PP&L Pennsylvania Power & Light Company
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Harold W. Keiser
Vice President-Nuclear Operations
215/770-7502

MAR 19 1987

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

SUSQUEHANNA STEAM ELECTRIC STATION
ANNUAL FINANCIAL REPORT
PLA-2820 FILE R41-2A

Docket Nos. 50-387
50-388

Dear Mr. Denton:

In accordance with 10CFR50.71(b), enclosed is the 1986 annual report for Pennsylvania Power & Light Co. The annual report for Allegheny Electric Cooperative, Inc., will be forwarded later.

Very truly yours,

H. W. Keiser
Vice President-Nuclear Operations

Attachment

cc: NRC Document Control Desk (original)
NRC Region I
Mr. L. R. Plisco - NRC Resident Inspector
Mr. M. C. Thadani - NRC Project Manager

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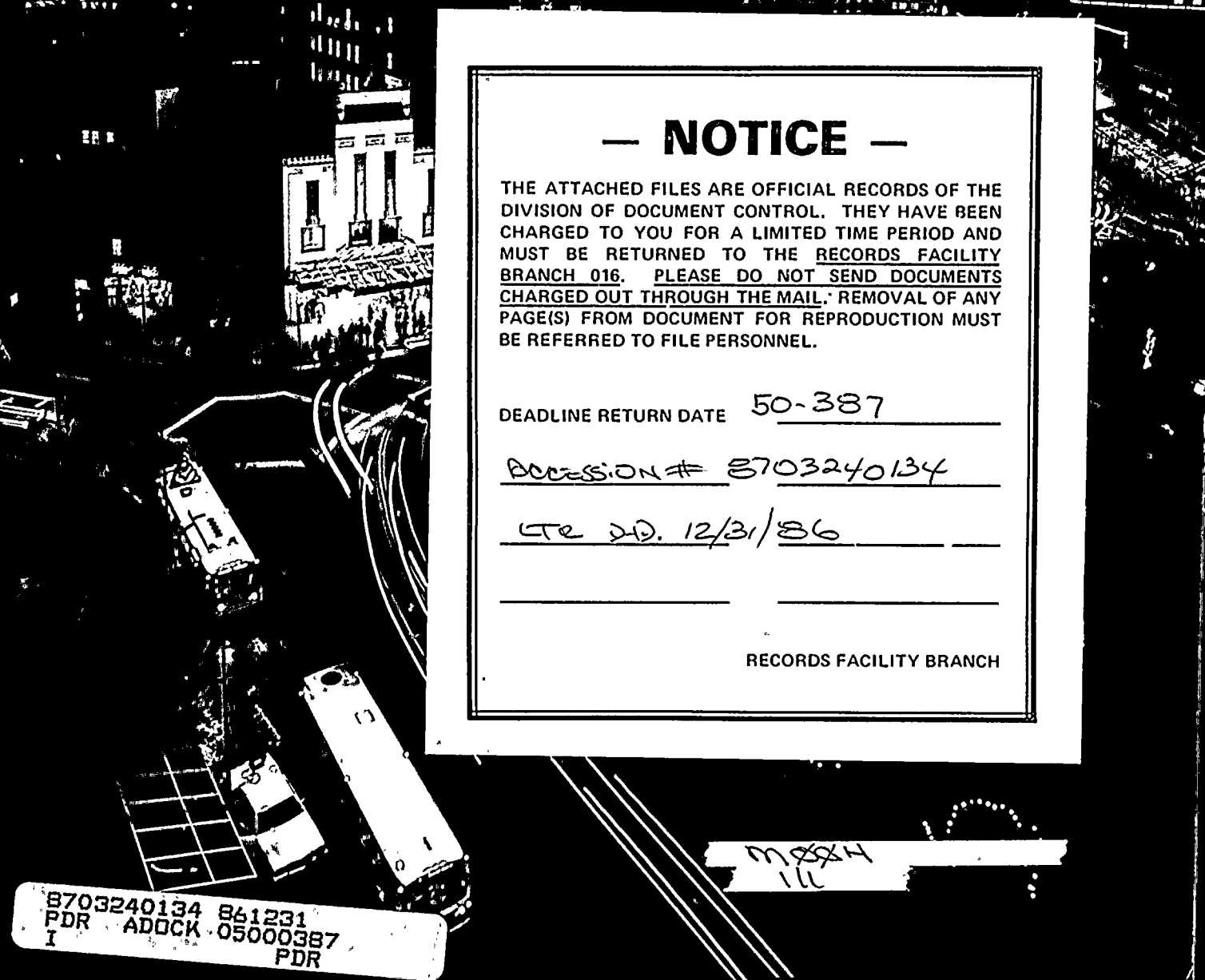

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COVER

Wilkes-Barre, Pennsylvania, its Public Square aglow in light, boasts one of the most encouraging stories of economic resurgence in PP&L's 10,000-square-mile service area. The city gained nationwide attention in 1972 as one of the hardest-hit victims of severe flooding that accompanied Tropical Storm Agnes. The indomitable spirit of the people of the Wyoming Valley prevailed and the area is now more vibrant than ever. A gleaming brass and glass facade highlights the new F. M. Kirby Center for the Performing Arts, a refurbished 1,850-seat theater with roots going back nearly 50 years to an era of lavish and ornate movie palaces. The theater is fast becoming a cultural center in Northeast Pennsylvania, and will be the site of PP&L's corporate annual meeting in April 1988. Showing no signs that its square was under eight feet of water in 1972, the center of the seat of government for 200-year-old Luzerne County is another Central Eastern Pennsylvania community that PP&L proudly serves.

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CUSTOMER SERVICE

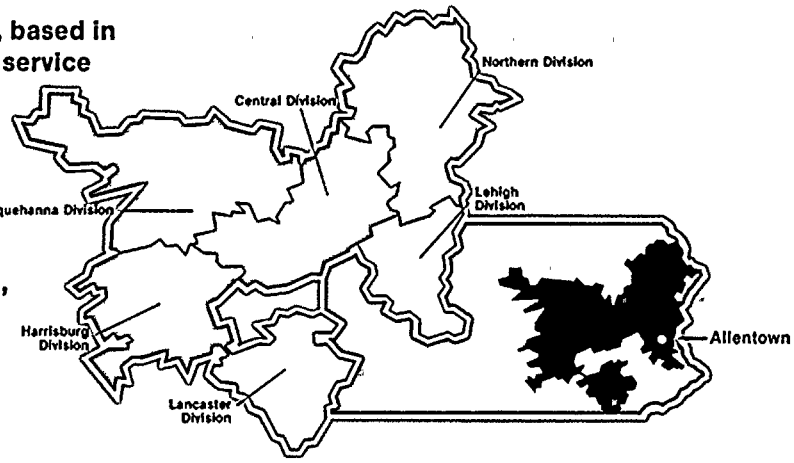
PP&L's mission statement says it all: "To meet our customers' ongoing needs for economical and reliable electric service in ways that merit the trust and confidence of the public." The service PP&L provides vitally affects the daily lives of 2.5 million people in Central Eastern Pennsylvania. This is why PP&L has a great responsibility to those people to be a responsive, sensitive company. But sensitivity can only be conveyed by people — people who take their jobs and their individual responsibilities seriously. In words and pictures, on pages 4 through 17, is the story of some of the people who perpetuate PP&L's reputation for excellent customer service. Their dedication to excellence keeps PP&L's performance among the best.

Notice of Annual Meeting

The 1987 annual meeting of shareowners will be held at 1:30 p.m. on Wednesday, April 22, 1987, at the Penn Harris Inn and Convention Center, Routes 11 and 15, Camp Hill Bypass, Camp Hill, Pa. Formal notice of the meeting and a reservation card for meeting attendance are included with shareowners' proxy material.

SERVICE AREA

Pennsylvania Power & Light Co., based in Allentown, Pa., provides electric service to more than a million homes and businesses throughout a 10,000-square-mile area in 29 counties of Central Eastern Pennsylvania. Principal cities in the PP&L service area are Allentown, Bethlehem, Harrisburg, Hazleton, Lancaster, Scranton, Wilkes-Barre and Williamsport.

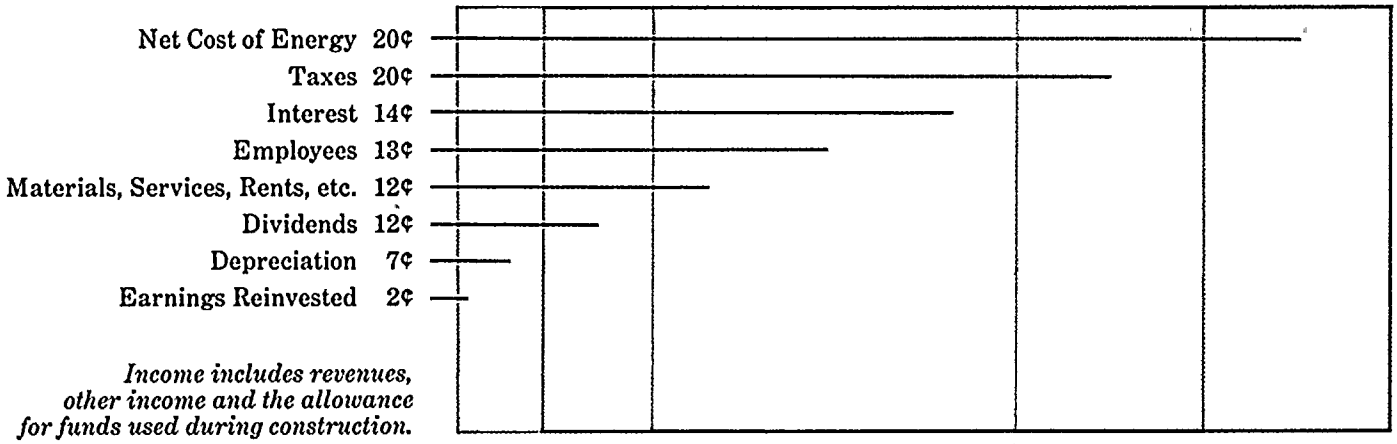


HIGHLIGHTS

	1986	1985
Customers (a)	1,073,146	1,055,546
Common Shareowners (a)	147,611	151,025
Electric Energy Sales, Kilowatt-hours	30.4 Billion	28.1 Billion
Interchange Power Sales, Kilowatt-hours	11.3 Billion	16.2 Billion
Electricity Generated, Kilowatt-hours	41.5 Billion	42.7 Billion
Operating Revenues	$2.2 Billion	$2.0 Billion
Capital Provided by Investors (a)	$5.5 Billion	$5.5 Billion
Utility Plant (a)		
Net Plant in Service	$5.8 Billion	$5.8 Billion
Construction Work in Progress	$0.2 Billion	$0.2 Billion
Common Stock Data		
Return on Average Common Equity	12.11%	10.42%
Earnings Per Share	$3.10	$2.68
Dividends Declared Per Share	$2.58	$2.56
Market Price Per Share (a)	$36½	$28¾
Book Value Per Share (a)	$25.71	$25.58
Times Interest Earned Before Income Taxes	2.80	2.37

(a) At year-end.

Where the PP&L Income Dollar Went in 1986



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

The very positive operating and financial results achieved by the company in 1986 clearly show that, with both Susquehanna generating units in commercial operation, we now have a solid foundation in place for meeting our long-term commitments to customers and shareowners.

To succeed in today's increasingly competitive energy markets requires maintaining top performance in all phases of our operations. This means that we must continue to provide electric power at competitive prices and with superior customer service. Fortunately, because of PP&L's exceptionally strong capacity position, based on an efficient mix of coal and nuclear generation, the company has never been in a better position to meet these objectives.

Providing economical and reliable electric service goes hand-in-hand with enhancing the company's financial strength. And because both are related to succeeding in the marketplace, PP&L's marketing and economic development programs are aimed at attracting and holding job-producing businesses for our service area by promoting the company's strong position as a supplier of reliable and competitively priced electric energy.

Sales and Earnings

Contributing to our improved financial performance in 1986, kilowatt-hour sales to service-area customers increased 4.2 percent and total electric sales increased 8.2 percent, compared to 1985. The service-area sales growth was led by major gains in our electrically heated home market and by increased sales to commercial customers. Although industrial sales increased by only 1 percent, our industrial sector continues to grow and become more diversified, with net gains through plant expansions and new industries more than offsetting reduced usage for steel manufacturing.

The company's total 1986 sales increase of 8.2 percent reflected the benefit of the first full year of selling electric power under our long-term contract with Jersey Central Power & Light Co. This contract for 945,000 kilowatts of PP&L's total generating system, and our contract with Atlantic City Electric Co. for electric energy from Susquehanna, provide revenues that have helped to offset regulatory disallowances based on rulings that the company presently has too much generating capacity.

The marketing of electric power to other utilities will continue to provide the company with important sources of future revenue. These sales are made possible by PP&L's favorable mix of low-cost coal and uranium fuels — and by the outstanding performance of our generating units.

The company's 1986 earnings of $3.10 per share were up 42 cents, or 15.7 percent, from 1985. This significant improvement is the result of our continued emphasis on cost containment, including our very effective refinancing program, and increased electric energy sales.

As part of our ongoing cost containment program in 1986, we initiated a voluntary early retirement program, delayed building renovations and undertook an aggressive program to refinance higher cost securities at lower cost to improve earnings and to help keep PP&L's price for electric service as low as possible.

Looking ahead, we will work hard to hold down costs, including continuation of our refinancing program that proved to be particularly significant in reducing costs and improving earnings in 1986.

The company's strengthened financial position also is reflected by the high quality of our 1986 earnings. Only about 5 percent of these earnings were the result of recording a non-cash allowance for funds used during construction, compared to an industry average of about 35 percent.

Without the need to construct major new generating capacity for at least the balance of this century, this favorable liquidity position should continue to be a financial strength for the foreseeable future.

Marketing and Economic Development

Our aggressive marketing and economic development programs continued last year to make important contributions to the economic prosperity of the communities we serve. These programs also are designed to achieve annual increases in kilowatt-hour sales to support the financial health of the company while mitigating the need for future rate increases.

To achieve our economic development and kilowatt-hour sales growth objectives in today's competitive energy market, it's essential that we keep the price for our electric service as low as possible. For that reason, we announced at last year's annual meeting our objective of not raising base rates for at least the balance of this decade.

Although our marketing and economic development programs

continue to produce impressive results, we will be expanding these efforts with new initiatives this year.

For example, we plan to broaden our present rate incentive program by introducing new flexible pricing options designed to encourage existing business customers to expand their operations and to attract new industries to our service area. And we will be stepping up our efforts to find new energy-efficient electrical uses that will provide benefits for residential, commercial and industrial customers.

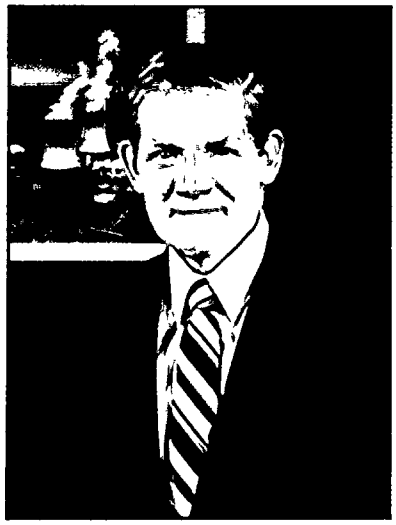
Customer service is the key element in the success of PP&L's marketing and economic development programs. For example, having more than 80 percent of all new residential customers choose electric space heating results from dedicated PP&L people who have earned the confidence of customers. This commitment to superior customer service also was recognized in a recent Pennsylvania Public Utility Commission report which concluded that PP&L has the lowest customer complaint rate among Pennsylvania electric utilities.

