received in 1983 helped improve the company's financial condition mostly by replacing a portion of the non-cash allowance for funds used during construction on Susquehanna Unit 1 with customer revenues. This increase in liquidity is reflected in PP&L's improved interest coverage which is important in determining the company's credit standing.

The company's 1984 earnings of \$3.12 per share were up 6 cents from 1983. This earnings improvement was largely the result of increased electric energy sales reflecting the economic recovery in our service area and colder-than-normal weather. Although the company's earnings continued at a reasonable level last year, the 1985 earnings outlook is largely dependent on continuing to achieve sales growth and on the outcome of the rate increase request we expect will be decided in April of 1985.

With the construction of Susquehanna now complete, PP&L's needs for outside financing have been significantly reduced from the high levels reached in recent years. And since the company's relatively small future construction program should be met largely by internal cash generation, we do not expect to be issuing additional shares of common stock for the foreseeable future.

Operating Performance

The dedicated and talented PP&L people who operate the company's electric system, from fuel supply to customer service, achieved outstanding results again in 1984. The following summarizes the operating accomplishments of special significance at this time for PP&L's customers and shareowners.

• Susquehanna Nuclear Units

Since June of 1983, when Susquehanna Unit 1 was placed in commercial operation until it was shut down for its first refueling outage in February of 1985, Unit 1 generated 9.3 billion kilowatt-hours, about 21.5 percent of the electricity PP&L customers used during that 20-month period. In spite of a one-time outage to connect plant systems common to both nuclear units, Susquehanna Unit 1 operated at an average of 65.7 percent of its capacity during 1984. This is an excellent record, particularly for a nuclear plant operating in its first fuel cycle.

The very successful start-up testing program which brought Susquehanna Unit 2 on-line, while Unit 1 also was in its first year-and-a-half of commercial operation, again demonstrates the commitment of PP&L people to superior performance in all aspects of our nuclear operations. With both Susquehanna nuclear units now in commercial operation, it is our goal in 1985 to achieve, through safe and efficient operation, an average capacity factor of 80 percent for Unit 1, excluding its refueling outage, and an average capacity factor of 70 percent for Unit 2.

• **Total PP&L Generation**

Again last year, PP&L's power plants maintained among the lowest total outage rates within the 11-member Pennsylvania-New Jersey-Maryland power pool. The fact that these very efficient generating units could only be replaced at several times original costs, emphasizes the importance of the company's aggressive program to extend the life of our existing power plants.

The outstanding performance by all of PP&L's generating units is the principal reason that the company's rates for electric service continued to be below the average charged both regionally and nationally. Having Susquehanna Unit 1 in commercial operation throughout 1984 enabled the company to sell more coal-fired generation to neighboring utilities while using lower-cost nuclear fuel for PP&L's service area customers. Last year, this direct advantage of our strong capacity position and favorable fuel mix resulted in energy savings of about \$171 million for PP&L's customers.

Marketing and Economic Development

Customer service is the unifying purpose linking all of PP&L's marketing and economic development programs — because the overall effect of these initiatives is to provide opportunities to serve our customers at a lower cost than otherwise would be possible. The objective of the company's marketing and economic development programs is to facilitate the most effective operation of the PP&L system by achieving optimal levels of kilowatt-hour sales growth while managing relatively lower growth in future peak loads.

Over the long term, limiting growth in peak loads benefits customers by minimizing future investment requirements. Likewise, promoting electricity usage to achieve revenues through increased sales will benefit customers by reducing future needs for higher rates.

By offsetting the need for rate increases, revenues derived from sales enhance the company's marketing position as well as its financial strength. Achieving our marketing objectives also provides the higher level of sales revenues which are necessary to permit us to meet our long-term objective of holding increases in the price of PP&L electric service at or below the general rate of inflation.

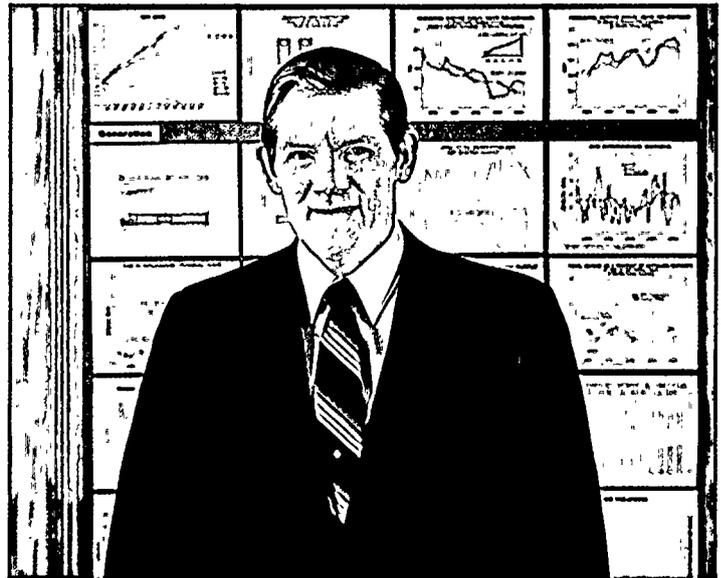
The essential conditions which make this an appropriate marketing strategy for PP&L are the company's exceptionally strong coal and nuclear generating capacity and our competitively priced rates for electric service.

Susquehanna Unit 2 Rate Filing

About two-thirds of the \$330 million rate request now pending before the PUC relates to the net cost of bringing the second Susquehanna unit into commercial operation. To moderate the impact on customers, the company has requested that this rate increase be phased in over a period of several years.

With both Susquehanna units in commercial operation, and with no major new construction on the horizon, we anticipate that we are entering a period of relatively stable rates for electric service. This will help us to achieve our kilowatt-hour sales growth objectives and more effectively promote the economic development of Central Eastern Pennsylvania.

As we successfully conclude the most challenging construction period in the company's history, we recognize that the dedication of our employees and the support of our investors is what made this significant achievement possible. It is this winning combination that continues to give us confidence that we will successfully meet the challenges ahead.



Respectfully submitted,

Robert K. Campbell
March 1, 1985

Operations

PP&L's number one operating priority is to provide its employees with the tools, equipment and training necessary to achieve a fatality-free and safe work environment. With the end of 1984, PP&L's 8,000-plus employees had worked four consecutive years without an on-the-job fatality. In the company's 64-year history, there were only five other fatality-free years — none of them consecutive.

Additionally, the incidence of lost-time accidents was the lowest in the history of the company, and was a reduction of 27 percent from 1983. Considering that many jobs in electric utilities, by their nature, involve hazardous conditions, these are particularly gratifying achievements for the company and those who make it work.

Earnings

Earnings for 1984 were \$3.12 per share of common stock, compared to \$3.06 for 1983. The slight earnings improvement can be essentially attributed to increased electric sales, which were related to weather and improved economic conditions.

Dividend Increases

The quarterly dividend on PP&L's common stock was increased 2 cents per share to 62 cents beginning with the April 1, 1984 dividend. The dividend had been 60 cents since April 1, 1983.

Revenues and Sales

Operating revenues increased \$314 million to \$1.56 billion for 1984. The increase came from higher sales, which reflected an improved economy over the several previous depressed years, as well as a full year's effect of the \$203 million increase in rates approved in August 1983.

PP&L's residential customers used 3.9 percent more electricity in 1984 than in the previous year. Commercial and industrial usage increased by 6.7 percent, and 6.5 percent respectively. Overall energy sales were up 6.3 percent.

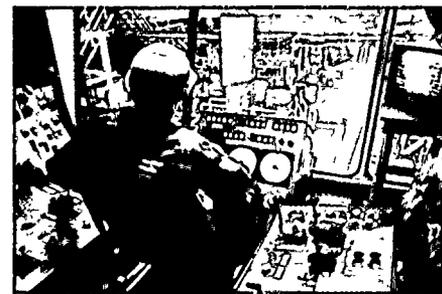
Even after adjusting the residential and commercial customer gains for the colder-than-normal temperatures in early 1984, a substantial gain in usage is evident. All of the industrial increase, and about three-quarters of the commercial increase, is unrelated to the weather and provides an indication of better economic times in Central Eastern Pennsylvania.

Demand Reaches New Peak

An early-season hot spell led to a new summertime peak demand by both PP&L customers and customers of the Pennsylvania-New Jersey-Maryland (PJM) Interconnection — the power pool in which the company operates. The new summer peak for PP&L was 4.19 million kilowatts recorded on June 11, 1984. This broke the previous record of 4.03 million kilowatts set in September 1983.

The PJM peak demand of 35.3 million kilowatts was recorded on June 13, 1984. The previous high was 34.7 million kilowatts, registered in September 1983.

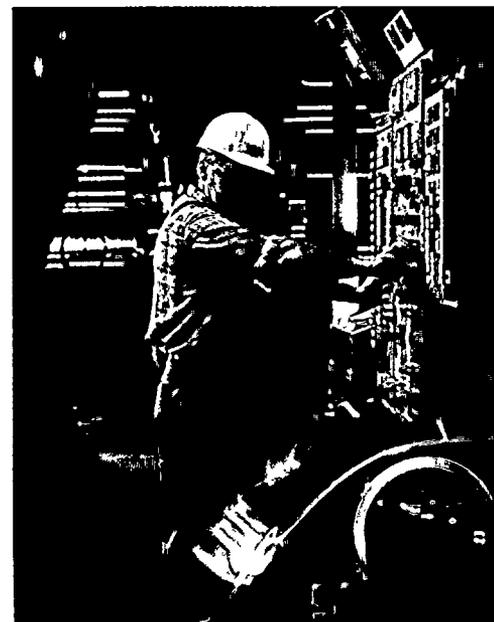
Electric induction furnaces melt scrap steel at Koppers Co.'s Sprout-Waldron Div. foundry in Muncy. The resulting molten metal is shown at right being poured into a ladle before its transfer into molds to form industrial machinery parts. Electric energy also powers one of the world's most modern and largest structural steel rolling mills (A) at Bethlehem Steel Corp.'s Bethlehem plant. The facility can turn out structural shapes in 250-foot lengths at the rate of one a minute. At Alumax Aluminum Corp.'s Lancaster plant, aluminum is cold-rolled from 15,000-pound ingots into rolled sheets (B) a fraction of an inch thick in an electric-intensive process computer-controlled from the console shown at the bottom of the page (C).



A

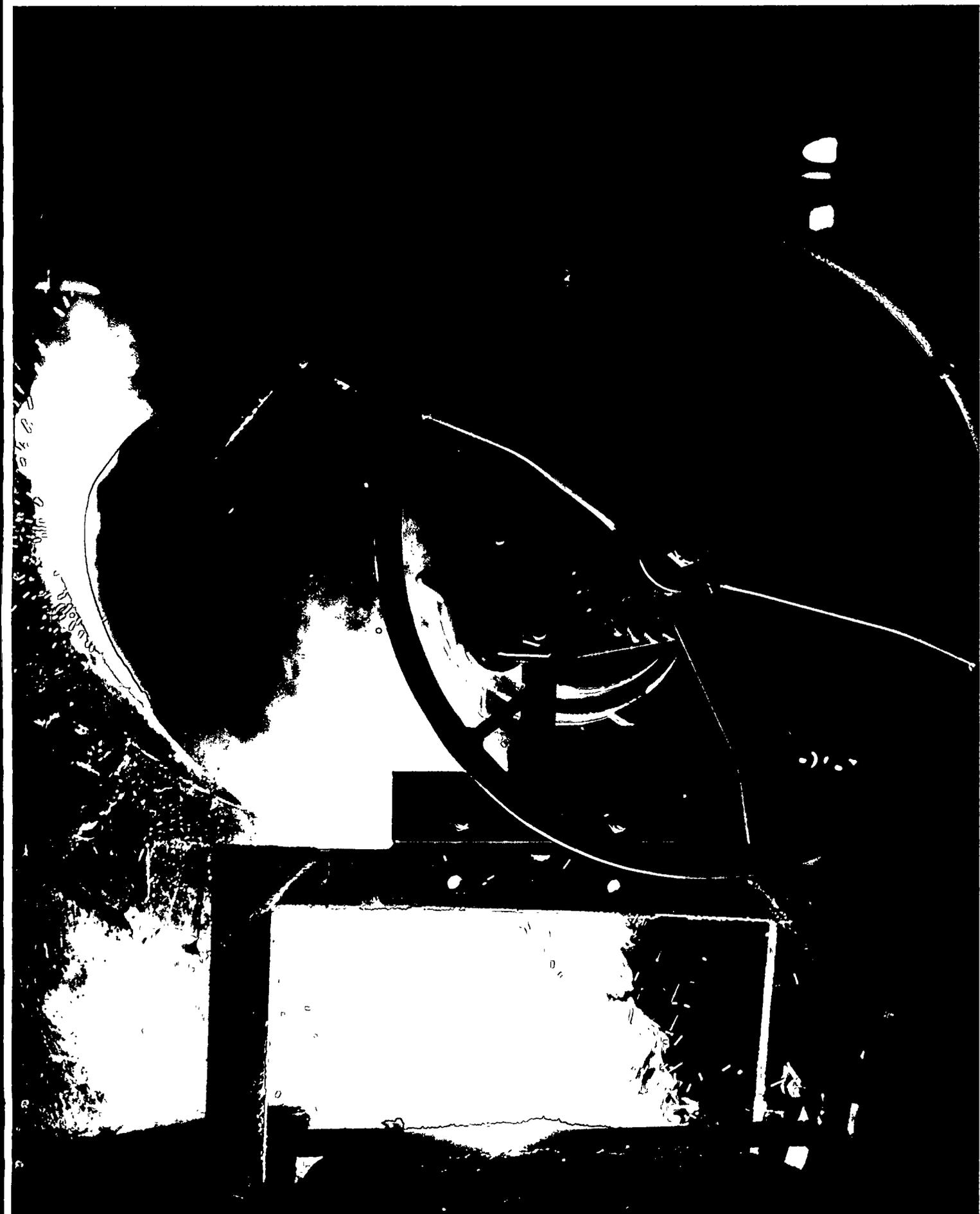


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PROVIDES INDUSTRY



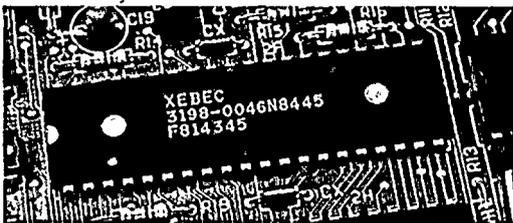
ELECTRICITY PROVIDES TECHNOLOGY



PP&L's service area boasts a number of high-technology companies. The technician at A. Johnson & Co. of Morgantown (left), makes an adjustment to controls for a 2,000-kilowatt electron-beam furnace used to melt scrap titanium into ingots for reuse. Titanium is a strong, lightweight metal widely used in the defense and aerospace industries. A technician tests equipment (A), at Accu-Sort Systems Inc. of Telford, that utilizes laser-beam technology to read universal bar codes for commercial inventory and parcel routing control. Components for computer disk drives (B) are assembled at a Xebec Inc. plant near Allentown. Xebec located in the Lehigh Valley largely due to services provided by the Ben Franklin North East Tier Advanced Technology Center (see page 16). Pure silicon crystals are "grown" in a high-temperature electric-intensive process (C) at AT&T's Allentown works. The crystals are sliced into thin wafers to become memory chips for the semiconductor industry.



A



B



C

Unlike most PJM companies, PP&L is a winter-peaking utility because of its large percentage of electric-heat customers. The previous PP&L winter peak use record of 5.21 million kilowatts, set in January 1982, was shattered during a record-breaking cold spell in early 1985. The new winter peak is 5.52 million kilowatts recorded on Jan. 21, 1985, when temperatures across PP&L's service territory dipped below zero.

Power Sale Negotiated

In August 1983, as part of the rate decision that recognized Susquehanna Unit 1 in PP&L's rate base, the Pennsylvania Public Utility Commission (PUC) ruled that PP&L had 945,000 kilowatts of surplus generating capacity, and would not be allowed to earn a return on \$287 million of its net investment in generating facilities representing that surplus.

