Met-Ed GPU

Metropolitan Edison Company
A Member Company of the
General Public Utilities System

1979 Annual Report

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Met-Ed GPU

Metropolitan Edison Company is a subsidiary of General Public Utilities Corporation, an electric utility holding company. Met-Ed's corporate headquarters ar located in Reading, Pennsylvania. The Company serve more than 358,000 customers in 14 eastern and south-central Pennsylvania counties covering more tha 3,274 square miles.

GPU, the parent company headquartered in Parsippany, New Jersey, has two other operating subsidiarie Pennsylvania Electric Company, serving more than 508,000 customers in northern and western Pennsylva and Jersey Central Power and Light Company, servin more than 690,000 customers in New Jersey. The thre companies combined provide electric service to more than half the land area of the two states. They jointly own several of the System's major electric generating facilities.

GPU is one of the nation's largest publicly owned electric utilities with assets of $5 billion. Its three companies sold about 32 million megawatt-hours of electricity in 1979, producing over $1.5 billion in revenues.

Met-Ed / GPU

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1979 FINANCIAL SUMMARY

	1979*	1978	% Change
Earnings Available for Common Stock ($000)	**$ 15,585**	$ 48,318	(67.7)
Operating Revenues ($000)	**$ 338,136**	$ 310,581	8.9
Construction Expenditures ($000)	**$ 53,559**	$ 87,657	(38.9)
Gross Utility Plant ($000)	**$1,376,767**	$1,353,569	1.7
Generating Capacity (MW)**	**2,144**	2,144	0.0
Peak Load-Winter (MW)	**1,571**	1,483	5.9
Fuel and Purchased Power Cost (Mills per Kwh)	**13.37**	10.57	26.5
Generation Mix (%)			
Coal	**76**	58	
Oil	**2**	2	
Nuclear	**19**	38	
Other (gas & hydro)	**3**	2	
Megawatt-Hour Sales (000)	**8,084**	7,917	2.1
Customers Served (Year-End)	**358,265**	351,554	1.9
Employees (Year-End)	**2,659**	2,784	(4.5)

*See Note 1 to Consolidated Financial Statements.
**Includes both Three Mile Island nuclear generating station Units rated at 853 MW.

A MESSAGE FROM THE PRESIDENT

To the Security Holders, Customers and Employees of Met-Ed:

For Metropolitan Edison Company, this has been its most difficult year.

The accident March 28, 1979 at Three Mile Island (TMI) Unit 2 has produced trying and extremely troubling months for our customers, our employees, our security holders and all of the General Public Utilities System.

However, our resulting financial crisis is severe and continuing.

The removal of TMI-2 from rate base has deprived us of the recovery of the capital costs for that investment, reducing earnings to a point which has virtually eliminated our access to long-term security markets and forced us to suspend payment of common stock dividends. The cost of power to replace the TMI generation is increasing and is already far in excess of that currently being collected from customers. As a result, we must limit cash expenditures to those covered by revenues or borrowings under a special revolving credit agreement.

The most critical factor in our continuing financial viability and ultimate financial health is reasonable and timely rate treatment by the Pennsylvania Public Utility Commission during this difficult period. At this time, Met-Ed is not receiving sufficient revenues to meet our overall financial requirements.

1979 has been a year far removed from "business as usual." In addition to the accident, its severe financial effect and the difficulties of dealing with the rate regulatory situation, the procedures of the Federal Nuclear Regulatory Commission have caused unreasonable delays in reaching decisions concerning proposed safety modifications for the restart of the undamaged TMI Unit 1 and for the safe cleanup and recovery of TMI Unit 2.

The safe return of TMI-1 to service would be of significant benefit to the GPU System customers because of the savings (estimated at over $160 million annually) to be realized by the reduction in replacement power costs. A more rapid pace in the cleanup of the damaged Unit 2 than present NRC decision making has permitted would be clearly beneficial, not only to the company, but more important to our TMI plant neighbors.

The Accident Examined

The two major investigative studies, that of the President's Commission on the Accident at Three Mile Island (The Kemeny Report) and one comm sioned by the NRC (The Rogovin Report), emph ized that the nuclear industry overall, including utilities, the NRC and equipment suppliers, share responsibility for deficiencies that existed in the industry and were brought to light by the TMI accident. For example, in examining deficiencies i operator training, the Rogovin group found:

"These problems were not unique to Metropoli tan Edison. Although it is true that Met-Ed's training program was in some respects deficient, i appears that Met-Ed afforded its operators trainii that, taken as a whole, was typical of the industry and, in certain respects, was above average. The shift crew on duty when the accident began were products of the nuclear Navy training program, a each had at least five years of Navy experience. Prior to the accident all of them had completed training courses which met NRC requirements, h passed NRC exams, ar had received simulator training totalling 5 to 9 weeks each. Three had received one week's training at Penn State Univer sity's research reactor. Their combined average NRC licensing exam test scores were above the national average. The inadequate training that played a role in this accident must be attributed i to one utility but rather to the industry as a whol and to the NRC."

Lessons learned will result in additional safeguards and response capabilities. Met-Ed and GP are involved in industry-wide programs to upgra the safety of nuclear operations. Our involvement includes the Nuclear Safety Analysis Center (NSAC), the Institute of Nuclear Power Operatio (INPO) and the industry's establishment of a mutual insurance organization to help cover cost of replacement power resulting from any future nuclear accidents.

Financial Results Down

Metropolitan Edison Company's earnings avail ble for common stock for 1979 declined nearly 6 from those reported for the year 1978. The regulators' elimination of TMI-2 costs from our rates was the primary cause of this decline.

The rate of return on average common equity 1979 was 4.16 percent, far below the 12.91 percer for 1978.

A major impact on the company has been the need to purchase power to replace that lost from the TMI station and thus maintain continuity of customer service. The cost of replacement power during 1979 was more than ten times the cost of generation from TMI. During 1979 Met-Ed spent $177 million dollars for fuel and replacement power but received only $112 million of this from customer revenues. Although the difference is being deferred for future recovery, it has imposed a severe load on available sources of credit. (Refer to Management's Comments on Earnings).

Financing

In June, 1979, GPU and its member companies entered into a revolving credit agreement with 45 banks under which the System had available at December 31, 1979, $292 million of credit. The agreement provides for an ultimate borrowing level of $412 million with the favorable vote of the banks providing 85% of the bank credit. A maximum of $125 million is available to Met-Ed subject to the overall system limit, which is less than the total of the individual limits of the Company and its affiliates.

Also in June, Met-Ed issued and pledged to the banks $40 million of 11 percent first mortgage bonds as collateral security for borrowings under the revolving credit agreement. On January 31, 1980, Met-Ed sold $13 million of first mortgage bonds to the group of banks. Of this amount, $7 million was used to pay off bonds that matured in February 1980 and $6 million was deposited with the banks to repay short-term loans. (See Note 4 to the consolidated financial statements).

The Company, in responding to the accident at TMI-2, has incurred $50.6 million of costs associated with the clean-up and recovery process. Of this amount $47.3 million have been deferred and $3.3 million charged to operations. In addition to the deferred clean-up and recovery costs, the TMI-2 nuclear fuel core was retired and its unamortized book cost of $18.5 million transferred to deferred debits which aggregate $65.8 million and have been offset by the insurance proceeds of $35.1 million received through December 31, 1979.

Many measures were initiatied during the year to control cash flow as an aftermath of the TMI accident. Among them were: (1) a reduction in total number of employees, done principally through attrition and an early retirement plan offered to employees; (2) a freeze on hiring except where essential to fulfill commitments at TMI required by regulatory demands; (3) restrictions on overtime use of employees; (4) a cutback on the use of outside services; (5) a delay in noncritical maintenance tasks; and (6) a delay in the construction of new facilities.

Until such time as earnings and credit worthiness can be restored, access to the securities market for permanent financings is essentially precluded.

Rate Proceedings and Regulatory Matters

In March, 1979, Met-Ed was granted a rate increase by the PaPUC which reflected in base rates its investment in TMI-2 and the operating and maintenance costs associated with the unit. In April the order was rescinded by the PaPUC, thereby reducing rates by over $46 million to the levels in effect prior to the March rate order.

On June 19, 1979, the PaPUC made these reduced base rates permanent. In addition, the order established a levelized energy adjustment clause for Met-Ed for the period July 1, 1979 through December 31, 1980.

The increase in Met-Ed's levelized energy adjustment charge granted by the PaPUC in June 1979 assumed that TMI-1 would resume the generation of electricity on January 1, 1980. However, due to NRC actions that have delayed the restart of TMI-1, Met-Ed had to file for an increase in the levelized energy adjustment charge. That request was filed with the PaPUC on November 1 to be effective January 1, 1980. On February 8, 1980 the PaPUC temporarily granted the increase effective March 1, 1980. The increase is subject to refund depending upon the final results of the current hearings.

On November 1, 1979, the PaPUC ordered Met-Ed to show cause why its franchise to conduct public utility operations should not be revoked. On November 8, 1979, the commission combined this proceeding with investigations on whether the costs associated with TMI-1 should continue to be reflected in base rates and on the above energy adjustment petition. The PaPUC is scheduled to issue an order on such matters on or about May 23, 1980.

Customer Impact

At the end of 1979 the typical Met-Ed customer (a residence not using either electric heat or electric water heating) paid an average of slightly under 5.8 cents per kilowatt-hour, which was less than that paid by the majority of utility customers in Pennsylvania. With the additional energy cost adjustment effective March 1, the average cost to this typical Met-Ed customer will be about 6.5 cents per kilowatt-hour, which is still in the mid range for the state.

Management Changes

The company instituted some significant executive changes in the aftermath of the accident. Robert C. Arnold was named senior vice president in charge of TMI-1 recovery operations as of August 2, 1979. Walter M. Creitz resigned as president on August 29, 1979. Herman Dieckamp, the president of the parent GPU Corporation, became acting president.

Corporation Changes

In January, GPU announced plans to form a GPU Nuclear Corporation (GPUNC) that will have responsibility for the restoration and safe operation of both TMI units and the safe and efficient operation of Oyster Creek nuclear station in New Jersey.

GPUNC will centralize and concentrate the responsibility for the design, construction and operation of all nuclear plants in the GPU System. Ownership of the TMI Units 1 and 2 will remain the same: Met-Ed owning 50% and Pennsylvania Electric Co. (Penelec) and Jersey Central Power & Light Co. (JCP&L) will each own 25%. Mr. Arnold has been designated president of the planned GPU Nuclear Corporation.

Plans are now underway to combine the managements of Metropolitan Edison Company and Pennsylvania Electric, with William A. Verrochi heading the operations. Mr. Verrochi is currently president of Pennsylvania Electric. The combined operation will be managed by a single set of officers, but, in a financial sense, will not be a formal corporate merger. The objectives of achieving improved management efficiency, economies of scale, and uniform policies for better service to our Pennsylvania customers do not necessitate a formal merger. None of the outstanding securities of either company will be affected.

Both reorganization programs will require regulatory approval.

Changes in System Operations

Electric service to the Hershey Electric Company, which had been supplied on a wholesale basis by Met-Ed since 1966, was transferred to Pennsylvania Power & Light (PP&L) effective March 1, 1980. That change will reduce the company's peak power requirements by approximately 4 percent. As part of this changeover Met-Ed agreed to sell two substations and other transmission equipment to PP&L for about $737,000.

Generation: TMI-1 Restart

TMI Unit 1 was shut down for refueling on February 17, 1979. Although awaiting NRC decisions for restart, it still holds one of the finest operational records in the nuclear industry.

We voluntarily held up the restart of TMI-1 and advised the NRC of steps we planned to take to improve operational safety. However, NRC regulatory review procedures were instituted last summer that will not be completed before late 1980 at the earliest. These hearings will provide an opportunity for the public, and particularly the plant's neighbors, to witness the diligence of the company and the NRC in assuring public safety.

Met-Ed is making every effort to demonstrate to decision-makers and the public the need to put TMI-1 back on line for the benefit of the customers, the nation's energy independence and the company's financial viability.

Because of the loss of TMI-1 and 2, the company has had to purchase approximately 50% of the electricity delivered to customers. Special purchase agreements have been made with individual electric generating utilities that have reduced purchase power costs.

Clean-up and Recovery of TMI-2

The massive job of cleanup at TMI-2 is being carried out as expeditiously as safety and the regulatory process permits.

First, and foremost, is the assurance of public and employee safety, not only in the immediate cleanup activity, but in the future operation of both units. The areas of principal attention include the preparation of plans to handle emergencies effectively, the review and improvement of operating procedures, the retraining and re-examination of operators, the management of radioactive waste, the isolation of TMI Unit 1 from Unit 2, and the overall management of the TMI operations.

The return of TMI-2 will be complex and lengthy. First priority is to clean up the aftermath of the accident and minimize any continuing hazard to the public. Decontamination of open areas in the auxiliary and fuel handling buildings is very near completion. Epicor II, a system designed and installed specifically for decontaminating water, has been in operation and has filtered over one-fourth of the radioactive water from the auxiliary building storage tanks.

A summary technical plan for decontamination of the facility and removal of fuel from the reactor has been submitted to the NRC. Modifications will be made as more knowledge is gained of the condition inside the containment building. In this regard, probes have been made for water and air sampling inside the containment building. Radiation readings were not as high as anticipated.

Within a year, the removal and decontamination of the air and water in the reactor containment building is expected to be acomplished. During the year that follows, complete decontamination of the building and removal of the core are planned. From that point through 1982 and 1983, the major emphasis will be decontamination of the reactor system, testing of the major system components for physical integrity, and repair or replacement of damaged equipment. We will be aiming for possible restart of TMI-2 in late 1983 or early 1984.

Conservation and Load Management Improved

Principal goals in the company's continuing conservation and load management program are reduced growth and improvement of our daily load factor (a measure of how uniformly our load is distributed throughout the day) to better utilize our existing facilities. The company has succeeded in both aspects. The average daily load factor hit a record high 85% in 1979 as compared to 83% in 1970 and 79% in 1960. Cumulatively, the program has also been responsible for a 160,000 kilowatt shift in demand to off-peak periods. A total of 1,296 energy management committees have been established in industrial and commercial customer companies.

Met-Ed has been active in collecting data in the study of off-peak storage heating systems to determine its benefit to customers and the system. In addition, the company is participating in the installation and monitoring of various alternative energy systems, including solar water heating and wind turbined generation, as well as biomass conversion and methane gas production to generate electricity.

Customer Services Enhanced

Much of the past year has been spent enhancing the methods and procedures concerning standards and billing practices for residential utility service.

We are pleased to point out that a report issued by the PaPUC Bureau of Consumer Services cites the company for its excellent performance in the area of customer service and the collection of delinquent accounts.

The four Consumer Advisory Councils established throughout the Met-Ed territory last year are now proving very useful in identifying customer and community problem areas that require Met-Ed's attention.

Public Affairs and Communications

As a result of the experiences of the past year, Met-Ed has taken positive steps to expand its public affairs and communications efforts. At TMI, public affairs and communications staffs have been established to handle the large task of communicating nuclear-related matters to the residents of the area, the industry, the regulators, the government, the press, the study groups and the employees. Press conferences, public meetings, television interviews and speaking engagements have become more frequent occurrences. The need to improve public understanding has fostered an increased and upgraded emphasis on corporate public affairs and communications.

Rights Protected

In spite of all the adversities of the past year, the company has functioned well; our employees have performed extraordinarily and with great loyalty, and we have continued to provide unfailing service to our customers at comparable rates.

Unfortunately, the company's investors have not fared nearly as well. Met-Ed has suspended payment of common stock dividends and, while payments continue to bond and preferred stock holders, their ratings and value have dropped significantly.

This situation is ultimately detrimental to both the customer and the investor. While our future is very much in the hands of state and federal regulators, Met-Ed and the other GPU System companies are determined that the rights of both investors and customers must be protected, equally and fairly.

H Dieckamp

Herman Dieckamp
Acting President

March 7, 1980

Met-Ed GPU

A Member Company of the
General Public Utilities System

Statement by Management

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

The accompanying financial statements and notes thereto disclose the effect of the nuclear accident on March 28, 1979 at Unit No. 2 of the Three Mile Island Nuclear Generating Station ("TMI-2"). The accident has had a significant adverse impact on the earnings and financial position of the Company in 1979.

In the aftermath of the accident the Pennsylvania Public Utility Commission reduced allowable annual revenues by the capital and operating costs associated with TMI-2, resulting in a substantial decline in earnin In addition, several significant contingencies and uncer tainties, the outcome of which cannot be determined at the present time, resulted.

Reference should be made to Note 1 to the accompanying financial statements and to Management's Comments on Earnings beginning on page 8 for further discussion on the effects and impact of the nuclear accident at Three Mile Island.

Coopers & Lybrand, independent public accountants, are engaged to examine and express an opinion on our financial statements. Their opinion, which appears on the following page, sets forth the contingencies and uncertainties resulting from the accid

Report of Auditors

To the Board of Directors
METROPOLITAN EDISON COMPANY
Reading, Pennsylvania

We have examined the consolidated balance sheets of Metropolitan Edison Company and Subsidiary Company as of December 31, 1979 and 1978, and the related consolidated statements of income, retained earnings and sources of funds used for construction for each of the five years in the period ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

a. The recovery of the approximately $349 million investment in TMI-2.
b. The recovery of $31 million of costs incurred net of insurance proceeds received, and the indeterminable amount of uninsured costs yet to be incurred, in connection with the anticipated restoration of TMI-2 to service.
c. The recovery of the excess, if any, of amounts which might be paid in connection with claims for damages resulting from the accident over available insurance proceeds.
d. The financial effects should the capital and operating costs associated with Three Mile Island Unit No. 1 Nuclear Generating Station be removed from base rates and the effects of various investigations and inquiries upon the ultimate recovery of the approximately $194 million investment in the unit if action is taken to prevent its return to operation.
e. The financial effects should the Pennsylvania Public Utility Commission order the revocation or modification of the Company's franchise to operate in its service area.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles applicable to a going concern which contemplates, among other things, the realization of assets and the liquidation of liabilities in the normal course of business. The Company is currently not receiving a level of revenues sufficient to assure its ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon obtaining adequate and timely rate relief and maintaining and increasing the availability of credit under the revolving credit agreement. (See Note 4 to Consolidated Financial Statements.) The eventual outcome and effect of the foregoing on the consolidated financial statements cannot presently be determined.

As more fully discussed in Note 1 to Consolidated Financial Statements, the Company may be required to make refunds to customers for certain payments made for coal. At this time, it is uncertain whether or to what extent such refunds will have to be made.

In our opinion, subject to the effect, if any, on the consolidated financial statements (the 1979 consolidated financial statements only with regard to the uncertainties discussed in the second and third paragraphs above) of such adjustments as might have been required had the outcome of the uncertainties discussed in the preceding paragraphs been known, the aforementioned statements (pages 9 through 22) present fairly the consolidated financial position of Metropolitan Edison Company and Subsidiary Company at December 31, 1979 and 1978 and the consolidated results of their operations and the consolidated sources of funds used for construction for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

February 15, 1980
1900 Three Girard Plaza
Philadelphia, Pennsylvania 19102

MANAGEMENT'S COMMENTS ON EARNINGS

1979 vs. 1978

Earnings available for common stock for 1979 declined against those for the year 1978. The major factor causing such decline was the ratemaking treatment accorded to the capital and operating and maintenance costs associated with Three Mile Island Unit No. 2 ("TMI-2").