At PP&L, concern for customers goes beyond being a reliable electricity supplier. It extends to being a neighbor who responds in time of need and financial hardship. That's the purpose of our customer assistance programs such as Operation HELP and CARES. That's what is meant when we say that PP&L's marketing programs are based on a tradition of responding to our customers' needs.

Generation

Again last year, the outstanding performance of PP&L's power plants demonstrated the enormous long-term benefit of the company's generating capacity. As competition continues to increase, the advantage of having sufficient generating capacity to meet current and future requirements becomes clearly evident. This advantage is particularly decisive when that generating capacity is operated efficiently and consists of a good mix of low-cost coal and uranium fuels.

Both Susquehanna nuclear units operated very well in 1986, continuing the excellent record of performance that these two 1,050,000-kilowatt generating units have achieved since going into commercial operation. Among all boiling water reactors in the nation, Susquehanna Unit 2 ranked first in total generation over the past two years and Unit 1 ranked second. Even though both units underwent refueling outages in 1986, they produced 11.3 billion kilowatt-hours last year and received a near-perfect rating in the Nuclear Regulatory Commission's Systematic Assessment of Licensee Performance report.



The continued excellent performance of all of PP&L's generating plants enabled the company to sell 11.3 billion kilowatt-hours of mostly coal- and oil-fired electric power to neighboring utilities last year, resulting in benefits to our customers of about $35 million.

Because low-cost electric generation is essential in meeting our corporate objectives, we have set a goal to keep PP&L's performance at the level of the best in the industry. In addition to allocating resources to achieve even higher plant availability, we plan to spend about $140 million over the next five years as part of our program to extend the useful lives of our non-nuclear power plants as long as possible.

These initiatives are designed to assure that PP&L is well-positioned to prosper in a more competitive business environment. While many challenges lie ahead, we believe that we have built a solid foundation for the company's continued success.

Our confidence is based on the talents of dedicated PP&L people and the continued support from you, our shareowners. In the years ahead, we will continue to do all we can to assure a prosperous future for our service area and for your company.

Respectfully submitted,

Robert K. Campbell
February 27, 1987

Operations

Employee safety — and more specifically, a fatality-free work environment — continues to be the company's number one operating priority. In 1986, the company achieved its sixth straight calendar year without an employee fatality.

While the company provides the tools, equipment and training needed to help employees achieve a safe working environment, it remains for every employee to make a concerted effort to make safe work habits a part of everything they do — both on and off the job.

Thirteen work groups in the company achieved more than a million work-hours without a lost-time accident.

The company's safety record was again among the best of the state's seven major electric utilities — PP&L had the second-best lost-time accident record among its Pennsylvania peers.

Earnings and Dividends

Earnings for 1986 were $3.10 per share of common stock compared to $2.68 for 1985. The improvement in earnings resulted from a combination of increased kilowatt-hour sales, cost-containment measures, and an aggressive program to refinance high-cost securities at a lower cost. This returns earnings to about the same level achieved in 1984, when they were $3.12 per share.

PP&L's quarterly dividend on common stock was increased one cent per share to 65 cents, beginning with the Oct. 1, 1986, dividend. It had been 64 cents per share since April 1, 1985.

Sales and Revenues

Revenues for 1986 were $2.19 billion, up $212 million over the previous year. The increase came from higher sales and from the full 12 months' effect of the $121 million rate increase the company was granted in April 1985.

A strong new-home-building market — and a record 84 percent of those new homes using electric heat — helped to boost sales to residential customers by 5 percent for the year.

Commercial sales were up 6.4 percent, reflecting continued strength among retail and wholesale customers and others in the small-business sector in Central Eastern Pennsylvania.

A slight rebound in industrial sales began at midyear as the decline in steel manufacturing was offset by growth in other industries. Use of electricity by the steel industry was down 11.7 percent in 1986, while sales to other industrial customers rose by 2.9 percent, for a composite increase of about 1 percent over the prior year.

Overall, kilowatt-hour sales increased 8.2 percent over 1985. Slightly over half of the 2.3 billion kilowatt-hour increase resulted from higher sales to other utilities — primarily under long-term contracts.

Security Sales and Early Redemptions

The objective of PP&L financing activities during 1986 was to take advantage of the lower interest and dividend rates that were prevalent in the capital markets throughout the year. The company was thus able to retire high-cost securities, thereby reducing its overall capital costs and improving its financial health.

The $600 million of 1986 security sales consisted of four $125 million offerings of first mortgage bonds, with interest rates varying from 9 percent to 10.875 percent, and $100 million of 7 percent series preferred stock.

Customer Representatives

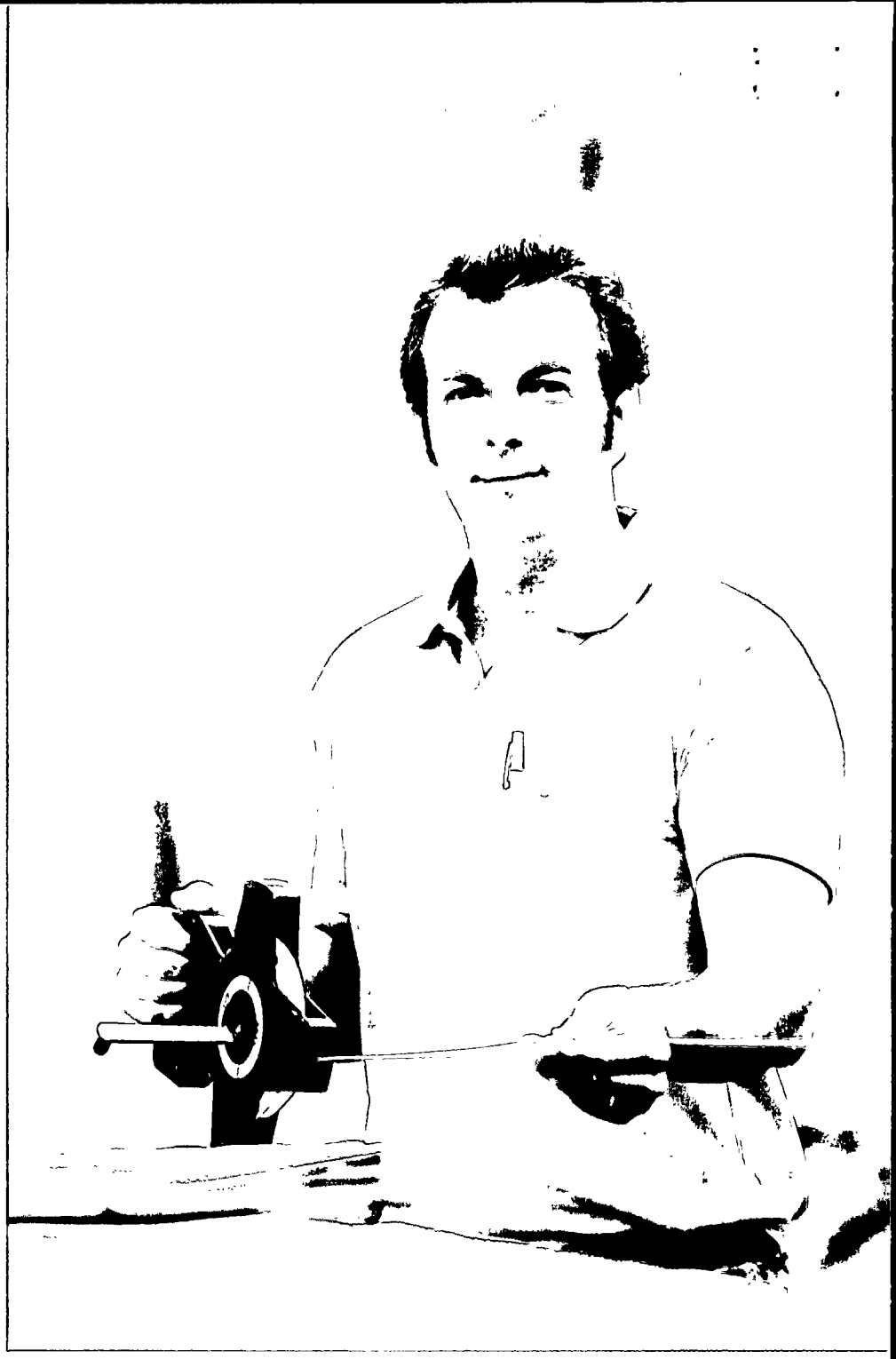
"I was surprised at how fast the PP&L telephone representative was able to arrange for electric service to our new home. We were on a tight schedule, but we were hooked up on time. I felt the company really cared about me."

Lynne Rothweiler
Residential Customer
Quarryville, Pa.

Louatha Parham (left, foreground), and Sandra Sheirich (below), Customer Representatives in PP&L's Lancaster Division Service Center.

The 79 customer representatives across PP&L's service area answered more than 1.2 million telephone inquiries last year. About 70 percent of the calls are routine — requests for new service, disconnections, service transfers and payment arrangements. The other 30 percent could range from "no light" calls, to children's toys tangled in company lines, to large bill inquiries or storm emergency calls. PP&L customer representatives are not just voices at the end of telephone lines. They are people who genuinely care about the customers who contact them. For every call, customer satisfaction is the goal.

Distribution Technician Edward Smith (right), and Steno/Clerk Elaine Jones (below), in the company's Lancaster Division Service Center.



Although they are more behind-the-scenes, Distribution Engineering employees determine what's needed to serve a customer. It may be a pole near a new building and a short span of wire, or a three-mile section of line to be built to reach another customer's property. For each installation, distribution technicians decide what materials are needed and the "route" a line will take. Each job is designed with PP&L's standards and specifications in mind, to provide the safest and most reliable service to fill a customer's needs.

Distribution Technicians

"My profit margin is affected by what PP&L's technicians tell me is, and is not, feasible in running electric service to one of my new homes. I depend on their advice — and they've never let me down. They know their business."

Robert Wenner
President
Wenner Construction Corp.
Wyomissing Hills, Pa.

During 1986, the company retired a total of $475.2 million of securities through early redemption provisions:

- $225 million of first mortgage bonds in two series with interest rates of 14 percent and 15.625 percent.
- $162.5 million of preference stock in four series with dividend rates ranging from 13 percent to 15 percent.
- $87.7 million of preferred stock in four series with dividend rates ranging from 10.75 percent to 14 percent.

Construction Expenditures

Construction expenditures of $579 million are planned during the two years 1987 and 1988, even though no new generation facilities are under construction, or contemplated.

About $227 million has been allocated for new construction and upgrading of the company's transmission and distribution system in the next two years. Another large portion — $204 million — is budgeted for replacing worn and obsolete equipment, life-extension projects, and programs to improve the performance of our fossil-fueled and hydroelectric generating units. Additionally, $95 million is budgeted for ongoing improvements and modifications at the Susquehanna nuclear plant during 1987 and 1988.

Power Pool Reaches New Peak

Because of moderate weather conditions, no new winter or summer peak power demands were recorded by PP&L in 1986. PP&L's annual peak demand occurs during the winter because of its customers' high electric heat load.

However, sultry July weather to the south of PP&L's service territory, and the resulting air conditioning load, pushed the peak demand on the Pennsylvania-New Jersey-Maryland Interconnection to a new high of 37.5 million kilowatts on July 7, up from 37 million in August 1985.

Holtwood Unit Gets Life-Extension Overhaul

Studies conducted by PP&L have shown that it is more economical to upgrade and continue to operate the company's existing generating units rather than replace them with new, more costly units.

After more than three decades of reliable service, the 73,000-kilowatt coal-burning unit at the company's Holtwood plant, located along the Susquehanna River in Lancaster County, was shut down in May for a major overhaul aimed at extending its useful life.

During the six-month overhaul the 32-year-old unit, which burns a mixture of anthracite and petroleum coke, underwent $13 million of renovations, including major repairs to its boiler. This work is expected to extend the unit's life by 15 to 20 years.

Brunner Island Unit is 25 Years Old

Unit 1 at PP&L's Brunner Island generating plant located along the west bank of the Susquehanna River, 15 miles below Harrisburg, marked 25 years of commercial operation on June 22, 1986.

The 334,000-kilowatt bituminous-coal-burning unit was the first of a generation of large, more efficient, units built by PP&L during the 1960s and 1970s to meet increasing electrical demand during a period of rapid economic growth in the company's service territory.

PP&L Had Lowest Complaint Rate

A report prepared by the Pennsylvania Public Utility Commission in June 1986 showed PP&L had the lowest customer complaint rate of any electric utility in the state during 1985.

According to the report, the number of consumer complaints against PP&L dropped 22 percent from 1984 to 1985, leading to the lowest informal complaint rate in the state. Additionally, PP&L's mediation cases — instances in which the PUC is called on by a customer to intervene — dropped by 51 percent, giving PP&L the second-best mediation rate in the state.

Marketing and Economic Development

Marketing PP&L's "product," reliable electric service, in ways that emphasize its value to the customer, will enable the company to make effective use of its generating capability. Marketing is a natural outgrowth of the fundamental premise that abundant, reliable and relatively inexpensive electric energy will help spark renewed economic prosperity in Central Eastern Pennsylvania.

The objectives of the company's marketing efforts include:

- Increasing kilowatt-hour sales to service-area customers to achieve the lowest practical cost per kilowatt-hour to customers for electric energy.
- Enhancing economic prosperity of PP&L's service area by providing options and choices for customers to best meet their individual needs for electric service.

The company's marketing strategy is designed to capitalize on the unique properties of electricity. It is a precisely measurable, extremely versatile and controllable form of energy whose value far exceeds its cost. The value to the customer lies in the ability of electric energy to improve productivity in business or industry, to provide a more healthful and safe working environment, to reduce overall energy costs, and to enhance living standards when compared to alternative forms of energy.

To PP&L, marketing means enhancing the economic prosperity of its service territory — by attracting and holding job-producing businesses and industries. Applications of electric energy that make the best use of PP&L coal and nuclear power plants — through around-the-clock operation — can be found in business and industry. The thrust of the company's marketing strategy is to seek out those applications and to demonstrate to existing and prospective customers how electric energy can improve their productivity and better their competitive posture.

The company is working through partnerships with the state, regional economic development groups, and municipalities to achieve economic improvement.

Job Goal Exceeded

The 1986 corporate goal of helping PP&L's service territory achieve a net increase of 5,000 new jobs was again exceeded as 165 new or expanding firms provided a net increase of more than 6,500 jobs.

PP&L's economic development activities helped produce more than 17,500 new jobs in Central Eastern Pennsylvania during the past 36 months.

Right-of-Way Agents

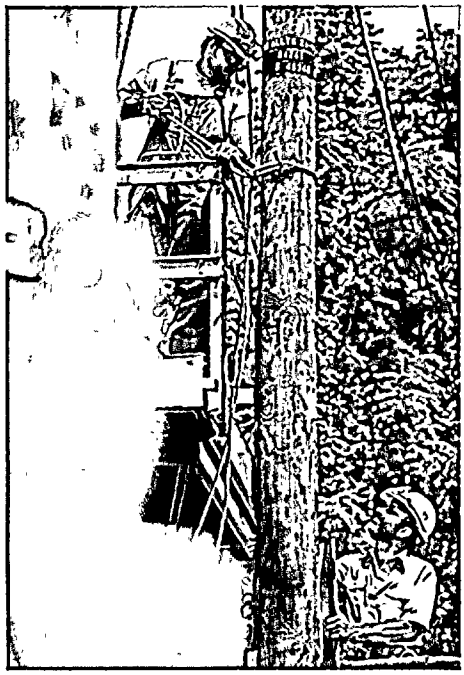
"I have a lot of ideas about how I'd like to see my land developed. I always count on a thorough discussion with my PP&L right-of-way agent, though, to provide me with practical, operational considerations. He's a good ally."