After several months of discussions, PP&L signed an agreement in March 1984 which makes 945,000 kilowatts of the company's generating capacity and related output available to Jersey Central Power & Light Co. (JCP&L), a New Jersey utility. This amount is covered by the contract through the end of 1995, and decreases annually thereafter until the expiration of the contract in 1999.

Under the agreement, the capacity and energy would not come from any one plant, but instead represents a proportionate share of each generating unit on the PP&L system. JCP&L will pay the cost of the portion of PP&L generation being made available — including an appropriate return on investment in that generating capacity.

The Federal Energy Regulatory Commission (FERC) accepted the agreement in May 1984. As of early February 1985, the contract was still pending review by the New Jersey Board of Public Utilities.

Cogeneration Agreement

Pennsylvania's first large-scale coal-cogeneration agreement was signed in May 1984 between PP&L and the Lock Haven, Pa., mill of Hammermill Paper Co. Cogeneration is the simultaneous generation of both electricity and heat energy by a utility customer.

The agreement was the first in the state implemented under the 1978 Public Utility Regulatory Policies Act, which requires utilities to buy electric power from private energy developers.

The Hammermill facility was completed near the end of 1984. It burns bituminous coal to produce steam and electric energy. Under the agreement PP&L will buy any electric energy Hammermill produces beyond its own needs. The electricity is purchased under PP&L's Shared Benefit Rate program established in 1982 to encourage cogeneration. Over the term of the agreement, the price PP&L pays for this energy is expected to be below the incremental cost of energy available elsewhere in the power pool. This provides a cost benefit which can reduce the overall cost of energy to PP&L customers.

Construction Expenditures

Reflecting the wrap-up of construction at PP&L's Susquehanna nuclear plant, construction budget figures for

1985 and 1986 are down significantly to \$272 million and \$274 million, respectively. Expenditures for the following several years are expected to stabilize at about \$275 million a year.

While ongoing modifications during 1985 and 1986 at Susquehanna will require about \$105 million, the biggest portion — about \$126 million — will be spent on the company's existing non-nuclear generating plants. Much of this money will be used for projects which are part of an extended life program.

This program, which is a key corporate goal, includes efforts to extend generating plant life and to maintain and improve the performance of existing power plants. The aim is to extend as far as possible into the next century, the time when expensive new generating units will be required.

Rate Activities

The company had petitioned the FERC in November 1983 for about a 20 percent average increase in rates for 15 boroughs and one investor-owned utility which buy power from PP&L and resell it to their own customers. The increase was to have been effective in January 1984.

The resale customers agreed not to contest the increase and PP&L agreed to delay implementation until March 1984. The FERC accepted the settlement as negotiated, which will increase PP&L's annual revenues by about \$4 million.

Interruptible Rates

In April 1984, PP&L proposed an interruptible service plan for large-power customers to help attract new industries to the company's service area, and to help make some large industrial customers more competitive with those in other states and countries.

The proposal was designed to lower energy costs and, at the same time, limit peak load growth on PP&L's system. Slowing the rate of growth in peak demand — the time of highest overall energy consumption by PP&L customers — can help the company defer construction, and the costs of new generating plants, into the 21st century.

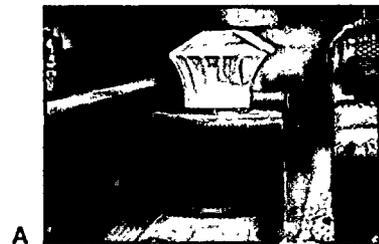
The interruptible rates, which were approved by the PUC and implemented on July 1, 1984, are available to large industrial customers who agree to the interruption of their electric use under certain specified conditions.

This allows the company to utilize its generating capacity for residential customers and others who have a firm commitment for power. It can also permit a greater volume of sales to the power pool when the power is most critically needed, and when the company can realize a higher price for these sales. The amount received from power pool sales, above the cost of power production, is passed on to PP&L customers in the form of lower energy charges, thus lowering the overall cost of service in the company's service area.

Rate Increase Requested

The company, on July 27, 1984, asked the PUC to allow an annual increase in rates of \$330 million, or about 23 percent, to be phased in over several years. About two-thirds

Electricity touches people's lives in many ways that are taken for granted. Oxygen for medical purposes, as well as other industrial and commercial gases for welding and a myriad of other purposes are produced by separating the atmosphere at an Air Products and Chemicals, Inc. plant in Lancaster. The electric-intensive cryogenic distillation process requires temperatures 300°F and more below zero. In the photo to the right the liquefied gases are pumped from storage tanks into insulated tank trucks. The simple push/pull valves on detergents (A) are molded, counted and packed by the heat, motion and precise control instrumentation of electricity at the Mack Wayne Closures Div. of the West Co. in Williamsport. Hardwood boards destined for furniture and other consumer products at Meiser Lumber Co. in Millerstown (B&C) were aligned by laser beams for precision cutting and milled by constant-speed saws controlled by the precision of electricity. Like a number of other saw mills in PP&L's territory, Meiser Lumber recently switched from diesel power to all-electric operation for economy and dependability.



A



B



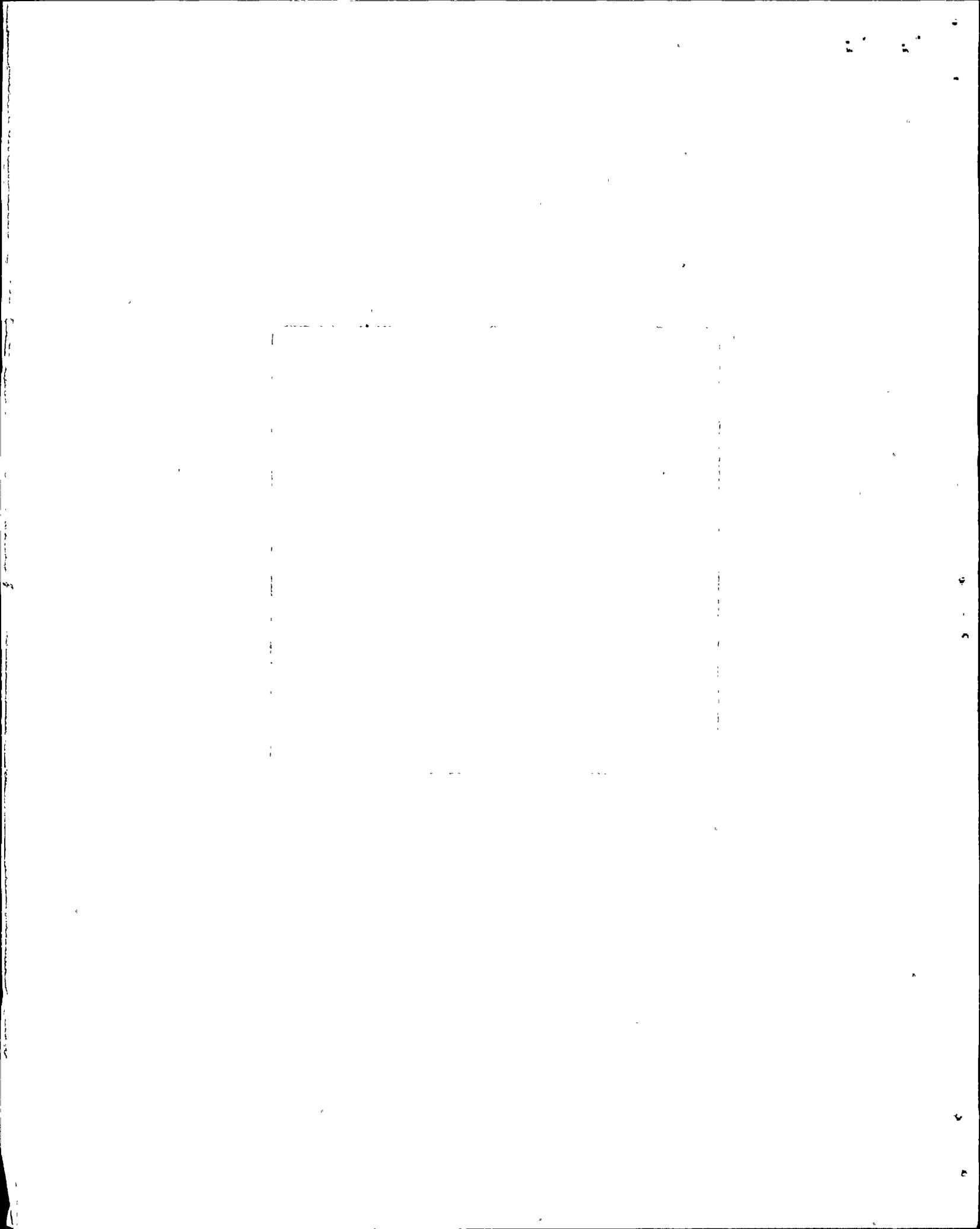
C

Annual Meeting

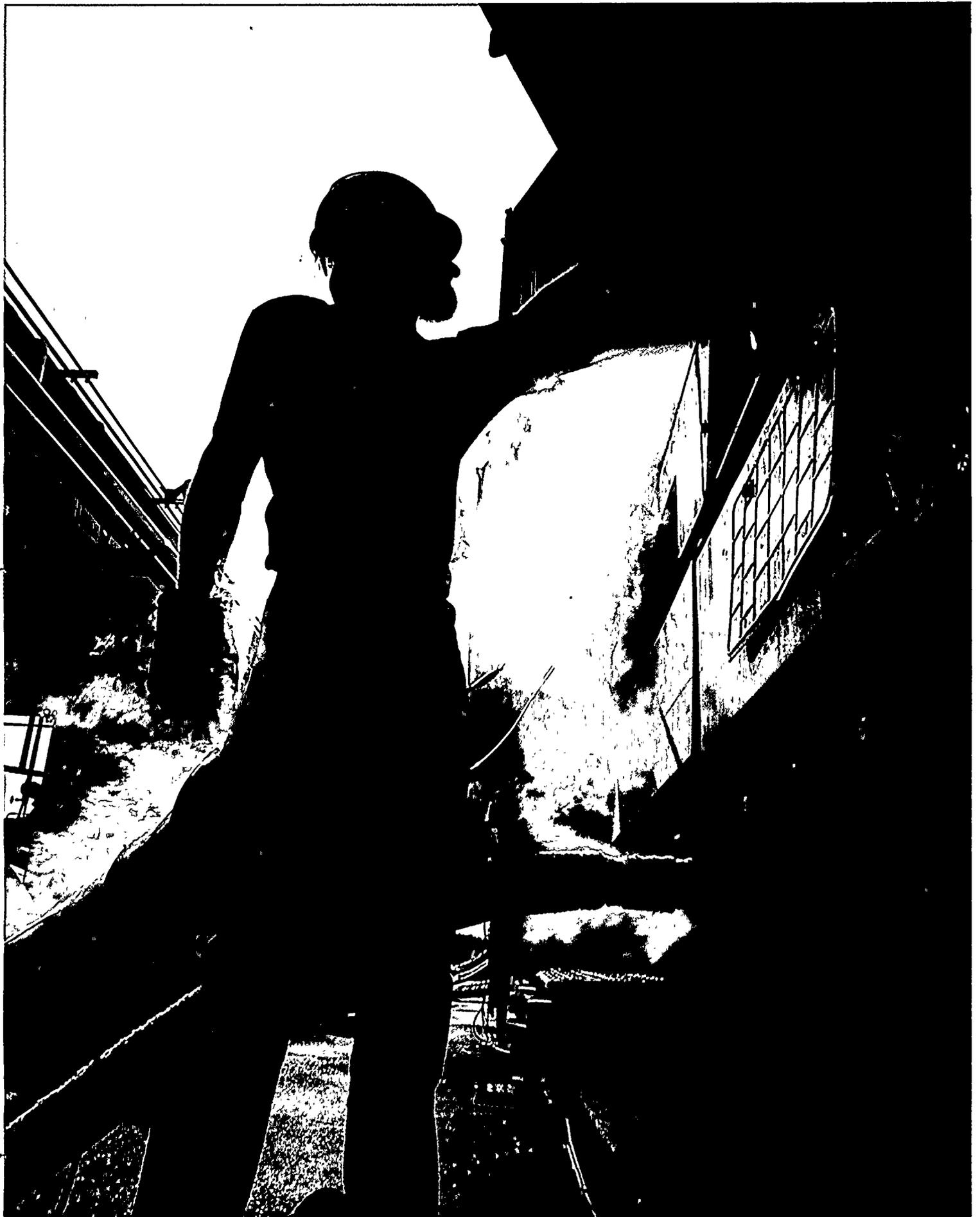
The annual meeting of shareowners will be held at the Williamsport Scottish Rite Auditorium, 348 Market St., Williamsport, PA 17701, on Wednesday, April 24, 1985. Formal notice of the meeting, together with a reservation card for meeting attendance, will be mailed to shareowners of record March 8, 1985, on or about March 19, 1985.

PP&L Profile

Each year the company publishes the PP&L Profile containing more in-depth information about the company than is available in the annual report. The Profile includes a 10-year statistical review and discussion of some of the critical issues facing PP&L now and in the years ahead. If you would like to receive the 1974-1984 Profile, fill out, detach and mail the card on this flap.



PROVIDES PRODUCTS FOR LIVING



ELECTRICITY PROVIDES LIFESTYLE



Electricity affects the quality of life. An Allentown real estate developer of historic properties enjoys an at-home movie with a video cassette recorder — one of the most popular items in today's consumer electronics market. A Millersville University professor and his family (A) enjoy their jacuzzi/greenhouse area in the home they designed and built. In addition to its recreational and therapeutic benefits, the jacuzzi is part of the water-source heat pump which warms the home in winter and cools it in the summer. The greenhouse provides passive-solar gain during the winter heating season as part of its energy-efficient design. A Selinsgrove architect/developer and his wife (B) enjoy late-night refreshments in their all-electric home, which was designed around the versatility of electricity in lighting, heating, cooling, cooking and dozens of other applications which enhance their lifestyle.



A



B

of the increase would recognize in base rates the company's investment in, and cost of operating, Susquehanna Unit 2. The remaining third would represent recovery of other higher costs of doing business since the August 1983 increase.

To moderate the effects of the increase, the company proposed that the full amount not be collected immediately, but rather be phased in over several years. Only half of the request, or \$165 million, would be collected in the year starting on April 26, 1985. That amount represents about an 11.5 percent increase.

The second \$165 million increment would go into effect the following year, beginning April 26, 1986. The \$165 million that was not collected in the first year would be deferred without interest and recovered in several subsequent years.

If the plan is approved by the PUC, PP&L would become the first utility in Pennsylvania to voluntarily provide a rate phase-in.

As with its previous rate increase request, PP&L filed a "net" request. The \$330 million figure is the net of, or difference between, the company's total revenue needs of \$466 million and energy cost savings of \$136 million expected from the operation of Susquehanna Unit 2. The bottom line for PP&L customers would be the \$330 million increase in base rates, plus a proportionate increase in the Pennsylvania tax surcharge, amounting to approximately \$18 million.

Hearings Held

As expected, the PUC ordered full public hearings on the requested rate increase. A total of 19 technical evidentiary hearings were held in Harrisburg, beginning in late October 1984 and continuing through December 1984. In addition, public input hearings were scheduled by the PUC, and held in each of the company's six operating divisions to give customers another opportunity to express their views. The PUC is expected to reach a decision on the rate increase request by April 26, 1985.

Weatherization Program

In early December 1984, in response to a PUC order, the company asked the commission to approve a proposal for a \$2 million weatherization program aimed at assisting low-income customers in cutting energy losses from their homes.

Called WRAP (Winter Relief Assistance Program), the plan is directed at low-income PP&L customers who use electricity for space heating or water heating. Included in the program's first-year goals are: the weatherization and caulking of 2,000 or more homes of low-income customers with electric space heating; and a loan program for improvements to about 2,000 multi-family rental units occupied by low-income people.