In 1978, allowance for funds used during construction was accrued on the Company's investment in TMI-2 and thereby offset the interest charges, preferred stock dividends and common stock earnings requirements associated with such investment. Such accrual ceased when TMI-2 was placed in commercial operation on December 30, 1978. Moreover, until TMI-2 was placed in commercial service, the investment and operation and maintenance costs associated with that unit were capitalized and depreciation was not accrued.

A rate increase for the Company was authorized in late March 1979, but was rescinded before implementation so that the Company was never permitted to place rates in effect to cover its share of the TMI-2 related costs. Since December 30, 1978, the Company has been charging to income fixed capital and normal operating and maintenance costs associated with TMI-2.

1978 vs. 1977

Earnings available for common stock for 1978 declined slightly against those for the year 1977. The major factors involved in such decline were a result of increased operating, maintenance and financing costs due to inflation, generating plant outages and a new plant in service. Partially offsetting such decline were revenue increases from sales growth.

A summary of the principal factors affecting the changes in earnings available for common stock are as follows:

	Change			
	1979 over (under) 1978 (millions)	**%**	1978 over (under) 1977 (millions)	%
KWH sales increased	**167**	**2%**	506	7%
Revenues other than energy related:				
(a) Revenues resulting from KWH sales growth	**$ 5**		$ 14	
(b) Revenues resulting from lower rates	**(7)**		(2)	
Energy related revenues	**30***		(7)	
Total Revenue Increase	**28**	**9**	5	2
Energy costs:				
(a) Resulting from higher unit fuel costs	**19**		9	
(b) Resulting from increased (decreased) system generation	**(32)**		(1)	
(c) Power purchased and interchanged	**90**		5	
(d) Deferred energy costs increased	**(49)**		(17)	
Total Energy Cost Increase (Decrease)	**28***	38	(4)	(5)
Payroll and other operation and maintenance expenses increased as a result of an increase in employees and higher wage rates in 1978, generating plant outages, increased costs associated with new facilities and inflationary factors. Such increases in 1979 were substantially offset by cost reduction programs and a reduced number of employees	**8**	**6**	12	20
Depreciation expense increased as a result of additional plant in service (TMI-2 in 12/78)	**12**	**48**	1	7
Taxes:				
Income taxes declined primarily as a result of lower income subject to taxes and in addition, in 1978, an increase in the flow through portion of the excess of tax over book depreciation principally resulting from the placing in service of the TMI-2 nuclear unit in December 1978 ($3.3 million)	**(12)**	**(63)**	(5)	(21)
Taxes other than income increased (decreased). The 1979 decrease is primarily attributable to PURTA refunds and credits for previous tax years	**(3)**	**(10)**	1	5
Total	**(15)**	**(33)**	(4)	(8)
Interest and preferred dividends increased primarily from additional security issuances at higher rates and increased levels of short-term debt	**9***	**19**	5	11
Allowance for funds used during construction, net, declined in 1979 primarily as a result of TMI-2 in service in 12/78	**(24)**	**(86)**	4	15
Other income, net increased mainly as a result of interest income from securities	**1**		1	
Earnings available for common stock	**$(33)**	**(68)%**	$ —	—%

*These changes are mainly as a result of the nuclear accident at TMI-2, see Note 1 to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (Note 1)

Metropolitan Edison Company and Subsidiary Company

For the Years Ended December 31,	*(In Thousands)* 1979	1978	1977	1976	1975
Operating Revenues	**$338,136**	$310,581	$305,223	$264,113	$249,525
Operating Expenses:					
Fuel	**70,675**	83,874	76,541	69,392	80,828
Power purchased and interchanged, net:					
Affiliates	**164**	(7,732)	(11,438)	(2,721)	(14,766)
Others	**107,659**	25,228	23,702	22,431	1,742
Deferral of energy costs, net (Note 2)	**(59,278)**	(9,989)	7,132	(12,006)	376
Payroll	**34,369**	33,770	29,635	27,419	25,537
Other operation and maintenance (excluding payroll) (Note 7)	**45,112**	41,330	33,165	33,771	29,459
Depreciation (Note 2)	**37,707**	25,485	23,910	22,176	21,198
Taxes, other than income taxes (Note 7)	**22,682**	25,290	24,176	20,654	20,171
Totals	**259,090**	217,256	206,823	181,116	164,545
Operating Income Before Income Taxes	**79,046**	93,325	98,400	82,997	84,980
Income Taxes (Notes 2 and 6)	**10,265**	27,462	31,229	23,962	25,935
Operating Income	**68,781**	65,863	67,171	59,035	59,045
Other Income and Deductions:					
Allowance for other funds used during construction (Note 3)	**5**	20,882	18,929	17,249	14,138
Other income, net	**1,067**	78	(1,000)	291	(163)
Income taxes on other income, net (Notes 2 and 6)	**(646)**	(29)	226	(213)	22
Total Other Income and Deductions	**426**	20,931	18,155	17,327	13,997
Income Before Interest Charges	**69,207**	86,794	85,326	76,362	73,042
Interest Charges:					
Interest on first mortgage bonds	**35,262**	31,961	28,209	26,593	19,513
Interest on debentures	**6,603**	6,730	6,880	7,004	7,202
Other interest	**8,917**	3,818	2,397	522	2,562
Allowance for borrowed funds used during construction—credit (net of tax) (Note 3)	**(3,873)**	(6,665)	(5,115)	(4,439)	(3,885)
Income taxes attributable to the allowance for borrowed funds (Notes 3 and 6)	**(3,576)**	(7,657)	(5,877)	(4,929)	(4,280)
Total Interest Charges	**43,333**	28,187	26,494	24,751	21,112
Net Income	**25,874**	58,607	58,832	51,611	51,930
Preferred Stock Dividend	**10,289**	10,289	10,289	10,289	10,289
Earnings Available for Common Stock	**$ 15,585**	$ 48,318	$ 48,543	$ 41,322	$ 41,641

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

CONSOLIDATED BALANCE SHEETS (Note 1)

Metropolitan Edison Company and Subsidiary Company

December 31,	1979	1978
	(In Thousands)	
ASSETS		
Utility Plant (at original cost):		
In service (Note 1)		
Investment in Three Mile Island Unit No. 2	**$ 359,647**	$ 357,737
Other	**934,838**	899,432
Total in service	**1,294,485**	1,257,169
Less, accumulated depreciation (Note 2)	**241,985**	208,936
Net	**1,052,500**	1,048,233
Construction work in progress	**11,583**	19,670
Held for future use	**12,579**	12,561
Totals	**1,076,662**	1,080,464
Nuclear fuel (Note 4)	**58,120**	64,169
Less, accumulated amortization (Note 2)	**7,399**	11,052
Net nuclear fuel	**50,721**	53,117
Net utility plant	**1,127,383**	1,133,581
Investments:		
Other physical property, net	**164**	171
Other, at cost	**495**	495
Totals	**659**	666
Current Assets:		
Cash (Note 4)	**2,137**	6,403
Special deposits	**2,747**	2,740
Accounts receivable:		
Affiliates	**29**	
Customers, net	**20,493**	16,958
Other (Note 6)	**7,412**	18,718
Inventories, at average cost or less:		
Materials and supplies for construction and operation	**15,039**	10,900
Fuel	**19,609**	15,267
Prepayments	**942**	570
Totals	**68,408**	71,556
Deferred Debits.		
Deferred energy costs (Notes 1 and 2)	**82,499**	23,221
Deferred costs—nuclear accident, net of insurance recoveries (Note 3)	**30,670**	
Deferred income taxes (Notes 2 and 6)	**5,001**	3,157
Other	**12,529**	7,622
Totals	**130,699**	34,000
Total Assets	**$1,327,149**	$1,239,803

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

	(In Thousands)	
	1979	1978
LIABILITIES AND CAPITAL		
Long-Term Debt, Capital Stock and Consolidated Surplus:		
First mortgage bonds (page 13)	**$ 450,462**	$ 462,957
Debentures (page 13)	**80,720**	82,700
Unamortized net discount on long-term debt	**(1,586)**	(1,636)
Totals	**529,596**	544,021
Cumulative preferred stock—no mandatory redemption (page 13)	**139,391**	139,391
Premium on cumulative preferred stock	**483**	483
Totals	**139,874**	139,874
Common stock and consolidated surplus (Note 1):		
Common stock (page 13)	**66,273**	66,273
Consolidated capital surplus	**280,523**	280,523
Consolidated retained earnings (Note 5)	**31,604**	23,019
Totals	**378,400**	369,815
Totals	**1,047,870**	1,053,710
Current Liabilities:		
Debt due within one year (page 13)	**14,475**	2,102
Notes payable to banks (Note 4)	**68,000**	35,500
Accounts payable:		
Affiliates	**1,377**	913
Others	**34,552**	17,272
Customer deposits	**587**	571
Taxes accrued (Note 6)	**7,970**	6,193
Interest accrued	**11,857**	11,027
Other	**7,614**	7,756
Totals	**146,432**	81,334
Deferred Credits and Other Liabilities:		
Deferred income taxes (Notes 2 and 6)	**110,631**	66,643
Unamortized investment credits (Notes 2 and 6)	**18,200**	33,432
Other	**4,016**	4,684
Totals	**132,847**	104,759
Commitments and Contingencies (Note 1)		
Total Liabilities and Capital	**$1,327,149**	$1,239,803

CONSOLIDATED STATEMENTS OF SOURCES OF FUNDS USED FOR CONSTRUCTION (Note 1)

Metropolitan Edison Company and Subsidiary Company

For the Years Ended December 31,	*(In Thousands)* 1979	1978	1977	1976	1975
Sources of Funds:					
Funds generated from operations:					
Net Income	**$ 25,874**	$ 58,607	$ 58,832	$ 51,611	$ 51,930
Add items not requiring current cash outlay or (receipt):					
Depreciation (Note 2)	**37,707**	25,485	23,910	22,176	21,198
Amortization of nuclear fuel (Note 2)	**3,340**	4,902	4,509	4,603	7,412
Investment credits, net (Notes 2 and 6)	**(15,226)**	13,330	7,158	1,450	5,618
Deferred income taxes, net (Notes 2 and 6)	**42,078**	20,466	4,663	14,646	8,586
Allowance for other funds used during construction (Note 3)	**(5)**	(20,882)	(18,929)	(17,249)	(14,138)
Totals	**93,768**	101,908	80,143	77,237	80,606
Less, cash dividends — common stock	**7,000**	48,000	49,000	39,500	37,800
— preferred stock	**10,289**	10,289	10,289	10,289	10,289
Totals	**76,479**	43,619	20,854	27,448	32,517
Other sources (uses):					
Deferred energy costs, net (Note 2)	**(59,278)**	(9,989)	7,132	(12,006)	376
Deferred costs—nuclear accident, net of insurance recoveries (Note 1)	**(12,185)**				
Changes in —cash (Note 4)	**4,266**	(1,749)	146	(209)	5,164
—accounts receivable	**7,741**	(16,303)	8,592	(7,037)	504
—accounts payable	**17,744**	3,896	(878)	1,565	(498)
—inventories - materials, supplies and fuel	**(8,481)**	1,199	(4,659)	(129)	2,036
—interest accrued	**830**	1,686	876	1,671	1,626
—taxes accrued	**1,777**	(8,566)	3,938	571	3,818
Other, net	**(5,737)**	(4,248)	(959)	3,416	(11,594)
Totals	**(53,323)**	(34,074)	14,188	(12,158)	1,432
Funds from financings:					
Sale of long-term debt		58,700	35,000	50,000	95,000
Bank borrowings, net (Note 4)	**32,500**	4,250	19,250	10,000	(53,700)
Retirement or redemption of long-term debt	**(2,102)**	(5,720)	(6,718)	(2,215)	(13,235)
Totals	**30,398**	57,230	47,532	57,785	28,065
Totals	**$ 53,554**	$ 66,775	$ 82,574	$ 73,075	$ 62,014
Construction Expenditures:					
Utility plant	**$ 34,128**	$ 77,455	$ 81,454	$ 73,517	$ 68,220
Nuclear fuel	**19,431**	10,202	20,049	16,807	7,932
Totals	**53,559**	87,657	101,503	90,324	76,152
Allowance for other funds used during construction (Note 3)	**(5)**	(20,882)	(18,929)	(17,249)	(14,138)
Totals	**$ 53,554**	$ 66,775	$ 82,574	$ 73,075	$ 62,014

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

LONG-TERM DEBT AND CAPITAL STOCK

Metropolitan Edison Company and Subsidiary Company

December 31, 1979 *(In Thousands)*

Long-Term Debt:	
First mortgage bonds—Series as noted (a):	
1 % due 1980—1984	$ 1,207
2¾% due 1980	12,250
11 % due 1981	*
3¼% due 1982	7,800
9¾% due 1983	50,000
3⅛% due 1984	15,000
9⅝% due 1985	45,000
4⅞% due 1987	19,000
5 % due 1990	15,000
4⅜% due 1992	15,000
4⅝% due 1995	12,000
5¾% due 1996	15,000
7 % due 1998	26,000
8⅛% due 1999	25,000
7⅞% due 2001	15,000
7⅞% due 2002	26,000
8½% due 2003	20,000
9 % due 2006	50,000
8⅜% due 2007	35,000
6 % due 2008	8,700
9 % due 2008	50,000
Sub-total	462,957
1 % due 1980-1984 (current portion)	(245)
2¾% due 1980	(12,250)
Total	450,462
Debentures — Series as noted (b):	
4¾% due 1990	4,320
6⅞% due 1992	15,200
8⅛% due 1997	45,580
8¾% due 1998	17,600
Sub-total	82,700
Sinking fund requirements due within one year	(1,980)
Total	80,720
Unamortized net discount on long-term debt	(1,586)
Total	$529,596
Capital Stock:	
Cumulative preferred stock, no par value (stated value $100 per share), 10,000,000 shares authorized (1,393,912 shares issued and outstanding):	
3.90% Series, 117,729 shares outstanding, callable at $105.625 a share	$ 11,773
4.35% Series, 33,249 shares outstanding, callable at $104.25 a share	3,325
3.85% Series, 29,175 shares outstanding, callable at $104.00 a share	2,917
3.80% Series, 18,122 shares outstanding, callable at $104.70 a share	1,812
4.45% Series, 35,637 shares outstanding, callable at $104.25 a share	3,564
8.12% Series, 160,000 shares outstanding, callable at $107.59 a share	16,000
7.68% Series C, 350,000 shares outstanding, callable at $107.48 a share	35,000
8.32% Series H, 250,000 shares outstanding, callable at $108.24 a share	25,000
8.12% Series I, 250,000 shares outstanding, callable at $107.59 a share	25,000
8.32% Series J, 150,000 shares outstanding, callable at $107.70 a share	15,000
Total	$139,391
Common stock, no par value, 900,000 shares authorized, 859,500 shares issued and outstanding (Note 4)	$ 66,273

(a) Substantially all the utility plant of the Company is subject to the lien of the mortgage.

(b) For the years 1981 through 1984 (based on debentures outstanding at December 31, 1979) cash sinking fund requirements with respect to these debentures will be $1,980,000 per annum.

* *Issued and pledged to banks $40 million, 11% Series due October 1, 1981, as collateral security for borrowings under a revolving credit agreement, see Note 4 to Consolidated Financial Statements.*

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (Note 1)

Metropolitan Edison Company and Subsidiary Company

For the Years Ended December 31,	*(In Thousands)* 1979	1978	1977	1976	1975
Balance, beginning of year	**$23,019**	$22,701	$23,158	$21,336	$17,495
Add, net income	**25,874**	58,607	58,832	51,611	51,930
Totals	**48,893**	81,308	81,990	72,947	69,425
Deduct:					
Dividends on capital stock (in cash)					
Cumulative preferred stock (at the annual rates indicated below):					
3.90% Series ($3.90 a share)	**459**	459	459	459	459
4.35% Series ($4.35 a share)	**145**	145	145	145	145
3.85% Series ($3.85 a share)	**112**	112	112	112	112
3.80% Series ($3.80 a share)	**69**	69	69	69	69
4.45% Series ($4.45 a share)	**159**	159	159	159	159
8.12% Series ($8.12 a share)	**1,299**	1,299	1,299	1,299	1,299
7.68% Series G ($7.68 a share)	**2,688**	2,688	2,688	2,688	2,688
8.32% Series H ($8.32 a share)	**2,080**	2,080	2,080	2,080	2,080
8.12% Series I ($8.12 a share)	**2,030**	2,030	2,030	2,030	2,030
8.32% Series J ($8.32 a share)	**1,248**	1,248	1,248	1,248	1,248
Common stock (not declared on a per share basis)	**7,000**	48,000	49,000	39,500	37,800
Totals	**17,289**	58,289	59,289	49,789	48,089
Balance, end of year (Note 5)	**$31,604**	$23,019	$22,701	$23,158	$21,336

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Commitments and Contingencies:

Three Mile Island Nuclear Accident: On March 28, 1979, an accident occurred at Unit No. 2 of the Three Mile Island nuclear generating station ("TMI-2") resulting in significant damage to TMI-2, and a release of some low level radiation which published reports of governmental agencies indicate did not constitute a significant public health or safety hazard. TMI-2 is jointly owned by the Company, 50%; Jersey Central Power & Light ("JCP&L"), 25%; and Pennsylvania Electric Company ("Penelec"), 25%, who are collectively owned by General Public Utilities Corporation ("GPU"). At December 31, 1979, total net investment by the Company and its affiliates in TMI-2 was approximately $682 million ($705 million investment less $23 million accumulated depreciation), excluding the unamortized investment of approximately $37 million in the nuclear fuel core of which the Company's share is approximately $349 million ($360 million investment less $11 million accumulated depreciation), excluding the unamortized investment of approximately $19 million in the nuclear fuel core.

The Company and its affiliates have engaged a consulting engineering firm to prepare a cost estimate and schedule for restoring TMI-2 to service. The firm's initial report indicates that, while the decontamination of the buildings and removal and disposal of large quantities of radioactive material is a major undertaking, the technology and techniques are well-known and have been previously demonstrated. This initial report emphasizes the inherent uncertainties in cost and schedule estimates until (a) entry into the containment vessel has been gained and the difficulties of decontamination have been evaluated, (b) the reactor vessel has been opened and the difficulties of core removal have been evaluated, and (c) the physical integrity of major components has been assessed.

Subject to these qualifications, the initial report estimates that decontamination and restoration of TMI-2 to service, exclusive of replacement of the reactor core, would cost approximately $240 million and take about four years. The report also recommends that, because of the unknowns and variables, an allowance of $80 million for contingencies be included in the estimate of cost, bringing the total to $320 million. The estimate does not include provision for the replacement of the reactor core (estimated by the Company and its affiliates to cost $60 million to $85 million) nor for the company's and its affiliates' replacement power, financing and other costs during the period of rehabilitation of TMI-2. The

Company and its affiliates increased, by $25 million, the engineering firm's estimate of costs to provide for other items possibly omitted from that estimate. The estimates do not take into account potential legal, political or regulatory delays, which would further increase the cost of restoring TMI-2 to service. The delays experienced to date in obtaining regulatory authorizations to proceed with the decontamination may have exhausted the allowance for contingencies in the engineer's estimate.