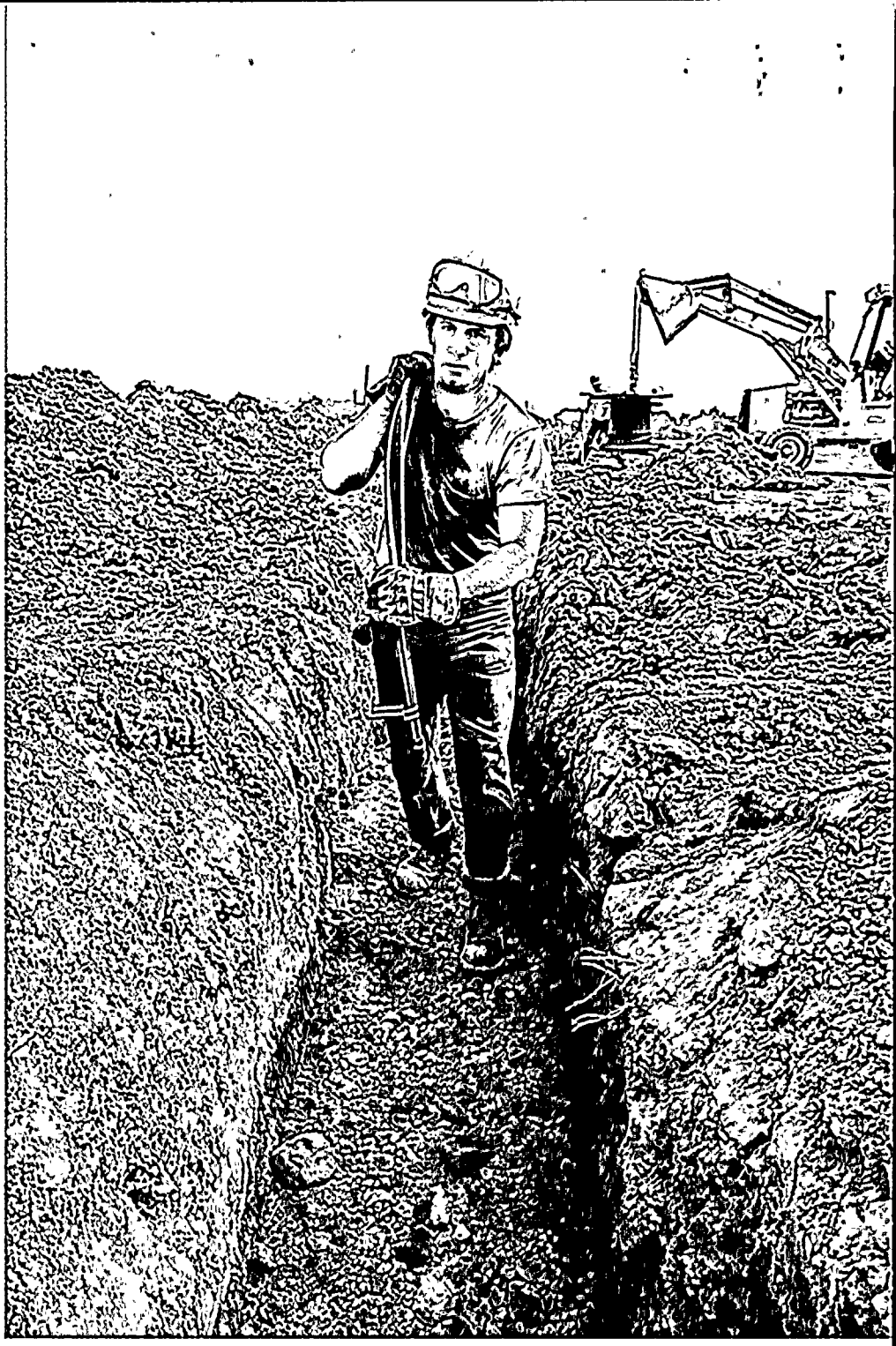
Charles Keiter
Real Estate Developer
Danville, Pa.

Right-of-Way Agent Ernie Ramirez (tan jacket), Bloomsburg Service Center, with Danville property owner.

PP&L cannot just bring in its equipment and place its facilities wherever it would like. Whenever a job calls for crew access to private property, right-of-way representatives must negotiate for the right to enter or build on a customer's land. Whether it's a pole line or trench along a property line, or land on which to build new transmission facilities, right-of-way agents are called on to use their negotiating skills and diplomacy to reach a reasonable consensus between PP&L's and a property-owner's interests.

Distribution Handyman Russell Bennett (right), Harrisburg Division Distribution Department, and Lehigh Division Construction Mechanics Robert Lawler (below, on platform), and Neil Schaffer (below, right), in Allentown.





It's the workers in the trenches and the lineman in the bucket trucks that are probably the most visible of PP&L's employees. The orange and gray trucks, and their crews, seem to be everywhere. In PP&L's 67-year history, though, there has not been much change in the assignment — get electric service to the customer. Quality facilities must be built, or repaired, in a timely manner, with priority consideration given to doing it safely, and with the least inconvenience to the public. Nobody does it better than PP&L employees.

Distribution Crews

"Success in our business is based on high production. PP&L is equipped and ready to get the job done. I found I could count on quality and reliability from the Harrisburg crews. They gave their word, and they performed."

Steven Shenenberger
General Superintendent
E. B. Abel Construction Co.
Mountville, Pa.

1986 Results

The company's economic development efforts in 1986 also boosted electric energy sales more than 164 million kilowatt-hours.

Marketing efforts with industrial and commercial customers added more than 104 million kilowatt-hours, and residential marketing programs added another 28 million kilowatt-hours.

Overall, 296 million kilowatt-hours of increased sales resulted from the company's economic development and marketing programs. This figure exceeded sales goals by 22 percent.

Rates and Regulatory Matters

Early in 1986, PP&L announced its objective of improving earnings performance without increasing retail base rates for the remainder of the decade.

The company is meeting this objective largely through ongoing cost-containment measures, refinancing high-cost securities at lower cost, and through increased sales.

Management Audit Results

In April, the PUC released a report on the audit of PP&L's management and operations. The audit was conducted by Ernst & Whinney, a Washington, D.C., public accounting and management consulting firm. Management studies of all major Pennsylvania electric utilities are periodically arranged by the PUC.

The audit, which began in mid-1984, examined most of the functions of the company and areas of special concern to the PUC — such as staffing and compensation. The report did not provide an overall conclusion about PP&L's performance. Instead, the report ranked key task areas — such as corporate management, financial management and customer service — in one of five categories: optimum, above average, average, below average and unsatisfactory.

Thirty of the 34 rankings were average or above, with none in the unsatisfactory category. Along with the rankings, the auditors also suggested improvements, most of which the company agreed to implement or already had under way.

Rate Case Appeal Denied

In October, Pennsylvania's Commonwealth Court, by a 6-to-1 vote, denied an appeal PP&L filed in 1985 after the PUC ruled that the company was entitled to only about $121 million of its 1984 request for $330 million in higher rates.

The company had sought the rate increase mainly to reflect the operating costs of Susquehanna Unit 2. The PUC cut the request after ruling that Unit 2 gives the company too much generating capacity at this time.

In mid-November the company announced that it would not ask the Pennsylvania Supreme Court to review the decision of the lower court.

Rates Decreased by $32 Million

On Jan. 1, 1987, the company decreased rates by $32 million to reflect a reduction in federal income taxes for 1987, and to adjust for other changes in PP&L's cost of serving customers.

The decrease incorporated the effect of lower federal tax rates beginning in January, as well as a decrease in the state tax surcharge and an increase in

the company's energy cost rate — the latter two of which would normally have become effective in April. Rather than lowering rates in January, then adjusting them again in April, the company asked the PUC to permit all of the changes to become effective at the beginning of 1987 — with the net effect of the adjustments being an average 1.8 percent decrease in rates.

The company believes the one-time adjustment contributes to a more stable economic atmosphere in Central Eastern Pennsylvania and reinforces PP&L's industrial development and marketing efforts.

Susquehanna Nuclear Plant

A number of significant events were recorded for the company's Susquehanna nuclear plant near Berwick, Pa. The twin 1,050,000-kilowatt boiling water reactors generated more than 11 billion kilowatt-hours of electricity during 1986.

Both units at the plant ran extremely well. From early 1985, when it went into commercial operation, through the end of 1986, Unit 2 led all boiling water reactors in the nation in total electricity produced. In second place on that list was Unit 1.

Second Refueling Outage for Unit 1

Unit 1 was shut down Feb. 15, 1986, to begin its second refueling outage since it began commercial operation in June 1983. During the shutdown, 296 of the reactor's 764 nuclear fuel assemblies were replaced with new ones. Plant crews also performed more than 300 required inspection tests that can be performed only while the unit is not generating electricity. In all, more than 2,000 individual tasks, including maintenance and modifications, were completed.

The unit returned to service April 23 — more than two weeks earlier than originally scheduled.

First Refueling For Unit 2

Ending one of the most successful initial operating cycles in the history of the nation's nuclear power program, Unit 2 at Susquehanna was shut down Aug. 9 to begin its first refueling.

More than 300 of its 764 fuel bundles were replaced, and more than 2,800 tests, maintenance and modification tasks were performed during the shutdown. The unit was returned to service on Oct. 29, two days under the time allotted.

Emergency Drill Successful

PP&L employees again successfully demonstrated to the Nuclear Regulatory Commission that they are capable of protecting the public in the event of an accident at the Susquehanna plant. NRC observers made that determination after a day-long drill held in April 1986 to test the emergency preparedness skills of PP&L personnel.

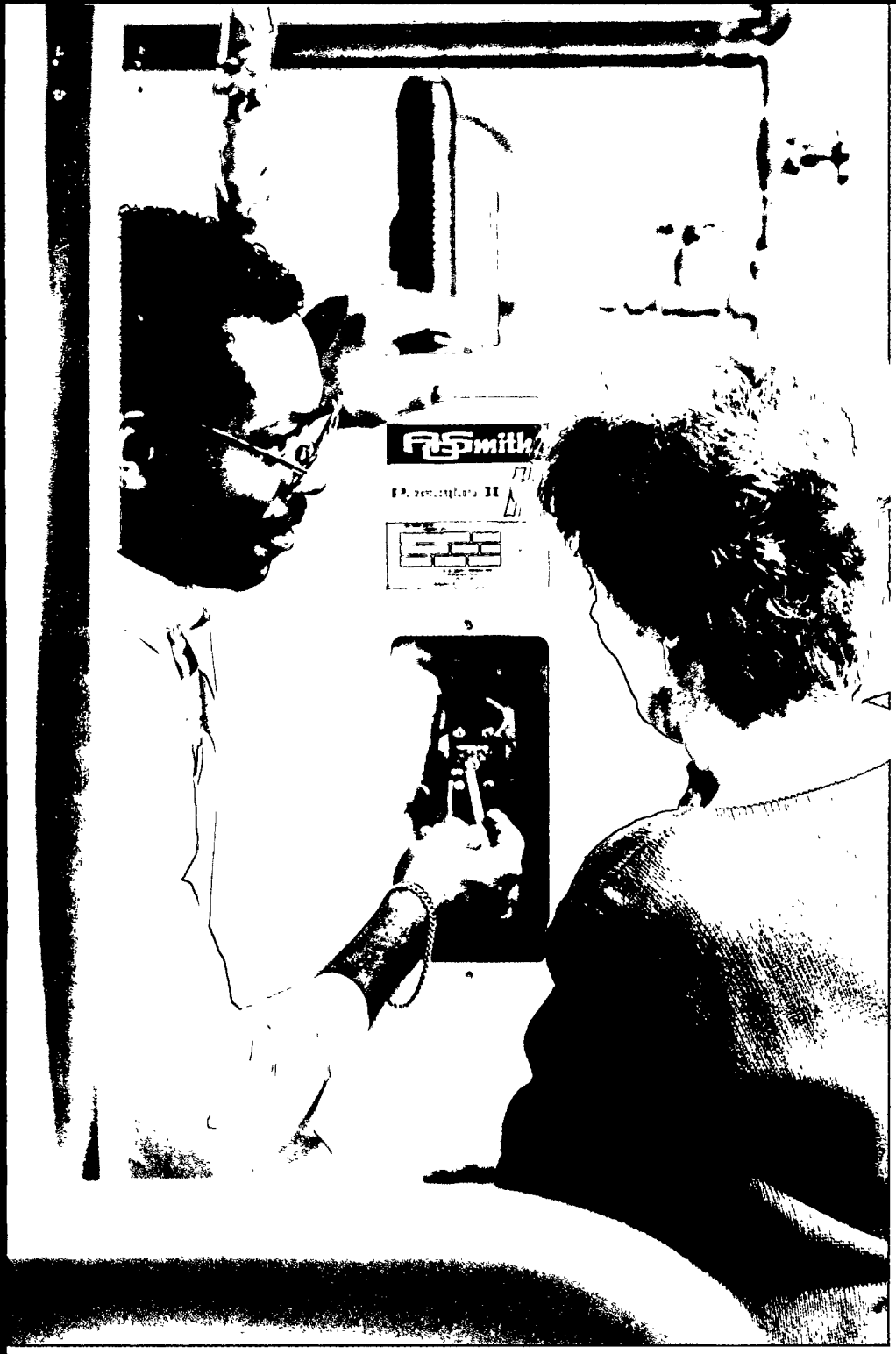
Full-scale, NRC-observed drills are held annually at Susquehanna. In 1986 there was only limited participation by the Pennsylvania Emergency Management Agency and Luzerne County and Columbia County emergency organizations. State agencies, municipalities and school districts — which are required by law to participate every two years — will join the 1987 drill.

During the drill, PP&L personnel, and 30 representatives of the NRC responded to a specially prepared scenario for which details were not disclosed

Customer Contact Representatives

"I'd never had occasion to see the inside of a water heater, but PP&L's representative pointed out how we could lower energy costs by setting our hot water temperature back a few degrees. It's attention to detail that sets PP&L apart."

Margaret Furey
Residential Customer
Clarks Green, Pa.



Customer Contact Representative Frank Smith (left), Northern Division Service Center, Scranton, and Serviceman Jack Reichert (below), Central Division Service Center, Hazleton.

Servicemen

There are no typical days for PP&L servicemen. One day they may work on overdue bill collection, another they may be changing meters or locating underground electric cable for excavators. Servicemen have many opportunities to promote good customer relations — to many customers they are PP&L.

When a customer has a question or problem that can't be resolved over the phone, customer contact representatives call in person to try to provide satisfaction. A call may be as simple as showing a customer how setting the thermostat back on a water heater could lower energy costs, or as complicated as resolving large bill complaints, correcting back billing problems or coordinating facility relocations or service interruptions. Customer contacts are multifaceted — but representatives stay with a case until the customer is satisfied or a problem is cared for.

Meter Reader Paul Condefer (right), Northern Division Service Center, Scranton, and CARES Representative Tushanna Hamilton (below), Susquehanna Division Service Center, Montoursville.