WRAP grew out of a PUC investigation into how the company's rate structure affects low-income customers. After concluding the investigation in August, the commission asked the company to broaden its existing weatherization program to include those customers. The PUC later set a spending level of \$2 million a year, and the company asked the commission to allow a monthly 20 cent charge per residential customer to fund the program.

The program, with modifications, was approved on Jan. 17, 1985 and was to be put into effect March 1, 1985. The overall amount that customers will pay for the program, as well as the method of collection, will be part of the overall rate increase decision in April 1985.

Security Sales

The company raised \$538 million in the capital markets during 1984.

The sale of \$125 million of first mortgage bonds in April and another sale for the same amount in November raised \$250 million for the company. Interest rates for the two offerings were 13.50 percent and 12.75 percent, respectively.

The Lehigh County (Pa.) Industrial Development Authority issued \$153 million of its tax exempt 10.625 percent revenue bonds in 1984 to finance pollution control and solid waste disposal equipment at the company's Susquehanna plant. The authority bonds are backed by PP&L first mortgage bonds issued with terms identical to the revenue bonds.

In April, \$50 million of depositary preference shares were sold in a public offering. Each depositary preference share represents one-quarter share of the company's \$13.68 preference stock.

Another \$85 million was raised during 1984 through the direct issue of common stock under the company's dividend reinvestment plan. With the completion of Susquehanna and the downturn in financing requirements, the company will no longer have to issue new common stock. As a result, beginning with the Jan. 1, 1985 dividend, the plan was amended to provide for shares of common stock to be acquired in the open market with no discount in the purchase price.

Because the common stock is being acquired in the open market, dividends which are reinvested during 1985 will not qualify for the \$750 (\$1,500 on a joint return) exclusion provided by federal tax laws.

Susquehanna Project

1984 was another year of milestones for the company's Susquehanna nuclear plant near Berwick, Pa. These activities were capped when Unit 2 was placed in commercial operation on Feb. 12, 1985.

- The year began on a high note for the company when an evaluation by the Institute of Nuclear Power Operations (INPO), released in early February, provided confirmation that the plant is being operated in a safe manner by qualified personnel. INPO, an industry-sponsored organization, conducts evaluations of all operating commercial nuclear plants in the United States. The INPO team visited PP&L in September 1983 and examined the Susquehanna plant organization and administration, technical adequacy of the facility operations, maintenance, technical support, personnel training and qualification, radiological protection, and chemistry monitoring.
- Mechanical and electrical connections between Unit 1 and Unit 2 were completed in February allowing Unit 1 to be placed back in service after an 11-week outage, and clearing the way for Unit 2 to begin test operation.

Electricity provides many options to keep people comfortable. A young Hazleton family chose a supplemental electric storage system for their new home (right). Their SESS features a modified heat pump that utilizes an insulated 120-gallon water storage tank that is heated or "charged" during off-peak hours to serve as a source of stored heat during on-peak periods. Special off-peak rates make this an attractive residential load management option. A couple staying at the Lackawanna Hilton Hotel (A) in Scranton enjoys the convenience of an individually controlled heat pump unit in their room. The room units have the versatility which allows heating rooms in some parts of the building, while cooling others on the sunny side of the hotel — an advantage for days of in-between weather where all-heating or all-cooling systems would leave some rooms uncomfortable. A retired woman in the newly completed Nottingham Village Retirement Center (B) can control her own comfort level. Each apartment has its own unit allowing all residents to set the heating/cooling temperature that suits their individual needs.



A



B

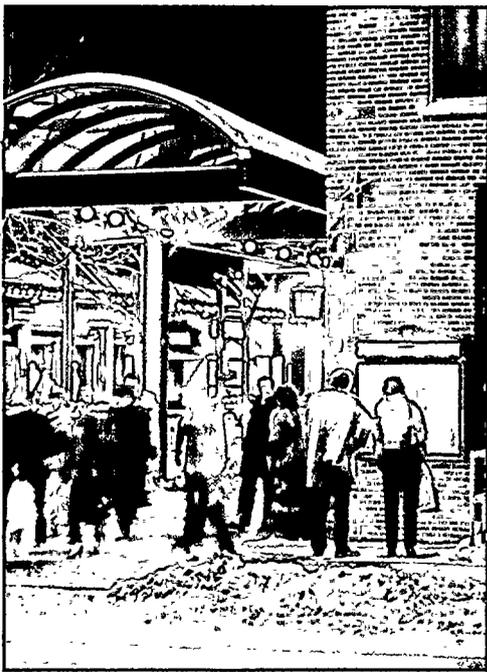
PROVIDES COMFORT



ELECTRICITY PROVIDES LIGHTING



Electric lighting serves many purposes. Using PP&L's innovative new off-peak greenhouse rate, J. L. Dillon Inc., a wholesale florist in Danville, can use supplemental high-intensity lighting (left) to stretch the growth period of its crop to 24 hours a day. The commercial rose grower thus can produce more flowers than if only daylight were used. The lights also help heat the greenhouse. Electric lighting aids commerce, by providing a safer and cheerier nighttime environment (A) for downtown shoppers patronizing stores along Allentown's Hamilton Mall. In addition to all the lifestyle and comfort amenities that electricity powers inside an all-electric Hazleton home (B), it also provides security and accent lighting outside.



- The Nuclear Regulatory Commission (NRC) granted an operating license for Unit 2 on March 23, and the first of 764 fuel assemblies was loaded into the reactor five days later. Fuel load went extremely well and was completed April 13, eight days ahead of schedule.
- An NRC-observed drill, conducted in early April to test the company's emergency preparedness and response capabilities, earned the company high marks from that regulatory body.
- In May the company completed negotiations to purchase nuclear fuel originally intended for use in an Ohio nuclear plant that was cancelled. The purchase will result in a savings of at least \$10 million compared to buying similar quantities of nuclear fuel on the open market.
- Also in May, the company received a report on an NRC review of Susquehanna plant operations, conducted before the Unit 2 license was issued. The report commended the way the company is managing and operating the facility.
- A license granting the company permission to gradually take Unit 2 up to full-power operation was issued by the NRC on June 27, and on July 3 the unit produced its first kilowatt-hours of electrical energy.
- After a series of meticulous checks and tests to assure the integrity of all the plant's safety and operating systems, the unit reached 100 percent power on Sept. 28.
- The 1,230 people of the company's Nuclear Department also passed a milestone in mid-December — an unprecedented company safety record of 3 million employee-hours without a lost-time accident.

Coal Supply

In mid-December 1984, after more than 20 years of producing bituminous coal for PP&L power plants, Lady Jane Collieries ceased underground mining operations after all recoverable coal reserves were depleted. Lady Jane is a PP&L subsidiary and had provided the company with about 250,000 tons of bituminous coal annually — or more than 5 million tons throughout its operation.

The coal-cleaning plant and related loading facilities at the Lady Jane site will continue to be used to process purchased coal for PP&L power plants.

Unit Train System

The 5,000th unit train delivery of bituminous coal to the company's Brunner Island power plant near Harrisburg, Pa. took place in May 1984. PP&L unit trains — which each trip carry 10,000 to 13,000 tons of coal in more than 100 cars — have been operating for 20 years and have delivered over 100 million tons of coal in 10,000 trips to PP&L power plants

Silt Fees Paid

After several legal appeals, PP&L in late December paid the Office of Surface Mining in the Department of the Interior more than \$2 million in contested coal land reclamation fees and interest.

At issue was whether the 1977 Federal Surface Mining Control and Reclamation Act applies to the removal of waste piles containing anthracite silt. The company's position was that removal of the silt is not surface mining of coal and should not be subject to the fee.

The fees are passed through to the company by silt suppliers, and are a cost of fuel which PP&L customers must eventually bear on electric bills.

Anthracite silt — a fine waste product that results from washing anthracite — is an approximately equal mixture of anthracite and non-coal waste material. Low in sulfur, but also low in energy content, silt can be burned only when enriched with higher quality coal or petroleum coke. The low-cost silt is used as part of the fuel mixture for generating units at the company's Sunbury and Holtwood power plants.

Marketing/Economic Development

The company's strategy for the '80s is to market its strong capacity situation, and its abundant supply of electric energy, in ways that will provide economic benefits for Central Eastern Pennsylvania. In 1984, PP&L aggressively stepped up its marketing activities in an effort to promote new jobs and increased production among industrial and commercial firms in the company's service area.

A goal of developing a net increase of 5,000 new jobs for the area was met and exceeded as 124 new or expanding firms provided a net increase of 5,316 jobs in PP&L's service territory in 1984.

In February 1984, the PUC endorsed economic development initiatives, including rate schedule and tariff rule changes, that provide incentives for existing customers to remain in PP&L's service territory and increase production, and for new customers to locate within the state.

The rate schedule changes could affect nearly 900 industrial and commercial customers who use time-of-day metering and billing. Customers who take advantage of this option pay lower electric rates during off-peak hours, when overall electric use is less.

The first customer to take advantage of the interruptible rate incentive discussed earlier, was an energy-intensive air separation plant in Lancaster, Pa. This rate is particularly attractive to certain customers which have a very high energy use in their production facilities.

An innovative rate put into effect in late 1983 helped to make the greenhouse industry in Central Eastern Pennsylvania more competitive during 1984.

The rate provides an off-peak incentive for greenhouse operators who use supplemental lighting in their crops' growing process. The incentive rate was offered with the understanding that the company would be able to interrupt the lighting load with one hour's notice, if the electricity was needed elsewhere during periods of peak use.

Ben Franklin Partnership

Advanced technology has the potential to make a positive contribution to Pennsylvania's economic future. The development and attraction of high-technology industries, coupled with the revitalization of traditional industries, can mean

A retired guest relaxes in the sunroom (right) at the all-electric, energy-efficient Nottingham Village Retirement Center. Nottingham Village is an example of a new concept in retirement communities. Built adjacent to a modern nursing and convalescent facility, the center provides individual apartments for its guests who can also use common living, recreation and dining areas, which provide a sense of community. Should they be needed, doctors, nurses and advanced health care equipment are only moments away at the nursing facility. Electricity also powers modern, high-tech health care equipment at St. Joseph's Hospital in Hazleton. A technician prepares a patient (A) for diagnosis using a computed tomography (CT) scanner, which can x-ray a very thin slice of anatomy, providing a three-dimensional image clear through the body.



A

PROVIDES HEALTH CARE



ELECTRICITY PROVIDES RECREATION



Electricity helps people have fun. Besides providing high-intensity lighting to enable skiers to pursue their sport after dark, electricity also powers the 1,500 horsepower compressors necessary for the snowmaking equipment at Tanglwood Ski Area near Lake Wallenpaupack. With PP&L's off-peak rate incentives, Tanglwood is one of a number of ski areas that found it economical to switch to all-electric operation from diesel-powered compressors. Young and old alike enjoy one of the thrill-rides (A) at Dorney Park near Allentown. The attractions in the 100-year-old park are powered by electric motors with a combined total of nearly 900 horsepower. Overhead lighting provides 24-hour-a-day recreation opportunities at the Allentown Racquetball Club (B). Electricity also makes possible the therapeutic benefits of steam rooms, saunas and jacuzzi whirlpools at the club.

A



B



more and better jobs for Pennsylvanians. A major step to bring about these improvements was taken in 1982 when the Commonwealth of Pennsylvania instituted the Ben Franklin Partnership Challenge Grant Program for Technological Innovation.

This led to the establishment of four locally supported consortiums and advanced technology centers across Pennsylvania. PP&L is a supporting member of the North East Tier Advanced Technology Center at Lehigh University, Bethlehem, Pa.

The consortium, made up of representatives from business and industry, education, organized labor, economic development groups and financial institutions, has established three primary objectives:

- To help established industries implement new technologies to improve productivity and profitability.
- To diversify the economic structure of the region by attracting both large and small advanced technology firms.
- To assist start-up firms, or "incubator companies," through its varied resources.

The North East Tier Advanced Technology Center has chosen four areas of concentration:

- CAD/CAM (computer aided design/computer aided manufacturing).
- Research programs in the polymer sciences, composite materials, and man-made sources of fiber, rubber and plastics as viable alternatives for use in automobiles, airplanes and furniture.
- Microelectronics, or solid-state technology using the silicon chip as the basis for devices in control systems, computers, appliances and communication products.
- Biotechnology, which explores the use of microorganisms, plant and animal cells, and enzyme catalysts, to develop new technologies to convert these raw materials into new products.

The Ben Franklin Partnership is already making a noticeable impact in PP&L's service area, and as its momentum grows is expected to provide new job opportunities that did not exist just a few years ago.

Management Changes

Robert R. Fortune ended a PP&L career of nearly 36 years when he retired July 1, 1984, as executive vice president-Financial.

Fortune joined PP&L in 1948, after starting his financial career as an accountant with the public accounting firm of Haskins and Sells in 1940. He became assistant treasurer in 1952 and comptroller in 1954. He was named vice president-Financial in 1966, and in 1975 he became executive vice president and a director of the company. In anticipation of his retirement, he did not stand for re-election as a director at the April meeting of shareowners.

Succeeding Fortune was Charles E. Russoli who became senior vice president-Financial and a member of the company's Corporate Management Committee effective March 1, 1984. He became chief financial officer upon Fortune's retirement.

Russoli joined PP&L in 1955 as a graduate trainee. After serving for two years in the U.S. Army he returned to PP&L and held various data processing positions until his promotion to financial analyst in 1965. He became manager-Budgets in 1969, manager-Financial Planning and Reporting in 1971, vice president-Finance in 1979, and vice president and treasurer in 1981.

John P. Kierzkowski was appointed vice president and treasurer effective March 1, 1984. Kierzkowski joined PP&L in 1971 as manager-Financial Research and was named assistant treasurer in 1981.

John R. Biggar was named vice president-Finance on March 1, 1984. He joined PP&L in 1969 as an attorney in the Legal Department. He became manager-Financing Services in 1975 and manager-Finance in 1979. He had been an assistant treasurer since 1981.

Merlin F. Hertzog became an executive vice president on March 1, 1984, to head the company's newly created Corporate Services Department. He also was elected a director of the company at the board's February 1984 meeting.

Hertzog became executive vice president-Corporate Services after nearly 26 years with the company. He joined PP&L in 1958 as a mathematician specializing in engineering and scientific programming in the Financial Department. He held various data processing positions until he was named manager-Methods in 1968. In 1973, he was named director-Systems & Computer Services, and in 1978, he became vice president-Consumer & Community Services.

Hertzog was named to head the Human Resource & Development Department in 1980 and became senior vice president-HR&D in 1981.

Robert S. Gombos was named vice president-Human Resource & Development in the Corporate Services Department effective March 1, 1984.

Gombos joined PP&L in 1965 and was a home-heating representative until 1967 when he moved to Allentown as a staff assistant in Employee Relations. After four years in systems analysis, he became a labor relations analyst in 1972, then labor agreement administrator. He was named assistant director-Union Relations in 1974 and assistant to the executive vice president-Financial in 1977.

He became special assistant to the president-Susquehanna community representative in Berwick in 1979 and senior director-Industrial Relations in 1981.

Clair W. Noll was named vice president-Procurement & Computer Services in the Corporate Services Department effective March 1, 1984.

Noll joined PP&L in 1960 as a methods accountant. In 1962 he advanced to assistant supervisor-Computer Center and later served as senior procedures analyst. He was named supervisor-Business Computer Systems in 1969 and four years later he became manager-Systems & Programming. He was promoted to director-Systems & Computer Services in 1978.

William R. White was appointed vice president-Power Production effective March 1, 1984. White joined PP&L in 1950 as a results engineer at the company's former Stanton power plant, where he advanced through several positions to assistant superintendent.

He was transferred to PP&L's Brunner Island power plant as supervisor of operation in 1969. A year later he was promoted to plant superintendent. In 1973 he was transferred to Allentown as manager-Power Production.