The Company and its affiliates carried the maximum insurance coverage available ($300 million) for damage to the unit and core and for decontamination expenses. The insurance does not cover replacement power costs or return on investment while the unit is not providing electricity for customers, but it otherwise covers most types of costs. It is the Company's and its affiliates' belief that, if the estimates of the consulting engineering firm are borne out, the recoveries from the insurance companies will approximate the amount of the insurance carried.

The Company does not know the extent, if any, to which the expenditures for repair and restoration of the unit to operation will represent plant improvements or other items that are properly capitalizable and recoverable in the future through rates charged to customers by amortization or depreciation charges. Moreover, the Company and it's affiliates expect to seek financial assistance from the Federal government and/or the utility industry in areas where the technical information should be of wide value and significance. Under these circumstances, the amount of loss, if any, suffered by the Company and its affiliates resulting from the TMI accident is not presently determinable and no provision therefor has been made in their accounts.

The property damage insurance, and the $300 million limit of coverage, was applicable to both Three Mile Island Unit No. 1 ("TMI-1") and TMI-2. This property insurance has been reduced by claims paid. The insurance carriers have reinstated the original coverage limits for TMI-1 but have refused to do so at this time for TMI-2. Additional property damage insurance for TMI-1 of up to $300 million was obtained by the Company and its affiliates through membership in Nuclear Mutual Limited ("NML"). As members of NML, the Company and its affiliates are subject to annual assessments of up to 14 times their annual premium, or $13 million, in the event of an incident at a nuclear plant of any member company. With regard to property insurance for TMI-2, $50 million of coverage has been obtained for possible damages which might result from a non-nuclear accident during the unit's restoration period.

The Company, in responding to the accident at TMI-2, has incurred $50.6 million of costs associated with the clean-up and recovery process. Of this amount $47.3 million have been deferred and $3.3 million charged to operations. In addition to the deferred clean-up and recovery costs, the TMI-2 nuclear fuel core was retired and its unamortized book cost of $18.5 million transferred to deferred debits which aggregate $65.8 million and have been offset by the insurance proceeds of $35.1 million received through December 31, 1979. All net deferred costs will be charged to operations or plant in service (for those which constitute permanent improvements) upon a determination that such costs are not recoverable through additional insurance proceeds, rates or by financial assistance from the Federal government or from other public or private sources and/or utility industry. In its rate order issued on June 19, 1979 referred to below, the Pennsylvania Public Utility Commission ("PaPUC") recognized that no claim for such costs had been made in the proceedings in which such order was entered. Nevertheless, the PaPUC stated in that order: "the Commission is of the view that none of the costs of responding to the incident, including repair, disposal of wastes and decontamination are recoverable from rate-payers. These costs are and should be insurable."

TMI-1, which adjoins TMI-2, was out of service for a scheduled refueling and was not involved in the accident. At December 31, 1979 total net investment by the Company in TMI-1 was approximately $194 million, including the nuclear fuel core of $15 million.
By orders dated July 2, 1979 and August 9, 1979, the Nuclear Regulatory Commission ("NRC") directed that TMI-1 remain in a shut down condition until resumption of operation is authorized by the NRC, after public hearings and the satisfaction of various requirements set forth in such orders. The NRC has not yet established a firm time schedule for the completion of the hearings and its decision.

In its rate order issued in June 1979, the PaPUC determined that the capital and operating costs associated with TMI-1 should continue to be reflected in base rates. However, on September 21, 1979, the PaPUC issued an order instituting an investigation to determine whether the costs of the Company associated with TMI-1 should be removed from its base rates. Operating and capital costs for TMI-1 in base revenues represent approximately $27 million of the Company's annual base revenues.

In order to make provisions for the substantial expenditures required for clean up and repair, replacement energy and other added costs resulting from this accident, the Company and its affiliates entered into a revolving credit agreement with a group of banks in June 1979 (see Note 4).

On January 23, 1980, the NRC ordered the Company to pay a fine of $155,000 for safety, maintenance, procedural and training violations at TMI. Such fine was paid on February 13, 1980. The NRC has also stated that, depending upon the findings of continuing investigations into the TMI-2 accident, it may take additional enforcement action such as assessing additional civil penalties or ordering the suspension, modification or revocation of the Company's license to operate TMI-2. The Company does not know what the ultimate outcome of this matter will be.

On October 30, 1979, the Presidential (Kemeny) Commission on the Accident at Three Mile Island issued its report. The Report states, in part, that its "investigation has revealed problems with the 'system' that manufactures, operates and regulates nuclear power plants" and the shortcomings which turned the incident into a serious accident "are attributable to the utility, to suppliers of equipment and to the federal commission that regulates nuclear power." On January 23, 1980, the NRC's Special Inquiry Group (Rogovin) reported the results of its investigation of the accident at TMI-2. Its conclusions with respect to the assignment of responsibility for the accident were similar to those of the Kemeny Commission. The Company and its affiliates do not know what effect, if any, these reports will have upon them.

Other investigations and inquiries into the nature, causes and consequences of the TMI-2 accident commenced by various federal and state bodies are continuing. The Company and its affiliates are unable to estimate the full scope and nature of these continuing investigations or the potential consequences thereof to the investors in their securities. The Company and its affiliates are also unable to determine the impact, if any, the results of such investigations may have on the proceedings to return TMI-1 to operation and the efforts to rehabilitate TMI-2.

On March 22, 1979, the Company was granted a retail rate increase by the PaPUC which, among other things, reflected in base rates its investment in TMI-2 and the operating and maintenance costs associated with the unit. On April 19, 1979, the PaPUC, as a result of the accident, established temporary rates for the Company, reducing annual base revenues by the operating and capital costs associated with its interest in TMI-2. This action effectively revoked, prior to becoming effective, the $46.6 million increase in base rates granted the Company on March 22, 1979, returning the rates to levels in effect prior to that rate order.

On June 19, 1979, the PaPUC issued a rate order which directed that the Company's temporary rates prescribed by its April 19, 1979 order be made permanent. In addition, the order established a levelized energy adjustment clause for the Company for the period July 1, 1979-December 31, 1980 at a level which the PaPUC believed would be sufficient to recover the increases in the company's energy costs during that period. This levelized energy adjustment clause did not make provision for the increased energy costs experienced by the Company during the March 28-June 30, 1979 period, but the discussion at the public meeting at which such order was entered indicated that such costs will ultimately be recoverable. The order also made provision for the amortization through base rates by the Company of $5.8 million annually of previously deferred energy costs of $14 million.

The increase in the Company's levelized energy adjustment charges granted by the PaPUC in June 1979 assumed that TMI-1 would resume the generation of electricity on January 1, 1980. In light of the NRC's action requiring that TMI-1 remain in a shut-down condition until resumption of operation is authorized by it, while allowing similar type units to operate, and as a result of increased fuel costs, the Company on November 1, 1979 filed with the PaPUC for an annual increase of $55 million in its energy clause charges, effective January 1, 1980. The Company, in its filing with the PaPUC, indicated that failure by the Commission to act in a positive and timely manner on its request could result in the inability of the Company to obtain additional short term financing and thus impair its ability to meet its obligations in the future.

On February 8, 1980, the PaPUC issued an order permitting the Company to increase its levelized energy clause charges, subject to investigation, by an additional $55 million annually, effective March 1, 1980. This order is effective pending final resolution of the issues in the proceedings referred to in the next paragraph and does not determine that any specific costs are recoverable.

On November 1, 1979, the PaPUC ordered the Company to show cause why its governmental authorization to conduct public utility operations should not be revoked. The Company has responded to such order contending that there is no basis for such revocation and that such revocation would be contrary to the public interest. On November 8, 1979, the PaPUC combined into one proceeding (i) its investigation to determine whether the Company's costs associated with TMI-1 should continue to be reflected in base rates, (ii) the Company's request for additional energy clause adjustment revenues and (iii) its show cause order why the Company's authorization to conduct public utility operations should be revoked. By orders dated February 8, 1980, the PaPUC stated that it expected to complete these combined proceedings on May 23, 1980.

As indicated by the preceding paragraphs, the depreciation and return requirements associated with the Company's investment in TMI-2 (amounting to approximately $47 million per year) are not being recovered from customers. Such depreciation and return requirements are currently being reflected in the financial statements of the Company and its affiliates in that (a) depreciation charges in respect of the unit are being provided and charged to expense, (b) the interest and preferred stock dividend components of that investment are being accrued, and (c) the earnings available for common stock reflect the loss of the return on the common equity component of that investment.

The Price-Anderson Amendments to the Nuclear Energy Act limit liability to third parties to $560 million for each nuclear incident. Coverage of the first $140 million (raised to $160 million following the accident) of such liability is provided by private insurance. The next $335 million (reduced to $315 million following the accident) is provided by assessments of up to the limit of $5 million per nuclear reactor per incident, but not more than $10 million in any calendar year. The remainder is provided by a government indemnity. Based on its ownership interest in two nuclear reactors, the Company's maximum potential assessment under these provisions would be $5 million per incident but not more than $10 million in any calendar year for claims covered by this insurance.

The Company's and its affiliates' private insurance under Price-Anderson provides that coverage is reduced by claims paid but is subject to reinstatement to original coverage limits upon approval by the insurance carriers. The Company and its affiliates have applied for such reinstatement but are unable at this time to ascertain whether or when such reinstatement will be approved. The NRC has informed the Company that the failure by it to obtain such reinstatement could result in the suspension or revocation of its license to operate TMI-2.

As a result of the accident, the Company, and/or its affiliates, have been named as defendants in various law suits. The suits include (i) individual suits and purported and actual class actions for personal and property damages (including claims for punitive damages) resulting from the accident and (ii) suits to enjoin the future operations of TMI-2.

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

Class suits for damages on behalf of purchasers of GPU common stock during the period August 25, 1975 through April 1, 1979 have also been instituted against GPU and certain of its directors as a result of the accident. These suits have raised questions, which have not yet been resolved, as to whether certain claims are beyond the insurance coverage for directors' and officers' liability carried by the System companies.

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

Coal Purchase Costs: In January 1977, the PaPUC issued an amended complaint asserting that the Company made payments in 1974 for coal that were $9.8 million in excess of those required by its contracts, and that such excess payments were without justification and directing the Company to show cause why it should not be required to refund $9.8 million to its customers. The Company believes that the payments which it made were justified and that there is no basis for requiring such refunds and so responded to the complaint. In November 1979, the administrative law judge who heard the evidence in the complaint against the Company for 1974 recommended that the Company refund $2.7 million, plus interest, to its customers. The Company filed exceptions to such recommendation, asserting that the evidence does not support any refund. Other parties filed exceptions asserting that the refunds should be increased. Oral arguments before the PaPUC were held in February 1980 and the matter is awaiting decision.

In November 1978, the PaPUC issued a further complaint asserting that the Company incurred excess costs of $4.6 million for coal during 1975, and that such excess payments were without justification and directing the Company to show cause why it should not be required to refund $4.6 million to its customers. Such complaint was based on an audit report prepared by the PaPUC staff. The Company believes that the payments which it made were justified and that there is no basis for requiring such refund, and has so responded to the complaint.

The Company is unable at this time to predict the outcome of these matters.

Compliance Audits: During 1977, the staff of the Federal Energy Regulatory Commission ("FERC") conducted a compliance audit of the Company's accounting records covering the period ending December 31, 1976. The remaining unresolved issue concerns the base to which the allowance for funds used during construction ("AFC") accruals were applied. If such issue was to be unfavorably resolved, the resulting reduction in consolidated earnings would approximate $2.2 million. The Company believes that the FERC's position is not justified and it is contesting it.

Other: The Company's construction program, which extends over several years, contemplate expenditures of approximately $50 million during 1980. In connection with this construction program the Company has incurred substantial commitments.

The Company is engaged in negotiations and, in one instance, litigation with various suppliers relating to the latters' claims for delay or termination charges or increased fees which such suppliers assert result from the Company's revisions of its construction plans and schedules and/or from the increased scope of supply. The Company's management does not expect at this time that such negotiations and litigation will result in any material increase in costs that would not be valid costs properly recognizable through the rate-making process.

2. Summary of Significant Accounting Policies:

General: The consolidated financial statements include the accounts of York Haven Power Company, a wholly-owned subsidiary company.

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

Operating Revenues: Revenues are generally recorded on the basis of billings rendered.

Deferred Energy Costs: The Company follows a policy of recognizing energy costs in the period in which the related energy clause revenues are billed.

Deferred energy costs at December 31, 1979 include (a) amounts accumulated prior to the TMI-2 accident which are being amortized to income in accordance with ratemaking orders ($13.1 million at a rate of $5.8 million per year), and (b) amounts accumulated subsequent to the TMI-2 accident reflecting the operation of levelized energy adjustment clauses placed in effect pursuant to the ratemaking order entered in June 1979 (see Note 1).

Depreciation: The Company provides for depreciation at annual rates determined and revised periodically, on the basis of studies, to be sufficient to amortize the original cost of depreciable property over estimated remaining service lives, which are generally longer than those employed for tax purposes. The Company uses depreciation rates which, on an aggregate composite basis, resulted in an approximate annual rate of 2.95%, 2.84%, 2.80%, 2.75%, and 2.82% for the years 1979, 1978, 1977, 1976 and 1975, respectively.

Effective January 1, 1977, to conform with rate-making treatment, the Company is charging depreciation expense with the cost of removal (less salvage) as incurred rather than including it in the provision for depreciation.

Nuclear Plant Decommissioning Costs: In accordance with ratemaking determinations the Company is charging to expense amounts intended to provide over its service lives for the decommissioning of its share of the radioactive components of its nuclear units (approximately $24 million per unit in then current dollars for rate-making purposes). In accordance with rate-making requirements, these charges make no provision for possible inflation in decommissioning costs during the period prior to decommissioning but are expected to be subject to modification to take cognizance of that factor.

Amortization of Nuclear Fuel: The amortization of nuclear fuel is provided on a unit of production basis. Rates are determined and periodically revised to amortize the cost over the useful life. Prior to December 1, 1976, amortization of nuclear fuel costs included estimated costs of reprocessing such fuel and estimated residual value of uranium. Due to the uncertain future of government approvals for reprocessing and plutonium recycling, the Company, effective December 1, 1976, began using amortization rates for nuclear fuel at TMI which makes no current provision for reprocessing costs and gives no credit for residual values. Should reprocessing eventually be undertaken, the Company expects that any difference between such costs and accumulated reserves will be recognized prospectively in the rate-making process.

Income Taxes: General Public Utilities Corporation ("GPU") and its subsidiaries file consolidated Federal income tax returns. All participants in a consolidated Federal income tax return are severally liable for the full amount of any tax, including penalties and interest, which may be assessed against the group. Beginning with the year 1979, GPU and its subsidiaries changed the method of allocation of Federal income taxes. The effect of this change is to allocate the tax reduction attributable to GPU expenses among its subsidiaries in proportion to the dollars of average common equity investment of GPU in such subsidiaries during the year. In addition, each subsidiary will receive in current cash payments the benefit of its own net operating loss carrybacks to the extent that the other subsidiaries can utilize such net operating loss carrybacks to offset the tax liability they would otherwise have on a separate return basis (after taking into account any investment tax credits they could utilize on a separate basis). This method of allocation does not allow any subsidiary to pay more than its separate return liability as if it had always filed separate returns.

The revenues of the Company in any period are dependent to a significant extent upon the costs which are recognized and allowed in that period for rate-making purposes. In accordance therewith, the Company has employed the following policies:

Tax Depreciation: The Company generally utilizes liberalized depreciation methods and the shortest depreciation lives permitted by the Internal Revenue Code in computing depreciation deductions and provide for deferred income taxes where permitted in the ratemaking process.

Investment Credits: The 3% investment credits are being amortized over a 10-year period while the 4% and 10% investment credits are being amortized over the estimated service lives of the related facilities.

Investment credits applicable to the Tax Reduction Act Employee Stock Ownership Plan ("TRAESOP") are remitted to the Plan Trustee and have no effect on income. As a result of the nuclear accident referred to in Note 1, the Company has suspended the TRAESOP.

Pension Plans: The Company has a pension plan applicable to all employees, the accrued costs of which are being funded. The cost of a supplemental pension plan applicable only to supervisory employees was not funded prior to 1976. The previously unfunded supplemental pension plan costs are being funded during the five year period beginning January 1, 1977. Prior service costs applicable to all plans are being amortized and funded over 25-year periods.

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

To the extent permitted in the rate-making proceedings of the Company, the income tax reductions associated with the interest component of AFC have been allocated to reduce interest charges and, correspondingly, have not reduced income taxes charged to operating expenses. Pursuant to such rate orders, the Company employs a net of tax accrual rate for AFC.

The Company has accrued AFC using rates which, on an aggregate composite basis, resulted in annual rates of 7.53%, 7.59%, 9.50%, 9.25% and 8.02% for the years 1979, 1978, 1977, 1976 and 1975, respectively.

4. Short-Term Borrowing Arrangements:
In June 1979, GPU and its subsidiaries entered into a revolving credit agreement with a group of banks, under which they had available, at December 31, 1979, $292 million of credit, of which $171 million were utilized for outstanding borrowings. Such available credit can be increased to $412 million upon approval of banks holding 85% of the notes outstanding. Subject to the overall system limit, which is less than the total of the individual limits of the Company and its affiliates, the Company is limited to $125 million of which $68 million was utilized at December 31, 1979. The agreement provides for a commitment fee of one-half of one percent per annum of each bank's total commitment (whether used or unused). Interest rates on such borrowings range from 105% to 111 % of the prime rate.

GPU has guaranteed all borrowings outstanding under the revolving credit agreement. In order to secure such guarantee, GPU has pledged the common stock of all its subsidiaries including the Company.

The Company has secured its notes under the revolving credit agreement by granting a security interest in certain nuclear fuel in the process of refinement, conversion, enrichment and fabrication. Such nuclear fuel was recorded, on the December 31, 1979 balance sheet, at a cost of $12.6 million. In addition, the Company has pledged $40 million of first mortgage bonds as security for its indebtedness under the revolving credit agreement.

The revolving credit agreement contains provision for the immediate payment of the indebtedness involved upon the occurrence of an event deemed by the majority of the lenders to have a materially adverse effect on the borrower.

In addition, the Company has informal lines of credit with various lenders. These arrangements generally provide for the maintenance of compensating balances ranging from a minimum of 10% of the available line of credit to a maximum of 10% of the line plus 10% of the loans outstanding, as determined on a daily average basis. At December 31, 1979 and 1978, the lines of credit available under these arrangements totaled approximately $1 million and $75 million respectively. Substantially all of the cash at December 31, 1978 was maintained as compensating balances. Under the revolving credit agreement, the amount of debt outstanding under these external lines cannot exceed $5 million.

The maximum aggregate amount of bank borrowings outstanding at any month-end during 1979 was $98 million. For the year 1979, the average daily amount outstanding was approximately $55 million, having a weighted average interest rate of 14.4%. Bank borrowings outstanding at December 31, 1979 aggregated $68 million having a weighted average interest rate of 16.2%.

The maximum aggregate amount of bank borrowings outstanding at any month-end during 1978 was $69 million. For the year 1978, the average daily amount outstanding was approximately $41 million, having a weighted average interest rate of 8.6%. Bank borrowings outstanding at December 31, 1978 aggregated $35.5 million having a weighted average interest rate of 10.5%.