CARES Representatives

PP&L's Customer Assistance and Referral Evaluation Service (CARES) began as a pilot venture in 1980 and was implemented systemwide in 1982. CARES representatives provide guidance and assistance to customers who, because of legitimate hardships, can't pay the full amount of their electric service bills.

Because of their consistent once-a-month appearance in any neighborhood, PP&L meter readers have many opportunities to promote good customer relations. Although their primary objective is to read meters, they are also goodwill ambassadors and often provide current information about company policies or events that have an impact on the public. Because they must routinely cover a million meters over 10,000 square miles every month, PP&L meter readers must be resourceful, finding ways to overcome obstacles — including unfriendly dogs and unfriendly weather — in carrying out their assignments.

to participants until the simulated incidents occurred.

Drill activities took place at the plant, at PP&L's corporate offices in Allentown, and at a Media Operations Center at the Berwick YMCA.

Meter Readers

"I've been impressed by the friendliness of PP&L's meter readers. One employee took the time to explain how his hand-held, computerized recorder worked. He told me how using the device improved productivity and helped keep down service costs. I liked that."

Debra DiCindio
Residential Customer
Dunmore, Pa.

Training Center Is First Training Academy Member

The Training Center at the Susquehanna plant in July 1986 became the initial member of the National Academy for Nuclear Training. PP&L's program at Susquehanna was the first in the nation to be fully accredited in what will eventually be a network of campuses at all the nation's nuclear utilities.

The National Academy was established by the Institute of Nuclear Power Operations to focus and unify training efforts at U.S. nuclear power plants. INPO is an association formed in 1979 by utilities owning nuclear facilities to promote improvements in nuclear plant safety and reliability.

To become a member of the academy, a utility must have its training programs accredited by an INPO-appointed independent panel. The NRC has formally endorsed the academy concept.

Employees Join National Safety Elite

The 725 Nuclear Department employees at the Susquehanna plant were recognized in April 1986 for being among the strongest safety achievers in the country when they accumulated 4 million consecutive employee-hours without a lost-time accident.

The achievement breaks a company record and creates a new PP&L safety standard for power plants. Never before had a PP&L plant gone that long without a lost-time accident. The National Safety Council lists the Susquehanna record among the best of any American power plant, including nuclear, fossil-fueled or hydroelectric.

At the beginning of 1987, plant employees reached the 5 million work-hour mark without a lost-time accident.

Water Supply Agreement Reached

A water supply agreement finalized in July 1986 between the Susquehanna River Basin Commission and the U.S. Army Corps of Engineers will relieve the company from building an expensive reservoir to make up for cooling water losses at the Susquehanna plant during periods of low river flow.

Under SRBC regulations, electric generating stations that use cooling towers which evaporate water could be required to shut down in periods of low river flow unless they have a supply of replacement water.

Under the agreement, PP&L will pay a portion of the cost of raising the level of Cowanesque Lake in Tioga County by 35 feet. The modification will allow sufficient water storage to replace — during low-river-flow conditions — water from the Susquehanna River evaporated by the plant's cooling system.

Susquehanna Reports Are Highly Favorable

Two independent reports on Susquehanna in 1986 reflected favorably on the management and operation of the nuclear plant.

The company received near-perfect grades in the NRC's Systematic Assessment of Licensee Performance. In that report, Susquehanna received the highest ranking possible in nine of 10 categories examined and the second-highest ranking in the remaining category.

The grades give Susquehanna a higher current average SALP rating than any other nuclear plant in the nation.

In another report, citing management effectiveness and strong professional development programs, INPO concluded that a high level of professionalism is evident at Susquehanna. The report also noted the impressive condition and cleanliness of the plant, and cited good practices at the facility. It also offered suggestions in those areas where operations could be enhanced.

Management Changes

John M. Chappelear, director-Pension Funds, was appointed vice president-Investments and Pensions on June 1, 1986.

Chappelear joined PP&L in 1978 as manager-Pension Fund Investments. He was named manager-Financial Department Administration in 1981, and that same year became director-Pension Funds.

Charles E. Russoli, senior vice president-Financial, was named executive vice president-Financial effective Nov. 1, 1986.

Russoli became executive vice president after more than three decades with PP&L. He joined the company in 1955 as a graduate trainee. After serving 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 was named manager-Budgets in 1969, manager-Financial Planning and Reporting in 1971, vice president-Finance in 1979, and vice president and treasurer in 1981. He became senior vice president-Financial and chief financial officer in 1984.

William R. White, vice president-Power Production retired on Jan. 1, 1987, after nearly 37 years of company service.

White began his electric utility career in 1950 as a results engineer at the company's former Stanton plant. He advanced through several positions there before being named assistant superintendent of the plant in 1963. He was named supervisor of operations at the company's Brunner Island plant in 1969 and plant superintendent in 1970. He was named manager-Power Production in 1973 and vice president in 1984.

Succeeding White, Thomas M. Crimmins Jr. became vice president-Power Production on Jan. 1, 1987.

Crimmins joined PP&L in 1981 as manager-Nuclear Plant Engineering after 10 years with the General Public Utilities organization in New Jersey. His last position with GPU was manager-Engineering Projects with GPU Nuclear Co. He had previously served five years in the Navy nuclear submarine program.

Crimmins served as superintendent of the Susquehanna nuclear plant from July 1, 1985, until his new appointment.

Board of Directors

The Very Rev. Daniel G. Gambet, OSFS, president of Allentown College of St. Francis de Sales, was elected a director, effective Nov. 1, 1986.

Father Gambet joined Allentown College as academic dean in 1964 after serving in various teaching and administrative positions at the high school and college levels for seven years. He became vice president and academic dean at Allentown College in 1970, and served as provincial of the Eastern Province of the Oblates of St. Francis de Sales from 1972-1978 in addition to his duties as vice president of the college. He was named Allentown College president in 1978.

Charles E. Russoli was elected a director of the company, effective Nov. 1, 1986, in an action concurrent with his appointment as executive vice president.

Troublemen

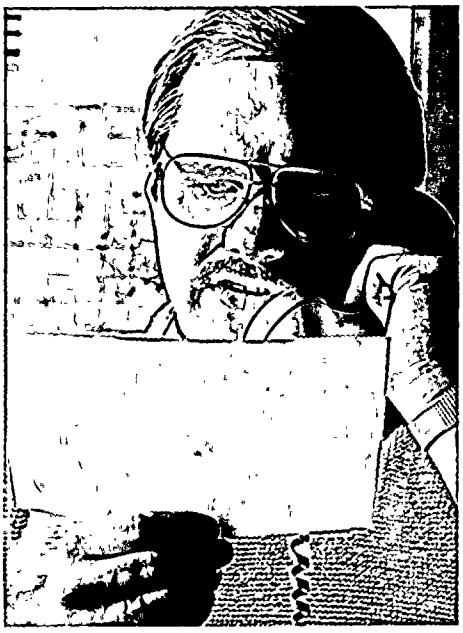
"I called PP&L to report a power outage. The person I talked to asked if I'd heard a loud crack — the sound of a fuse blowing — which I did. Fifteen minutes later, a PP&L employee appeared in my yard and replaced the fuse. All very efficient!"

Claude Butler
Residential Customer
Emmaus, Pa.

Troubleman John Filo (left), and Service Dispatcher Randy Scheirer (below), Lehigh Division Service Center, Allentown.

Service Dispatchers

During non-business hours, all calls to PP&L customer service numbers are answered by service dispatchers. They are the ones who customers reach when there is trouble after 5 p.m. Dispatchers alert foremen, crews and servicemen when storms cause service interruptions.



Blown transformer fuses are probably the most common causes of isolated customer service interruptions. It could be a squirrel or birds, a branch or a lightning stroke, that shorts out the line and blows the fuse, protecting the customer's service entrance. Troublemen are on duty around-the-clock to respond to customer problems. It's usually the troubleman, or the crew sent to restore service after a storm, that provides the best example that PP&L is always on the job.

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 23-37 and the selected financial and operating data on pages 38 and 39.

Results of Operations

Earnings per share of common stock were $3.10 in 1986, $2.68 in 1985 and $3.12 in 1984. The 1985 dip in earnings principally was the result of a rate decision by the Pennsylvania Public Utility Commission (PUC) in April 1985. The Company had asked the PUC for a rate increase of $330 million to support the additional costs associated with operating Susquehanna Unit 2, which was placed in service early in 1985, and other increased costs of doing business. However, the PUC allowed only $121 million of the requested increase. The Company appealed the decision to the Commonwealth Court of Pennsylvania (Court). In October 1986, the Court denied the Company's appeal and affirmed the PUC's April 1985 decision. Neither the Company, nor any of the other parties to the appeal sought a review by the Pennsylvania Supreme Court. To improve financial health, the Company implemented the following programs which resulted in earnings returning to about the level achieved in 1984:

- Increase initiatives to contain operating costs in areas where the quality of service to customers would not be affected
- Refinance high-cost securities at a lower cost
- Enhance marketing efforts to increase sales

The Company is seeking to maintain base rate stability by avoiding retail base rate increases for the remainder of the 1980s. Cost containment and an aggressive marketing program are key elements in achieving this objective and maintaining financial strength.

Energy Sales and Operating Revenues

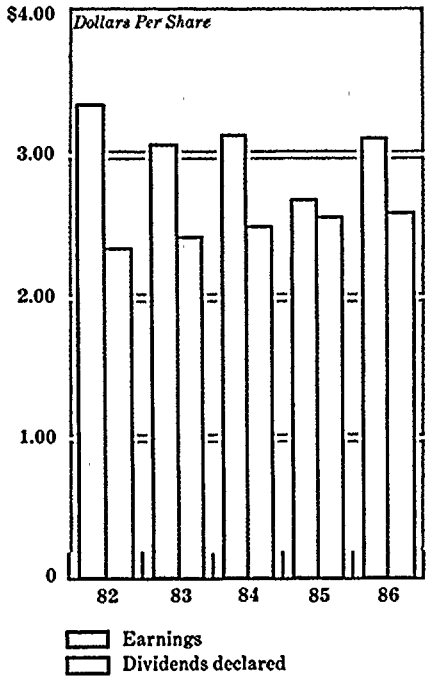
Total electric energy sales were 2.3 billion kwh, or 8.2%, higher in 1986 than in 1985, reflecting increased sales to customers and increased contractual sales to other utilities. Contractual sales to other utilities represent the energy sold to Atlantic City Electric Company from the Susquehanna units and the energy sold to Jersey Central Power & Light Company (JCP&L) from all of the Company's generating units. These sales were 1.3 billion kwh, or 31.9%, higher in 1986 than in 1985, reflecting primarily a full year's sales to JCP&L. Sales to JCP&L began on April 17, 1985.

Electric energy sales (excluding contractual sales to other utilities) were 1.0 billion kwh, or 4.2%, higher in 1986 than in 1985. Sales to residential customers increased 417 million kwh, or 5.0%, reflecting increased new home building with high acceptance of electric heat. Continued economic growth was experienced in the commercial sector with sales to this class of customers increasing 431 million kwh, or 6.4%. Sales to industrial customers increased 79 million kwh, or 1.0%. A decline in sales to the steel industry of 121 million kwh, or 11.7%, was more than offset by an increase in sales to other industrial customers of 200 million kwh, or 2.9%.

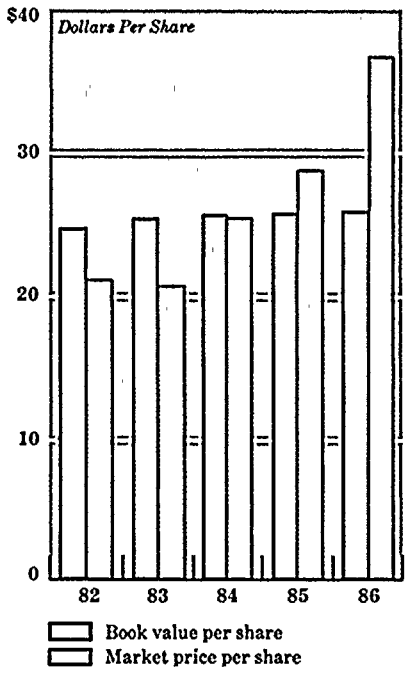
Tariffs subject to PUC jurisdiction accounted for approximately 84% of the Company's revenues in 1986. The remaining 16% of revenues are regulated by the Federal Energy Regulatory Commission (FERC). The FERC also regulates interchange power sales which are classified as a credit to operating expenses.

Billings to customers under PUC jurisdiction include base rate charges along with supplemental charges for energy costs and state taxes over the levels

EARNINGS AND DIVIDENDS PER SHARE



COMMON STOCK BOOK VALUE VS. MARKET PRICE (Year End)



included in base rates. Starting on January 1, 1987, a new Income Tax Adjustment (ITA) passes through to these customers the effect of lower income taxes resulting from the Tax Reform Act of 1986 (Tax Act). Billings to FERC customers (excluding contractual sales to other utilities) include base rate charges and a supplemental charge for fuel costs over the level included in base rates. Details of the changes from the prior year in operating revenues are shown below.

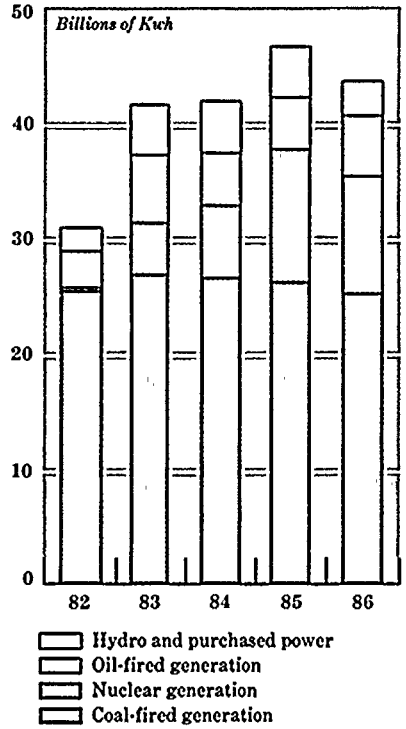
Base rate increases for customers under the jurisdiction of the PUC went into effect August 1983 and April 1985.

In December 1985, the Company sold its steam heat plant and associated distribution system in the City of Harrisburg. In prior years, revenues from steam heat operations were less than 1% of the Company's annual total operating revenues.

Changes in Operating Revenues

	1986	1985	1984
	(Millions of Dollars)		
Electric			
Base rate increases	$ 80.4	$138.2	$257.5
Recovery of fuel and energy costs	49.6	50.3	(17.0)
Change in customer usage	38.3	13.1	31.1
Contractual sales to other utilities	59.5	200.8	13.3
Other (principally tax surcharge)	(10.1)	12.1	28.1
Total electric	217.7	414.5	313.0
Steam heat	(5.3)	(0.8)	1.4
Total	$212.4	$413.7	$314.4

SOURCES OF ENERGY



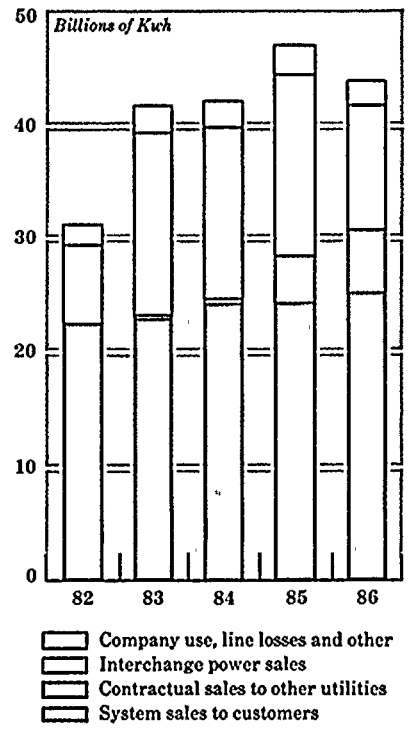
Net Cost of Energy

In 1986, the output from the Company's generating units was 41.5 billion kwh, a decrease of 1.2 billion kwh from 1985. The decline reflects generation lost during refueling outages for both of the Susquehanna nuclear units. The Company's share of the nuclear units' output was 10.2 billion kwh in 1986. Coal-fired units generated about 25.2 billion kwh and the balance of total generation came from oil-fired and hydro units.