One of the applications of electricity that is perhaps most taken for granted is refrigeration (right). In just a few generations, people have gone from iceboxes and everyday trips to the grocer or butcher, to reliable, virtually trouble-free electric refrigerators which can store fresh food for days or weeks, and frozen food for months. Refrigeration has literally changed the way our society functions. Frozen convenience foods, such as the chicken rondelets being packaged (A) at Victor F. Weaver, Inc. in New Holland, often play a big part in meal planning for busy, on-the-go families without the time for from-scratch meal preparation. Conversely, electricity powers the efficiencies and work-saving appliances that allow from-scratch institutional food preparation (B) at Millersville University in Millersville. The university is converting to all-electric operation to take advantage of the economies and reliability of PP&L electric service.



PROVIDES FOOD SERVICE



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

This review provides a discussion of the Company's financial condition and results of operations. Additional information on these matters is set forth in the financial statements, schedules and notes on pages 28-43 and the selected financial and operating data on pages 44 and 45.

Results of Operations

Earnings per share of common stock were \$3.12 in 1984, \$3.06 in 1983 and \$3.35 in 1982. The slight earnings improvement in 1984 was primarily attributable to a 6.3% increase in electric energy sales during the year. The increased revenues associated with the higher sales somewhat offset the effects of an inadequate rate increase allowed by the Pennsylvania Public Utility Commission (PUC) in its August 1983 rate decision.

The decline in earnings per share in 1983 compared with 1982 reflected a partial year's effect of the inadequate rate increase and also the effects of the economic recession early in 1983.

1983 Rate Decision

In August 1983, the PUC issued a final order on the Company's request to increase rates to reflect the effect of placing Susquehanna Unit 1 in commercial operation and the recovery of other increased costs. The PUC granted the Company an increase in base rate revenues of approximately \$203 million — some \$90 million less than the amount requested.

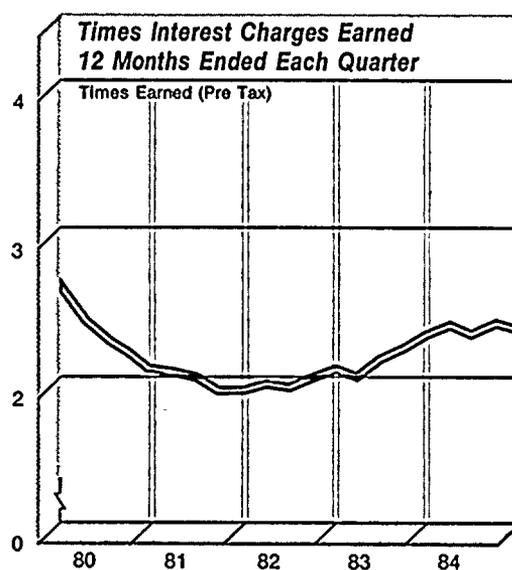
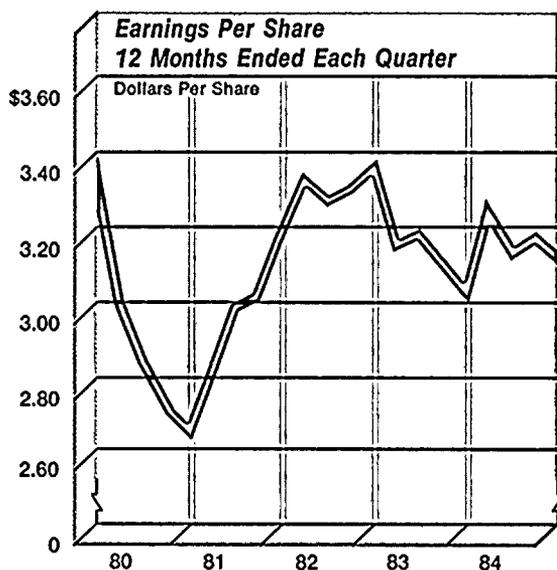
The return allowed on the Susquehanna Unit 1

plant investment included in rate base replaced the previously recorded non-cash allowance for funds used during construction. Costs such as employee wages, materials and supplies and outside skilled labor incurred to operate and maintain the unit were included in electric rates established by the PUC.

The rate decision, however, did not permit the Company to earn a return on \$287 million of its net investment in total generating facilities. The PUC decided that 945,000 kilowatts of the Company's total generating capacity was excess and this reduced annual revenues by about \$59 million. This disallowance has adversely affected earnings available for common shareowners. However, the Company expects to recover the return on investment disallowed by the PUC when the sale of capacity and energy to Jersey Central Power & Light Company (JCP&L) commences. See page 23 for a discussion of the JCP&L agreement.

1984 Rate Filing

In July 1984, the Company filed with the PUC for an overall increase in electric rates of approximately \$330 million. The increase reflects \$466 million related to the investment and operating costs of Susquehanna Unit 2 plus other increased costs of doing business less an estimated reduction of about \$136 million in annual energy costs associated with the operation of Susquehanna Unit 2. To moderate the impact of the increase, the Company has proposed to bill customers only one-half of the amount requested (\$165 million) in the first



year that new rates are effective. The full amount of the rate increase would be billed in the second year and recovery, without interest, of the amount not collected from customers in the first year would begin in the third year.

The issue of excess generating capacity has again been raised by certain parties in the current rate proceeding. However, the Company is unable to predict what action the PUC may take with respect to that issue or the Company's proposed rate phase-in plan. A decision by the PUC on the rate increase request is expected by April 26, 1985.

Sale of Capacity and Energy to JCP&L

The Company has entered into an agreement to provide JCP&L capacity and energy from 945,000 kilowatts of the Company's generating facilities. JCP&L will pay an amount equal to the Company's cost of service, including a return on investment in the generating facilities. The agreement will not become effective until the New Jersey Board of Public Utilities makes a determination that the agreement is in the public interest.

When the agreement becomes effective, the Company would expect to recover from JCP&L the return on investment in generating facilities disallowed by the PUC in its 1983 rate order. However, if the agreement does not become effective before the PUC reaches a decision on the Company's current rate increase request, the Company's earnings would be adversely affected because depreciation and the costs to operate and maintain the facilities included in the JCP&L agreement would no longer be recovered in rates charged customers.

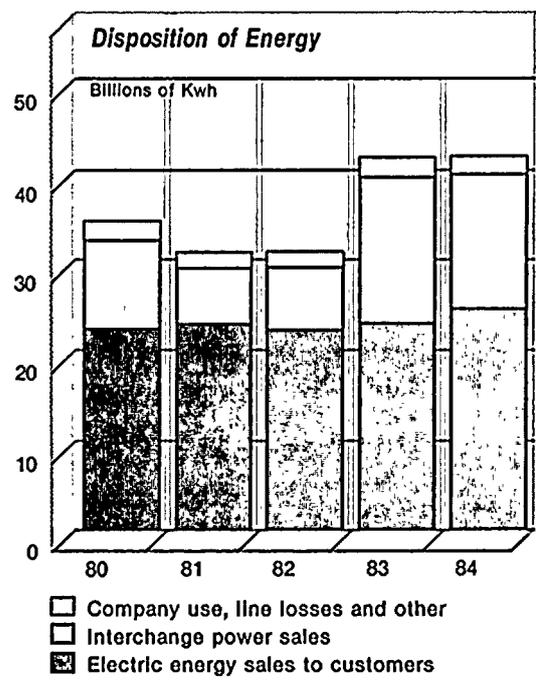
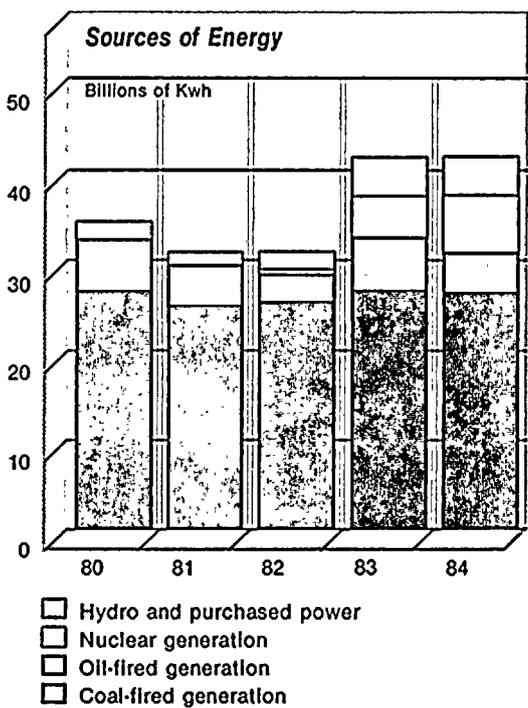
Electric Sales and Operating Revenues

Electric energy sales were 6.3% higher in 1984 than 1983 and 3.4% higher in 1983 than 1982. The increased sales result from improved economic conditions and extremely cold weather during the 1983-1984 winter season. If normal weather conditions had prevailed in both 1984 and 1983, energy sales in 1984 would have increased 5.1% over 1983.

When compared with 1983, residential sales for 1984 were up 316 million kwh or 3.9%, commercial sales increased 408 million kwh or 6.7% and industrial sales increased 494 million kwh or 6.5%. The Company also sold 148 million kwh more energy to Atlantic City Electric Company (Atlantic) in 1984 pursuant to an agreement whereby Atlantic purchases about 6% of the capacity and energy of the Susquehanna units.

The changes from the prior year in total operating revenues were attributable to the following (millions of dollars):

	1984	1983	1982
Electric			
Base rate increases	\$257.5	\$ 141.1	\$ 81.6
Recovery of fuel and energy costs	(17.0)	(153.9)	1.7
Change in customer usage	31.1	15.2	(3.6)
Sales to Atlantic City Electric Company . . .	13.3	18.5	
Other (principally tax surcharge)	<u>28.1</u>	<u>9.5</u>	<u>7.5</u>
Total electric	313.0	30.4	87.2
Steam heat	<u>1.4</u>	<u>(1.6)</u>	<u>(0.9)</u>
Total	<u>\$314.4</u>	<u>\$ 28.8</u>	<u>\$ 86.3</u>



Base rate increases for customers under the jurisdiction of the PUC went into effect January 1982 and August 1983. A large increase in sales of energy to other utilities during 1983 resulted in lower energy costs. This caused a substantial reduction in revenues applicable to recovery of such costs in that year.

Sales to ultimate customers accounted for approximately 96% of the Company's revenues from electric sales over the past three years. Such revenues are under the jurisdiction of the PUC. The remaining 4% of revenues relate to 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.

Net Cost of Energy

In total, the cost of fuel burned in 1984 was 6.2% less than in 1983. The decrease in fuel costs reflects principally less oil consumed by the Company's two oil-fired generating units where 1.5 billion less kwh were produced. This was partially offset by higher costs for coal and nuclear fuel. The energy produced by coal-fired stations was about the same in 1984 as in the prior year, but the cost of coal consumed was somewhat higher. At coal-fired stations the average cost of fuel per kwh generated increased by 4.8%. Susquehanna Unit 1 produced electricity throughout most of 1984 whereas it operated on a commercial basis for only a part of 1983. The increase in nuclear fuel costs in 1984 reflects the increased output from the unit.

In 1984, the quantity of interchange power sold to other utilities was 1.0 billion kwh lower than the all-time high of 16.4 billion kwh achieved in 1983. Sales to

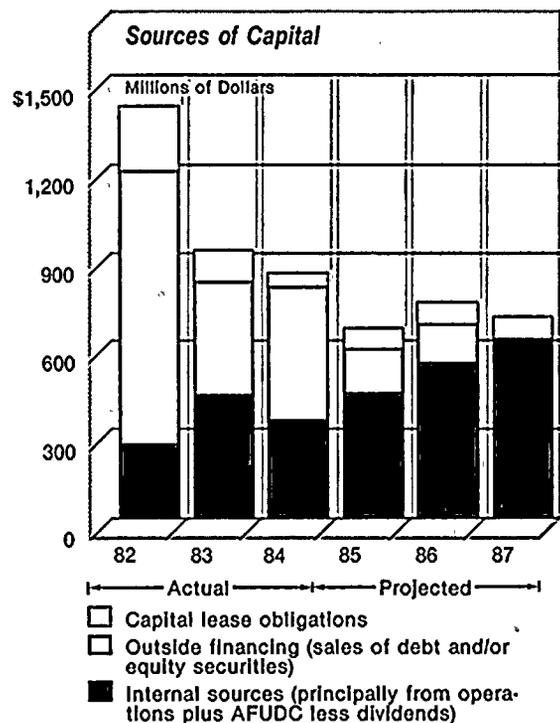
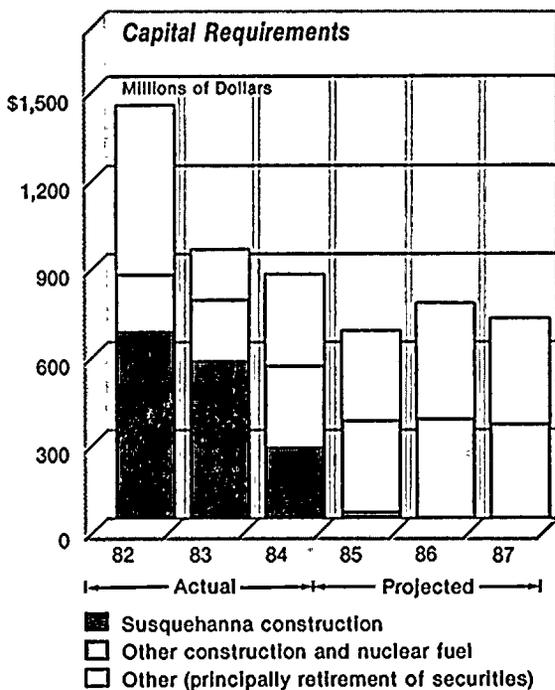
the Company's own customers increased 1.4 billion kwh, resulting in less energy being available for interchange sales. Susquehanna Unit 1 was out of service for about two months in early 1984 to permit a tie-in of common facilities with Unit 2 and for certain repairs. As a result, output from other units was required to meet customers' energy needs instead of being available for sales to other utilities. In addition, output from the Company's oil-fired steam station was down from 1983. This decrease was due in part to equipment problems and also to less need for energy from these units by other utilities.

Wages and Benefits, Other Operating Costs and Depreciation

Wages and employee benefits and other operating costs increased in both 1984 and 1983 due to inflation and costs related to operating Susquehanna Unit 1. Increases in depreciation reflect additions to plant in service, including Susquehanna Unit 1 in 1983. The provision for depreciation, as a percent of average depreciable property, declined from approximately 3.3% in 1982 to 2.7% in 1983 and to 2.5% in 1984 primarily due to the use of a modified sinking fund method of depreciation for the Susquehanna plant in accordance with rate-making treatment.

Income Taxes

In 1982, 1983 and 1984, the Company had losses for income tax purposes. The large amount of interest expense incurred to finance construction expenditures and the depreciation for income tax purposes of Susquehanna Unit 1 and Unit 2 were major factors



causing the tax losses. At December 31, 1984, the Company had tax loss carryforwards of approximately \$100 million for both federal and state income tax purposes.

The Company's construction expenditures have enabled it to qualify for substantial investment tax credits. At the end of 1984, an estimated \$273 million of unused investment and payroll-based tax credits were available to reduce federal income tax liabilities in future years.

For additional information concerning income taxes, see the Schedule of Taxes on page 35 and Note 6 to Financial Statements.

Capital Expenditure Requirements

When Susquehanna Unit 2 was placed in commercial operation on February 12, 1985, it marked the end of an extensive period of generating plant construction by the Company. In the past 20 years, the Company has placed into service eight large generating units (four coal, two oil and two nuclear). In addition, the Company participated in the construction of four jointly owned coal-fired units during the period. Completion of the two nuclear-fueled generating units at the Susquehanna plant has dominated the Company's construction program for the past several years. The cost of the Company's 90% share of the two Susquehanna units is expected to be about \$3.7 billion. Construction expenditures for the next several years are expected to decrease substantially from the levels recently experienced since no new generating units will be under construction.

The schedule below shows actual construction and nuclear fuel expenditures for the years 1982-1984 and

current projections for the years 1985-1987. Construction expenditures during the three years 1982-1984 totaled \$1.8 billion and are expected to be about \$0.8 billion during the three years 1985-1987, a decline of approximately \$1.0 billion from the prior three years.