5. Consolidated Retained Earnings:
Consolidated retained earnings at December 31, 1979, include $3,360,000 which amount is restricted as to the declaration of cash dividends on common stock in accordance with the most restrictive of the provisions contained in its mortgage, debenture indenture and articles of incorporation. These restrictions do not affect its present policy with respect to the distribution of dividends on its common stock.

6. Income Taxes:
Examination of Federal income tax returns through 1976 has been completed and the years 1977 and 1978 are currently under review. The Company has provided for any anticipated liabilities that may result from such examination.

Income tax expense for the years 1975 through 1979 was less than the amount computed by applying the statutory rate to book income subject to tax as follows:

	(In Millions)				
	1979	1978	1977	1976	1975
Operating income before income taxes	**$ 79**	$ 93	$ 98	$ 83	$ 85
Other income, net	**1**	1	(1)		
Totals	**80**	94	97	83	85
Interest expense	**(51)**	(43)	(37)	(34)	(29)
Book income subject to income tax	**$ 29**	$ 51	$ 60	$ 49	$ 56
Income tax at statutory rate (a)	**$ 14**	$ 25	$ 29	$ 24	$ 27
Excess of tax over book depreciation (flow through portion) (Note 2)	**(3)**	(6)	(3)	(4)	(4)
Amortization of accumulated investment credits (Note 2)	**(1)**	(1)	(1)	(1)	(1)
Allocated share of consolidated tax return benefit (Note 2)			(2)	(1)	(3)
Other adjustments	**(3)**	2	2	1	3
Income tax expense	**$ 7**	$ 20	$ 25	$ 19	$ 22
Effective income tax rate	**24%**	39%	42%	39%	39%

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

Income tax expense is comprised of the following:

	(In Millions)				
	1979	1978	1977	1976	1975
Federal income tax	**$(17)(a)**	$ (8)(b)	$ 13(c)	$ 6	$ 8(d)
State income tax		2	6	2	4
Income taxes on other income, net	**1**				
Income taxes attributable to the allowance for borrowed funds (Note 3)	**(4)**	(8)	(6)	(5)	(4)
Provision for taxes currently payable (refundable)	**(20)(a)**	(14)(b)	13(c)	3	8(d)
Deferred income taxes, net	**42**	21	5	15	9
Current investment credits	**(14)(a)**	14(b)	8(c)	2	6(d)
Amortization of accumulated investment credits	**(1)**	(1)	(1)	(1)	(1)
Income tax expense	**$ 7**	$ 20	$ 25	$ 19	$ 22

(a) Redetermination of prior years' investment credits resulting from 1979 net operating loss. This amount is reflected in the 1978 unused investment credit.

(b) Includes 1978 investment tax credits of $9 million carried back to prior years, which is included in Accounts Receivable—Other in the accompanying December 31, 1978 consolidated balance sheet.

(c) Reflects 1976 investment tax credits of $1.6 million, resulting from adoption of TRAESOP in 1977 and the election to claim investment tax credits under the progress payment method.

(d) Refelcts an investment credit carry-over of $5 million from 1974.

(e) Unused 1978 and 1979 investment credits of approximately $17 million and $5 million, respectively (including $1 million and $1 million, respectively, of TRAESOP credits) are available for carry-forward to future years.

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

	(In Millions)				
	1979	1978	1977	1976	1975
Liberalized depreciation (Note 2):					
Federal	**$ 15**	$ 11	$ 7	$ 7	$ 7
State		2	2	2	2
Deferral of energy costs (Note 2):					
Federal	**28**	4	(3)	5	
State	**(1)**	1	(1)	1	
Other		3			
Totals	**$ 42**	$ 21	$ 5	$ 15	$ 9

7. Supplementary Income Statement Information:
Maintenance and other taxes charged to operating expenses consisted of the following:

	(In Millions)				
	1979	1978	1977	1976	1975
Maintenance (including applicable payroll charges	**$24**	$28	$22	$2[illegible]	$20
Other taxes:					
State and local gross receipts	**$15**	$14	$13	$12	$10
Capital stock	**6**	5	5	3	4
Real estate and personal property		4	4	4	4
Other	**2**	2	2	2	2
Totals	**$23**	$25	$24	$21	$20

For the years 1979, 1978, 1977, 1976 and 1975 the cost to the Company of services rendered to it by GPU Service Corporation, an affiliated company, amounted to approximately $10,655,000, $7,612,000, $6,780,000 $6,460,000 and $5,588,000, respectively, of which approximately $7,108,000, $6,251,000, $5,276,000, $5,007,000 and $4,225,000, respectively, were charged to income.

8. Pension Plans:
Total pension costs for the years 1979, 1978, 1977, 1976 and 1975 amounted to approximately $6.0 million, $5.0 million, $4.2 million, $3.8 million and $3.2 million, respectively. Based on the latest available actuarial reports as of January 1, 1979, the actuarially computed vested benefits under the plans exceeded the actuarial value of trust assets or reserves created in respect of such plans by $3.9 million and the unfunded past service liabilities for the plans amounted to approximately $32.2 million, or 39% of the total reserve requirement.

9. Jointly Owned Generating Stations:
The Company participated, with affiliated and nonaffiliated utilities, in the following jointly owned generating stations at December 31, 1979:

		Balance (In Thousands)	
Station	% Ownership	In Service	Accumulated Depreciation
Conemaugh	16.45	$ 43,911	$ 8,737
TMI (See Note 1)	50	563,615	42,599

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

10. Quarterly Financial Data (Unaudited):

(In Thousands)

	First Quarter		*Second Quarter*	
	1979	1978	**1979**	1978
Operating Revenues	**\$88,866**	\$81,761	**\$75,813**	\$73,527
Operating Income	**\$18,857**	\$18,166	**\$17,906**	\$14,062
Net Income	**\$ 9,973**	\$17,077	**\$ 6,917**	\$12,639
Earnings Available for Common Stock	**\$ 7,401**	\$14,505	**\$ 4,345**	\$ 10,067

	Third Quarter		*Fourth Quarter*	
	1979	1978	**1979**	1978
Operating Revenues	**\$85,846**	\$76,237	**\$87,611**	\$79,056
Operating Income	**\$17,957**	\$15,883	**\$14,061**	\$17,752
Net Income	**\$ 6,340**	\$14,582	**\$ 2,644**	\$14,309
Earnings Available for Common Stock	**\$ 3,767**	\$12,009	**\$ 72**	\$11,737

Net income for the fourth quarter of 1978 reflects a \$3.3 million decrease in income tax expense due to the flow-through of a portion of the excess of tax over book depreciation, resulting from Three Mile Island Unit No. 2 being placed in service in December 1978.

Earnings available for common stock for the second, third and fourth quarters of 1979 have been affected by the actions of the PaPUC in removing TMI-2 from rate base subsequent to the accident described in Note 1.

11. Supplementary Information To Disclose The Effects of Changing Prices (Unaudited):

The following supplementary information is supplied in accordance with the requirements of FASB Statement No. 33, *Financial Reporting and Changing Prices*, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure, since a number of subjective judgements and estimating techniques were employed in developing the information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant, and equipment, which includes land, land rights, intangible plant, property held for future use, construction work in progress, and other physical property, was determined by indexing the surviving plant company equipment cost indices or by the Handy-Whitman Index of Public Utility Construction Costs. These current cost amounts do not necessarily represent the replacement cost or current value of existing plant productive capacity. The actual replacement of the capacity of present facilities will occur over many years as future facilities, different in kind from present facilities, are constructed and placed in service.

The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant, and equipment was determined by applying the depreciation rates of the Company to their respective indexed average 1979 depreciable plant amounts.

Fuel inventories, nuclear fuel, the cost of fuel used in generation, and purchased power and interchange have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased power and interchange through the operation of energy adjustment clauses or adjustments in base rate schedules to actual costs. For this reason fuel inventories and nuclear fuel, are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

Under the rate making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Consolidated Statement of Income Adjusted for Changing Prices, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Consolidated Statement of Income Adjusted for Changing Prices

For the Year Ended December 31, 1979	Conventional Historical Cost (In Thousands)	Constant Dollar Average 1979 Dollars (In Thousands)	Current Cost Average 1979 Dollars (In Thousands)
Operating Revenues (a)	$338,136	$338,136	$338,136
Energy Costs (b)	119,220	119,220	119,220
Depreciation	37,707	62,943	68,768
Other Operating Expenses	102,163	102,163	102,163
Income Taxes	10,265	10,265	10,265
Total Operating Expenses	269,355	294,591	300,416
Operating Income	68,781	43,545	37,720
Other Income and Deductions	426	426	426
Interest Charges	43,333	43,333	43,333
Income from continuing operations (a) (excluding reduction to net recoverable cost)	25,874	638(c)	(5,187)
Preferred Dividend Requirements	10,289	10,289	10,289
Income (loss) after preferred dividend requirements (a)	$ 15,585	$ (9,651)	$(15,476)
Change in net plant assets during 1979 due to increases in specific prices			$137,303(d)
Less: Change in net plant assets during 1979 due to increase in general price level (inflation)			$223,310
Change in specific prices net of general price level (inflation)			$(86,007)
Reduction to net recoverable cost of plant assets		$(104,733)	$(18,406)
Gain from decline in purchasing power of net amounts owed		$ 71,171	$ 71,171

(a) Revenues do not include amounts for the operating and return requirements associated with the Company's investment in TMI-2 and, correspondingly, the amounts of income from continuing operations have been adversely affected by this loss of revenues (see Note 1).

(b) Energy costs include fuel, power purchased and interchanged and deferral of energy costs.

(c) Including the reduction to net recoverable cost, the (loss) from continuing operations on a constant dollar basis would have been $(104,095,000) for 1979.

(d) At December 31, 1979, current cost of property, plant, equipment, and other physical property net of accumulated depreciation, was $1,832,430,000 while historical cost or net cost recoverable through depreciation was $1,076,825,000.

Five-Year Comparison of Selected Supplementary Financial Data*

Adjusted for Effects of Changing Prices

Years Ended December 31,	1979 (In Average 1979 Dollars)	1978	1977	1976	1975
Operating revenues (in thousands)					
As reported	$338,136	$310,581	$305,223	$264,113	$249,525
In 1979 purchasing power	338,136	345,549	365,595	336,763	336,518
Average consumer price index	217.4	195.4	181.5	170.5	161.2

**The Company does not declare cash dividends on a per share basis, nor is the Company's common stock traded on the market. Accordingly, no five year comparisons are presented with respect to cash dividends per common share and market price per share.*

COMPANY STATISTICS

Metropolitan Edison Company and Subsidiary Company

	1979	1978	1977	1976	1975
Generating Capacities and Peak (MW):					
Installed capacity (at year end) (a)	**2,144**	2,144	1,698	1,811	1,865
Annual hourly peak load	**1,571**(b)	1,483(b)	1,428(b)	1,410(b)	1,300(c)
Reserve (%)	**36.5**	44.6	18.9	28.4	43.4
Net System Requirements (in thousands of MWH):					
Net generation	**5,434**	8,391	8,144	7,294	8,154
Power purchased and interchanged, net	**3,352**	180	(79)	626	(782)
Total Net System Requirements	**8,786**	8,571	8,065	7,920	7,372
Load Factor (%)	**63.8**	66.0	64.5	63.9	64.7
Production Data:					
Cost of fuel (in mills per KWH of generation):					
Coal	**15.12**	14.59	12.53	12.37	13.19
Oil	**48.07**	39.68	41.35	37.27	35.85
Nuclear	**3.25**	1.54	1.65	2.10	2.69
Other	**51.78**		41.72	36.54	22.01
Average	**13.37**	10.57	9.53	9.67	10.04
Generation By Fuel Type (%):					
Coal	**76**	58	62	66	62
Oil	**2**	2	2	2	2
Nuclear	**19**	38	34	30	34
Other (gas & hydro)	**3**	2	2	2	2
Totals	**100**	100	100	100	100
Electric Energy Sales (in thousands of MWH):					
Residential	**2,489**	2,504	2,340	2,268	2,144
Commercial	**1,535**	1,538	1,451	1,351	1,276
Industrial	**3,341**	3,166	2,937	2,794	2,547
Other	**719**	709	683	676	637
Totals	**8,084**	7,917	7,411	7,089	6,604
Electric Operating Revenues (in thousands):					
Residential	**$122,317**	$116,351	$113,682	$101,347	$ 96,356
Commercial	**66,292**	65,573	64,954	55,693	53,529
Industrial	**112,833**	94,500	92,745	78,709	75,846
Other	**27,677**	24,107	23,092	21,980	18,375
Totals from KWH sales	**329,119**	300,531	294,473	257,729	244,106
Other revenues	**9,017**	10,050	10,500	5,774	4,767
Totals	**$338,136**	$310,581	$304,973	$263,503	$248,873
Customers — Year End (in thousands):					
Residential	**317**	311	305	299	295
Commercial	**36**	36	35	35	34
Industrial	**2**	2	2	2	2
Other	**3**	3	3	3	3
Totals	**358**	352	345	339	334
Price per KWH — all customers (cents)	**4.07**	3.80	3.97	3.64	3.70

(a) Includes the installed capacity of the Three Mile Island nuclear generating station Unit No. 1 of 400 MW and Unit No. 2 of 453 MW. The reserve capacity, excluding these units for 1979, would be (17.8%).

(b) Winter peak.

(c) Summer peak.

Metropolitan Edison Company

A member company of the General Public Utilities System

Company Officers

William G. Kuhns
Chairman of the Board and
Chief Executive Officer

Herman M. Dieckamp*—Eff. 8/29/79
Acting President

Robert C. Arnold—Eff. 8/2/79
Senior Vice President

Floyd J. Smith—Eff. 9/1/79
Senior Vice President

James S. Bartman
Vice President, Engineering

Verner H. Condon
Vice President, Finance

John G. Herbein
Vice President, Generation

Henry L. Robidoux
Vice President, Operations

Ernest W. Schleicher
Vice President, Consumer Affairs

Robert E. Gehman
Treasurer

Robert B. Heist
Secretary

Raymond E. Werts
Comptroller

Helen M. Graydon—Eff. 10/10/79
Assistant Secretary

Rita M. Powers
Assistant Secretary

David L. Huff
Assistant Comptroller

Donald B. Wise
Assistant Comptroller

*Subject to FERC approval.

Board of Directors

William G. Kuhns, Chairman
James S. Bartman
Verner H. Condon
Herman M. Dieckamp
Fred D. Hafer
Ernest W. Schleicher
Floyd J. Smith—Eff. 10/10/79
Raymond E. Werts

The Executive Committee comprises Mr. Kuhns as Chairman, with Messrs. Dieckamp and Schleicher as members and Messrs. Bartman and Smith as alternate members.

Division Offices

Central Division —
Richard E. Dreas, Manager
2800 Pottsville Pike
P.O. Box 542, Reading, PA 19640

Eastern Division —
Robert C. Nagel, Manager
2121 Sullivan Trail,
P.O. Box 428, Easton, PA 18042

Lebanon Division —
Ernest H. Elliehausen, Manager
600 South Fifth Ave.
P.O. Box 240, Lebanon, PA 17042

Western Division —
John R. Clugston, Manager
Parkway Boulevard
P.O. Box 1909, York, PA 17405

Annual Meeting

Second Monday in May

Principal Office

2800 Pottsville Pike,
Muhlenberg Township
Berks County, Pennsylvania
Mailing Address:
P.O. Box 542, Reading, PA 19640

Trustee — First Mortgage Bonds

Morgan Guaranty Trust Company
of New York
23 Wall Street
New York, NY 10015

Trustee — Debentures

Marine Midland Bank
140 Broadway
New York, NY 10015

Preferred Stocks

Transfer Agents
American Bank and Trust Co. of Pa.
35 N. 6th Street
Reading, PA 19601

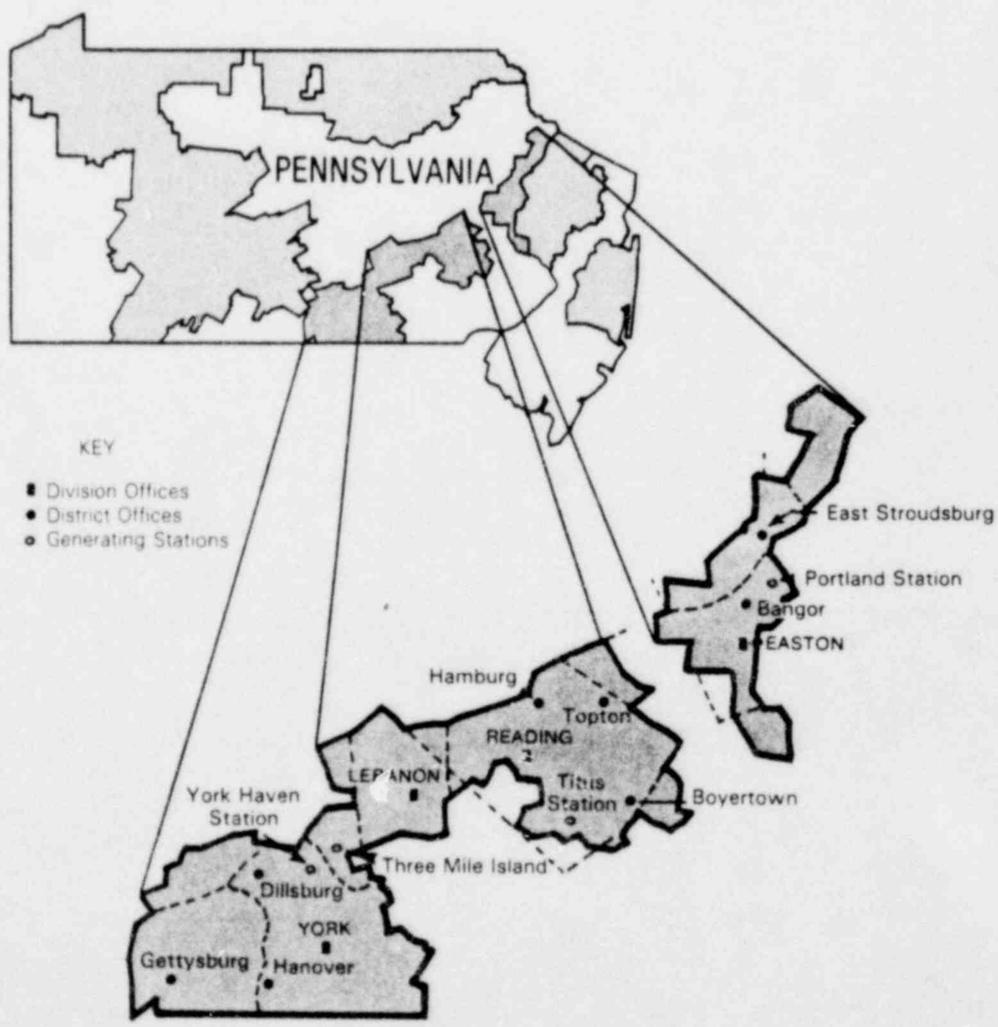
Chemical Bank
20 Pine Street
New York, NY 10015

Registrars
Girard Bank
Broad and Chestnut Streets
Philadelphia, PA 19101

Manufacturers Hanover
Trust Company
Four New York Plaza
New York, NY 10015

Met-Ed / GPU

THE MET-ED SYSTEM



Met-Ed / GPU

A Member Company of the
General Public Utilities System

Printed in U.S.A.