Fuel expense in 1986 was 15.1% lower than in 1985 due principally to the lower cost of coal and oil. The average cost of fuel per kwh generated by coal-fired stations was 6.2% lower in 1986 than in 1985, while the fuel cost per kwh of oil-fired generation declined 41.0%.

The amount received for interchange power sales in 1986 was $298.2 million less than in 1985 due to the lower quantity of energy sold and a reduction in the selling price. Interchange sales in 1986 were 11.3 billion kwh, a decrease of 5.0 billion kwh, or 30.5%, from 1985. The decrease was primarily attributable to the reduced demand, by interconnected utilities, for energy from the Company. The average price received for interchange sales was 2.57 cents per kwh in 1986 and 3.62 cents per kwh in 1985. The decline primarily reflects the impact of lower-cost oil on the pricing of interchange sales.

DISPOSITION OF ENERGY



Wages and Benefits, Other Operating Costs and Depreciation

Wages and employee benefits and other operating costs increased over the prior year in both 1986 and 1985 reflecting in part higher prices and the costs associated with operating Susquehanna Unit 2. Higher depreciation in 1986 reflects the normal annual increase associated with the use of a modified straight-line method of depreciating the Susquehanna nuclear plant along with the depreciation of new facilities.

Income Taxes

Total income tax expense was $113 million higher in 1986 than in 1985. Taxes for 1985 were reduced by the utilization of tax loss carryforwards of approximately $100 million for both federal and state income tax purposes. Taxable income in 1986 included a full year's effect of higher rates permitted by the PUC in April 1985 and a full year's effect of contractual sales to JCP&L.

The Tax Act repeals the investment tax credit and reduces the amount of unused investment tax credits that can be used to offset future federal income tax liabilities. After giving effect to the Tax Act and generation of tax credits in 1987 on transitional property, the Company estimates that approximately $146 million of unused investment and payroll-based credits will be available to reduce federal income tax liabilities in 1987 and future years.

For additional information concerning income taxes, see the Schedule of Taxes on page 27 and Notes 5 and 15 to Financial Statements.

Capital Expenditure Requirements

The schedule below shows actual construction and nuclear fuel expenditures for the years 1984-1986 and current projections for the years 1987-1989. Construction expenditures during the three years 1984-1986 totaled $898 million and are expected to be about $871 million during the three years 1987-1989.

Construction and Nuclear Fuel Expenditures

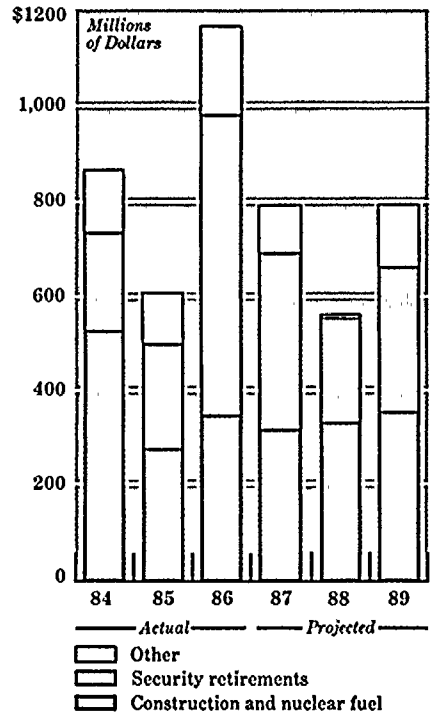
	Actual			Projected		
	1984	1985	1986	1987	1988	1989
	(Millions of Dollars)					
Construction expenditures (a)						
Generating facilities (b)	$322	$ 84	$150	$124	$134	$131
Transmission and distribution facilities	84	93	97	104	123	131
Environmental	5	6	9	23	24	12
Other	11	17	20	32	15	18
	422	200	276	283	296	292
Nuclear fuel (c)	103	74	65	35	34	63
Total	$525	$274	$341	$318	$330	$355

(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. Construction expenditures include AFUDC which is expected to be less than $25 million in each of the years 1987-1989.
(b) Includes amounts spent in 1984 and 1985 to complete the Susquehanna units and amounts spent for modifications and improvements to all generating facilities.
(c) Includes both owned and leased nuclear fuel.

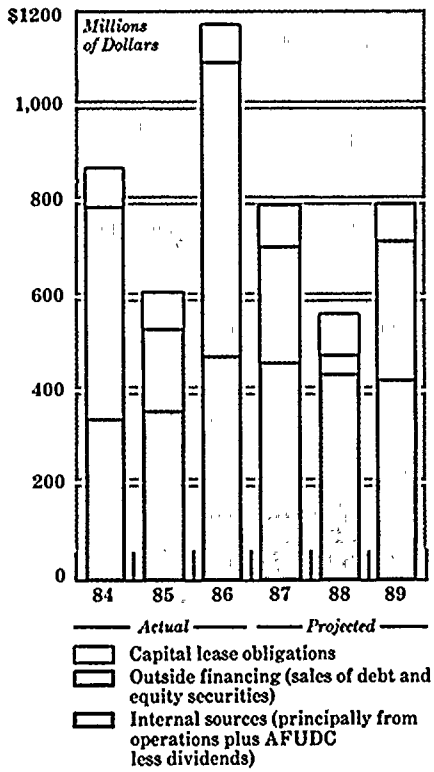
Allowance for Funds Used During Construction (AFUDC)

The Susquehanna units accounted for about $166 million of the total $169 million of AFUDC recorded during 1984. The total amount of AFUDC recorded in 1985 was negative due to an adjustment of the income tax component of AFUDC attributable to the utilization of tax loss carryforwards. With no new generating facilities under construction, the amount of AFUDC for 1986 totaled about $11 million and is not expected to be material in the foreseeable future. See Note 6 to Financial Statements for additional information concerning AFUDC.

CAPITAL REQUIREMENTS



SOURCES OF CAPITAL



Financing

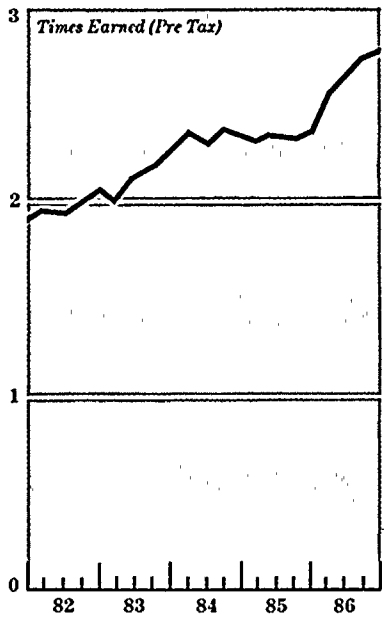
During the three years 1984-1986, the Company sold about $1.2 billion of securities and also incurred $241 million of obligations under capital leases (primarily nuclear fuel). The Company's 1986 financing program involved the sale of $600 million of securities undertaken primarily to take advantage of improved conditions in the capital markets. About $475 million of high cost securities were redeemed with lower cost securities thereby reducing the Company's overall cost of financing. Details of the amount of securities sold and redeemed and other information on sources and uses of funds during 1984-1986 are set forth in the Statement of Changes in Financial Position on page 26.

The Company presently estimates that outside financing during the three years 1987-1989 will be about $600 million, or about one-half of the amount required during the prior three years. Funds from securities sales and from internal sources will be used to finance construction expenditures, repay $97 million of maturing long-term debt obligations, meet $133 million of preferred and preference stock sinking fund requirements and for the early retirement of $684 million of certain high-cost issues of preference stock and long-term debt.

The Company intends to issue about $170 million of securities in 1987. The exact amount, nature and timing of sales of securities in 1987 and subsequent years will be determined in the light of market conditions and other factors.

Funds generated from internal sources are expected to provide about 61% of total funds required during the three years 1987-1989 compared with 44% during the three years 1984-1986.

TIMES INTEREST CHARGES EARNED
(12 Months Ended Each Quarter)



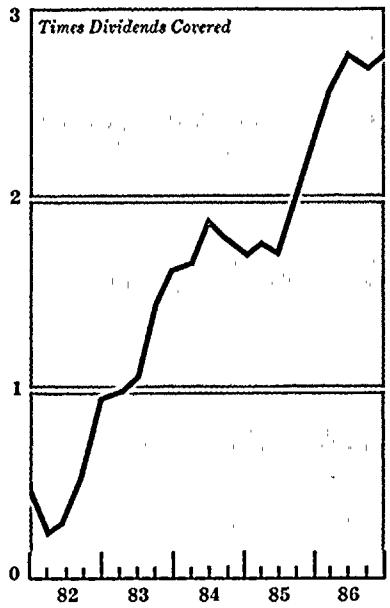
Financial Condition

The Company's overall financial condition continues to improve. Earnings per share of common stock, at $3.10, have returned to about the level experienced in 1984. Certain key financial ratios, which are indicators of liquidity, also showed gains. The ratio of the Company's pre-tax income to interest charges increased to 2.8 times for the year 1986. This is the highest level for this ratio since 1979. The cash flow coverage of the Company's common stock dividends was 2.8 times for the year 1986. This is the highest level for this ratio since 1977.

Certain provisions of the Tax Act and application of the Company's ITA rider are expected to have an adverse effect on the Company's pre-tax interest coverage and internal cash generation. The lower overall tax expense anticipated due to the decline in the federal income tax rate will be passed through to customers in the ITA. The repeal of the investment tax credit, capitalization of certain costs previously deductible when incurred and other provisions of the Tax Act will adversely affect cash flow.

Future financial condition and earnings performance will depend on many factors including unanticipated increases in future capital requirements, the level of economic activity in the Company's service area, future action by rate-regulatory agencies, possible adverse effects of proposed accounting changes by the Financial Accounting Standards Board (FASB) and possible costs incurred in connection with the Company's program of phasing out affiliated coal-mining operations.

CASH FLOW COVERAGE OF COMMON STOCK DIVIDENDS
(12 Months Ended Each Quarter)



Impacts of Inflation

In prior years, the Company included certain supplementary information on changing prices in an unaudited note to the Financial Statements. The FASB recently decided that presentation of the information was optional, and the Company elected not to include it in this year's annual report because experience has shown that the information generally was not used. The principal effects of price changes on the Company's operations are discussed in other sections of this review.

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 all 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, 1986 and 1985 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, 1986. 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, 1986 and 1985 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, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 4, 1987

Statement of Income

	1986	1985	1984
		(Thousands of Dollars)	
Operating Revenues (Note 2)	$2,188,925	$1,976,502	$1,562,782
Operating Expenses			
Net cost of energy			
Fuel	641,740	756,295	720,670
Power purchases	90,379	164,963	171,953
Interchange power sales	(289,422)	(587,613)	(647,186)
	442,697	333,645	245,437
Wages and employee benefits	280,936	259,670	232,632
Other operating costs	277,286	272,147	219,002
Depreciation	155,073	141,912	118,763
Income taxes (Note 5)	282,712	243,160	185,784
Taxes, other than income	160,896	170,405	154,206
Deferred Susquehanna energy savings net of operating expenses (Note 3)		29,075	
	1,599,600	1,450,014	1,155,824
Operating Income	589,325	526,488	406,958
Other Income and (Deductions)			
Allowance for equity funds used during construction (Note 6)	(1,443)	(51,490)	64,743
Deferred Susquehanna capital costs (Note 3)		31,742	(718)
Income tax credits (Note 5)	6,959	80,764	62,623
Other—net	(2,709)	(7,670)	(4,830)
	2,807	53,346	121,818
Income Before Interest Charges	592,132	579,834	528,776
Interest Charges			
Long-term debt	290,783	284,538	280,328
Short-term debt and other	14,036	26,872	33,740
Allowance for borrowed funds used during construction (Note 6)	(12,795)	(22,189)	(104,195)
	292,024	289,221	209,873
Net Income	300,108	290,613	318,903
Dividends on Preferred and Preference Stock	69,057	91,286	92,145
Earnings Applicable to Common Stock	$ 231,051	$ 199,327	$ 226,758
Earnings Per Share of Common Stock (a)	$ 3.10	$ 2.68	$ 3.12
Average Number of Shares Outstanding (thousands)	74,513	74,513	72,767
Dividends Declared Per Share of Common Stock	$ 2.58	$ 2.56	$ 2.48

(a) Based on average number of shares outstanding.

See accompanying Schedules and Notes to Financial Statements.

Balance Sheet at December 31

Assets

	1986	1985
	(Thousands of Dollars)	
Utility Plant		
Plant in service—at original cost	$7,072,142	$6,916,733
Less accumulated depreciation	1,256,304	1,140,046
	5,815,838	5,776,687
Construction work in progress—at cost	224,426	161,684
Nuclear fuel owned and leased—net of amortization (Note 8)	378,432	372,446
Other leased property—net of amortization (Note 8)	78,433	79,318
	6,497,129	6,390,135
Investments		
Associated companies—at equity	22,538	18,099
Receivable from litigation settlement	9,700	19,200
Nonutility property and other—at cost or less	17,065	13,023
	49,303	50,322
Current Assets		
Cash	4,049	4,615
Special deposit for purchase of nuclear fuel	8,550	
Accounts receivable (less reserve: 1986, $7,262; 1985, $6,223)		
Customers	165,844	152,483
Interchange power sales	29,501	46,086
Other	9,407	7,231
Unbilled revenues	90,484	68,840
Fuel (coal and oil)—at average cost	139,674	154,572
Materials and supplies—at average cost	28,647	23,609
Common stock held for dividend reinvestment plan — at cost (Note 7)	10,816	11,878
Other	19,189	25,121
	506,161	494,435
Deferred Debits		
Utility plant carrying charges (Note 14)	28,605	
Unamortized debt expense and reacquired debt costs	23,346	4,585
Other	34,528	26,162
	86,479	30,747
	$7,139,072	$6,965,639

See accompanying Schedules and Notes to Financial Statements.

Liabilities

	1986	1985
	(Thousands of Dollars)	
Capitalization		
Common equity		
Common stock	$1,307,267	$1,307,267
Capital stock expense	(14,155)	(16,669)
Earnings reinvested	622,537	615,102
	1,915,649	1,905,700
Preferred and preference stock		
With sinking fund requirements	475,239	691,010
Without sinking fund requirements	231,375	231,375
Long-term debt	2,732,223	2,507,213
	5,354,486	5,335,298
Current Liabilities		
Commercial paper	112,000	95,500
Long-term debt due within one year	46,568	97,723
Capital lease obligations due within one year (Note 8)	74,360	70,420
Accounts payable	101,205	114,450
Taxes accrued	65,606	57,506
Interest accrued	73,425	69,714
Dividends payable	61,063	70,104
Deferred income taxes	30,925	33,437
Energy revenues to be refunded		36,672
Other	71,044	51,416
	636,196	696,942
Deferred Credits and Other Noncurrent Liabilities		
Deferred investment tax credits	190,797	120,482
Deferred income taxes	570,986	432,806
Capital lease obligations (Note 8)	329,438	326,110
Other	57,169	54,001
	1,148,390	933,399
Commitments and Contingent Liabilities (Note 16)		
	$7,139,072	$6,965,639

See accompanying Schedules and Notes to Financial Statements.