Allowance for Funds Used During Construction (AFUDC)

The amount of AFUDC recorded in 1984 was less than in 1983, the first decrease following a decade of steady increases which were due to the greater level of construction work in progress related to the two Susquehanna units. The Susquehanna units accounted for about \$652 million of the total \$667 million of AFUDC recorded during the three years 1982-1984. AFUDC will decrease substantially in 1985 following completion of Susquehanna Unit 2. See Note 7 to Financial Statements for additional information concerning AFUDC.

Financing

In order to finance its construction program, the Company has had frequent sales of debt and equity securities over the past several years.

Outside financing totaled \$1.8 billion during the three years 1982-1984. In addition to securities sales, the Company incurred \$441 million of obligations under capital leases (primarily nuclear fuel) during the three years 1982-1984. Details of the amount of securities sold and other information on sources and uses of funds during 1982-1984 are set forth in the Statement of Changes in Financial Position on page 29.

Construction and Nuclear Fuel Expenditures (Millions of Dollars)

	Actual			Projected		
	1982	1983	1984	1985	1986	1987
Construction expenditures (a)						
Susquehanna plant	\$638	\$540	\$246	\$ 25 (b)		
Transmission and distribution facilities	69	62	84	97	\$103	\$115
Environmental	19	4	5	9	16	13
Other	32	43	87	141	155	141
	<u>758</u>	<u>649</u>	<u>422</u>	<u>272</u>	<u>274</u>	<u>269</u>
Nuclear fuel (c)	74	100	103	65	67	55
Total	<u>\$832</u>	<u>\$749</u>	<u>\$525</u>	<u>\$337</u>	<u>\$341</u>	<u>\$324</u>
Allowance for funds used during construction (which is included in the above amounts)	<u>\$246</u>	<u>\$252</u>	<u>\$169</u>	<u>\$ (33)(b)</u>	<u>\$ 9</u>	<u>\$ 10</u>

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

(b) The Susquehanna station construction expenditures are estimated to be \$83 million in 1985. Those expenditures and AFUDC have been reduced by the estimated tax reduction applicable to construction interest included in the tax loss carryforwards expected to be used in 1985.

(c) Includes both owned and leased nuclear fuel.

The Company presently estimates that outside financing during the three years 1985-1987 will be about \$300 million, or \$1.5 billion less than the amount required during the prior three years. Funds from securities sales and from internal sources will be used to finance construction expenditures, repay \$521 million of long-term debt obligations and meet \$172 million of preferred and preference stock sinking fund requirements.

Funds generated from internal sources are expected to provide about 80% of total funds required during the three years 1985-1987 compared with 26% during the three years 1982-1984.

Tentative Plans for Securities Sales

The Company intends to issue \$192 million of securities in 1985, all in the form of long-term debt. The exact amount, nature and timing of sales of securities in 1985 and subsequent years will be determined in the light of market conditions and other factors, including the granting of timely and adequate rate relief.

Improved Financial Condition

The Company's overall financial condition improved during 1984. Earnings per share of common stock increased. The times interest charges earned ratio (pre-tax) continued the upward trend which began in 1983. This ratio increased from 2.05 times in 1982 to 2.29 times in 1983 and was 2.35 times in 1984.

At the end of 1984, the market price of the Company's common stock was 98.7% of book value. This is the highest market-to-book ratio experienced by the Company in many years. Funds from operations also continued a favorable trend. As detailed on page 29, funds from operations in 1984 were \$185 million higher than in 1983.

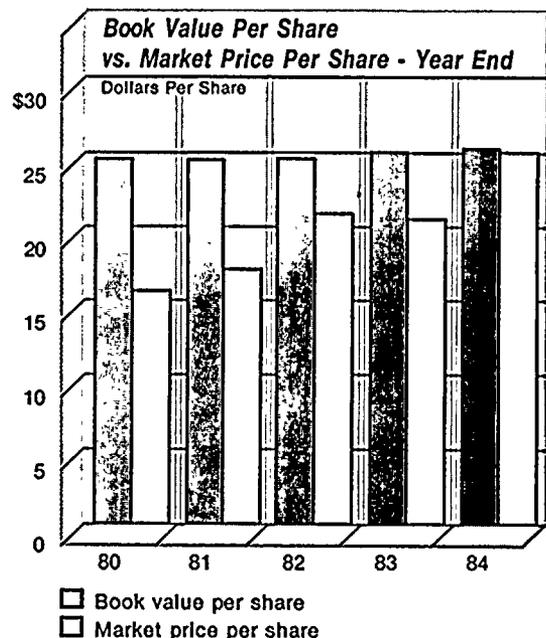
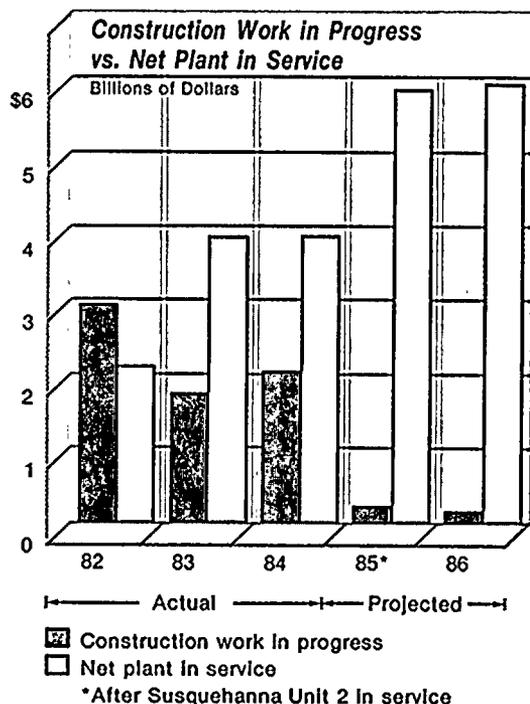
Financing flexibility also improved. Currently, there are no significant limitations under the Company's mortgage indenture or charter on the amount of additional debt securities that can be issued. Less than two years ago, the earnings coverage test of the mortgage indenture severely limited the amount of additional bonds the Company could issue.

During 1984, a \$100 million revolving credit agreement with a group of foreign banks was terminated. The Company presently has bank lines of credit totaling \$720 million and is assessing the appropriate level of these lines in light of the lower financing requirements expected during the next several years.

The Company's financial condition in the near future will depend to a large degree on the receipt of adequate rate relief in the current proceeding before the PUC and the timely approval by the New Jersey Board of Public Utilities of the agreement to provide JCP&L capacity and energy from the Company's generating facilities.

Impacts of Inflation

Certain effects of inflation on the operations of the Company have been estimated on the basis prescribed by the Financial Accounting Standards Board and are set forth in Note 16 to Financial Statements.



Management's Report on the Financial Statements

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

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

to evaluate the Company's internal accounting controls, policies and procedures as to adequacy, application and compliance.

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

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

Auditors' Opinion

**Deloitte
Haskins+Sells**

Certified Public Accountants

One World Trade Center
New York, New York 10048

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

We have examined the balance sheets of Pennsylvania Power & Light Company as of December 31, 1984 and 1983 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, 1984. 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, 1984 and 1983 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, 1984, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for leases as described in Note 2 of the financial statements.

Deloitte Haskins & Sells

February 4, 1985

Statement of Income (Thousands of Dollars)

	1984	1983	1982
Operating Revenues (Note 3)	<u>\$1,562,782</u>	<u>\$1,248,397</u>	<u>\$1,219,548</u>
Operating Expenses			
Net cost of energy			
Fuel	720,670	768,583	633,694
Power purchases	171,953	186,955	59,571
Interchange power sales	<u>(647,186)</u>	<u>(740,964)</u>	<u>(302,149)</u>
	245,437	214,574	391,116
Wages and employee benefits	232,632	211,752	171,182
Other operating costs	219,002	166,839	142,788
Depreciation	118,763	107,885	92,222
Income taxes (Note 6)	185,784	112,055	87,489
Taxes, other than income	154,206	125,470	111,668
Deferred Susquehanna energy savings net of operating expenses (Note 4)		19,892	
	<u>1,155,824</u>	<u>958,467</u>	<u>996,465</u>
Operating Income	<u>406,958</u>	<u>289,930</u>	<u>223,083</u>
Other Income and (Deductions)			
Allowance for equity funds used during construction (Note 7)	64,743	131,362	90,295
Deferred Susquehanna capital costs (Note 4)	(718)	29,935	
Income tax credits (Note 6)	62,623	21,976	77,744
Other—net	<u>(4,830)</u>	<u>(9,518)</u>	<u>(588)</u>
	121,818	173,755	167,451
Income Before Interest Charges	<u>528,776</u>	<u>463,685</u>	<u>390,534</u>
Interest Charges			
Long-term debt	280,328	258,629	239,769
Short-term debt and other	33,740	29,231	28,007
Allowance for borrowed funds used during construction	<u>(104,195)</u>	<u>(120,186)</u>	<u>(156,128)</u>
	<u>209,873</u>	<u>167,674</u>	<u>111,648</u>
Net Income—Before Dividends on Preferred and Preference Stock	318,903	296,011	278,886
Dividends on Preferred and Preference Stock	<u>92,145</u>	<u>85,838</u>	<u>68,314</u>
Earnings Applicable to Common Stock	<u>\$ 226,758</u>	<u>\$ 210,173</u>	<u>\$ 210,572</u>
Earnings Per Share of Common Stock (a)	\$ 3.12	\$ 3.06	\$ 3.35
Average Number of Shares Outstanding (thousands) ...	72,767	68,642	62,809
Dividends Declared Per Share of Common Stock	\$ 2.48	\$ 2.40	\$ 2.32

(a) Based on average number of shares outstanding.

See accompanying Schedules and Notes to Financial Statements.

Statement of Changes in Financial Position (Thousands of Dollars)

	1984	1983	1982
Source of Funds			
Funds from operations			
Net income	\$318,903	\$296,011	\$ 278,886
Charges (credits) to income not involving working capital			
Depreciation	118,763	107,885	92,222
Amortization of property under capital leases ...	38,649	29,669	7,442
Noncurrent deferred income taxes and investment tax credits—net	125,038	78,178	20,404
Deferred Susquehanna costs—net	718	(10,043)	
Allowance for funds used during construction ...	(168,938)	(251,548)	(246,423)
Other	<u>2,502</u>	<u>694</u>	<u>1,208</u>
	<u>435,635</u>	<u>250,846</u>	<u>153,739</u>
Outside financing			
Common stock	84,203	81,415	147,475
Preferred and preference stock	50,000	106,000	84,000
First mortgage bonds	403,250	175,000	365,674
Secured term notes			300,000
Nuclear fuel trust notes—net increase			50,000
Short-term debt—net increase (decrease)	<u>(85,200)</u>	<u>29,455</u>	<u>(14,944)</u>
	<u>452,253</u>	<u>391,870</u>	<u>932,205</u>
Noncurrent capital lease obligations	53,424	104,644	220,422
Working capital (excluding debt)—decrease (a)		<u>176,767</u>	<u>84,751</u>
	<u>\$941,312</u>	<u>\$924,127</u>	<u>\$1,391,117</u>
Application of Funds			
Construction expenditures	\$421,697	\$648,661	\$ 757,878
Additions to nuclear fuel—owned and leased	103,518	100,157	74,203
Allowance for funds used during construction	<u>(168,938)</u>	<u>(251,548)</u>	<u>(246,423)</u>
	<u>356,277</u>	<u>497,270</u>	<u>585,658</u>
Securities retired			
Preferred and preference stock	26,803	12,804	6,597
First mortgage bonds	80,154	59,842	178,000
Secured term notes	100,000		
Long-term bank loans—net decrease			375,000
Nuclear fuel trust notes—net decrease		<u>50,000</u>	
	<u>206,957</u>	<u>122,646</u>	<u>559,597</u>
Reduction in noncurrent capital lease obligations	47,492	39,515	11,675
Dividends on preferred, preference and common stock	273,236	251,182	216,601
Working capital (excluding debt)—increase (a)	39,762		
Other—net	<u>17,588</u>	<u>13,514</u>	<u>17,586</u>
	<u>\$941,312</u>	<u>\$924,127</u>	<u>\$1,391,117</u>
(a) Changes in components of working capital (excluding debt)			
Cash	\$ (299)	\$ 191	\$ 827
Accounts receivable	1,917	7,889	60,894
Unbilled and refundable revenues, net of deferred taxes ...	(4,680)	(130,805)	(63,869)
Fuel (coal and oil)	70,771	(29,992)	(6,746)
Accounts payable and accrued taxes	(32,277)	(7,377)	(20,536)
Capital lease obligations due within one year	(26,267)	(5,999)	(29,889)
Other—net	<u>30,597</u>	<u>(10,674)</u>	<u>(25,432)</u>
Increase (Decrease)	<u>\$39,762</u>	<u>\$(176,767)</u>	<u>\$(84,751)</u>

See accompanying Schedules and Notes to Financial Statements.

Balance Sheet at December 31 (Thousands of Dollars)

Assets	1984	1983
Utility Plant		
Plant in service—at original cost		
Electric	\$4,876,163	\$4,761,151
Steam heat	<u>8,661</u>	<u>8,704</u>
	4,884,824	4,769,855
Less accumulated depreciation	<u>1,023,864</u>	<u>922,554</u>
	3,860,960	3,847,301
Construction work in progress—at cost	2,020,839	1,730,228
Nuclear fuel in process—at cost	47,475	10,609
Leased property—net of amortization (Note 2)	<u>401,527</u>	<u>369,328</u>
	<u>6,330,801</u>	<u>5,957,466</u>
Investments		
Associated companies—at equity	17,714	16,614
Receivable from litigation settlement	27,500	28,500
Nonutility property and other—at cost or less	<u>11,413</u>	<u>8,410</u>
	<u>56,627</u>	<u>53,524</u>
Current Assets		
Cash	6,454	6,753
Accounts receivable (less reserve: 1984, \$5,486; 1983, \$5,020)		
Customers	105,857	109,934
Interchange power sales	46,468	39,510
Other	5,241	6,205
Unbilled revenues	52,064	56,744
Fuel (coal and oil)—at average cost	197,861	127,090
Materials and supplies—at average cost	21,222	21,400
Common stock held for dividend reinvestment program (Note 8)	12,820	
Other	<u>50,718</u>	<u>15,743</u>
	<u>498,705</u>	<u>383,379</u>
Deferred Debits	<u>24,650</u>	<u>24,140</u>
	<u>\$6,910,783</u>	<u>\$6,418,509</u>

See accompanying Schedules and Notes to Financial Statements.

Liabilities	1984	1983
Capitalization		
Common equity		
Common stock	\$1,307,267	\$1,223,064
Capital stock expense	(16,805)	(15,973)
Earnings reinvested	<u>606,525</u>	<u>560,858</u>
	1,896,987	1,767,949
Preferred and preference stock		
With sinking fund requirements	738,027	714,830
Without sinking fund requirements	231,375	231,375
Long-term debt	<u>2,528,531</u>	<u>2,307,073</u>
	<u>5,394,920</u>	<u>5,021,227</u>
Current Liabilities		
Commercial paper and other notes	104,800	190,000
Long-term debt due within one year	75,975	80,176
Capital lease obligations due within one year (Note 2)	70,653	44,386
Accounts payable	117,054	92,563
Taxes accrued	34,849	27,063
Interest accrued	69,500	64,578
Dividends payable	69,546	64,428
Deferred income taxes	25,486	27,773
Energy revenues to be refunded	98,441	93,396
Other	<u>37,037</u>	<u>32,815</u>
	<u>703,341</u>	<u>717,178</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred investment tax credits	107,130	111,038
Deferred income taxes	336,617	205,916
Capital lease obligations (Note 2)	330,874	324,942
Other	<u>37,901</u>	<u>38,208</u>
	812,522	680,104
Commitments and Contingent Liabilities (Note 14)	<u>\$6,910,783</u>	<u>\$6,418,509</u>

See accompanying Schedules and Notes to Financial Statements.