GENERAL PUBLIC UTILITIES CORPORATION

1979 ANNUAL REPORT

GPU in Brief

General Public Utilities Corporation is an electric utility holding company that provides electricity to about 4 million people living in about half the land area of New Jersey and Pennsylvania. It serves over 1.5 million customers. Some [illegible]2 billion kilowatt hours of electricity were distributed in 1979. Of this total, 34 percent went to residential customers, 23 percent to commercial accounts, 37 percent to industry and 6 percent other customers.

The GPU System includes three operating companies: Jersey Central Power & Light Company and, in Pennsylvania, Metropolitan Edison Company and Pennsylvania Electric Company. The System has total assets of $5 billion, making it the nation's 14th largest investor-owned electric utility.

The GPU companies depend primarily on coal and nuclear energy for the generation of electricity. The generation mix in 1979, exclusive of purchased power, was 25 percent nuclear, 67 percent coal and 8 percent oil and gas. The nuclear component was 34 percent in 1978, the last full year before the TMI accident.

Contents

1979 Financial Summary

	1979**	1978	% Change
Net Income ($000)	$ 95,783	$ 138,774	(31.0)
Earnings Per Average Share	$ 1.56	$ 2.30	(32.2)
Annual Cash Dividend Paid Per Share	$ 1.20	$ 1.77	(32.2)
Book Value Per Share	$ [illegible].74	$ 22.41	1.5
Common Shares Outstanding (000):			
Average	61,218	60,217	1.7
Year-End	61,264	60,971	.5
Number of Stockholders	169,258	177,056	(4.4)
Generating Capacity (megawatts)*	8,262	8,281	(.2)
Peak Load (megawatts)	6,173	5,898	4.7
Cost of Fuel and Purchased Power (mills per kwh)	17.68	13.81	28.0
Megawatt-Hour Sales (000)	31,995	31,270	2.3
Operating Revenues ($000)	$1,490,154	$1,326,644	12.3
Customers Served at Year-End	1,558,094	1,532,008	1.7
Construction Expenditures ($000)	$ 351,026	$ 407,690	(13.9)
Total Assets ($000)	$4,991,994	$4,612,683	8.2
Number of Employees at Year-End	11,159	11,597	(3.8)

* Includes both TMI units rated at 1700 MW.

** See Note 1 to Consolidated Financial Statements and Report of Auditors.

1980 Annual Meeting

The annual meeting of stockholders of General Public Utilities Corporation will be held at 2 P.M., local time, May 5, 1980, at the William G. Mennen Sports Arena, 161 East Hanover Avenue, Morristown, N. J.

Further Information

For further information about the company, a copy of the GPU System Statistics and the Corporation's 1979 annual report to the Securities and Exchange Commission will be available after March 31, 1980. Write to Miss Helen M. Graydon, Secretary, General Public Utilities Corporation, 100 Interpace Parkway, Parsippany, N. J. 07054.

Too Many Annual Reports?

You may be receiving extra copies of the GPU Annual Report because of multiple accounts within your household. To stop the extra copies, please write to the Hartford National Bank and Trust Company, P.O. Box 210, Hartford, Ct. 06101. Please enclose the mailing labels from the extra copies.

To the Stockholders

Last year's nuclear accident at Three Mile Island brought on the most severe crisis in the history of the GPU System. That crisis continues today and dominates virtually every aspect of the company's operation.

At the time of the accident, the GPU System was well positioned in terms of both the customer and the investor. We had just received rate-making recognition of the $750 million investment in TMI-2. The construction of that unit had imposed a heavy burden on the investors—but it had been completed and was delivering lower cost nuclear power to our customers. The outlook for earnings was improved as a result of rate orders approved in both Pennsylvania and New Jersey shortly before the accident. Our capital structure was balanced; our energy supply sources were a healthy 52% coal, 41% nuclear and a modest 7% oil and gas; and our rates were in the mid-range of those charged by other utilities in surrounding areas.

Then on March 28 your healthy company suffered the accident that the President's Commission characterized as "eventually inevitable" in the nuclear industry. In the highly charged environment following the accident, we have cooperated to the fullest extent possible with the regulatory agencies involved. Even with all these efforts, we have had an extremely difficult time in obtaining appropriate and timely responses by state and federal regulators to our difficult circumstances.

The accident forced us to seek rate orders to recover the immediate and sharp increase in the cost of power purchased to replace the lower cost nuclear energy supply interrupted by the accident. Despite the attention of the utility commissions in both New Jersey and Pennsylvania through extensive hearings, the very nature and format of these proceedings invite delays and diversions.

Our internal response to the cash crisis continues to include deep cutbacks in virtually all of our programs. Our only significant external source of cash today is the revolving credit agreement with 45 banks which was put in place after the accident. Although that agreement provides for an ultimate borrowing level of $412 million, we are currently limited to an interim ceiling of $292 million which we cannot exceed without the favorable vote of the banks providing 85% of the bank credit. That vote will depend upon the outcome of pending regulatory proceedings. In addition, the availability of credit under this agreement depends upon a continuing absence of "material adverse developments" which threaten the ultimate repayment of the borrowings. This again is primarily directed at continuing reasonable regulatory response to cash and earnings needs.

Our borrowings under the revolving credit agreement at the end of February amounted to $220 million, and our cash projections show that we could reach the interim ceiling of $292 million this spring. It was in the context of these difficult circumstances that we made the decision to omit the cash dividend in February. We fully understand the importance of maintaining regular quarterly cash dividends and the fact that a great many GPU shareholders, with our heavy concentration of retirees, are counting on such dividends to supplement their other income. In light of the serious uncertainties facing us, your Board of Directors concluded that it was necessary and in the best long-term interests of the stockholders to conserve cash and credit resources. First priority had to be placed on preserving the financial integrity of your corporation.

The most critical factor in our continuing financial viability and ultimate financial health is the granting of timely and adequate rate relief by the Pennsylvania and New Jersey state commissions during this difficult period.

Other sections of this report outline the details of our situation and our planning. To summarize our present position:

1. The cash crisis is severe:
   a. The removal of TMI-2 from rate base deprives us of the recovery of the capital costs of that investment, thereby reducing earnings to a point which severely restricts, if not eliminates, continuing access to long-term security markets.
   b. The cost of power purchased to replace the energy made unavailable by the accident continues to increase at a pace in excess of that currently collected from customers.
   c. We must limit cash expenditures to those covered by revenues or borrowings under the revolving credit agreement.
2. The most critical factor in our continuing financial viability and ultimate financial

health is the granting of timely and adequate rate relief by the Pennsylvania and New Jersey state commissions during this difficult period.

3. We continue to be deeply involved in proceedings in Pennsylvania relating to the possible loss of Metropolitan Edison's franchise to serve its customers. We believe that our past record of excellent service to those customers justifies the retention of the franchise. We have the confidence and determination to solve the problems at TMI and do the job at least as well as any other group.

While dealing with these critical factors we have two important objectives. The first of these is the return to service of the undamaged TMI-1 unit, which is being unreasonably delayed by the Nuclear Regulatory Commission. The safe return of that unit sooner rather than later is in the interests of the customer because of the immediate relief it will provide from rising fuel costs. A second objective that is clearly beneficial to the TMI plant neighbors is the clean-up of the damaged Unit 2 at a more rapid pace than present NRC decision making has permitted.

We are taking significant steps to strengthen the GPU System organization through the establishment of a separate nuclear corporation to design, operate and maintain all nuclear plants. Additionally, we are combining the managements of the two Pennsylvania operating companies so as to make the fullest use of their resources.

At the same time we recognize that neither we nor anyone else can do these tasks alone. We continue our efforts to justify the support of the regulators and to regain the trust and confidence of our customers, plant neighbors and government leaders.

We believe very strongly that regulatory actions which will permit the recovery of the financial health of the GPU System are in the best interests of both customers and investors. From the time of the accident we have supported and sought to establish a sharing of the burdens of the accident. To date the stockholders have borne a heavy and disproportionate share of the costs. We are determined that investor rights be protected. We are determined that investors be treated fairly.

We are taking significant steps to strengthen the GPU System organization through the establishment of a separate nuclear corporation . . .

William G. Kuhns
Chairman and
Chief Executive Officer

Herman Dieckamp
President and
Chief Operating Officer

1979 Financial and Operating Report

Reviewing GPU's Financial Picture

Income and Earnings Down GPU's 1979 net income and earnings per share were down substantially from the previous year despite an increase in kilowatt-hour sales and revenues. This was mainly because, since the accident, the capital, operating and maintenance costs of TMI-2 were not recovered even though they were charged against income for the full year. Right after the accident, Unit 2's costs were removed from the rates of the GPU operating companies by the New Jersey and Pennsylvania regulatory agencies.

Net income for 1979 was $95.8 million, compared with $138.8 million for the previous year, a decline of 31 percent.

Earnings per average share in 1979 were $1.56. This was a decline of 32 percent from $2.30 in 1978.

The regulators' elimination of TMI-2 costs from our base rates has the effect of reducing our net income by $56 million a year, or 92 cents per share annually. A major portion of this adverse impact was reflected in 1979 net income.

The Board of Directors in April 1979 reduced the quarterly dividend from 45 cents to 25 cents, a regrettable, but necessary step. At the same time, the dividend reinvestment program was suspended.

Even more regrettable, but necessary, was the recent decision to omit the February 1980 dividend. To date, these two actions have enabled us to retain approximately $64 million to offset the enormous cash drain imposed by the high cost of supplying replacement power to our customers.

Approximately 59 percent of 1979's dividends represented return of capital and therefore will not be subject to current income taxes as dividend income.

(For further details on the 1979 financial results, see Management's Comments on Earnings, page 18.)

Growth Rate Slows Sales of electricity increased 2.3 percent—from 31.3 billion kilowatt hours in 1978 to 32.0 billion kilowatt hours in 1979. This is a lower growth rate than the 5 percent registered in the previous year and the 4.5 percent projected for 1979, but it is consistent with our conservation objectives.

Operating revenues in 1979 totaled $1.49 billion, a gain of 12 percent over revenues of $1.33 billion the year before.

Revenues in 1979 not related to energy (fuel and purchased power) costs were $967 million, an increase of $70 million, or 8 percent, over the non-energy related revenues of $897 million in 1978.

Primarily because of the severe increases in oil costs and the high cost of energy purchased to replace TMI's generation, energy associated revenues rose by $94 million, or 22 percent over 1978, to $523 million in 1979. These energy-related revenues had no impact on 1979 earnings because they were used to partially offset energy-related expenses, with the remainder of those expenses being deferred for future recovery from customers.

Accident Creates Cash Flow Crisis The immediate impact of the TMI accident was to deprive the System of 1.7 million kilowatts of nuclear capacity from our two TMI nuclear units. This created the cash flow crisis because we had to replace TMI's output with more expensive energy—much of it purchased from other utilities—at a cost of $20 million to over $35 million per month.

The cash problem was further aggravated when the Pennsylvania and New Jersey regulatory commissions removed the costs of TMI-2 from the rates of the GPU operating companies, reducing base rate revenues by an estimated $100 million annually.

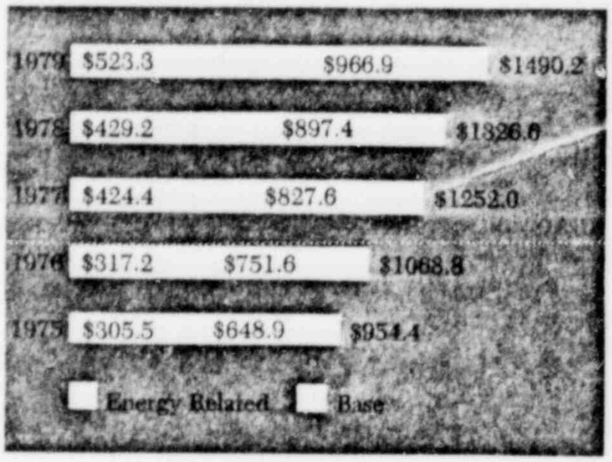
Slightly more than $101 million in costs were incurred in 1979 in containing the accident and in beginning clean-up and repairs at TMI-2. In addition, we have retired the Unit's $37 million nuclear fuel core. Of this total, $138 million, we have charged $7 million to operations and have received $70 million in insurance payments.

The remaining costs, $61 million, have been deferred pending resolution of whether they will be recovered through insurance payments, under rates, or through other sources.

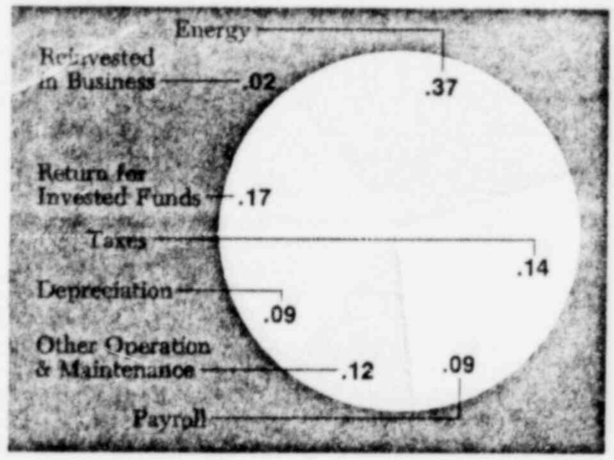
Immediate Remedies Applied The cash flow problem was attacked on several fronts. Very soon after the accident, the company suspended construction projects involving new generating and transmission facilities, cut compensation for directors and corporate officers, reduced the number of employees, cut preventive maintenance work to a minimum compatible with reliable service, and sought advance payment from insurance carriers.

Credit Agreement Negotiated To place interim financing on a firm footing, GPU concluded a revolving credit agreement with a consortium of 45 banks. This arrangement currently makes available a credit level of $292 million. With approval of the banks representing 85% of the total credit line, this amount may be increased to $412 million. (As of December 31, 1979 GPU had $171 million outstanding under this agreement.)

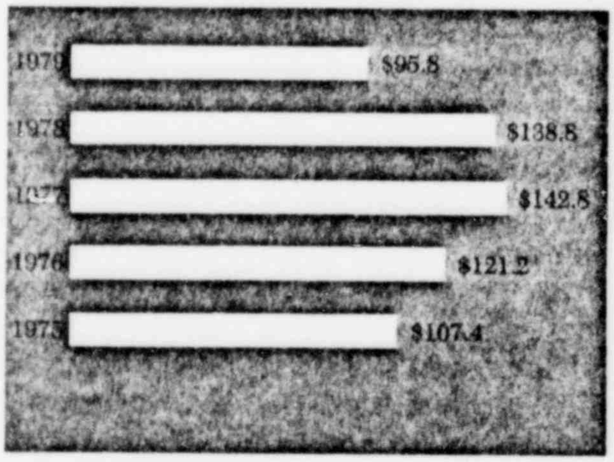
OPERATING REVENUES
(millions)



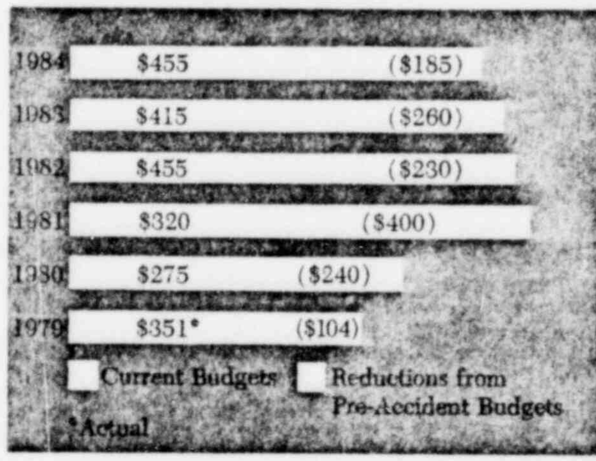
WHERE THE 1979 DOLLAR WENT



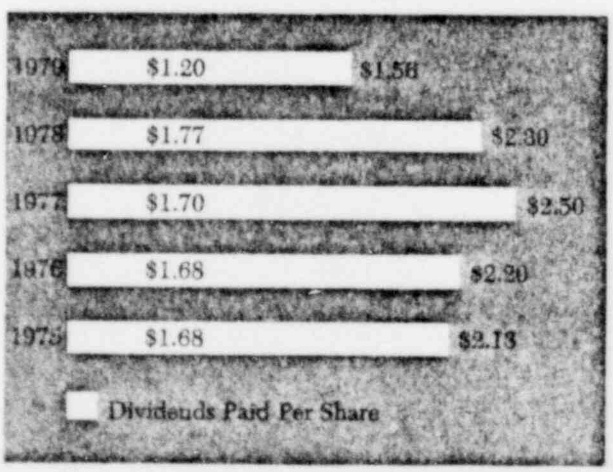
NET INCOME
(millions)



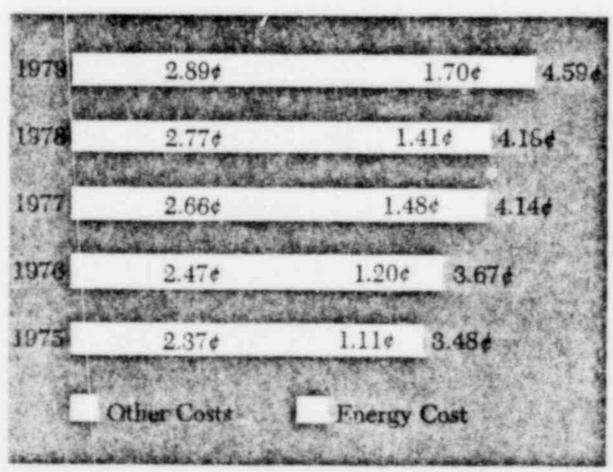
CONSTRUCTION BUDGETS
(millions)



EARNINGS PER AVERAGE SHARE
DIVIDENDS PAID PER SHARE



COST OF ELECTRICITY TO CUSTOMERS
(in ¢ per KWH of Sales)



Subsequently, Jersey Central Power & Light Company and Pennsylvania Electric Company sold a total of $147 million in 20-year first mortgage bonds to a group of institutional lenders.

The revolving credit agreement and these bond purchase agreements contain provisions which call for the immediate repayment of the total indebtedness involved if an event occurs which a majority of the lenders or holders of the bond issues deem to have a materially adverse effect on the borrower.

As of the end of February, our borrowings totaled $220 million, up $49 million from the $171 million level at year end 1979. Our cash projections show that we could reach our interim $292 million ceiling on bank borrowings some time in the second quarter of 1980.

The banks participating in the credit agreement have indicated to us and to the state regulatory commissions the importance of our receiving a rate regulatory response that would anticipate the ultimate repayment of the borrowings before there is an attempt to increase the $292 million limit.

Regulatory Actions Critical

The most critical aspects of GPU's financial recovery and of TMI's technical recovery have to do with the actions of our regulators, especially those by the utility commissions of New Jersey and Pennsylvania and by the federal Nuclear Regulatory Commission.