Statement of Changes in Financial Position

	1986	1985	1984
		(Thousands of Dollars)	
Source of Funds			
From operations			
Net income	$ 300,108	$290,613	$318,903
Charges (credits) to income not involving working capital			
Depreciation	155,073	141,912	118,763
Amortization of property under capital leases	71,380	77,850	38,649
Noncurrent deferred income taxes and investment tax credits—net	207,575	133,103	125,038
Allowance for funds used during construction	(11,352)	29,301	(168,938)
Other	(922)	(5,406)	3,220
	721,862	667,373	435,635
Outside financing			
Common stock			84,203
Preferred and preference stock	100,000		50,000
First mortgage bonds	500,000	180,000	403,250
Short-term debt—net increase (decrease)	16,500	(9,300)	(85,200)
	616,500	170,700	452,253
Capital lease obligations	81,595	79,533	79,894
	$1,419,957	$917,606	$967,782
Application of Funds			
Construction expenditures	$ 275,761	$199,852	$421,697
Additions to nuclear fuel—owned and leased	65,281	74,345	103,518
Allowance for funds used during construction	(11,352)	29,301	(168,938)
	329,690	303,498	356,277
Securities retired			
Preferred and preference stock	315,771	47,017	26,803
First mortgage bonds	323,470	76,534	80,154
Secured term notes		100,000	100,000
	639,241	223,551	206,957
Reduction in capital lease obligations	74,327	84,530	47,695
Dividends on preferred, preference and common stock	261,298	282,036	273,236
Premium on redemption of preference stock	27,283		
Premium on retirement of long-term debt	17,540		
Working capital—increase (excluding debt and capital lease obligations) (a)	41,757	14,344	66,029
Other—net	28,821	9,647	17,588
	$1,419,957	$917,606	$967,782

(a) Changes in components of working capital (excluding debt and capital lease obligations)			
Cash	$ (566)	$ (1,839)	$ (299)
Accounts receivable	(1,048)	48,234	1,917
Unbilled and refundable revenues, net of deferred taxes	60,828	70,594	(7,438)
Fuel (coal and oil)	(14,898)	(43,289)	70,771
Accounts payable and accrued taxes	5,145	(20,053)	(32,277)
Other—net	(7,704)	(39,303)	33,355
Net increase	$ 41,757	$ 14,344	$ 66,029

See accompanying Schedules and Notes to Financial Statements.

Schedule of Taxes

	1986	1985	1984
		(Thousands of Dollars)	
Income Tax Expense (Note 5)			
Included in operating expenses			
Provision—Federal	$ 37,713	$ 78,648	$ 51,790
State	27,728	23,458	11,243
	65,441	102,106	63,033
Deferred—Federal	130,576	107,954	123,844
State	5,092	(2,308)	2,815
	135,668	105,646	126,659
Investment tax credit, net—Federal	81,603	35,408	(3,908)
	282,712	243,160	185,784
Included in other income and deductions			
Provision (credit)—Federal	(5,313)	(67,005)	(51,370)
State	(1,646)	(13,759)	(11,253)
	(6,959)	(80,764)	(62,623)
Total income tax expense—Federal	244,579	155,005	120,356
State	31,174	7,391	2,805
	$275,753	$162,396	$123,161
Detail of deferred taxes in operating expenses			
Tax depreciation	$129,838	$130,237	$120,232
Reacquired debt costs	9,557		
Deferred Susquehanna energy savings net of operating expenses		(15,811)	
State utility realty tax	(3,033)	(13,291)	14,888
Other	(694)	4,511	(8,461)
	$135,668	$105,646	$126,659
Reconciliation of Income Tax Expense			
Indicated federal income tax on pre-tax income at statutory tax rate (46%)	$264,896	$208,384	$203,350
Increase (decrease) due to:			
AFUDC (Note 6)	(5,222)	13,478	(77,656)
State income taxes	19,078	(1,566)	1,960
Tax and pension cost	(5,762)	(5,245)	(5,719)
Deferred Susquehanna capital costs		(14,601)	331
Depreciation differences not normalized	8,987	12,290	1,439
Utilization of loss carryforward		(52,604)	
Other	(6,224)	2,260	(544)
	10,857	(45,988)	(80,189)
Total income tax expense	$275,753	$162,396	$123,161
Effective income tax rate	47.9%	35.8%	27.9%
Taxes, Other Than Income			
State gross receipts	$ 79,209	$ 73,549	$ 66,711
State capital stock	22,789	23,557	23,044
State utility realty	41,467	56,407	48,316
Social security and other	17,431	16,892	16,135
	$160,896	$170,405	$154,206

See accompanying Notes to Financial Statements.

Schedule of Capital Stock at December 31

	Outstanding 1986	Outstanding 1985	Shares Outstanding 1986	Shares Authorized
	(Thousands of Dollars)			
Preferred Stock—$100 par, cumulative (a)				
4½%	$ 53,019	$ 53,019	530,189	629,936
Series	415,446	451,046	4,154,456	10,000,000
	$ 468,465	$ 504,065		
Preference Stock—no par, cumulative (a)	$ 238,149	$ 418,320	2,381,492	5,000,000
Common Stock—no par (a)	$1,307,267	$1,307,267	74,512,797	85,000,000

Details of Preferred and Preference Stock (b)

	Outstanding 1986	Outstanding 1985	Shares Outstanding 1986	Optional Redemption Price Per Share 1986	Sinking Fund Provisions(c) Shares to be Redeemed Annually	Sinking Fund Provisions(c) Redemption Period
	(Thousands of Dollars)					
With Sinking Fund Requirements						
Series Preferred						
7.00% (d)	$100,000		1,000,000	$107.00	200,000	1993-1997
7.40%	27,200	$ 28,800	272,000	103.55	16,000	1987-2003
7.75%	24,000	36,000	240,000	100.87	120,000	1987-1988
8.00%	40,000	42,500	400,000	112.00	25,000	1987-2002
8.00%, Second	6,000	8,000	60,000	101.78	20,000	1987-1989
8.25%	30,000	40,000	300,000	101.84	100,000	1987-1989
8.75% (d)	54,000	57,000	540,000	110.00	30,000	1987-2004
9.24% (d)	55,890	58,890	558,900	103.00	30,000	1987-2005
10.75%		26,500				
11.00%, Adjustable (e) (f)	15,000	15,000	150,000	125.00	30,000	1989-1993
11.00%		26,000				
11.25%		15,000				
14.00%		34,000				
Preference						
$8.625 (f)	40,800	51,000	408,000	None	102,000	1987-1990
$11.00 (d)	32,349	37,349	323,492	104.95	25,000	1987-2000
$11.60 (d) (g)	50,000	50,000	500,000	114.00	25,000	1989-2008
$13.00		14,971				
$13.00, Second		50,000				
$13.68		50,000				
$15.00		50,000				
	$475,239	$691,010				
Without Sinking Fund Requirements						
4½% Preferred	$ 53,019	$ 53,019	530,189	$110.00		
Series Preferred						
3.35%	4,178	4,178	41,783	103.50		
4.40%	22,878	22,878	228,773	102.00		
4.60%	6,300	6,300	63,000	103.00		
8.60%	22,237	22,237	222,370	104.00		
9.00%	7,763	7,763	77,630	104.00		
Preference						
$8.00	35,000	35,000	350,000	103.00		
$8.40	40,000	40,000	400,000	101.00		
$8.70	40,000	40,000	400,000	101.00		
	$231,375	$231,375				

See accompanying Notes to Financial Statements.

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

	1986		1985		1984	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock—issued under dividend reinvestment plan (h)..					4,177,927	$ 84,874
Series Preferred Stock						
7.00%	1,000,000	$100,000				
7.40%	(16,000)	(1,600)	(16,000)	$ (1,600)	(16,000)	(1,600)
7.50%			(150,000)	(15,000)		
7.75%	(120,000)	(12,000)	(120,000)	(12,000)	(120,000)	(12,000)
8.00%	(25,000)	(2,500)	(25,000)	(2,500)	(25,000)	(2,500)
8.00%, Second	(20,000)	(2,000)	(20,000)	(2,000)		
8.25%	(100,000)	(10,000)	(100,000)	(10,000)		
8.75%	(30,000)	(3,000)	(30,000)	(3,000)		
9.24%	(30,000)	(3,000)	(650)	(65)	(58,660)	(5,866)
10.75%	(265,000)	(26,500)				
11.00%	(260,000)	(26,000)				
11.25%	(150,000)	(15,000)				
14.00%	(340,000)	(34,000)				
Preference Stock						
$8.625	(102,000)	(10,200)				
$11.00	(50,000)	(5,000)	(4,210)	(421)	(30,498)	(3,050)
$13.00	(149,705)	(14,971)	(4,317)	(432)	(17,875)	(1,787)
$13.00, Second	(500,000)	(50,000)				
$13.68	(500,000)	(50,000)			500,000	50,000
$15.00	(500,000)	(50,000)				

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

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

(b) The involuntary liquidation price of the preferred and preference stock is $100 per share, and the optional voluntary liquidation price is the optional redemption price per share in effect, except for the 4½% Preferred and the $8.625 Series Preference Stocks which are $100 per share (plus in each case any unpaid dividends). Liquidation payments on preferred stock have priority to such payments on the preference stock.

(c) The aggregate amount of sinking fund redemption requirements through 1991 are (thousands of dollars): 1987, $45,539; 1988, $46,800; 1989, $40,300; 1990, $28,300; 1991, $18,100.

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

(e) 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.

(f) In the event certain federal income tax benefits are lost to corporate holders of these stocks, the Company may be required to make indemnity payments sufficient to provide the holders with an agreed upon effective yield after federal income taxes. At December 31, 1986, the Company estimates that future indemnity payments would not exceed $4.8 million, most of which would be payable only after the holders sell or redeem the stock.

(g) Ownership of the $11.60 Preference Stock is evidenced by Depositary Preference Shares, each representing ¼ share of Preference Stock. The Company intends to redeem all of the outstanding Stock on February 18, 1987 at the optional redemption price of $115.52 per share ($28.88 per depositary share) which includes $1.52 per share ($0.38 per depositary share) representing an amount equal to the accrued dividends from January 1, 1987.

(h) Since 1985, shares for the dividend reinvestment plan have been acquired in the open market.

See accompanying Notes to Financial Statements.

Schedule of Long-Term Debt at December 31

	Outstanding 1986	Outstanding 1985	Maturity (b)
	(Thousands of Dollars)		
First Mortgage Bonds (a)			
15%		$ 16,670	February 1, 1986
16½%		30,900	August 1, 1986
14¾%		50,000	December 12, 1986
16½%	$ 36,000	36,000	August 1, 1987
16½%	10,400	10,400	September 1, 1987
16½%	10,100	10,100	August 1, 1988
16½%	10,400	10,400	September 1, 1988
12⅛%	10,000	10,000	February 1, 1989
16½%	7,000	7,000	August 1, 1989
16½%	10,400	10,400	September 1, 1989
12⅛%	10,000	10,000	February 1, 1990
16½%	8,500	8,500	August 1, 1990
16½%	10,400	10,400	September 1, 1990
14% (c)		125,000	December 1, 1990
12⅛%	10,000	10,000	February 1, 1991
16½%	10,400	10,400	September 1, 1991
4⅝%	30,000	30,000	December 1, 1991
4⅝% to 16⅛%	430,000	305,000	1992-1996
6¾% to 9%	220,000	220,000	1997-2001
7½% to 9¾%	610,000	610,000	2002-2006
8½% to 15⅝% (c)	100,000	200,000	2007-2011
9% to 13¼%	850,000	475,000	2012-2016
First Mortgage Pollution Control Bonds (a)			
5⅝% Series A	20,900	21,800	(d)
7⅞% to 8⅛% Series C	20,000	20,000	(d)
11¼% to 11½% Series D	70,000	70,000	(d)
10⅝% Series E	37,750	37,750	March 1, 2014
10⅝% Series F	115,500	115,500	September 1, 2014
9⅜% Series G	55,000	55,000	July 1, 2015
	2,702,750	2,526,220	
Other Long-Term Debt			
Secured term notes (a) (e)	100,000	100,000	March 31, 1991
Miscellaneous promissory notes	663	468	1987-1995
	2,803,413	2,626,688	
Unamortized (discount) and premium—net	(24,622)	(21,752)	
	2,778,791	2,604,936	
Less amount due within one year	46,568	97,723	
	$2,732,223	$2,507,213	

(a) Substantially all utility plant is subject to the lien of the Company's first mortgage. Certain utility plant is also subject to the lien of a second mortgage issued as security for term notes.
(b) Aggregate long-term debt maturities through 1991 are (thousands of dollars): 1987, $46,568; 1988, $21,550; 1989, $28,414; 1990, $29,839; 1991, $151,339. Maximum sinking fund requirements aggregate $33.7 million through 1991 and may be met with property additions or retirement of bonds.
(c) In March 1986, the Company redeemed $125 million principal amount of First Mortgage Bonds, 14% Series due 1990 and $100 million principal amount of First Mortgage Bonds, 15⅝% Series due 2010.
(d) Bonds mature annually as follows (thousands of dollars): (i) Series A on May 1, 1988-2002, $900; 2003, $7,400 (ii) Series C on April 1, 2000, $4,000; 2006-2009, $2,000; 2010, $8,000 (iii) Series D on November 1, 2002, $15,000; 2012, $55,000.
(e) Variable interest rate.

See accompanying Notes to Financial Statements.

Statement of Earnings Reinvested

	1986	1985	1984
		(Thousands of Dollars)	
Balance, January 1	$615,102	$606,525	$560,858
Add Net Income	300,108	290,613	318,903
	915,210	897,138	879,761
Deduct			
Cash dividends declared			
Preferred stock—at required annual rates	41,470	44,537	47,437
Preference stock—at required annual rates	27,587	46,749	44,708
Common stock—per share: 1986, $2.58; 1985, $2.56; 1984, $2.48	192,241	190,750	181,091
Costs associated with the redemption of preferred and preference stock	31,375		
	292,673	282,036	273,236
Balance, December 31	$622,537	$615,102	$606,525

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Accounting Records

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

Affiliated Companies

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

For financial statement purposes, depreciation is being provided over the estimated useful lives of property and is computed using a modified straight-line method for the Susquehanna nuclear plant and the straight-line method for all other property. These methods are also used for rate-making purposes. The modified straight-line method provides for an increasing amount of annual depreciation for the nuclear plant until the year 2000, at which time the plant's net undepreciated cost will be depreciated in equal annual amounts over the plant's remaining life. Provisions for depreciation, as a percent of average depreciable property, approximated 2.2% in 1986 and 1985 and 2.5% in 1984.

Nuclear Decommissioning and Fuel Disposal

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

The U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. The Company currently pays DOE a fee for future disposal services and recovers such costs in customer rates.

Premium on Reacquired Securities

As provided in the Uniform System of Accounts, the premiums paid and expenses incurred in the refunding of long-term debt are deferred and amortized over the life of the new debt issue and premiums paid to retire preferred and preference stock are charged to retained earnings.