Schedule of Capital Stock at December 31

	Shares Authorized	Shares Outstanding 1984	Outstanding Thousands of Dollars	
			1984	1983
Preferred Stock—\$100 par, cumulative (a)				
4½%	629,936	530,189	\$ 53,019	\$ 53,019
Series	10,000,000	4,972,106	497,211	519,176
			<u>\$ 550,230</u>	<u>\$ 572,195</u>
Preference Stock—no par, cumulative (a).....	5,000,000	4,191,724	<u>\$ 419,172</u>	<u>\$ 374,010</u>
Common Stock—no par (a).....	85,000,000	74,512,797	\$1,307,267	\$1,222,393
Dividend reinvestment installments received				671
			<u>\$1,307,267</u>	<u>\$1,223,064</u>

Details of Preferred and Preference Stock (b)

	Sinking Fund Provisions(c)		Optional Redemption Price Per Share 1984	Shares Outstanding 1984	Outstanding Thousands of Dollars	
	Shares to be Redeemed Annually	Redemption Period			1984	1983
With Sinking Fund Requirements						
Series Preferred						
7.40%	16,000	1985-2003	\$104.14	304,000	\$ 30,400	\$ 32,000
7.50%	150,000	1985	103.33	150,000	15,000	15,000
7.75%	120,000	1985-1988	102.59	480,000	48,000	60,000
8.00%	25,000	1985-2002	112.00	450,000	45,000	47,500
8.00%, Second	20,000	1985-1989	103.56	100,000	10,000	10,000
8.25%	100,000	1985-1989	103.68	500,000	50,000	50,000
8.75%	30,000(d)	1985-2004	110.00	600,000	60,000	60,000
9.24%	30,000(d)	1985-2005	115.00	589,550	58,955	64,821
10.75% (e)	53,000(d)	1986-1990	115.00	265,000	26,500	26,500
11.00%, Adjustable (e) (f)	30,000	1989-1993	125.00	150,000	15,000	15,000
11.00% (e)	260,000	1988	125.00	260,000	26,000	26,000
11.25% (e)	15,000	1989-1998	125.00	150,000	15,000	15,000
14.00% (e)	(g)	(g)	123.00	340,000	34,000	34,000
Preference						
\$8.625 (e)	102,000	1986-1990	None	510,000	51,000	51,000
\$11.00	25,000(d)	1985-2000	106.05(h)	377,702	37,770	40,820
\$11.60 (i)	25,000(d)	1989-2008	114.00	500,000	50,000	50,000
\$13.00	12,500(d)	1985-1998	106.50	154,022	15,402	17,189
\$13.00, Second (i)	25,000(d)	1989-2008	114.00	500,000	50,000	50,000
\$13.68 (i)	25,000(d)	1990-2009	114.00	500,000	50,000	50,000
\$15.00 (i)	25,000(d)	1988-2007	120.00	500,000	50,000	50,000
					<u>\$738,027</u>	<u>\$714,830</u>
Without Sinking Fund Requirements						
4½% Preferred						
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			104.00	400,000	40,000	40,000
\$8.70			101.00	400,000	40,000	40,000
					<u>\$231,375</u>	<u>\$231,375</u>

See accompanying Notes to Financial Statements.

Increases (Decreases) in Capital Stock (shares and amount in thousands)

	1984		1983		1982	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Public offering					4,000	\$77,124
Dividend reinvestment plan	4,178	\$84,875	3,874	\$81,843	3,971	69,930
Employee stock ownership plan					43	702
Series Preferred Stock (j)						
7.40%	(16)	(1,600)	(16)	(1,600)	(16)	(1,600)
7.75%	(120)	(12,000)				
8.00%	(25)	(2,500)	(25)	(2,500)		
9.24%	(59)	(5,866)	(29)	(2,935)	(17)	(1,667)
11.00%, Adjustable			150	15,000		
11.00%			260	26,000		
11.25%			150	15,000		
14.00%					340	34,000
Preference Stock (j)						
\$11.00	(30)	(3,050)	(33)	(3,268)	(18)	(1,771)
\$11.60			500	50,000		
\$13.00	(18)	(1,787)	(25)	(2,500)	(16)	(1,559)
\$13.00, Second					500	50,000
\$13.68	500	50,000				

(a) Each share of preferred, preference and common stock entitles the holder to one vote on any question presented to any shareholders' 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 1989 are (thousands of dollars): 1985, \$48,897; 1986, \$61,850; 1987, \$61,850; 1988, \$86,950; 1989, \$58,450.

(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, 1984 it could be required to make such indemnity payments in the future not in excess of \$5.1 million.

(f) Effective April 1, 1988, the dividend rate is subject to a one-time adjustment pursuant to a formula based on the then current prime rate.

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

(h) The \$11.00 Preference Stock may not be refunded through certain refunding operations prior to July 1, 1985.

(i) Ownership of the \$11.60, \$13.00, Second Series, \$13.68 and \$15.00 Preference Stocks is evidenced by Depositary Preference Shares, each representing ¼ share of Preference Stock.

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

Schedule of Long-Term Debt at December 31

First Mortgage Bonds (a)	Maturity Date (b)	Outstanding Thousands of Dollars	
		1984	1983
15%	February 1, 1984		\$ 16,665
9 $\frac{7}{8}$ %	June 1, 1984		33,329
11 $\frac{3}{4}$ %	December 15, 1984		30,000
15%	February 1, 1985	\$ 16,665	16,665
9 $\frac{7}{8}$ %	June 1, 1985	33,329	33,329
3 $\frac{3}{8}$ %	August 1, 1985	25,000	25,000
15%	February 1, 1986	16,670	16,670
16 $\frac{1}{2}$ %	August 1, 1986	30,900	30,900
14 $\frac{3}{4}$ %	December 12, 1986	50,000	50,000
16 $\frac{1}{2}$ %	August 1, 1987	36,000	36,000
16 $\frac{1}{2}$ %	September 1, 1987	10,400	10,400
16 $\frac{1}{2}$ %	August 1, 1988	10,100	10,100
16 $\frac{1}{2}$ %	September 1, 1988	10,400	10,400
12 $\frac{1}{8}$ %	February 1, 1989	10,000	10,000
16 $\frac{1}{2}$ %	August 1, 1989	7,000	7,000
16 $\frac{1}{2}$ %	September 1, 1989	10,400	10,400
4 $\frac{5}{8}$ % to 16 $\frac{1}{2}$ %	1990-1994	479,300	354,300
5 $\frac{3}{8}$ % to 8 $\frac{1}{8}$ %	1995-1999	140,000	140,000
7 $\frac{1}{4}$ % to 9 $\frac{1}{4}$ %	2000-2004	345,000	345,000
8 $\frac{1}{4}$ % to 9 $\frac{3}{4}$ %	2005-2009	475,000	475,000
12 $\frac{3}{4}$ % to 15 $\frac{3}{8}$ %	2010-2014	450,000	325,000
Pollution control			
5 $\frac{3}{8}$ % Series A	(c)	23,340	23,500
7 $\frac{7}{8}$ % to 8 $\frac{1}{8}$ % Series C	(c)	20,000	20,000
11 $\frac{1}{4}$ % to 11 $\frac{1}{2}$ % Series D	(c)	70,000	70,000
10 $\frac{3}{8}$ % Series E	March 1, 2014	37,750	
10 $\frac{3}{8}$ % Series F	September 1, 2014	115,500	
		<u>2,422,754</u>	<u>2,099,658</u>
Other Long-Term Debt			
Secured term notes (a)(d)	March 31, 1991	200,000	300,000
Miscellaneous promissory notes	1985-1989	809	796
		<u>2,623,563</u>	<u>2,400,454</u>
Unamortized (discount) and premium—net		(19,057)	(13,205)
		<u>2,604,506</u>	<u>2,387,249</u>
Less amount due within one year		75,975	80,176
		<u>\$2,528,531</u>	<u>\$2,307,073</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 1989 are (thousands of dollars): 1985, \$75,975; 1986, \$98,623; 1987, \$47,429; 1988, \$21,511; 1989, \$28,375. Maximum sinking fund requirements aggregate \$33.7 million through 1989 and may be met with property additions or retirement of bonds.

(c) Pollution control bonds mature annually as follows (thousands of dollars): (i) Series A on May 1, 1985, \$640; 1986-2002, \$900; 2003, \$7,400 (ii) Series C on April 1, 2000, \$4,000; 2006-2009, \$2,000; 2010, \$8,000 (iii) Series D on November 1, 2002, \$15,000; 2012, \$55,000.

(d) Variable interest rate.

Schedule of Taxes (Thousands of Dollars)

	1984	1983	1982
Income Tax Expense (Note 6)			
Included in operating expenses			
Provision—Federal	\$ 51,790	\$ 15,823	\$ 55,109
State	11,243	6,787	9,762
	<u>63,033</u>	<u>22,610</u>	<u>64,871</u>
Deferred—Federal	123,844	94,689	55,351
State	2,815	(938)	(591)
	<u>126,659</u>	<u>93,751</u>	<u>54,760</u>
Investment tax credit, net—Federal	(3,908)	(4,306)	(32,142)
	<u>\$185,784</u>	<u>\$112,055</u>	<u>\$ 87,489</u>
Included in other income and deductions			
Provision (credit)—Federal	\$ (51,370)	\$ (15,216)	\$ (67,981)
State	(11,253)	(6,760)	(9,763)
	<u>\$ (62,623)</u>	<u>\$ (21,976)</u>	<u>\$ (77,744)</u>
Total income tax expense—Federal	\$120,356	\$ 90,990	\$ 10,337
State	2,805	(911)	(592)
	<u>\$123,161</u>	<u>\$ 90,079</u>	<u>\$ 9,745</u>
Detail of deferred taxes in operating expenses			
Tax depreciation	\$120,232	\$101,728	\$ 58,024
Test operation of generating unit	(2,780)	(10,856)	(3,373)
Deferred Susquehanna energy savings net of operating expenses		(11,411)	
Unbilled revenues	(2,287)	11,266	2,213
State utility realty tax	14,888		
Other	(3,394)	3,024	(2,104)
	<u>\$126,659</u>	<u>\$ 93,751</u>	<u>\$ 54,760</u>
Reconciliation of Federal Income Tax Expense			
Indicated federal income tax on pre-tax income at statutory tax rate (46%)	\$203,350	\$177,601	\$132,770
Reduction due to:			
AFUDC, less unused construction interest deduction ..	77,656	65,088	110,827
Tax and pension cost	5,719	6,314	6,833
Deferred Susquehanna capital costs	(331)	13,770	
Other	(2,855)	2,350	5,365
	<u>80,189</u>	<u>87,522</u>	<u>123,025</u>
Total income tax expense	\$123,161	\$ 90,079	\$ 9,745
Effective income tax rate	27.9%	23.3%	3.4%
Taxes, Other Than Income			
State gross receipts	\$ 66,711	\$ 60,112	\$ 56,515
State capital stock	23,044	20,074	18,243
State utility realty	48,316	31,803	26,591
Social security and other	16,135	13,481	10,319
	<u>\$154,206</u>	<u>\$125,470</u>	<u>\$111,668</u>

See accompanying Notes to Financial Statements.

Statement of Earnings Reinvested (Thousands of Dollars)

	1984	1983	1982
Balance, January 1	\$560,858	\$516,162	\$453,885
Add Net Income	<u>318,903</u>	<u>296,011</u>	<u>278,886</u>
	<u>879,761</u>	<u>812,173</u>	<u>732,771</u>
Deduct			
Cash dividends declared			
Preferred stock—at required annual rates	47,437	47,268	38,730
Preference stock—at required annual rates	44,708	38,570	29,584
Common stock—per share: 1984, \$2.48; 1983, \$2.40; 1982, \$2.32	181,091	165,344	148,287
Issuance cost of retired preferred and preference stock		<u>133</u>	<u>8</u>
	<u>273,236</u>	<u>251,315</u>	<u>216,609</u>
Balance, December 31	<u>\$606,525</u>	<u>\$560,858</u>	<u>\$516,162</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 operate in the United States and are engaged in coal mining, holding coal reserves, oil pipeline operations and real estate investment.

The Company believes that its financial position and results of operations are best reflected without consolidation of these subsidiaries since they are not engaged in the business of generating or distributing electricity. All unconsolidated subsidiaries considered in the aggregate would not constitute a

"significant subsidiary" as that term is defined by the Securities and Exchange Commission.

Utility Plant and Depreciation

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

For financial reporting purposes, depreciation is computed on a straight-line method using rates based on the estimated useful lives of property, with the exception of the Susquehanna nuclear plant which is depreciated on a modified sinking fund method, which method is also used for rate-making purposes. Provisions for depreciation, as a percent of average depreciable property, approximated 2.5% in 1984, 2.7% in 1983 and 3.3% in 1982.

Cost of Decommissioning Nuclear Plant

An annual provision for decommissioning costs of the Susquehanna nuclear plant equal to the amount

allowed for rate-making purposes is charged to operating expense. Such amounts, net of income taxes, are invested in securities kept in a segregated account which can be used only for future decommissioning costs.

Allowance for Funds Used During Construction (AFUDC)

As provided in the Uniform System of Accounts, the cost of funds used to finance construction projects is capitalized as part of construction cost. The components of AFUDC shown on the Statement of Income under other income and deductions and interest charges are non-cash items equal to the cost of funds capitalized during the period. The equity funds component is reduced by the income tax savings realized due to the tax deductibility of construction-related interest. AFUDC serves to offset on the Statement of Income the interest charges on debt and dividends on preferred and preference stock incurred to finance construction. In addition, a return on common equity used to finance construction is imputed.

See Note 7 to Financial Statements for information concerning a limitation of the tax reduction reflected in AFUDC due to the Company's tax losses.

Capitalization of Leases

Effective as of January 1, 1984, certain capital leased property and related obligations were recorded. Leased property is recorded at the present value of future lease payments and is amortized in a manner such that the total of interest on the lease obligation and amortization of the leased property equal the rental expense allowed for rate-making purposes. See Note 2 to Financial Statements for additional information concerning this accounting change.

Revenues

Revenues are recorded based on the amount of electricity delivered to customers to the end of each accounting period. This includes unbilled revenues representing the amount customers will be billed for electricity delivered from the time meters were last read to the end of the respective accounting period. The Company's PUC tariffs contain an energy cost rate under which customers are billed an estimated amount for fuel and other energy costs. Any difference between the actual and estimated amount for such costs is collected from or refunded to customers in a subsequent period. Revenues applicable to energy cost rate billings are recorded at the level of actual energy costs and the difference is recorded as payable to or receivable from customers.

Income Taxes

The Company and its subsidiaries file consolidated federal income tax returns. Income taxes are allo-

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

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

See Note 6 to Financial Statements for additional information concerning income taxes.

Nuclear Fuel

The rental cost of nuclear fuel is charged to expense as the fuel is used for electric generation. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. The Company currently pays DOE a fee for future disposal services and recovers such costs in customer rates.

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. Lease Accounting Change

In 1984, in accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation," the Company capitalized certain leased property and obligations which had not previously been recognized in the financial statements. The Balance Sheet and Statement of Changes in Financial Position for periods prior to 1984 have been restated to reflect retroactive application of this change. The change had no effect on operating revenues, net income or retained earnings. Details of property under capital leases are as follows (thousands of dollars):

	December 31	
	1984	1983
Nuclear fuel.....	\$396,071	\$330,399
Vehicles and miscellaneous equipment	69,058	62,830
Oil storage tanks	25,023	25,023
Other property	<u>17,163</u>	<u>22,671</u>
	507,315	440,923
Less accumulated amortization	<u>105,788</u>	<u>71,595</u>
Property under capital leases ...	<u>\$401,527</u>	<u>\$369,328</u>

Future minimum lease payments for capital leases at December 31, 1984 (excluding nuclear fuel) would aggregate \$104.6 million, including \$32.7 million of imputed interest. During the five years ending 1989, such payments would decrease from \$18.5 million per year to \$8.2 million per year. Future nuclear fuel lease payments will be based on the quantity of heat produced by the Susquehanna units. As leased nuclear fuel is amortized, the Company normally sells and leases back additional fuel, thereby maintaining the unamortized balance of leased nuclear fuel at a level slightly below the \$350 million maximum amount leasable under current arrangements. The unamortized balance of nuclear fuel under lease at December 31, 1984 was \$329.6 million.