At the subsidiaries' present rates, they are not receiving sufficient revenues to meet their overall requirements. It is essential that the subsidiary companies receive rates which will restore them to financial health at the earliest practical date. Because of our major and immediate cash flow problem, delayed decisions place a great burden on our ability to continue with a successful recovery effort. This section will review our state rate regulatory situation. The NRC has delayed a TMI-1 restart decision by nearly a year and has yet to approve major TMI-2 cleanup plans. Its activities will be reviewed in the section following.

Early Rate Relief Granted In June, more than two months following the accident, the regulatory commissions in New Jersey and Pennsylvania granted increases in the energy adjustment charges to customers, providing recovery, over an 18-month period, of about 85 percent of the estimated replacement power costs. Both commissions established these charges at levels that assumed we could secure savings in the purchase price of replacement power and that TMI Unit 1 (undamaged by the accident) would be back in service by January 1, 1980.

We have been able to make substantial savings. The company has negotiated agreements with U.S. and Canadian utilities that have been saving GPU customers about $6 million a month, and our efforts continue. But since other energy costs (principally oil) increased by even greater amounts, net savings could not be achieved. TMI replacement power costs continue to be high, especially until the NRC permits TMI-1 back into operation. This could cut the replacement power bill by over $160 million annually, or about $14 million a month.

Additional Energy Cost Offsets Jersey Central in September received an additional $70 million annual increase in its energy adjustment charges to offset its rising energy costs, especially for oil. This increase is not related to the TMI accident.

On March 6, 1980, Jersey Central received an annual increase of $84 million in its energy adjustment charges, effective March 6, 1980, for energy costs, again distinct from those resulting from the TMI mishap. Jersey Central has pending in this proceeding a request for $37 million a year to cover higher replacement energy costs for Three Mile Island, primarily because of the regulatory delay in returning TMI Unit-1 to service, and hearings in this matter are continuing.

It is essential that the subsidiary companies receive rates which will restore them to financial health at the earliest practical date.

Interim Relief for Met-Ed In November 1979, Met-Ed requested a $55 million annual increase in its energy adjustment clause, effective January 1, 1980, to permit it to recover part of its increased cost of energy. Because of our declining cash resources, we have repeatedly urged the early consideration of the energy cost issue. On January 17, 1980, the Pennsylvania PUC announced a schedule which provided for the issuance of an order on April 4. About a week later, we filed a motion again requesting prompt action on an increase in energy costs.

On February 8, the day after GPU's Board voted to omit the February dividend, the Pennsylvania

PUC voted to temporarily permit Met-Ed to put the $55 million energy clause increase into effect on March 1. This order is in effect only until final resolution of the full proceedings, which was pushed back from April 4 to May 23. The increased revenues collected in the interim are subject to review.

GPU's Rates Below Average Despite the cost of replacement power and the impact of inflation as reflected in the rate increases, the average cost of electricity to GPU customers as of year-end 1979 was lower than the average paid by the majority of utility customers in New Jersey and Pennsylvania.

In the case of Jersey Central, the company's rates to the great bulk of its residential customers, those without electric space heating or electric water heating, were the second lowest in the state and among the lowest of major utilities in surrounding areas.

The situation is much the same for both Met-Ed and Penelec. The rates of both companies are still in the mid-range of those charged by Pennsylvania's major utilities.

Nor have the GPU System's rates increased significantly over the past several years. In fact, corrected for general inflation (measured by the Consumer Price Index), GPU's average kilowatt hour charge for 1979 was seven percent lower than in 1977 and two percent lower than in 1975. During the past five years, the cost to GPU's customers for a kilowatt hour has decreased with respect to Social Security benefits; has decreased with respect to the minimum wage; and has decreased with respect to manufacturing wages. Minimizing electric costs for our customers remains one of our prime objectives.

Show Cause Orders Present Challenges Two "show cause" orders by the Pennsylvania PUC have presented additional challenges for the GPU operating companies.

In September 1979, the Pennsylvania Public Utility Commission ordered both Met-Ed and Penelec to show cause why TMI-1 should not be taken out of their rate bases as long as the unit is idle.

We believe that the capital, operating and maintenance costs of TMI Unit 1 should be continued in the operating companies' rates because of its four and a half years of safe and efficient operation, and because it is not permitted to resume generation for reasons over which we have no control.

In November, the Pennsylvania PUC also ordered Met-Ed to show cause why its operating franchise to serve its customers should not be rescinded. GPU has used this as an opportunity to review the several problems facing Met-Ed in an integrated manner and to explain the many positive actions taken to assure continued safe, reliable customer service.

The Pennsylvania PUC is to announce on May 23, 1980 its decisions concerning the three issues before it: retention of TMI-1 in the rate base; continuation of Met-Ed's franchise; and a final order concerning Met-Ed's rate request.

In New Jersey, the New Jersey Board of Public Utility Commissioners (NJBPU) stated in its March 6, 1980 order that it will shortly take up the issue of the retention of TMI-1 in the JCP&L base rates. In February 1980, briefs were filed in response to a BPU order concerning what action, if any, the BPU should take in the light of the Kemeny, Rogovin and other reports concerning the causes of the TMI-2 accident. In its March 6 order, the BPU stated that it will establish a hearing date to begin this complex investigation.

Audit to Review Financial Viability In late 1979 the Pennsylvania PUC ordered a full-scale management audit of Met-Ed, Penelec and GPU. The PUC has asked for preliminary findings on the financial viability of Met-Ed and GPU by Theodore Barry & Associates, the firm conducting the audit. These results are to be presented to the PUC about mid-March 1980.

. . . the average cost of electricity to GPU customers as of year-end 1979 was lower than the average paid by the majority of utility customers in New Jersey and Pennsylvania.

The audit is also examining decisions related to construction, maintenance and operation of TMI-2. The cost of this nine-month audit, estimated at $775,000, will be paid by GPU's Pennsylvania operating companies, Met-Ed and Penelec. Just a year earlier, GPU provided to the Commission the nine-volume report of Booz-Allen-Hamilton's exhaustive management audit of all components of the System.

In September of last year, in response to concerns about our long-term service capabilities, the NJBPU ordered an independent study of various reorganizational alternatives for Jersey Central. Completion of the study, which JCP&L will pay for, is not expected until at least late 1980.

TMI Recovery Steps

First Step: TMI-1 Restart The first major step toward financial recovery will come when TMI-1 is permitted to resume generation, now not anticipated before late 1980. At that time, the bill for replacement power will drop an estimated $14 million monthly and revenues could become available to reduce the deferred energy balances and short-term debt.

Three months after the accident, we advised the NRC of the steps we planned to take to improve operational safety of TMI-1 prior to restart. The NRC has not yet established a firm time schedule for the completion of the hearings and decision. While we agree there should be no restart until the NRC and the public are assured of the unit's safety, we have urged the Commission to expedite its procedures to get TMI-1 back on line. Preliminary public hearings on the TMI-1 restart began in the Harrisburg-Hershey area in mid-November, 1979 and are expected to continue through much of 1980.

For our part, we expect to have the TMI-1 technical modifications and necessary personnel training completed and the unit ready for restart well ahead of the conclusion of the hearing procedures.

Second Step: TMI-2 Recovery The recovery of TMI-2, now in "cold shutdown," is a complex and lengthy technical project. However, progress is being made. Decontamination of open areas of the auxiliary and fuel handling buildings is near completion. A system designed specifically for the TMI project, known as Epicor II, has filtered 120,000 gallons (about 30% of the total) of the radioactive water in the auxiliary building storage tanks. The clean water is being stored in tanks on site.

Probes inserted into the containment building have shown that radioactive contamination is lower than anticipated. Television cameras inside the containment building do not indicate any major damage to any important components of the reactor system.

In November 1979, we submitted a plan to vent the gases in the reactor building to allow us to begin cleanup of that area. This plan is still awaiting approval.

A summary technical plan for decontamination of the facility and removal of fuel from the reactor was submitted to the NRC in 1979. The plans for cleanup will be refined as we gain more knowledge of the conditions inside the containment building.

Clean-up, Repair, Restart The next steps in the recovery process for TMI-2 will be removal and decontamination of the air and water from the reactor containment building, the first entry of workers into the building, and its partial decontamination by remote control techniques. These steps should be completed within about a year.

During the following year, we plan to complete decontamination of the containment building and prepare for removal of the fuel from the reactor core.

In the next recovery phase, fuel will be removed and the reactor cooling system will be decontaminated. Tests will be made to certify the physical integrity of the major system components. These steps will require most of 1982.

Repair or replacement of damaged equipment will follow, with startup of TMI-2 possibly occurring in late 1983.

The TMI-2 recovery effort, requiring about four years and costing an estimated $400 million (up to $300 million of which may be covered by insurance), remains subject to what is found upon entry into the containment building, as well as on public and regulatory support for the cleanup and restart of this unit.

GPU Organizational Changes

Creating a separate nuclear subsidiary and combining the managements of Met-Ed and Penelec will place the System in a stronger position to carry out all aspects of the recovery effort. Regulatory approval will be required for both of these programs.

Unifying Nuclear Control Even before the TMI accident, the company's planning contemplated a GPU Nuclear Corporation. A step in this direction was taken last June by formation of the TMI Generation Group, which brought together about 275 Met-Ed and GPU Service Corporation nuclear and technical people who had TMI as their primary responsibility.

GPU Nuclear will be responsible for the safe and efficient operation of Oyster Creek nuclear station in New Jersey and the restoration and safe operation of the two units at TMI. It also will have responsibility for the design, construction and operation of any future nuclear plants in the GPU System. Ownership of the nuclear units will remain with the GPU operating companies.

This move to unify and expand the System's nuclear capability, reflecting recommendations of the President's Commission on TMI, will provide for safer and more reliable generation of electricity with nuclear energy. The flow of vital technical and operational information between nuclear stations, both within and outside the GPU System, will be stimulated. Formation of this separate nuclear company should help attract the best personnel from the entire nuclear industry.

Robert C. Arnold, currently head of the TMI recovery operation, will be president of GPU Nuclear Corporation. GPU's president, Herman Dieckamp, will assume the additional responsibilities of chairman and chief executive officer for GPU Nuclear. Philip Clark, senior staff member with the Naval Reactors Program for the past twenty-five years, will be named executive vice president.

Based at GPU headquarters in Parsippany, NJ, GPU Nuclear will be responsible for about $1.8 billion in nuclear facilities. Initial employment, most of which will be drawn from within the System, will be about 1,100 people; of these some 300 have professional degrees, along with 3,500 work years of nuclear experience.

Formation of GPU Nuclear Corporation is expected to be completed by late summer 1980.

Combining Management Strengths Combining the managements of GPU's two Pennsylvania operating companies will enhance the System's ability to provide reliable service to customers at reasonable cost. It will do this by bringing together the complementary strengths and resources of the Pennsylvania companies.

The new organization will have sole responsibility for the GPU System's existing coal-fired generating plants, all of which are in Pennsylvania. This has obvious benefits in light of the growing role of coal in the country's energy future and the demonstrated expertise of GPU's Pennsylvania companies in the operation of coal-fired generating stations.

The combined management will also focus on the System's expanding conservation and load management programs and on the ongoing improvement of customer and community relations.

The organization will be headed by William A. Verrochi, current president of Penelec, and will be headquartered in Reading, where Met-Ed currently is based. Penelec's headquarters facilities in Johnstown will continue as a key management center, particularly for customer and community relations and for the operation and management of the System's coal-fired generating plants.

The new structure will have a single set of directors and a single set of officers, but will not be a formal corporate merger. A formal merger is not considered necessary to achieve the desired objectives of improved management and efficiency. None of the outstanding securities of either company will be affected.

Before completing its Pennsylvania reorganizational plan, GPU will review the proposed changes with the Pennsylvania PUC's management audit firm to secure their comments and recommendations. This review is expected to be accomplished by late spring and implementation of the approved changes to take place later in 1980.

GPU's Unequivocal Commitment to Nuclear Safety

The continuation of a commercial nuclear industry in America rests squarely on our industry's ability to operate nuclear plants safely. This is as it should be, and GPU is unequivocally committed to the safe operation of its nuclear generating plants.

Both the Kemeny Report and the report by the Special Inquiry Group, directed by Mitchell Rogovin, dealt in detail with the overall nuclear

The continuation of a commercial nuclear industry in America rests squarely on our industry's ability to operate nuclear plants safely.

industry, including equipment suppliers, the utilities and the federal Nuclear Regulatory Commission, which regulates the nuclear industry. Each report offered a large number of recommendations to help assure that the operation of nuclear generating plants will be safe. Many of their recommendations stemmed from lessons learned at TMI. GPU is working with the NRC and with the entire nuclear industry to implement these and other recommendations as they apply to our nuclear plants and to bring an added level of safety to nuclear power generation.

GPU's Safety Programs GPU's own safety programs are closely tied to preparations for the restart of TMI Unit 1 (the undamaged unit), which was down for refueling at the time of the accident. At the same time, those improvements designed to make TMI safer also are being implemented, as applicable, at the company's Oyster Creek nuclear generating station.

The major safety-oriented areas being addressed include: the retraining and reexamination of operators; review and improvement of operating procedures; preparation of improved plans for handling emergencies; plant modifications; the isolation of TMI Unit 1 from Unit 2; radioactive waste management; and overall management of the TMI operation.

Improving Operator Training GPU early last summer began a complete review of its operator training programs. All licensed control room operators and some supervisory and professional personnel are participating in retraining programs with an expanded curriculum that includes the use of computerized simulators to re-enact not only the TMI-2 event, but also other potential accident situations involving single and multiple malfunctions.

At all times, a graduate engineer will be in GPU's nuclear plant control rooms to provide additional diagnostic capability. This has been in effect at the Oyster Creek station in New Jersey since last fall. Operating and emergency procedures are being completely reviewed and upgraded.

Emphasis on Emergency Planning The area of emergency planning has received special emphasis. The emergency plan has been revised in accordance with new guidelines laid down by the Nuclear Regulatory Commission.

Included in this emergency planning are specific detailed activities to be undertaken by the utility and public officials in the event of radiation releases beyond the plant site, and an emergency communications program to keep the public and its official representatives promptly and accurately informed in the event of a future accident.

These plans, developed in cooperation with local and state officials, provide for emergency operations centers to give government leaders direct communications with the plant. Additional emergency equipment is being provided, such as respirators and radiation detectors. The company is also lending support and assistance to local communities to develop their own related emergency plans.

Plant Safety Modifications A number of physical modifications are being made to the plant. These include system improvements for assuring reactor cooling and immediate shut down of the reactor in the event of a wider range of potential malfunctions. Special instrumentation is being added to plant systems and equipment to monitor those items critical to safety.

Other measures are being taken to prevent significant radioactive releases resulting from an accident. These include upgrading instrumentation for the early isolation of the containment building.

The control room computer is being improved so operators will have faster and more accurate information on the plant's status at all times. Visual display of this information in the control room is being improved to make it more readily apparent and understandable to operators.

Separating Units 1 and 2 The common facilities shared by TMI Units 1 and 2, such as the fuel handling building and the radioactive waste treatment processes, are now being modified so that each unit will be totally separate and independent, thus removing any likelihood that the cleanup of Unit 2 can interfere with operation of Unit 1.

Safety is the prime concern of each step involved in the cleanup of Unit 2. Every major function along the way not only is being closely examined for its possible impact on public safety, but also will be the subject of searching NRC investigations, evaluations and public hearings.

Industry Safety Efforts Even while improving its own facilities, GPU is participating in the substantial industry-wide efforts to upgrade the safety of nuclear operations.

These industry actions have led to the formation of an industry group, the Nuclear Safety Analysis Center (NSAC), that will investigate and apply the technical lessons learned at TMI. The electric utility industry also has formed (and the GPU companies have already joined) the Institute of Nuclear Power Operation (INPO), with an annual budget of $11 million, to establish benchmarks for excellence in nuclear power operation. It will conduct audits to verify compliance with its standards and will analyze and share reactor operating experience with utilities owning nuclear plants.

GPU has also been involved in the industry's establishment of a mutual insurance organization to help cover the costs of replacement power resulting from any future nuclear accidents. This coverage will be available only to those utilities that meet the safety standards established by the NRC, NSAC and INPO.

The Accident Investigated

Several major investigations at the federal, state and local levels have focused on the TMI accident. The most important were those of the President's (Kemeny) Commission on TMI and of the NRC's Special Inquiry Group, headed by Mitchell Rogovin, a prominent Washington attorney. The conclusions of the two are similar in many major areas. And their conclusions support GPU's original position that the accident involved the entire industrial, technological and regulatory structure of nuclear power in the United States.

Training, Public Information Examined Despite any criticism of the company's response to the accident, the efficiency and adequacy of the TMI operators were recognized as being well up on the scale of nuclear industry norms. The Kemeny Report states that the TMI control room operator training program met all applicable NRC standards. We now recognize that there have been deficiencies in these standards for all operator training and we have instituted wide ranging improvements.

But, as the Rogovin Report points out: "*These problems were not unique to Metropolitan Edison. Although it is true that Met-Ed's training program was in some respects deficient, it appears that Met-Ed afforded its operators training that, taken as a whole, was typical of the industry and, in certain respects, was above average. The shift crew on duty when the accident began were all products of the nuclear Navy training program, and each had at least 5 years of Navy experience. Prior to the accident, all of them had completed training courses which met NRC requirements, had passed NRC exams, and had received simulator training totalling 5 to 9 weeks each. Three had received 1 week's training at Penn State University's research reactor. Their combined average NRC licensing exam test scores were above the national average. The inadequate training that played a role in this accident must be attributed to not one utility but rather to the industry as a whole and to the NRC.*"

While many problems arose in reporting the accident to the public, the Kemeny Report found "*there was no systematic attempt at a cover-up by the sources of information.*" The Rogovin study found that "*the evidence failed to establish that Met-Ed management or other personnel willfully withheld information . . .*" The GPU companies have developed improved emergency communications plans for their nuclear units based on the recommendations from these reports and on the lessons learned at TMI-2.

"Defense-In-Depth" Protected Public The Rogovin study found that one of nuclear's major safety concepts, defense-in-depth, "*worked to protect the public health and safety. In spite of multiple equipment malfunctions, human failures, and the creation of conditions in the reactor and auxiliary buildings that were never contemplated in the design of the plant's safety systems, the utility and its engineering support staff were able to bring the system to a stable condition without releases of radioactive materials to the atmosphere that could have resulted in significant health effects to those living near the plant.*"

Speaking to the possibility of a "meltdown" of the reactor's fuel core, the Rogovin Report notes that had operators not closed a valve (the PORV block valve) when they did, calculations project that, within 30 to 60 minutes, a substantial portion of fuel in the core would have melted.

However, Rogovin concludes that even with a core meltdown, "*the most likely probability is that the reactor building would have survived in this accident scenario, and the vast majority of the radioactive material released from the fuel would have been retained within the building, not released to the surrounding environment.*"

Investigations Reject Moratorium Both the Kemeny and the Rogovin investigations specifically rejected proposing or recommending a moratorium on operating nuclear reactors or on granting new operating licenses for reactors now under construction. Both groups did, however, recommend a number of changes in the manner in which licenses are granted and evaluated.