Allowance for Funds Used During Construction

As provided in the Uniform System of Accounts, the cost of funds used to finance construction is capitalized as part of construction cost. The components of Allowance for Funds Used During Construction (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. Under the Tax Reform Act of 1986 (Tax Act), most construction interest will no longer be deductible. Accordingly, effective January 1, 1987, AFUDC will not be reduced by tax savings.

AFUDC serves to offset on the Statement of Income the interest charges on debt and dividends on preferred and preference stock incurred to finance construction. In addition, a return on common equity used to finance construction is imputed. (See Note 6).

Capital Leases

Capital leased property is recorded at the present value of future lease payments and is amortized so that the total of interest on the lease obligation and amortization of the leased property equals the rental expense allowed for rate-making purposes. (See Note 8).

Revenues

Revenues are recorded based on the amounts of electricity delivered to customers to the end of each accounting period. This includes amounts customers will be billed for electricity delivered from the time meters were last read to the end of the respective accounting period.

The Company's PUC tariffs contain an energy cost rate under which customers are billed an estimated amount for fuel and other energy costs. Any difference between the actual and estimated amount for such costs is collected from or refunded to customers in a subsequent period. Revenues applicable to energy cost rate billings are recorded at the level of actual energy costs and the difference is recorded as payable to or receivable from customers.

Effective January 1, 1987, the Company began to apply an Income Tax Adjustment (ITA) credit to PUC customers' bills to reflect the expected reduction in income tax expense due to the Tax Act.

Income Taxes

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

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

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 5).

Pension Plan

The Company has a noncontributory pension 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.

Effective January 1, 1987, the Company adopted the procedures required by Statement of Financial Accounting Standards No. 87 — Employers Accounting for Pensions. This statement prescribes procedures to determine periodic pension cost which differ from those previously used by the Company. (See Note 10).

Reclassification

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

2. Rate Matters

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

A return on the common equity investment in Susquehanna Unit 2 was denied based on the PUC's conclusion that the Company temporarily had too much generating capacity. This adjustment reduced requested revenues by about $161 million. The PUC order indicated that the equity disallowance would continue until the Company can show that Unit 2's net economic benefits exceed its net cost, or that its capacity is necessary for system reliability. The other major adjustment disallowed recovery of about $37 million of the cost of electricity purchased from Allegheny Electric Cooperative, Inc.'s (Allegheny) 10% undivided interest in the Susquehanna units. The agreement with Allegheny provides that the Company will purchase declining amounts of electricity from Allegheny through early 1991.

The Company appealed to the Commonwealth Court of Pennsylvania (Court) the PUC decisions regarding excess capacity and the purchases from Allegheny. In October 1986, the Court affirmed the PUC's decision. Neither the Company nor any of the other parties to the appeal sought a review by the Pennsylvania Supreme Court.

The PUC has approved the Company's request to reduce its retail rates by approximately $32 million effective January 1, 1987. This net reduction reflects: (1) a $47 million decrease due to the lower income tax expense anticipated as a result of the Tax Act; (2) a $26 million decrease because of changes in the state tax surcharge; and (3) a $41 million increase in costs to be recovered through the energy cost rate.

The FERC permitted annual increases in rates for wholesale customers of $4.2 million effective March 1984 and $5.7 million effective January 1986.

3. Deferral of Susquehanna Operating and Carrying Costs

In accordance with orders of the PUC, the Company deferred certain operating and capital costs, net of energy savings, associated with Susquehanna Units 1 and 2. The costs deferred were incurred from the date the units were placed in commercial operation until the effective dates of the rate increases reflecting operation of the units. The deferred costs plus related deferred income taxes totaled $39.2 million at December 31, 1986. The Company expects to ultimately recover this amount in rates charged to customers. Such recovery will be subject to PUC review and approval. No return is being accrued on the deferred costs.

4. Sales of Generating Capacity and Energy

The Company provides Atlantic City Electric Company (Atlantic) with 125,000 kilowatts of capacity and energy from the Susquehanna units and Jersey Central Power and Light Company (JCP&L) with 945,000 kilowatts of the Company's total generating capacity and energy. The sales are made at a price equal to the Company's cost of providing service, which includes a return on the Company's investment in generating capacity.

Sales to Atlantic began in 1983 and expire in 1991, when another agreement provides Atlantic with 125,000 kilowatts of capacity and energy from the Company's coal-fired stations until the year 2000. Sales to JCP&L began in 1985 and continue through 1995, with the amount then declining uniformly each year until the end of the agreement in 1999.

5. Income Taxes

Taxable income for 1985 was sufficient for the Company to utilize its loss carryforwards of approximately $100 million so that the current provision for income tax expense in 1985 was reduced by approximately $58 million to reflect the utilization of such carryforwards. The reduction in the current provision for income taxes was offset on the Statement of Income by an equal decrease in the allowance for funds used during construction. (See Note 6).

The Tax Act contains numerous provisions that will affect the Company. Some of the major provisions include a reduction in the corporate income tax rate, repeal of the investment and payroll-based tax credits and a reduction of the amount of investment tax credits which can be carried forward to reduce federal taxes payable. The Company will also be required to capitalize for tax purposes certain items such as interest, pension cost and payroll taxes which formerly were deductible when incurred. The expected reduction in tax expense due to the Tax Act will be passed through to customers by application of the ITA.

The Tax Act requires that any unused investment tax credits at December 31, 1986 be reduced by 17.5% and that any such unused credits at December 31, 1987 be reduced by an additional 17.5%. The Company estimates that, after giving effect to the Tax Act and the generation of investment tax credits in 1987, approximately $146 million of investment and payroll-based tax credits will be available to reduce federal income tax liabilities in 1987 and future years. The carryforward period for the unused credits at December 31, 1986 expires in the years 1996 to 2001.

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 $661 million at December 31, 1986. The Company would expect to recover through electric revenues the taxes when due in future years.

See Note 15 for information concerning a proposed accounting statement for income taxes.

6. Allowance for Funds Used During Construction

Through 1986, AFUDC was recorded on an after-tax basis with the equity component reduced by the income tax savings realized due to the tax deductibility of construction-related interest. The Company had tax losses during the period 1982-1984 due in part to the large amount of construction interest incurred. As a result, the income tax reduction reflected in AFUDC in those years was limited to the tax applicable to construction interest determined to be usable as a tax deduction.

Taxable income for 1985 was sufficient to permit the Company to utilize all of its loss carryforwards that existed at the end of 1984. Accordingly, AFUDC for 1985 was reduced by about $58 million representing the tax effect of prior year construction interest included in the loss carryforwards.

7. Stock Held for Dividend Reinvestment Plan

At December 31, 1986, the Company temporarily held 284,730 shares of Common Stock which were acquired in the open market for distribution to participants in the Dividend Reinvestment Plan.

8. Leases

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

	December 31 1986	1985
Nuclear fuel, net of accumulated amortization — 1986, $106,030; 1985, $137,974	$325,365	$317,212
Vehicles, oil storage tanks and other property, net of accumulated amortization — 1986, $52,119; 1985, $44,259	78,433	79,318
Net property under capital leases	$403,798	$396,530

Nuclear fuel lease payments, which are charged to expense as the fuel is used for the generation of electricity, were $68.0 million in 1986 and $78.5 million in 1985. Future nuclear fuel lease payments will be based on the quantity of electricity produced by the Susquehanna units. The maximum amount of unamortized nuclear fuel leasable under current arrangements is $350 million.

Future minimum lease payments under capital leases in effect at December 31, 1986 (excluding nuclear fuel) would aggregate $104.1 million, including $25.6 million of imputed interest. During the five years ending 1991, such payments would decrease from $20.3 million per year to $10.2 million per year.

Interest on capital lease obligations was recorded as operating expenses on the Statement of Income in the following amounts (thousands of dollars): 1986, $15,889; 1985, $18,256 and 1984, $13,836.

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

9. Credit Arrangements

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

Revolving credit arrangements are maintained with a group of banks principally as a back-up for the Company's commercial paper. The banks have committed to lend the Company up to $200 million on a revolving basis in return for the payment of commitment fees. Any loans made under these credit arrangements would mature on June 30, 1990 and, at the option of the Company, interest rates would be based upon certificate of deposit rates, Eurodollar deposit rates or the prime rate.

The Company also maintains lines of credit aggregating $35 million with various banks in return

for the maintenance of compensating balances or the payment of commitment fees. Bank borrowings generally bear interest at rates negotiated at the time of the borrowing.

There were no borrowings outstanding at the end of 1986 under these credit arrangements. Commitment fees incurred were (millions of dollars): 1986, $0.5; 1985, $1.6 and 1984, $2.6.

10. Pension Plan and Other Postemployment Benefits

Pension costs were (millions of dollars): 1986, $29.1; 1985, $27.3 and 1984, $29.0. Of these amounts, $18.7 million in 1986, $18.9 million in 1985 and $18.0 million in 1984 were charged to operating expenses, and the balance was charged to construction and other accounts.

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

	June 30	
	1986	1985
Actuarial present value of accumulated plan benefits: (a)		
Vested	$229,760	$203,466
Nonvested	13,152	12,584
	$242,912	$216,050
Net assets available for benefits	$487,691	$369,371

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

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5% for both the June 30, 1986 and the June 30, 1985 valuations.

The Financial Accounting Standards Board (FASB) has issued an accounting statement which establishes new procedures to determine pension cost and increases related disclosure requirements. The Company adopted the procedures required by this statement effective January 1, 1987 and expects that pension cost will decline to about $16 million in 1987.

Substantially all of the Company's employees will become eligible for certain health care and life insurance benefits upon retirement. The cost of these benefits for retired employees is generally recognized as expense when premiums are paid. Such costs were approximately (millions of dollars): 1986, $3.5; 1985, $2.0 and 1984, $2.3.

11. Jointly Owned Facilities

At December 31, 1986, the Company owned undivided interests in the following jointly owned facilities (millions of dollars):

	Generating Stations			Merrill Creek
	Susquehanna	Keystone	Conemaugh	Reservoir
Ownership Interest	90.00%	12.34%	11.39%	8.37%
Utility Plant in Service	$3,712	$40	$37	
Accumulated Depreciation	93	15	14	
Construction Work in Progress	113	1	3	$8

Each participant in these facilities provides its own financing. The Company receives a portion of the total output of the generating stations equal to its percentage ownership. The Company's share of fuel and other operating costs associated with the stations is reflected on the Statement of Income. The Merrill Creek Reservoir is under construction and will provide water during periods of low river flow to replace water from the Delaware River used by the owners in the production of electricity.

12. Affiliated Company Transactions

The principal transactions with affiliated companies involve the purchase of electricity from Safe Harbor Water Power Corporation, the purchase of coal, the payment of interest and other costs related to coal reserves and the payment of charges for transportation of oil by pipeline. Costs related to these transactions with affiliates aggregated (millions of dollars): 1986, $218.5; 1985, $271.0 and 1984, $291.9.

Under equity accounting, the operations of affiliated companies resulted in after-tax charges against the Company's net income of (millions of dollars): 1986, $0.8; 1985, $2.6 and 1984, $4.1.

At December 31, 1986, the Company had guaranteed $236.4 million of the obligations of affiliated companies.

13. Affiliated Coal-Mining Operations

The Company purchased approximately $196 million of coal from its affiliated mining companies in 1986 at prices equal to the cost of mining. The cost of coal purchased is included in the energy costs collected from customers. The cost of affiliated coal (particularly coal from the Greenwich mine) has generally been higher than the cost of coal purchased from other sources.

All the coal mined at the Greenwich mine is delivered to the Company's Montour generating station and accounts for about one-half of the coal burned at Montour. The PUC has adopted a standard against which the cost of all coal delivered to Montour will be measured over a two-year trial period which began April 1, 1986. The standard is determined monthly based on the cost of coal purchased by other Pennsylvania electric utilities. At the end of the trial period, the net amount of any costs in excess of, or less than, the standard will be determined. Unless the standard is continued beyond the trial period, the net amount of any costs in excess of the standard will be returned to PUC customers through the Company's 1989-1990 energy cost rate. Data as to the standard is available for the period April 1, 1986 through September 30, 1986. For this period, the cost of coal delivered to Montour has been less than the standard.

Plans have been adopted which will result in phasing out mining operations of affiliated companies by the mid-1990s. The Company expects that over this period investments in coal and facilities will be recovered and that coal will be produced at prices that will be recovered in electric rates. However, the Company cannot predict what future action may be taken by the PUC or whether future events or circumstances could substantially alter the current mining plans. Adverse action by the PUC or adverse changes in the mining plans could result in material charges against the Company's earnings. At December 31, 1986, the capital investment by affiliated companies in coal-mining operations amounted to about $93 million.

14. Utility Plant Carrying Charges

In December 1986, the Company reclassified from utility plant to deferred debits $28.6 million of net carrying charge accruals recorded on certain facilities for Susquehanna and Martins Creek generating stations. The deferred amount will be amortized to expense over the remaining life of the stations. This resolves a contested accounting and reporting matter which resulted from an examination of the Company's books by the FERC.

15. Accounting Statements

The FASB issued an accounting statement in December 1986 that established accounting rules to be used by rate-regulated utilities in accounting for plant abandonments and disallowed plant costs. The Company believes it has no situations covered by the statement, including the Susquehanna Unit 2 disallowance, referred to in Note 2. The FASB previously had proposed accounting for phase-in plans but this matter was deferred for further consideration.

In September 1986, the FASB issued a proposed accounting statement that would change the manner in which income tax expense is determined for accounting purposes. Current accounting rules utilize a deferred method while the new accounting proposal utilizes a liability method under which deferred tax liabilities would be recorded and adjusted, when required, for the effect of a change in tax law or rates.

Because the Tax Act will lower the top corporate tax rate from 46% to 34%, most entities would be required to adjust their deferred income tax reserves to reflect the lower tax rate if the FASB proposal becomes effective. However, the Tax Act essentially prohibits utilities from adjusting, to the 34% tax rate, deferred tax reserves related to the Accelerated Cost Recovery System of depreciation. As a result, the Company does not expect any substantial reduction in its current deferred income tax reserves in the event that the FASB proposal becomes effective.

In December 1986, the FASB issued a proposed accounting statement that would require the Company to prepare consolidated financial statements that include majority-owned subsidiaries. If the proposal is adopted in its current form, the most significant effect on the Company's financial statements would be the addition of about $275 million of assets and liabilities on the balance sheet. A substantial portion of the liabilities would represent obligations of subsidiaries currently guaranteed by the Company.

With regard to the preceding proposed accounting statements, the Company cannot predict what final accounting rules the FASB may adopt, or the ultimate effect, if any, that such accounting may have on the Company's net income or financial position.

See Note 10 for information on a FASB statement relative to pension costs.

16. Commitments and Contingent Liabilities

The Company's construction expenditures are estimated to aggregate $283 million in 1987, $296 million in 1988 and $292 million in 1989, including the allowance for funds used during construction. See the section entitled Capital Expenditure Requirements on page 20 for additional information.

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 $1.2 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 $16 million.

The Company's public liability for claims resulting from a nuclear incident is limited currently to $700 million under provisions of the Price-Anderson Act. The Company is protected against this potential liability by a combination of commercial insurance and an industry assessment program. In the event of a nuclear incident at any of the facilities owned by others and covered by the Price-Anderson 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.

Congress is considering several proposals to amend the Price-Anderson Act which expires in August 1987. The proposed amendments generally include provisions which would increase the public liability limit of utilities in the event of a nuclear incident. The Company is unable to predict what action Congress might ultimately take regarding the Price-Anderson Act and what effect such action or expiration of the Price-Anderson Act might have on the Company's potential liability.