Interest on capital lease obligations which was recorded as operating expenses on the Statement of Income was as follows (thousands of dollars): 1984, \$13,836; 1983, \$10,914; and 1982, \$7,266.

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

3. Rate Matters

In accordance with rate orders issued by the PUC, electric base rates for ultimate customers were increased by approximately \$73 million annually in January 1982 and \$203 million annually in August 1983.

The August 1983 increase resulted from the Company's filing which reflected, among other costs, the effect of placing Susquehanna Unit 1 in service. The PUC's order did not permit the Company to earn a return on \$287 million of its net investment in all generating facilities. This adjustment, which reduced requested revenues by about \$59 million, resulted from a decision by the PUC that 945,000 kilowatts of the Company's generating capacity was excess. The Company was permitted to recover all depreciation, operation, maintenance and fuel costs associated with its generating facilities. See Note 5 for information concerning an agreement to sell 945,000 kilowatts of capacity to Jersey Central Power & Light Company.

In July 1984, the Company filed with the PUC for an overall increase in electric rates of approximately

\$330 million. The increase reflects: (i) \$466 million related to the investment and operating costs associated with placing Susquehanna Unit 2 in service plus other increased costs of providing electricity; less (ii) an estimated reduction in annual energy costs of about \$136 million associated with the operation of Susquehanna Unit 2. To moderate the impact of the increase, the Company has proposed to bill customers only one-half of the amount requested (\$165 million) in the first year that the new rates are effective. The full amount of the increase granted would be billed in the second year. The portion of the increase not collected from customers in the first year would be billed, without interest, over a period of about three years starting in the third year.

The PUC suspended the Company's rate increase request and has held public hearings on the matter. The Company expects that the PUC will reach a decision on the rate request by April 26, 1985. If the PUC does not adopt a final rate order by that date, the rates filed by the Company would go into effect, subject to refund.

The FERC permitted annual increases in rates for wholesale customers of \$2 million effective August 1981, \$3 million effective July 1982 and \$4 million effective March 1984.

4. Deferral of Costs Related to Susquehanna Generating Units

In accordance with an order of the PUC the Company deferred certain costs, net of energy savings, associated with Susquehanna Unit 1. Such deferred items, which aggregate \$20.7 million, were incurred over a two and one-half month period extending from the date of commercial operation of the unit until the rate increase reflecting the unit was effective (August 22, 1983). The Company expects to seek recovery of the deferred costs after the PUC renders its decision on the Company's current rate request.

The PUC has issued an order similar to that issued previously for Susquehanna Unit 1 which (i) authorizes the deferral of Susquehanna Unit 2 related costs in the event the unit goes into commercial operation before the end of the future test year and (ii) provides that in the event Unit 2 goes into commercial operation after the end of the future test year, the portion of the new rates reflecting the Unit 2 costs would go into effect shortly after the unit begins commercial operation.

5. Capacity Sales Agreement

The Company and Jersey Central Power & Light Company (JCP&L) have entered into a long-term agreement under which capacity and energy will be provided JCP&L. Under the terms of the agreement, JCP&L will be entitled to 945,000 kilowatts of the Company's generating capability and related energy through 1995 with the amount then declining uniformly each year until the expiration of the contract at the end of 1999. JCP&L will pay an amount equal to the Company's cost of service, which includes a

return on the Company's investment in generating facilities. The agreement also permits JCP&L to defer certain payments. At such time as the agreement becomes effective, the Company would expect to recover from JCP&L the \$59 million a year in return on investment disallowed by the PUC in its August 1983 rate order. The agreement will not become effective until the New Jersey Board of Public Utilities makes a determination that the agreement is in the public interest.

The new rates requested in the Company's current proceeding before the PUC do not provide for recovery of the costs of operating, depreciation, or a return on the investment in the facilities covered by the agreement with JCP&L. If the agreement does not become effective before the PUC reaches a decision on the rate increase request, the Company's earnings will be adversely affected to the extent such amounts are not recovered. A decision by the PUC on the current rate proceeding is expected by April 26, 1985.

6. Income Taxes

The Internal Revenue Service (IRS) has completed its examination of the Company's federal income tax returns for the years 1977 to 1980. Based on adjustments proposed by the IRS, the Company does not expect any material change in its income tax liability for these years.

The Company has tax loss carryforwards at December 31, 1984 of approximately \$100 million for both federal and state income tax purposes. The state tax loss carryforward expires in the years 1986 and 1987, and the federal income tax loss carryforward expires in the years 1997 to 1999.

The Company has unused investment and payroll-based tax credits aggregating approximately \$273 million (\$35 million applicable to the employee stock ownership plan) at December 31, 1984 which may be used to reduce future federal income tax liabilities. The carryforward period for these credits expires in the years 1993 to 1999.

The Company has not recorded deferred income taxes for certain timing differences in accordance with PUC rate treatment. The cumulative net amount of such timing differences for which deferred income taxes have not been recorded approximated \$659 million at December 31, 1984. The Company would expect to recover through electric rates the taxes due when such timing differences reverse.

7. Allowance for Funds Used During Construction (AFUDC)

AFUDC is recorded on an after-tax basis with the equity component reduced by the income tax savings realized due to the tax deductibility of construction-related interest. Since 1982, the Company has had tax losses due, in part, to the large amount of construction interest incurred. As a result, the income tax reduction reflected in AFUDC has been limited to the tax applicable to construction interest determined to be usable as a tax deduction. The combined federal and state income tax effect of the

construction interest that could not be used as a deduction was \$0.8 million for 1984, \$53.8 million for 1983 and \$6.7 million for 1982.

To the extent the Company's tax losses are used to offset taxable income in future years, AFUDC will be reduced by an amount equal to the tax reduction applicable to the construction interest included in the carryforwards utilized.

8. Stock Held for Dividend Reinvestment Program

At December 31, 1984, 511,054 shares of Common Stock of the Company were held temporarily for distribution to participants under the Company's Dividend Reinvestment Program. The stock was purchased on the open market and is carried at cost.

9. Credit Arrangements

The Company maintains lines of credit aggregating \$120 million with various domestic banks. The arrangements require the maintenance of compensating balances (not material in amount) 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.

The Company has a loan agreement with a group of domestic banks 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, rates applicable to certificates of deposit or rates applicable to Eurodollar deposits. At the time any borrowing matures on February 27, 1987, the agreement permits the Company to borrow up to \$600 million, the principal amount of which would be repayable in semi-annual installments over the following three years. The loan agreement is maintained by the payment of commitment fees.

During 1984, the Company borrowed and repaid \$222 million under terms of the loan agreement with domestic banks. At December 31, 1984, there were no borrowings outstanding under any of the Company's credit arrangements.

Commitment fees incurred to maintain the Company's credit arrangements aggregated \$2.6 million in 1984, \$2.6 million in 1983 and \$2.9 million in 1982.

10. Retirement Plan and Other Postretirement Benefits

Pension costs for 1984, 1983 and 1982 were \$29.0 million, \$27.7 million and \$23.8 million, respectively. Of these amounts, \$18.0 million in 1984, \$16.0 million in 1983 and \$12.4 million in 1982 were charged to operating expenses, and the balance was charged to construction and other accounts.

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

	June 30	
	1984	1983
Actuarial present value of accumulated plan benefits: (a)		
Vested	\$191,284	\$189,313
Nonvested	<u>10,185</u>	<u>10,501</u>
	<u>\$201,469</u>	<u>\$199,814</u>
Net assets available for benefits	<u>\$272,323</u>	<u>\$257,315</u>

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

The assumed rates of return used in determining the actuarial present value of accumulated plan benefits were 6.5% for the June 30, 1984 valuation and 6% for the June 30, 1983 valuation. The change in the assumed rate of return to 6.5% decreased the actuarial present value of accumulated plan benefits at June 30, 1984 by \$13.5 million.

The Company also provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits upon retirement, and the cost is generally recognized as expense when premiums are paid. Such costs for retired employees for 1984, 1983 and 1982 were approximately \$2.3 million, \$2.2 million and \$1.4 million, respectively.

11. Joint Ownership of Generating Plants

At December 31, 1984, the Company owned undivided interests in three generating stations as follows (millions of dollars):

Generating Station	Plant Investment	% Ownership
Susquehanna	\$3,733	90.00%
Keystone	38	12.34
Conemaugh	35	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 stations. Each participant provides its own financing.

12. Associated Company Transactions

The principal transactions with associated companies involve purchases of bituminous coal and the transportation of oil by pipeline for use at the Company's generating stations. Purchases of bituminous coal from associated companies, which are at a price generally equal to the entire operating costs of those companies, were (millions of dollars): 1984, \$270.5; 1983, \$263.8; and 1982, \$255.1. Oil transportation charges, which are based on a PUC approved tariff, were (millions of dollars): 1984, \$8.6; 1983, \$15.1; and 1982, \$8.2.

Under equity accounting, the operations of associated companies resulted in after-tax charges against the Company's net income of \$4.1 million in 1984, \$4.2 million in 1983 and \$0.3 million in 1982.

See Note 14 to Financial Statements for information concerning the Company's guarantee of certain obligations of associated companies.

13. Proposed Sale of Steam Heat Plant

The Company has signed a memorandum of understanding related to the sale of its steam heat plant and associated distribution system in the city of Harrisburg. Revenues from steam heat operations accounted for less than 1% of the Company's operating revenues in 1984 and the investment in steam heat plant, net of accumulated depreciation, was \$4.3 million at December 31, 1984. The sale is not expected to materially affect the Company's net income. Any agreements involving the sale of the steam property require further negotiation and would be subject to the approval of the PUC.

14. Commitments and Contingent Liabilities

The Company's construction expenditures are estimated to aggregate \$272 million in 1985, \$274 million in 1986 and \$269 million in 1987, including the allowance for funds used during construction. See the section entitled "Capital Expenditure Requirements" on page 25 for additional information concerning the Company's planned construction expenditures.

The Company is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to \$1.1 billion under these programs. The Company is also a member of an insurance program which provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, the Company could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. The maximum amount the Company could be assessed during the current policy year is about \$21 million.

The Company's public liability for claims resulting from a nuclear incident is currently limited to \$620 million under provisions of the Price-Anderson Act (Act). The Company is protected against this potential liability by a combination of commercial insurance and an industry retrospective assessment program. In the event of a nuclear incident at any of the facilities owned by others and covered by the Act, the Company could be assessed up to \$10 million per incident, but not more than \$20 million in a calendar year in the event more than one incident is experienced.

At December 31, 1984, the Company had guaranteed obligations of other companies (principally subsidiary coal companies and a subsidiary pipeline company) totaling \$270.0 million.

15. Quarterly Financial Data (Unaudited)

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Applicable to Common Stock	Earnings Per Share of Common Stock (a)
	Thousands of Dollars				
1984					
March	\$479,484	\$119,964	\$98,244	\$76,059	\$1.07
June	351,310	93,055	66,003	42,851	0.59
September	349,994	99,132	76,509	53,049	0.72
December	381,994	94,807	78,147	54,799	0.74
1983					
March	\$305,088	\$ 62,643	\$79,823	\$60,055	\$0.89
June	270,909	55,956	69,332	47,868	0.70
September	285,151	73,373	68,902	46,523	0.67
December	387,249	97,958	77,954	55,727	0.80

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

16. Supplementary Information on Changing Prices (Unaudited)

The following supplementary information on the effects of changing prices is presented in accordance with the requirements of the Financial Accounting Standards Board (FASB), an organization that establishes rules for accounting and financial reporting. Customary financial reporting generally has not attempted to specifically reflect inflation. The FASB 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.

For 1984, the FASB requires disclosure of the effects of changing prices by use of current cost information. In a period of inflation, prices of most goods and services increase but not necessarily all at the same time. The current cost method shows the impact of inflation on a company by measuring the estimated change in prices of the specific goods and services used by that company.

The Company has elected to present the "Supplementary Statement of Income" data (shown on page 42) in accordance with the partial restatement provision of the FASB requirements. Under this provision, utility plant, net of accumulated depreciation, nuclear fuel expense and depreciation expense are the only items restated to reflect specific price changes

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

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

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

Inflation also affects monetary assets, such as cash and receivables, which lose purchasing power during inflationary periods since these assets will in time purchase fewer goods or services. Conversely, holders of monetary liabilities benefit during such periods because less purchasing power will be required to satisfy these obligations. Monetary liabilities include preferred and preference stock issues with sinking fund requirements, long-term debt, current liabilities, capital lease obligations, deferred taxes and tax credits and other deferred credits. The Company is in a net monetary liability position.

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

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

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

Under the ratemaking prescribed by regulatory commissions, only the historical cost of utility plant is recoverable in revenue as depreciation. Therefore, any excess between the amount of utility plant stated in terms of current cost

(after deducting the effects of general inflation) and historical cost must be reduced to net recoverable amount. The amount of such excess that accrued as a result of price changes in the current year is shown as an adjustment of net utility plant to net recoverable amount.

Supplementary Statement of Income for 1984 (Thousands of Dollars)	As Reported in Financial Statements (Historical Cost)	Adjusted on the Basis of Price Changes Experienced (Current Cost) (a)
Operating revenues	<u>\$1,562,782</u>	<u>\$1,562,782</u>
Operating expenses		
Fuel	720,670	728,309
Depreciation (b)	118,763	274,867
Other	<u>316,391</u>	<u>316,391</u>
	1,155,824	1,319,567
Interest expense	209,873	209,873
Other income and deductions—net	(121,818)	(121,818)
Dividends on preferred and preference stock	<u>92,145</u>	<u>92,145</u>
	<u>1,336,024</u>	<u>1,499,767</u>
Earnings applicable to common stock	<u>\$ 226,758</u>	<u>\$ 63,015</u>
Other Impacts of Changing Prices		
Gain from decline in purchasing power of net amounts owed		<u>\$ 158,217</u>
Increase in net utility plant during the year due to price changes		
As a result of specific price changes experienced (c)		\$ 472,388
As a result of changes in general price level		<u>(393,076)</u>
Excess of increase in specific prices over increase in general price level		<u>\$ 79,312</u>
Adjustment of net utility plant to net recoverable amount—(reduction)		<u>\$ (155,285)</u>

(a) Stated in average 1984 dollars.

(b) The current cost of utility plant was determined by applying construction cost indices maintained by the Company to the historical cost. The adjusted provision for depreciation was determined by applying the functional class depreciation accrual rates to the respective average year-end balances of depreciable plant adjusted for specific price changes.

(c) At December 31, 1984, the current cost of net utility plant was \$10.69 billion, while the historical cost or net amount recoverable through depreciation was \$6.26 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.

Supplementary Comparison of Selected Data
(Thousands of Dollars, Except Per Share Amounts)

	1984	1983	1982	1981	1980
Operating revenues					
As reported.....	\$1,562,782	\$1,248,397	\$1,219,548	\$1,133,278	\$ 885,451
Average 1984 dollars (a)	1,562,782	1,301,529	1,312,353	1,294,283	1,116,142
Earnings applicable to common stock (b)					
As reported.....	226,758	210,173	210,572	170,801	120,384
Current cost in average 1984 dollars	63,015	81,125	94,757	77,684	35,202
Earnings per share of common stock (b)					
As reported.....	3.12	3.06	3.35	3.17	2.64
Current cost in average 1984 dollars	0.87	1.18	1.51	1.44	0.77
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	(79,312)	(115,272)	(287,657)	(69,108)	415,154
Adjustment of net utility plant to net recoverable amount—write-up (reduction) at current cost in average 1984 dollars	(155,285)	(180,424)	(345,237)	(352,924)	4,154
Gain from decline in purchasing power of net amounts owed	158,217	131,019	121,327	256,283	331,989
Net assets at year-end (c)					
As reported.....	2,128,362	1,999,324	1,875,070	1,666,812	1,482,092
Current cost in average 1984 dollars	2,098,680	2,049,389	1,994,987	1,842,079	1,784,361
Cash dividends declared per common share					
As reported.....	2.48	2.40	2.32	2.24	2.12
Average 1984 dollars (a)	2.48	2.51	2.49	2.58	2.67
Market price per common share at year-end					
As reported.....	25.12	20.62	21.00	17.12	15.62
Average 1984 dollars (a)	24.77	21.14	22.34	18.93	18.81
Average consumer price index (CPI-U).....	311.1	298.4	289.1	272.4	246.8

(a) Adjusted to average 1984 dollars by applying the CPI-U index to items as normally reported.