The Rogovin report looked at changes since the accident and determined that "*an accident identical to that at Three Mile Island is not going to happen again. Not only have changes been made to ameliorate the particular problems revealed there, but the accident has spawned a major re-examination by the industry and the NRC of many aspects of design and operations that contributed to the accident.*"

Two other major investigations being conducted by two committees of the U.S. Congress have been essentially completed, and, as this report goes to press, recommendations for follow-up legislation are being developed.

GPU's Construction Program

Construction Program Cut Suspension of major construction activity following the accident involved two major generating plants—a 1.1 million kilowatt nuclear unit at Forked River, NJ, and a 625,000 kilowatt coal-fired facility at the Seward Station near Johnstown, PA.

There are no current plans for near-term resumption of the Forked River nuclear project. However, studies on capacity addition alternatives, including Forked River's conversion to a coal unit, are being evaluated. Subject to cash availability, construction may be resumed at Seward late in 1980, with a projected 1987 completion date.

GPU has cut actual and projected construction expenditures by more than $1.4 billion in the six-year 1979-84 period. This is a reduction of 38 percent, dropping construction activity from nearly $3.7 billion to about $2.3 billion during these years. This reduced construction program will be backed up with an intensified conservation and load management effort through which we plan to minimize future increases in customer requirements.

Financing 1979 Construction The System's 1979 capital requirements totaled about $406 million, of which $351 million was for construction and $55 million for retirement of matured securities and sinking funds.

The $351 million spent in 1979 on construction was 23 percent less than the $455 million construction budget planned before the accident.

The GPU System raised a total of $246 million from external sources. Of this, $154 million came from sales of first mortgage bonds; $87 million came from bank loans (mainly from the revolving credit agreement); and $5 million came from common stock sales through GPU's dividend reinvestment and employee stock purchase plans (before they were suspended as a result of the accident).

The System's capitalization ratios at year-end 1979 stood at 51 percent long-term debt, 12 percent preferred stock, 33 percent common equity and 4 percent short-term bank debt. These capitalization ratios are not substantially different from those at the end of 1978.

1980 Capital Needs Subject to available cash resources, capital expenditures in 1980 are expected to total about $305 million, of which $275 million will be for construction and $30 million for retirement of matured securities and sinking funds. The 1980 construction budget is 47 percent less than the $515 million budgeted prior to the accident.

Conservation Efforts Intensified As an important part of its program to minimize new construction, GPU has underway an intensified conservation and load management program to further slash increases in the System's peak demand for electricity over the next decade.

GPU's existing and planned programs had been expected to cut the growth in peak demand to about 2 million kilowatts in 1990. The newly intensified effort will further reduce this growth by half to about one million kilowatts.

Another move that reduced the peak power demand was the transfer, on March 1, 1980, of Met-Ed's wholesale service to Hershey (PA) Electric Company to another utility. The action trims GPU's peak power requirement by about 1 percent. As part of the changeover, Met-Ed sold two substations and other transmission equipment for $737,000.

Coal's Contributions Significant The company's large coal-fired generating stations in Pennsylvania are contributing significantly to minimizing the purchase of outside power. These stations have a combined generating capacity of about 6.9 million kilowatts, about half owned by the GPU companies. Two-thirds of GPU's generation was produced from coal during 1979.

GPU has cut actual and projected construction expenditures by more than $1.4 billion in the six year 1979-84 period.

The clean and efficient use of coal is being enhanced by the coal cleaning unit installed several years ago at the Homer City, PA station. In 1979, the Homer City site was selected by the Electric Power Research Institute for construction of a $12.4 million experimental facility to test the applicability of alternate cleaning processes for various types of coal to meet environmental requirements.

Oyster Creek Savings The Oyster Creek nuclear station, owned by Jersey Central Power & Light, marked its tenth birthday on December 23, 1979.

With one exception, Oyster Creek has produced more electricity than any other nuclear plant in the U.S. In its ten years of operation, it has produced 37.5 billion kilowatt hours of electricity. Fuel savings of $600 million have exceeded the interest costs, taxes and operation and maintenance expenses of the station as well as its capital cost of $110 million. These fuel savings have been passed on to customers through a lower energy adjustment cost than would have been necessary if the power had been generated with oil.

Oyster Creek is now undergoing its annual refueling, a process which has been extended beyond its scheduled length for maintenance and possible repairs. At this date, the schedule for its resumption of operations is uncertain. Replacement power for the station's output costs about $3.5 million a week.

Fuel Sources Assured Some 60 percent of the System's coal requirements in 1979 were met through long-term contracts. Future requirements will be filled by a combination of spot, short-term, intermediate-term and long-term contracts, as well as through control of some coal reserves.

In the fall of 1979, GPU converted five oil-burning units in New Jersey and Pennsylvania to natural gas. This fuel, purchased on a contract basis, will be used as long as supplies remain plentiful at a lower cost than oil. It is estimated that the conversion will save about two million barrels of oil by June 1, 1980 and reduce energy costs by $18 million.

Uranium for the nuclear plants is provided under long-term contracts. There are, however, unresolved legal questions concerning supplies for the Oyster Creek Station. (See Note, page 28.)

GPU's Employee Relations

This year has been a very trying and stressful period for our employees and, until all major aspects of our recovery efforts have been resolved, they will continue to bear a significant burden. All of us, as stockholders, customers or management, are deeply indebted to the System's employees, many of whom have worked long days and nights and given up weekends and holidays, month after month, to help see us through this difficult period.

GPU continues to emphasize its Equal Employment commitment. While the number of employees in the System was reduced by over 400 people, the proportion of both minority and female employees actually increased slightly during 1979.

Cost reduction programs initiated following the TMI accident resulted in work force reductions or layoffs at Jersey Central, Met-Ed, Penelec and the GPU Service Corporation. System-wide employment at the end of 1979 was 11,159, down about four percent from the 11,597 employed at the beginning of the year.

The GPU System's labor relations climate remains favorable. Recent agreements with labor unions include:

Jersey Central concluded negotiations with the International Brotherhood of Electrical Workers (IBEW) for a two-year closed contract with a wage settlement of 6.9 percent effective November 1, 1979, and an increase of 6.7 percent effective November 1, 1980.

Penelec negotiated a one-year contract with IBEW and the Utility Workers Union of America, providing for a wage increase of 6.8 percent.

Met-Ed's current labor agreement expires April 30, 1980.

All three operating companies completed negotiations amending their retirement annuities plans.

Board Changes

John F. O'Leary, former deputy secretary of the U. S. Department of Energy, was elected a member of the GPU Board of Directors at the Board's October meeting.

Mr. O'Leary has devoted most of his career to the energy field, having served in a number of state and federal energy posts both as administrator and regulator. He joined the Department of Energy when it was formed in 1977. In the early 1970's he was director of licensing for the Atomic Energy Commission.

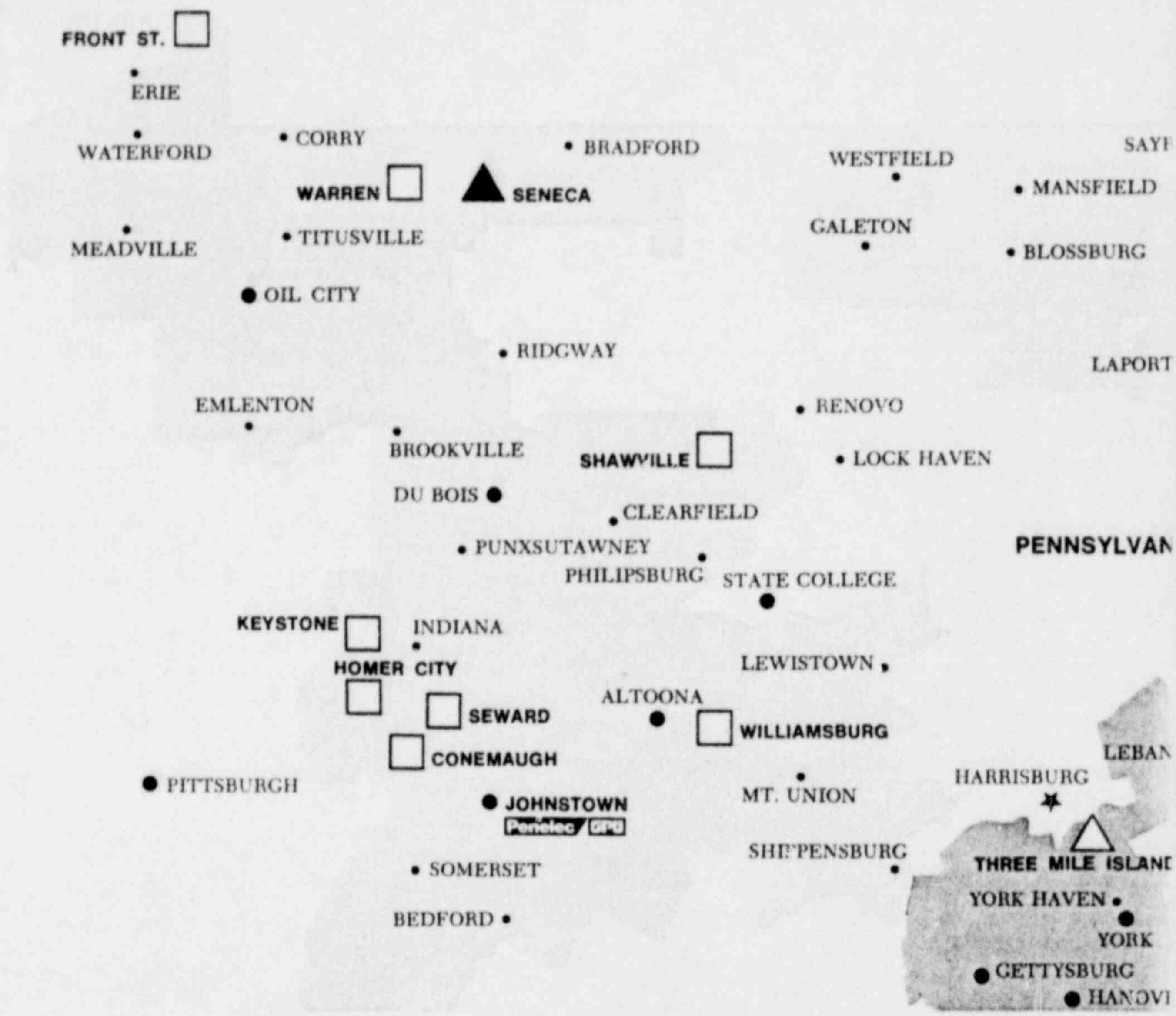
John W. Oswald, president of Pennsylvania State University, was elected a member of the GPU Board of Directors at the Board's March 1980 meeting.

Dr. Oswald has been president of Penn State since 1970. Prior to that he had served as president of the University of Kentucky and in several senior executive and teaching positions at the University of California.

George H. Lanier, Jr. and Ferdinand K. Thun retired in late 1979 in accordance with company policy for retirement because of age. Both were elected directors emeritus, effective January 1, 1980.

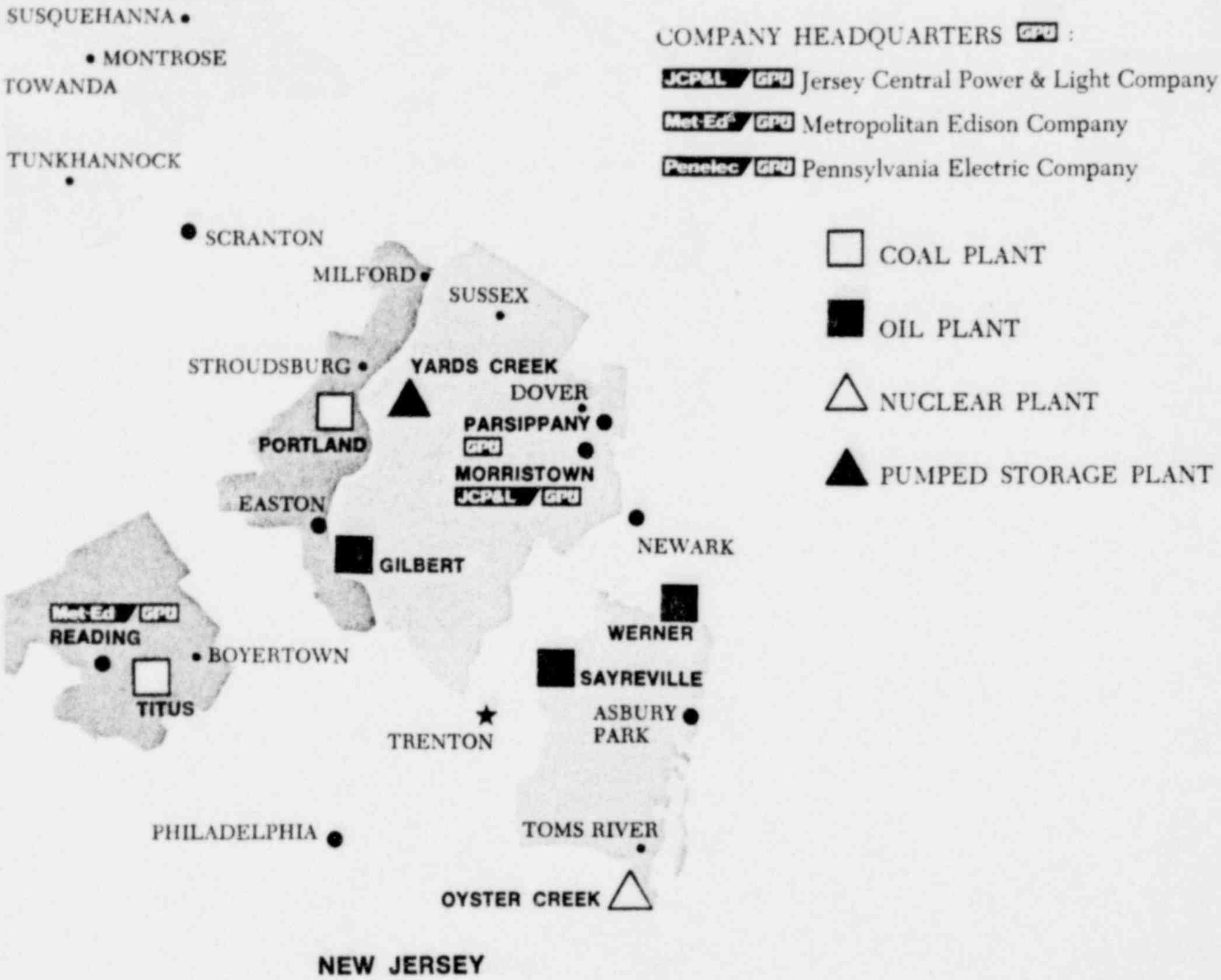
Barbara Barnes Hauptfuhrer, GPU director since 1976, resigned in December, citing personal reasons.

The Gener ’ublic Utilities System



Operating Companies' Statistics

Company	Revenues ($000)	Total Assets ($000)	Sales Mix Residential	Commercial	Industrial	Customers—Year-End
Jersey Central Power & Light	$ 664,947	$2,114,054	40%	27%	30%	690,889
Metropolitan Edison	$ 338,136	$1,327,149	31%	19%	41%	358,265
Pennsylvania Electric	$ 493,061	$1,496,576	28%	21%	44%	508,940
General Public Utilities System	$1,490,154	$4,991,994	34%	23%	37%	1,558,094



Electric Sales (MWH)	Peak Load* (MW)	Number of Employees	Fuel Mix		
			Coal	Oil & Gas	Nuclear
12,770,989	2,548	3,599	19%	22%	59%
8,084,033	1,533	2,659	76%	5%	19%
11,140,457	2,092	4,067	95%	1%	4%
31,995,479	6,173	11,159	67%	8%	25%

* *At time of GPU System peak.*

Statement of Management

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

The accompanying financial statements and notes thereto disclose the effect of the nuclear accident on March 28, 1979 at Unit No. 2 of the Three Mile Island Nuclear Generating Station ("TMI-2"). The accident has had a significant adverse impact on the earnings and financial position of the Corporation in 1979.

In the aftermath of the accident the subsidiaries' respective state utility commissions reduced allowable annual revenues by the capital and operating costs associated with TMI-2, resulting in a substantial decline in earnings. In addition, several significant contingencies and uncertainties, the outcome of which cannot be determined at the present time, resulted.

Reference should be made to Note 1 to the accompanying financial statements and to Management Comments on Earnings on page 18 for further discussion of the effects and impact of the nuclear accident at Three Mile Island.

Coopers & Lybrand, independent public accountants, are engaged to examine and express an opinion on our financial statements. Their opinion, which appears on the following page, sets forth the contingencies and uncertainties resulting from the accident.

Report of Auditors

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

We have examined the consolidated balance sheets of General Public Utilities Corporation and Subsidiary Companies as of December 31, 1979 and 1978, and the related consolidated statements of income, retained earnings and sources of funds used for construction for each of the five years in the period ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

a. The recovery of the approximately $682 million investment in TMI-2.

b. The recovery of $61 million of costs incurred net of insurance proceeds received, and the indeterminable amount of uninsured costs yet to be incurred, in connection with the anticipated restoration of TMI-2 to service.

c. The recovery of the approximately $384 million investment by the Corporation's New Jersey subsidiary in the Forked River Nuclear Generating Station, construction of which has been suspended.

d. The recovery of the excess, if any, of amounts which might be paid in connection with claims for damages resulting from the accident over available insurance proceeds.

e. The financial effects should the capital and operating costs associated with Three Mile Island Unit No. 1 Nuclear Generating Station be removed from base rates and the effects of various investigations and inquiries upon the ultimate recovery of the approximately $387 million investment in the unit if action is taken to prevent its return to operation.

f. The financial effects should the Pennsylvania Public Utility Commission order the revocation or modification of Metropolitan Edison Company's franchise to operate in its service area.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles applicable to a going concern which contemplates, among other things, the realization of assets and the liquidation of liabilities in the normal course of business. The Corporation's subsidiaries are currently not receiving a level of revenues sufficient to assure their ability to continue as a going concern. The continuation of the Corporation as a going concern is dependent upon obtaining adequate and timely rate relief and maintaining and increasing the availability of credit under the revolving credit agreement. (See Note 4 to Consolidated Financial Statements.) The eventual outcome and effect of the foregoing on the consolidated financial statements cannot presently be determined.

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

As more fully discussed in Note 1 to Consolidated Financial Statements, the Corporation's Pennsylvania subsidiaries may be required to make refunds to customers for certain payments made for coal. At this time, it is uncertain whether or to what extent such refunds will have to be made.

In our opinion, subject to the effect, if any, on the consolidated financial statements (the 1979 consolidated financial statements only with regard to the uncertainties discussed in the second through fourth paragraphs above) of such adjustments as might have been required had the outcome of the uncertainties discussed in the preceding paragraphs been known, the aforementioned statements (pages 19 through 38) present fairly the consolidated financial position of General Public Utilities Corporation and Subsidiary Companies at December 31, 1979 and 1978 and the consolidated results of their operations and the consolidated sources of funds used for construction for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

March 6, 1980
1251 Avenue of the Americas
New York, New York 10020

Management's Comments on Earnings

1979 vs. 1978

Earnings available for common stock for 1979 declined against those for the year 1978. The major factor causing such decline was the ratemaking treatment accorded to the capital and operating and maintenance costs associated with Three Mile Island Unit No. 2 ("TMI-2").