In December 1986, the Company redeemed at $100 per share $87.7 million of Preferred Stock representing all outstanding shares of the 10.75%, 11.00%, 11.25% and 14.00% Series Preferred Stock. Several complaints have been filed in the United States District Court by holders of shares of the 10.75%, 11.00% and 14.00% Series requesting a declaratory judgment that the Company's redemption of those three series breached the Company's contractual obligations to the plaintiffs and that (a) the Company is liable to pay plaintiffs amounts equal to the redemption premiums of $3.59 per share with respect to the 10.75% Series, $25 per share with respect to the 11.00% Series and $20 per share with respect to the 14.00% Series, and (b) in the alternative the redemption be rescinded and plaintiffs be awarded damages in amounts to be ascertained. The Company believes that it was entitled to call the Preferred Stock for redemption at a price of $100 per share but cannot predict the outcome of the court proceedings.

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

17. Quarterly Financial, Common Stock Price and Dividend Data (Unaudited)

For the Quarters Ended:	March 31	June 30	Sept. 30	Dec. 31
	(Thousands of Dollars, Except Per Share Amounts)			
1986				
Operating revenues	$596,087	$518,514	$528,650	$545,674
Operating income	167,334	131,499	143,201	147,291
Net income	95,151	60,521	67,531	76,905
Earnings applicable to common stock	74,830	43,575	51,260	61,386
Earnings per common share (a)	1.00	0.58	0.69	0.82
Dividends declared per common share (b)	0.64	0.64	0.65	0.65
High/low price per common share (c)	33¼/27⅝	34/31⅛	43⅜/33⅜	40¼/36
1985				
Operating revenues	$486,495	$479,762	$483,782	$526,463
Operating income	122,122	122,003	136,733	145,630
Net income	104,551	58,949	60,573	66,540
Earnings applicable to common stock	81,221	35,940	38,042	44,124
Earnings per common share (a)	1.09	0.48	0.51	0.59
Dividends declared per common share (b)	0.64	0.64	0.64	0.64
High/low price per common share (c)	27⅜/24⅛	27¾/23⅞	27⅞/23½	29/23¾

(a) The quarterly amounts do not equal annual earnings per share due to rounding.

(b) The Company has paid quarterly cash dividends on its common stock in every year since 1946. The dividends paid per share in 1986 and 1985 were $2.57 and $2.54, respectively. The most recent regular quarterly dividend paid by the Company was 65 cents per share (equivalent to $2.60 per annum) paid January 1, 1987. Future dividends will be dependent upon future earnings, financial requirements and other factors.

(c) The Company's common stock is listed on the New York and Philadelphia Stock Exchanges.

Selected Financial and Operating Data

	1986	1985	1984	1983	1982
Income Items—thousands					
Operating revenues	$2,188,925	$1,976,502	$1,562,782	$1,248,397	$1,219,548
Operating income	589,325	526,488	406,958	289,930	223,083
Allowance for funds used during construction	11,352	(29,301)	168,938	251,548	246,423
Net income	300,108	290,613	318,903	296,011	278,886
Earnings applicable to common stock	231,051	199,327	226,758	210,173	210,572
Balance Sheet Items—thousands (a)					
Net utility plant in service	$5,815,838	$5,776,687	$3,860,960	$3,847,301	$2,112,169
Construction work in progress	224,426	161,684	2,020,839	1,730,228	2,923,841
Total assets	7,139,072	6,965,639	6,910,783	6,418,509	5,829,138
Long-term debt	2,778,791	2,604,936	2,604,506	2,387,249	2,323,318
Preferred and preference stock					
With sinking fund requirements	475,239	691,010	738,027	714,830	621,634
Without sinking fund requirements	231,375	231,375	231,375	231,375	231,375
Common equity	1,915,649	1,905,700	1,896,987	1,767,949	1,643,695
Short-term debt	112,000	95,500	104,800	190,000	160,545
Total capital provided by investors	5,513,054	5,528,521	5,575,695	5,291,403	4,980,567
Financial Ratios					
Return on average common equity—%	12.11	10.42	12.30	12.29	13.60
Embedded cost rates (a)					
Long-term debt—%	10.54	11.24	11.12	10.98	10.81
Preferred and preference stock—%	8.33	10.02	9.94	9.66	9.41
Times interest earned before income taxes	2.80	2.37	2.35	2.29	2.05
Ratio of earnings to fixed charges—total enterprise basis (b)	2.59	2.19	2.06	2.04	1.81
Depreciation as % of average depreciable property	2.2	2.2	2.5	2.7	3.3
Common Stock Data					
Number of shares outstanding—thousands					
Year-end	74,513	74,513	74,513	70,335	66,461
Average	74,513	74,513	72,767	68,642	62,809
Earnings per share	$ 3.10	$ 2.68	$ 3.12	$ 3.06	$ 3.35
Dividends declared per share	$ 2.58	$ 2.56	$ 2.48	$ 2.40	$ 2.32
Taxability of dividend income—% (c)	100.00	100.00	63.29	0	0
Book value per share (a)	$25.71	$25.58	$25.46	$25.12	$24.71
Market price per share (a)	$ 36½	$ 28¾	$ 25⅛	$ 20⅝	$ 21
Dividend payout rate—%	83	96	80	79	70
Dividend yield—% (c) (d)	7.30	9.81	11.00	10.48	11.95
Price earnings ratio (d)	11.39	9.76	7.24	7.48	5.79
Fuel Cost Data					
Cost per kwh generated—cents					
Coal-fired steam stations	1.67	1.78	1.75	1.68	1.77
Nuclear steam station (e)	0.58	0.61	0.54	0.66	
Oil-fired steam station	2.96	5.02	5.31	5.23	5.62
Combustion turbines and diesels (oil)	7.81	9.31	9.82	10.21	10.74
Average	1.57	1.81	1.98	2.15	2.20
Cost of fossil fuel received at steam stations					
Coal—per ton	$40.17	$42.00	$42.75	$39.37	$42.32
Residual oil—per bbl.	$16.83	$28.42	$31.32	$29.79	$30.94
Employees (a)	8,339	8,433	8,386	8,160	8,208

(a) Year-end.
(b) 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.
(c) Based on holding one share of common stock for the entire year.
(d) Based on average of month-end market prices.
(e) The Company's first nuclear unit was placed in commercial operation on June 8, 1983 and the second unit on February 12, 1985.
(f) The winter peaks shown were reached early in the subsequent year.

	1986	1985	1984	1983	1982
Sales Data					
Electric customers (a)	1,073,146	1,055,546	1,039,381	1,026,144	1,013,623
Average annual residential kwh use	9,344	9,034	9,282	9,051	9,039
Electric energy sales billed—millions of kwh					
Residential	8,771	8,354	8,454	8,138	8,045
Commercial	7,159	6,728	6,527	6,119	5,946
Industrial	7,986	7,907	8,117	7,623	7,324
Other	1,170	1,082	1,043	968	982
System sales	25,086	24,071	24,141	22,848	22,297
Contractual sales to other utilities	5,339	4,048	357	209	
Total electric energy sales billed	30,425	28,119	24,498	23,057	22,297
Sources of energy sold—millions of kwh					
Generated					
Coal-fired steam stations	25,151	26,237	26,695	26,885	25,477
Nuclear steam station (e)	10,151	11,534	6,295	4,509	293
Oil-fired steam station	5,453	4,316	4,121	5,581	3,186
Combustion turbines and diesels (oil)	17	18	32	45	13
Hydroelectric stations	739	612	747	700	612
	41,511	42,717	37,890	37,720	29,581
Power purchases	2,032	3,716	3,765	3,880	1,414
Interchange power sales	(11,281)	(16,235)	(15,377)	(16,405)	(6,900)
Company use, line losses and other	(1,837)	(2,079)	(1,780)	(2,138)	(1,798)
Total electric energy sales billed	30,425	28,119	24,498	23,057	22,297
Electric Revenue Data					
By class of service—thousands					
Residential	$ 714,753	$ 634,669	$ 591,922	$ 529,911	$ 503,557
Commercial	557,216	492,686	441,651	386,617	363,233
Industrial	473,488	438,427	411,533	367,950	347,726
Other energy sales	74,047	64,223	59,526	47,275	47,731
System sales	1,819,504	1,630,005	1,504,632	1,331,753	1,262,247
Contractual sales to other utilities	292,044	232,598	31,809	18,494	
Total from energy sales billed	2,111,548	1,862,603	1,536,441	1,350,247	1,262,247
Unbilled revenues, net	52,344	78,545	(9,725)	(119,539)	(61,652)
Other operating revenues	25,033	30,059	29,960	12,972	12,708
Total electric operating revenues	$2,188,925	$1,971,207	$1,556,676	$1,243,680	$1,213,303
Average price per kwh billed—cents					
Residential	8.15	7.60	7.00	6.51	6.26
Commercial	7.78	7.32	6.77	6.32	6.11
Industrial	5.93	5.55	5.07	4.83	4.75
Total for ultimate customers	7.34	6.85	6.30	5.91	5.74
Total for all customers	6.94	6.62	6.27	5.86	5.66
Total for system sales	7.25	6.77	6.23	5.83	5.66
Generation Data					
Generating capability—thousands of kw (a)	7,519	7,513	7,484	7,494	6,546
Winter peak demand—thousands of kw (f)	5,154	4,981	5,519	4,869	4,489
Generation by fuel source—%					
Coal	60.6	61.4	70.4	71.3	86.1
Nuclear (e)	24.4	27.0	16.6	11.9	1.0
Oil	13.2	10.2	11.0	14.9	10.8
Hydroelectric	1.8	1.4	2.0	1.9	2.1
Steam station availability—%					
Coal-fired	78.8	78.6	75.2	78.8	79.1
Nuclear (e)	61.7	70.7	66.7	67.7	
Oil-fired	84.7	87.2	68.0	75.8	80.4
Steam station utilization—%					
Coal-fired	69.3	72.3	73.3	74.0	70.2
Nuclear (e)	61.3	70.5	65.7	67.5	
Oil-fired	38.0	30.0	28.6	38.8	22.2

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MERLIN F. HERTZOG, *Executive Vice President-Corporate Services*

JOHN T. KAUFFMAN, *Executive Vice President-Operations*

CHARLES E. RUSSOLI, *Executive Vice President-Financial*

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LEON L. NONEMAKER, *Senior Vice President-Division Operations*

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President, Alexander & Associates Inc. Consultants to business, government and industry

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Physician-Radiologist

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

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

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

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

Form 10-K and PP&L PROFILE

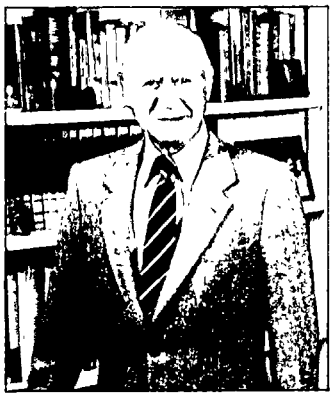
The company's annual report filed with the Securities and Exchange Commission on Form 10-K will be available mid-March. Each year the company publishes the PP&L Profile, a 10-year statistical review, containing in-depth information about the company. The 1976-1986 Profile will be available in May. A shareowner may obtain a copy of these publications, at no cost, by writing to Pennsylvania Power & Light Company, Two North Ninth Street, Allentown, PA 18101, Attention: Mr. George I. Kline, Manager-Investor Services.

Board of Directors

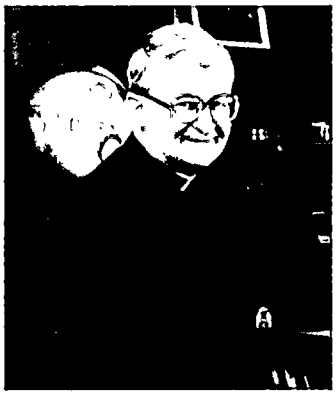

Alexander


Brayton


Burdge


Dessen


Donley


Gambet


Hesselbein


Jensen

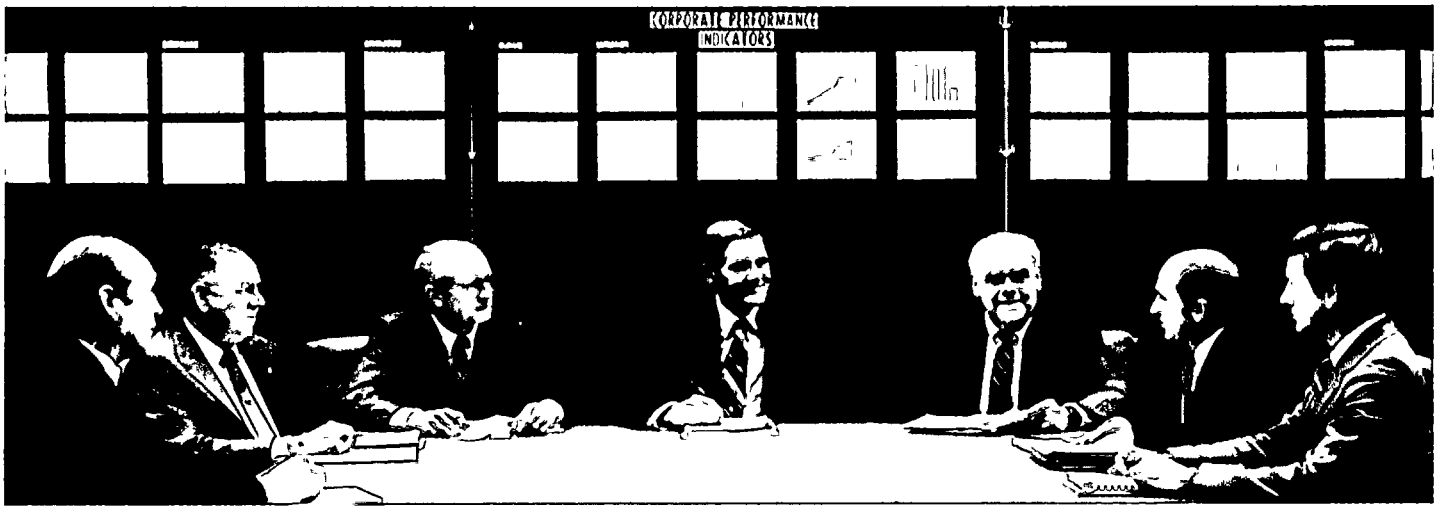

Mohler


Richardson


Robertson


Tressler

Corporate Management Committee



Reis Nonemaker Hertzog Campbell Kauffman Russoli Kenyon

PP&L Pennsylvania Power & Light Company
Two North Ninth Street • Allentown, PA 18101 • 215 / 770-5151

Fiscal Agents

TRANSFER AGENTS FOR PREFERRED, PREFERENCE AND COMMON STOCK

Morgan Shareholder Services Trust Company
30 West Broadway
New York, New York 10007-2192

Pennsylvania Power & Light Company
Manager-Investor Services
Two North Ninth Street
Allentown, Pennsylvania 18101

REGISTRARS FOR PREFERRED, PREFERENCE AND COMMON STOCK

Morgan Shareholder Services Trust Company
30 West Broadway
New York, New York 10007-2192

Pennsylvania Power & Light Company
Manager-Investor Services
Two North Ninth Street
Allentown, Pennsylvania 18101

DIVIDEND DISBURSING OFFICE AND DIVIDEND REINVESTMENT PLAN AGENT

Pennsylvania Power & Light Company
Vice President and Treasurer
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)
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
Common Stock