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

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

Selected Financial and Operating Data

Income Items—thousands	1984	1983	1982	1981	1980
Operating revenues	\$1,562,782	\$1,248,397	\$1,219,548	\$1,133,278	\$ 885,451
Operating income	406,958	289,930	223,083	211,050	168,659
Allowance for funds used during construction	168,938	251,548	246,423	193,861	141,241
Net income (a)	318,903	296,011	278,886	244,077	179,759
Earnings applicable to common stock (a)	226,758	210,173	210,572	183,182	120,384
Balance Sheet Items—thousands (b)					
Net utility plant in service	\$3,860,960	\$3,847,301	\$2,112,169	\$2,054,039	\$1,954,762
Construction work in progress	2,020,839	1,730,228	2,923,841	2,312,292	1,874,397
Total assets (c)	6,910,783	6,418,509	5,829,138	5,097,550	4,359,257
Long-term debt	2,604,506	2,387,249	2,323,318	2,165,381	1,811,692
Preferred and preference stock					
With sinking fund requirements	738,027	714,830	621,634	544,231	510,800
Without sinking fund requirements	231,375	231,375	231,375	231,375	231,375
Common equity	1,896,987	1,767,949	1,643,695	1,435,437	1,250,717
Short-term debt	104,800	190,000	160,545	175,489	56,324
Total capital provided by investors	5,575,695	5,291,403	4,980,567	4,551,913	3,860,908
Financial Ratios					
Return on average common equity—% (a)	12.30	12.29	13.60	12.74	10.38
Embedded cost rates (b)					
Long-term debt—%	11.12	10.98	10.81	10.80	10.60
Preferred and preference stock—%	9.94	9.66	9.41	8.93	8.49
Times interest earned before income taxes (a) (c) ...	2.35	2.29	2.05	1.91	2.06
Ratio of earnings to fixed charges—total					
enterprise basis (a) (d)	2.06	2.04	1.81	1.78	1.90
Depreciation as % of average depreciable property..	2.5	2.7	3.3	3.2	3.2
Common Stock Data					
Number of shares outstanding—thousands					
Year-end	74,513	70,335	66,461	58,447	50,627
Average	72,767	68,642	62,809	53,912	45,598
Earnings per share (a)	\$ 3.12	\$ 3.06	\$ 3.35	\$ 3.17	\$ 2.64
Dividends declared per share	\$ 2.48	\$ 2.40	\$ 2.32	\$ 2.24	\$ 2.12
Taxability of dividend income—% (e)	63.29	0	0	0	0
Book value per share (b)	\$25.46	\$25.12	\$24.71	\$24.52	\$24.68
Market price per share (b)	\$ 25½	\$ 20%	\$ 21	\$ 17½	\$ 15½
Dividend payout rate—% (a)	80	79	70	72	82
Dividend yield—% (e) (f)	11.00	10.48	11.95	13.34	12.01
Price earnings ratio (a) (f)	7.24	7.48	5.79	5.30	6.68
Fuel Cost Data					
Cost per kwh generated—cents					
Coal-fired steam stations	1.76	1.68	1.77	1.64	1.40
Nuclear steam station (h)	0.54	0.66			
Oil-fired steam station	5.31	5.23	5.62	5.75	4.55
Combustion turbines and diesels (oil)	9.82	10.21	10.74	10.51	7.89
Average	1.98	2.15	2.20	2.30	1.96
Cost of fossil fuel received at steam stations					
Coal—per ton	\$42.75	\$39.37	\$42.32	\$39.59	\$33.78
Residual oil—per bbl.	\$31.28	\$29.79	\$30.94	\$33.47	\$26.44
Employees (b)	8,386	8,160	8,208	7,999	7,702

(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) 1980-1983 restated to reflect change in accounting for capital leases.

(d) Fixed charges consist of interest on short- and long-term debt, other interest charges, interest on capital lease obligations and the estimated interest component of other rentals.

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

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

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

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

Sales Data	1984	1983	1982	1981	1980
Electric customers (b)	1,039,381	1,026,144	1,013,623	1,006,570	999,525
Average annual residential kwh use.....	9,282	9,051	9,039	9,157	9,205
Electric energy sales billed—millions of kwh					
Residential	8,454	8,138	8,045	8,088	8,056
Commercial	6,527	6,119	5,946	5,893	5,743
Industrial	8,117	7,623	7,324	7,968	7,910
Other	1,043	968	982	1,005	784
System sales	24,141	22,848	22,297	22,954	22,493
Atlantic City Electric (Susquehanna Unit 1).....	357	209			
Total electric energy sales billed	<u>24,498</u>	<u>23,057</u>	<u>22,297</u>	<u>22,954</u>	<u>22,493</u>
Sources of energy sold—millions of kwh					
Generated					
Coal-fired steam stations	26,695	26,885	25,477	24,841	26,596
Nuclear steam station (h)	6,295	4,509	293		
Oil-fired steam station	4,121	5,581	3,186	4,705	5,692
Combustion turbines and diesels (oil).....	32	45	13	32	33
Hydroelectric stations	747	700	612	622	533
Total	37,890	37,720	29,581	30,200	32,854
Power purchases	3,765	3,880	1,414	744	1,415
Interchange power sales	(15,377)	(16,405)	(6,900)	(6,274)	(9,798)
Company use, line losses and other	(1,780)	(2,138)	(1,798)	(1,716)	(1,978)
Total electric energy sales billed	<u>24,498</u>	<u>23,057</u>	<u>22,297</u>	<u>22,954</u>	<u>22,493</u>
Electric Revenue Data					
By class of service—thousands					
Residential	\$ 591,922	\$ 529,911	\$ 503,557	\$ 411,668	\$349,714
Commercial	441,651	386,617	363,233	292,984	246,024
Industrial	411,533	367,950	347,726	295,006	245,513
Other energy sales.....	59,526	47,275	47,731	39,484	28,480
System sales	1,504,632	1,331,753	1,262,247	1,039,142	869,731
Atlantic City Electric (Susquehanna Unit 1).....	31,809	18,494			
Total from energy sales billed	1,536,441	1,350,247	1,262,247	1,039,142	869,731
Unbilled revenues, net	(9,725)	(119,539)	(61,652)	76,884	
Other operating revenues	29,960	12,972	12,708	10,142	10,595
Total electric operating revenues	<u>\$1,556,676</u>	<u>\$1,243,680</u>	<u>\$1,213,303</u>	<u>\$1,126,168</u>	<u>\$880,326</u>
Average price per kwh billed—cents					
Residential	7.00	6.51	6.26	5.09	4.34
Commercial	6.77	6.32	6.11	4.97	4.28
Industrial	5.07	4.83	4.75	3.70	3.10
Total for ultimate customers	6.30	5.91	5.74	4.59	3.90
Total for all customers	6.27	5.86	5.66	4.53	3.87
Generation Data					
Generating capability—thousands of kw (b)	7,484	7,494	6,546	6,546	6,546
Winter peak demand—thousands of kw (g)	5,519	4,869	4,489	5,207	4,945
Generation by fuel source—%					
Coal	70.4	71.3	86.1	82.2	81.0
Nuclear (h)	16.6	11.9	1.0		
Oil	11.0	14.9	10.8	15.7	17.4
Hydroelectric.....	2.0	1.9	2.1	2.1	1.6
Steam station availability—%					
Coal-fired	75.2	78.8	79.1	74.7	78.7
Nuclear (h)	66.7	67.7			
Oil-fired	68.0	75.8	80.4	73.4	79.6
Steam station utilization—%					
Coal-fired	73.3	74.0	70.2	68.4	73.0
Nuclear (h)	65.7	67.5			
Oil-fired	28.6	38.8	22.2	32.8	39.5

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 162,903 as of December 10, 1984. 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
1984		
March	\$22 $\frac{5}{8}$	\$19 $\frac{3}{4}$
June	22 $\frac{5}{8}$	19 $\frac{1}{2}$
September	23 $\frac{3}{8}$	21
December	25 $\frac{5}{8}$	23
1983		
March	\$24 $\frac{1}{2}$	\$20 $\frac{3}{8}$
June	24 $\frac{1}{2}$	20 $\frac{3}{4}$
September	23 $\frac{3}{8}$	20 $\frac{3}{8}$
December	24 $\frac{1}{2}$	20

The Company has paid quarterly cash dividends on its common stock in every year since 1946. The dividends paid per share in 1984 and 1983 were \$2.46 and \$2.38, respectively. The most recent regular quarterly dividend declared by the Company was 62 cents per share (equivalent to \$2.48 per annum) paid January 1, 1985. Future dividends will be dependent upon future earnings, financial requirements and other factors.

The Company has estimated that 36.71% of its 1984 dividends paid on common stock will not be taxable 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.

Fiscal Agents

TRANSFER AGENTS FOR PREFERRED, PREFERENCE AND COMMON STOCK

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

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

REGISTRARS FOR PREFERRED, PREFERENCE AND COMMON STOCK

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, \$2.90 Series (Code: PPLPRP)
Depositary Preference Shares, \$3.25 Series (Code: PPLPRO)
Depositary Preference Shares, \$3.42 Series (Code: PPLPRR)
Depositary Preference Shares, \$3.75 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, \$2.90 Series
Depositary Preference Shares, \$3.25 Series
Depositary Preference Shares, \$3.42 Series
Depositary Preference Shares, \$3.75 Series
Common Stock

Officers

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

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

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

Directors

CLIFFORD L. ALEXANDER JR., Washington, D.C.
President, Alexander & Associates Inc. Consultants to business, government & industry
ELIZABETH E. BAILEY, Pittsburgh
Dean, Graduate School of Industrial Administration, Carnegie-Mellon University
ROSWELL BRAYTON SR., Woolrich
President and Chief Executive Officer, Woolrich Woolen Mills Inc. Manufacturer of garments for outdoor activities
JEFFREY J. BURDGE, Camp Hill
Chairman of the Board and Chief Executive Officer, Harsco Corporation. Manufacturer of processed and fabricated metals
ROBERT K. CAMPBELL, Allentown
President and Chief Executive Officer
EDGAR L. DESSEN, Hazleton
Physician-Radiologist
EDWARD DONLEY, Allentown
Chairman of the Board and Chief Executive Officer, Air Products and Chemicals Inc. Manufacturer of industrial and commercial gases and chemicals
MERLIN F. HERTZOG, Allentown
Executive Vice President-Corporate Services
FRANCES R. HESSELBEIN, New York City
National Executive Director, Girl Scouts of the U.S.A.
HARRY A. JENSEN, Lancaster
Director and former Chief Executive Officer, Armstrong World Industries Inc. Manufacturer of interior furnishings and specialty products
JOHN T. KAUFFMAN, Allentown
Executive Vice President-Operations
W. DEMING LEWIS, Bethlehem
President Emeritus, Lehigh University
HAROLD S. MOHLER, Hershey
Former Chairman of the Board, Hershey Foods Corporation. Diversified manufacturer of food products
RALPH W. RICHARDSON JR., State College
Consultant, agricultural and environmental sciences
NORMAN ROBERTSON, Pittsburgh
Senior Vice President and Chief Economist, Mellon Bank, N.A.
DAVID L. TRESSLER, Scranton
Chairman of the Board and Chief Executive Officer, Northeastern Bank of Pennsylvania
Executive Committee: Robert K. Campbell, chairman; Edgar L. Dessen, Harry A. Jensen, W. Deming Lewis and Norman Robertson.
Audit Committee: David L. Tressler, chairman; Clifford L. Alexander Jr., Elizabeth E. Bailey, Roswell Brayton Sr., Harold S. Mohler, and Ralph W. Richardson Jr.
Corporate Responsibility Committee: Edgar L. Dessen, chairman; Jeffrey J. Burdge, Frances R. Hesselbein, Harold S. Mohler and David L. Tressler.
Management Development and Compensation Committee: Roswell Brayton Sr., chairman; Clifford L. Alexander Jr., Elizabeth E. Bailey, 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, Manager-Investor Services.

Board of Directors



Alexander



Bailey



Brayton



Burdge



Dessen



Donley



Hesselbein



Jensen



Lewis



Mohler



Richardson



Robertson



Tressler



Reis Nonemaker Hertzog Campbell Kauffman Calhoun Russoli

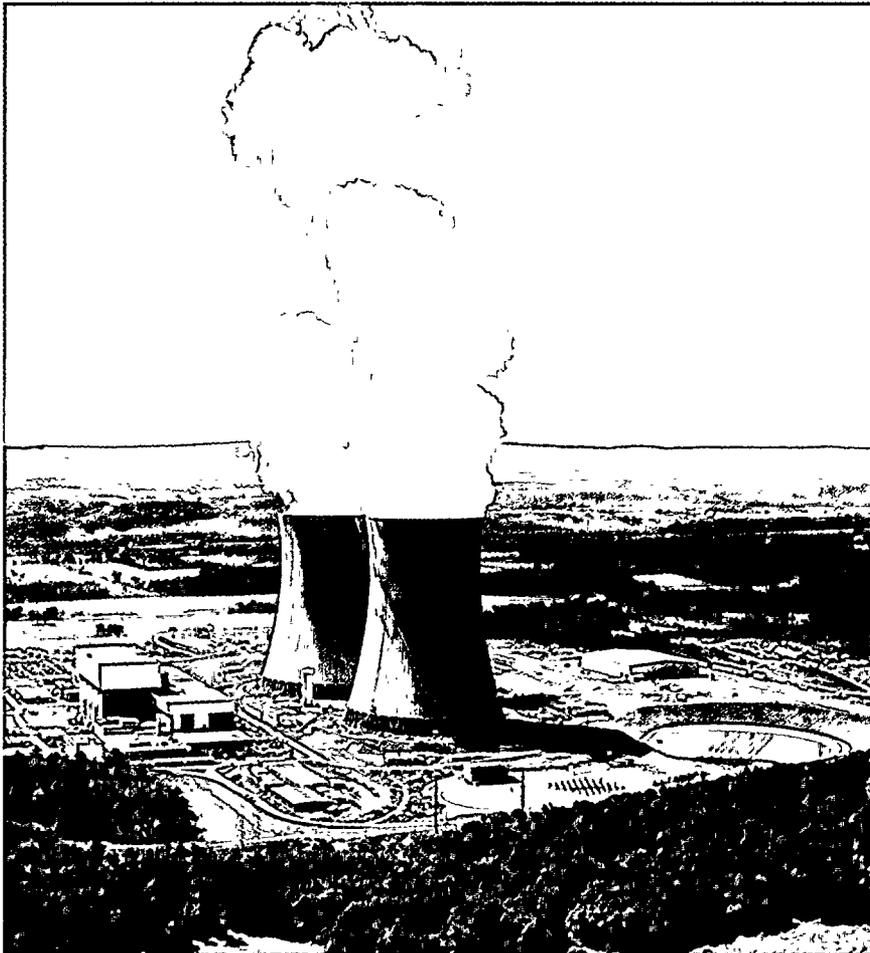
Corporate Management Committee



Pennsylvania Power & Light Company

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SUSQUEHANNA UNITS

IN FULL OPERATION

Eleven years and three months after ground was broken at the site of PP&L's Susquehanna nuclear plant near Berwick, Pa., the second unit was put into commercial operation Feb. 12, 1985. The achievement capped a period during which thousands of people gave millions of hours of dedicated work to successfully complete the largest construction project in the company's history. With the output from Susquehanna, and from PP&L's other generating plants, the company will be able to provide an abundant supply of reliable, economical electric power for Central Eastern Pennsylvania well into the next century.