In 1978, allowance for funds used during construction was accrued on the subsidiaries' investment in TMI-2 and thereby offset the interest charges, preferred stock dividends and common stock earnings requirements associated with such investment. Such accrual ceased when TMI-2 was placed in commercial operation on December 30, 1978. Moreover, until TMI-2 was placed in commercial service, the investment and operation and maintenance costs associated with that unit were capitalized and depreciation was not accrued.

Effective about February 1, two of the subsidiaries owning an aggregate 50% of TMI-2, received rate increases covering the bulk of the capital and operation and maintenance costs associated with their interests in TMI-2. However, in their June 1979 rate orders the two subsidiaries were ordered by their respective commissions to remove TMI-2 costs from their base rates. A rate increase for the third subsidiary, owning the other 50% of the unit, was authorized in late March 1979, but was rescinded before implementation so that the subsidiary was never permitted to place rates in effect to cover its share of the TMI-2 related costs. Since December 30, 1978, the subsidiaries have been charging to income fixed capital and normal operating and maintenance costs associated with TMI-2.

1978 vs. 1977

Earnings available for common stock for 1978 declined against those for the year 1977. The major factors involved in such decline were a result of increased operating, maintenance and financing costs due to inflation, generating plant outages and new plant in service. Partially offsetting such decline were revenue increases from sales growth and increased rates.

A summary of the principal factors affecting the changes in earnings available for common stock are as follows:

	1979 over (under) 1978 (millions)	%	1978 over (under) 1977 (millions)	%
KWH sales increased	725	2%	1,500	5%
Revenues other than energy related:				
(a) Increased revenues resulting from KWH sales growth	$21		$40	
(b) Increased revenues resulting from higher rates	49		30	
Energy related revenues	94*		5	
Total Revenue Increase	164	12	75	6
Energy costs:				
(a) Resulting from higher unit fuel costs	46		29	
(b) Resulting from increased (decreased) system generation	(25)		26	
(c) Power purchased and interchanged	135		(52)	
(d) Deferred energy costs increased	(52)			
Total Energy Cost Increase	104*	23	3	1
Payroll and other operation and maintenance expenses increased as a result of an increase in employees and higher wage rates in 1978, generating plant outages, increased costs associated with new facilities and inflationary factors. Such increases in 1979 were substantially offset by cost reduction programs and a reduced number of employees	4	1	54	21
Depreciation expense increased as a result of additional plant in service (including TMI-2 in 12/78 and Homer City 3 in 12/77)	32	29	13	14
Taxes:				
Income taxes declined primarily as a result of lower income subject to taxes and in addition, in 1978, an increase in the flow through portion of the excess of tax over book depreciation principally resulting from the placing in service of the TMI-2 nuclear unit in December 1978 ($5 million)	(9)	(12)	(12)	(15)
Taxes other than income increased due primarily to higher state revenue taxes	20	15	15	13
Total	11	5	3	2
Interest and preferred dividends increased primarily from additional security issuances at higher rates and increased levels of short-term debt	33*	16	11	6
Allowance for funds used during construction, net, declined in 1979 primarily as a result of TMI-2 in service in 12/78	(29)	(40)	2	3
Other income, net increased mainly as a result of interest income from securities	6		3	
Earnings available for common stock	$ (43)	(31)	$ (4)	(3)
Earnings per Average Share	$(.74)	(32)%	$(.20)	(8)%

* These changes are mainly as a result of the nuclear accident at TMI-2, see Note 1 to consolidated financial statements.

Consolidated Statements of Income (Note 1)

General Public Utilities Corporation and Subsidiary Companies

For the Years Ended December 31,	1979	1978	1977	1976	1975
	(In Thousands)				
Operating Revenues	$1,490,154	$1,326,644	$1,252,013	$1,068,753	$954,420
Operating Expenses:					
Fuel	347,079	326,083	270,612	245,638	256,972
Power purchased and interchanged, net	268,210	133,741	186,235	120,784	52,277
Deferral of energy costs, net (Note 2)	(69,832)	(17,916)	(17,937)	(21,726)	(9,999)
Payroll	133,336	127,163	109,500	100,575	91,949
Other operation and maintenance (excluding payroll) (Note 12)	177,485	179,423	143,245	131,281	113,773
Depreciation (Note 2)	141,224	109,505	96,508	87,839	82,834
Taxes, other than income taxes (Note 12)	149,445	129,862	114,682	94,927	89,879
Totals	1,146,947	987,861	902,845	759,318	677,685
Operating Income before Income Taxes	343,207	338,783	349,168	309,435	276,735
Income Taxes (Notes 2 and 10)	65,905	84,354	95,805	79,832	66,123
Operating Income	277,302	254,429	253,363	229,603	210,612
Other Income and Deductions:					
Allowance for other funds used during construction (Note 3)	24,744	49,888	47,787	42,269	32,054
Other income, net	8,937	3,682	274	1,165	1,206
Income taxes on other income, net (Notes 2 and 10)	(5,146)	(2,461)	(996)	(1,157)	(1,004)
Total Other Income and Deductions	28,535	51,109	47,065	42,277	32,256
Income Before Interest Charges and Preferred Dividends	305,837	305,538	300,428	271,880	242,868
Interest Charges and Preferred Dividends:					
Interest on first mortgage bonds	144,097	131,461	118,734	108,802	87,048
Interest on debentures and other long-term debt	24,228	23,859	23,898	26,202	25,384
Other interest	24,387	4,527	9,117	3,994	15,360
Allowance for borrowed funds used during construction—credit (net of tax) (Note 3)	(18,296)	(22,255)	(22,269)	(17,080)	(15,858)
Income taxes attributable to the allowance for borrowed funds (Notes 3 and 10)	(7,977)	(14,758)	(12,514)	(10,887)	(8,755)
Preferred stock dividends of subsidiaries	43,615	43,930	40,683	39,652	32,307
Total Interest Charges and Preferred Dividends	210,054	166,764	157,649	150,683	135,486
Net Income	$ 95,783	$ 138,774	$ 142,779	$ 121,197	$107,382
Earnings per average share	$1.56	$2.30	$2.50	$2.20	$2.13
Book value per share (Note 1)	$22.74	$22.41	$21.96	$21.43	$20.94
Common Shares Outstanding—					
Average for year	61,218	60,217	57,208	54,968	50,406
Year-End	61,264	60,971	59,721	55,263	54,757

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

Consolidated Balance Sheets (Note 1)

General Public Utilities Corporation and Subsidiary Companies

December 31,	*(In Thousands)* 1979	1978
ASSETS		
Utility Plant (at original cost):		
In service (Note 1):		
Investment in Three Mile Island Unit No. 2	$ 704,992	$ 701,267
Other	3,773,897	3,598,815
Total in service	4,478,889	4,300,082
Less, accumulated depreciation (Note 2)	973,490	850,422
Net	3,505,399	3,449,660
Construction work in progress (Note 1)	553,684	471,468
Held for future use	24,568	26,577
Totals	4,083,651	3,947,705
Nuclear fuel (Note 4)	232,032	224,429
Less, accumulated amortization (Note 2)	47,241	50,809
Net nuclear fuel	184,791	173,620
Net utility plant	4,268,442	4,121,325
Excess of investments in subsidiaries over related net assets	30,805	30,805
Investments:		
Other physical property, net	968	1,116
Loans to non-affiliated coal companies (Note 11)	19,375	19,375
Other, at cost	783	836
Totals	21,126	21,327
Current Assets:		
Cash (Note 4)	7,909	17,981
Special deposits	21,808	11,839
Temporary cash investments	60,711	
Accounts receivable:		
Customers, net	113,870	91,352
Others (Note 10)	10,478	59,437
Inventories, at average cost or less:		
Materials and supplies for construction and operation	53,254	39,267
Fuel	69,507	47,722
Prepayments	12,439	6,152
Totals	349,976	273,750
Deferred Debits:		
Deferred energy costs (Notes 1 and 2)	172,770	102,938
Unamortized mine development costs (Note 2)	7,631	8,765
Deferred costs—nuclear accident, net of insurance recoveries (Note 1)	61,171	
Deferred income taxes (Notes 2 and 10)	28,646	15,726
Other	51,427	38,047
Totals	321,645	165,476
Total Assets	$4,991,994	$4,612,683

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

	(In Thousands) 1979	1978
LIABILITIES AND CAPITAL		
Long-Term Debt, Capital Stock and Consolidated Surplus:		
Long-Term Debt (Notes 4 and 5):		
First mortgage bonds (3⅛% to 12%, due 1981 through 2009)	$1,868,733	$1,732,074
Debentures (4⅝% to 9⅛%, due 1986 through 1998)	230,580	236,480
Other long-term debt (varying rates, due 1981 through 1984)	54,065	54,046
Unamortized net discount on long-term debt	(4,406)	(5,477)
Totals	2,148,972	2,017,123
Cumulative preferred stock—mandatory redemption (Note 6)	90,400	95,750
Less, capital stock expense	3,004	3,347
Totals	87,396	92,403
Cumulative preferred stock—no mandatory redemption (Note 7)	423,391	423,391
Premium on cumulative preferred stock	1,348	1,348
Less, capital stock expense	1,663	2,495
Totals	423,076	422,244
Common stock and consolidated surplus (Note 1):		
Common stock (Note 8)	153,229	152,498
Consolidated capital surplus (Note 8)	772,538	768,350
Less, capital stock expense	17,983	17,836
Consolidated retained earnings (Note 9)	485,571	463,173
Totals	1,393,355	1,366,185
Less, reacquired common stock (Note 8)	70	70
Totals	1,393,285	1,366,115
Totals	4,052,729	3,897,885
Current Liabilities:		
Securities due within one year (Notes 5 and 6)	44,164	65,065
Notes payable to banks (Note 4)	171,000	90,100
Accounts payable	162,162	94,453
Customer deposits	6,387	6,775
Taxes accrued (Note 10)	40,560	20,657
Interest accrued	43,477	38,639
Other	36,322	34,204
Totals	504,072	349,893
Deferred Credits and Other Liabilities:		
Deferred income taxes (Notes 2 and 10)	294,510	213,757
Unamortized investment credits (Notes 2 and 10)	115,212	127,055
Other	25,471	24,093
Totals	435,193	364,905
Commitments and Contingencies (Note 1)		
Total Liabilities and Capital	$4,991,994	$4,612,683

Consolidated Statements of Sources of Funds Used For Construction (Note 1)

General Public Utilities Corporation and Subsidiary Companies

For the Years Ended December 31,	1979	1978	1977	1976	1975
	(In Thousands)				
Sources of Funds:					
Funds generated from operations:					
Net income	**$ 95,783**	$138,774	$142,779	$121,197	$107,382
Add, items not requiring current cash outlay or (receipt):					
Depreciation (Note 2)	**141,224**	109,505	96,508	87,839	82,834
Amortization of nuclear fuel (Note 2)	**21,314**	21,443	17,764	16,374	20,843
Investment credits, net (Notes 2 and 10)	**(11,830)**	41,733	42,496	7,783	15,834
Deferred income taxes, net (Notes 2 and 10)	**67,882**	58,285	35,296	33,732	27,359
Allowance for other funds used during construction (Note 3)	**(24,744)**	(49,888)	(47,787)	(42,269)	(32,054)
Totals	**289,629**	319,852	287,056	224,656	222,198
Less, cash dividends on common stock	**73,385**	106,424	97,609	92,261	84,574
Totals	**216,244**	213,428	189,447	132,395	137,624
Other sources (uses):					
Deferred energy costs, net (Note 2)	**(69,832)**	(17,916)	(17,937)	(21,726)	(8,473)
Deferred costs—nuclear accident, net of insurance recoveries (Note 1)	**(24,373)**				
Loans to non-affiliated coal companies (Note 11)		(625)	(2,350)	(650)	(1,500)
Unamortized mine development costs (Note 2)	**1,134**	898	513	526	471
Changes in—cash (Note 4)	**10,072**	6,310	13,378	(2,302)	20,250
—temporary cash investments	**(60,711)**	2,988	(2,988)		
—accounts receivable	**26,441**	(43,788)	(2,433)	(14,070)	3,643
—accounts payable	**67,709**	12,386	20,129	(3,168)	25,894
—inventories-materials, supplies and fuel	**(35,772)**	18,284	(30,620)	(7,196)	6,876
—interest accrued	**4,838**	131	3,218	5,791	565
—taxes accrued	**19,903**	(7,845)	(24,698)	22,470	10,352
Other, net	**(20,879)**	5,479	(16,091)	10,121	(3,349)
Totals	**(81,470)**	(23,698)	(59,879)	(10,204)	54,729
Funds from financings:					
Sale of long-term debt	**153,800**	154,082	155,920	217,000	228,953
Sale of common stock, net of expense (Note 8)	**4,771**	22,273	82,166	8,466	97,014
Sale of preferred stock (Notes 6 and 7)			50,000	35,000	87,450
Bank borrowings, net (Note 4)	**87,400**	24,625	19,125	13,300	(270,690)
Retirement or redemption of long-term debt and preferred stock	**(54,463)**	(32,908)	(73,389)	(71,990)	(19,687)
Totals	**191,508**	168,072	233,822	201,776	123,040
Totals	**$326,282**	$357,802	$363,390	$323,967	$315,393
Construction Expenditures:					
Utility plant	**$281,912**	$376,812	$343,909	$321,150	$315,350
Nuclear fuel	**69,114**	30,878	67,268	45,086	32,097
Totals	**351,026**	407,690	411,177	366,236	347,447
Allowance for other funds used during construction (Note 3)	**(24,744)**	(49,888)	(47,787)	(42,269)	(32,054)
Totals	**$326,282**	$357,802	$363,390	$323,967	$315,393

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

Consolidated Statements of Retained Earnings (Note 1)

For the Years Ended December 31,	1979	1978	1977	1976	1975
	(In Thousands)				
Balance, beginning of year	$463,173	$430,823	$385,653	$356,717	$333,909
Add, net income	95,783	138,774	142,779	121,197	107,382
Totals	558,956	569,597	528,432	477,914	441,291
Deduct, dividends on common stock	73,385	106,424	97,609	92,261	84,574
Balance, end of year (Notes 1 and 9)	$485,571	$463,173	$430,823	$385,653	$356,717
Cash dividends on common stock, per share	$1.20	$1.77	$1.70	$1.68	$1.68

Notes to Consolidated Financial Statements

1. Commitments and Contingencies:

Three Mile Island Nuclear Accident: On March 28, 1979, an accident occurred at Unit No. 2 of the Three Mile Island nuclear generating station ("TMI-2") resulting in significant damage to TMI-2, and a release of some low level radiation which published reports of governmental agencies indicate did not constitute a significant public health or safety hazard. TMI-2 is jointly owned by the Corporation's subsidiaries, Jersey Central Power & Light ("JCP&L"), 25%; Metropolitan Edison Company ("Met-Ed"), 50%; and Pennsylvania Electric Company ("Penelec"), 25%. At December 31, 1979, total net investment by the subsidiaries in TMI-2 was approximately $682 million ($705 million investment less $23 million accumulated depreciation), excluding the unamortized investment of approximately $37 million in the nuclear fuel core.

The subsidiaries engaged a consulting engineering firm to prepare a cost estimate and schedule for restoring TMI-2 to service. The firm's initial report indicates that, while the decontamination of the buildings and removal and disposal of large quantities of radioactive material is a major undertaking, the technology and techniques are well-known and have been previously demonstrated. This initial report emphasizes the inherent uncertainties in cost and schedule estimates until (a) entry into the containment vessel has been gained and the difficulties of decontamination have been evaluated, (b) the reactor vessel has been opened and the difficulties of core removal have been evaluated, and (c) the physical integrity of major components has been assessed.

Subject to these qualifications, the initial report estimates that decontamination and restoration of TMI-2 to service, exclusive of replacement of the reactor core, would cost approximately $240 million and take about four years. The report also recommends that, because of the unknowns and variables, an allowance of $80 million for contingencies be included in the estimate of cost, bringing the total to $320 million. The estimate does not include provision for the replacement of the reactor core (estimated by the subsidiaries to cost $60 million to $85 million) nor for the subsidiaries' replacement power, financing and other costs during the period of rehabilitation of TMI-2. The subsidiaries increased, by $25 million, the engineering firm's estimate of costs to provide for other items possibly omitted from that estimate. The estimates do not take into account potential legal, political or regulatory delays, which would further increase the cost of restoring TMI-2 to service. The delays experienced to date in obtaining regulatory authorizations to proceed with the decontamination may have exhausted the allowance for contingencies in the engineer's estimate.

The subsidiaries carried the maximum insurance coverage available ($300 million) for damage to the unit and core and for decontamination expenses. The insurance does not cover replacement power costs or return on investment while the unit is not providing electricity for customers, but it otherwise covers most types of costs. It is the Corporation's belief that, if the estimates of the consulting engineering firm are borne out, the recoveries from the insurance companies will approximate the amount of the insurance carried.

The subsidiaries do not know the extent, if any, to which the expenditures for repair and restoration of the unit to operation will represent plant improvements or other items that are properly capitalizable and recoverable in the future through rates charged to customers by amortization or depreciation charges. Moreover, the subsidiaries expect to seek financial assistance from the Federal government and/or the utility industry in areas where the technical information should be of wide value and significance. Under these circumstances, the amount of loss, if any, suffered by the Corporation and its subsidiaries resulting from the TMI accident is not presently determinable and no provision therefor has been made in their accounts.

The property damage insurance, and the $300 million limit of coverage, was applicable to both Three Mile Island Unit No. 1 ("TMI-1") and TMI-2. This property insurance has been reduced by claims paid. The insurance carriers have reinstated the original coverage limits for TMI-1 but have refused to do so at this time for TMI-2. Additional property damage insurance for TMI-1 of up to $300 million was obtained by the subsidiaries through membership in Nuclear Mutual Limited ("NML"). As members of NML, the subsidiaries are subject to annual assessments of up to 14 times their annual premium, or $13 million, in the event of an incident at a nuclear plant of any member company. With regard to property insurance for TMI-2, $50 million of coverage has been obtained for possible damages which might result from a non-nuclear accident during the unit's restoration period.

The subsidiaries, in responding to the accident at TMI-2, have incurred $101.2 million of costs associated with the clean-up and recovery process. Of this amount, $94.5 million have been deferred and $6.7 million charged to operations. In addition to the deferred clean-up and recovery costs, the TMI-2 nuclear fuel core was retired and its unamortized book cost of $36.8 million transferred to deferred debits, which aggregate $131.3 million and have been offset by the insurance proceeds of $70.1 million received through December 31, 1979. All net deferred costs will be charged to operations or plant in service (for those which constitute permanent improvements) upon a determination that such costs are not recoverable through additional insurance proceeds, rates or by financial assistance from the Federal government or from other public or private sources and/or the utility industry. In its rate order issued on June 19, 1979 referred to below, the Pennsylvania Public Utility Commission ("PaPUC") recognized that no claim for such costs had been made in the proceedings in which such order was entered. Nevertheless, the PaPUC stated in that order: "the Commission is of the view that none of the costs of responding to the incident, including repair, disposal of wastes and decontamination are recoverable from ratepayers. These costs are and should be insurable."

TMI-1, which adjoins TMI-2, was out of service for a scheduled refueling and was not involved in the accident. At December 31, 1979 total net investment by the subsidiaries in TMI-1 was approximately $387 million, including the nuclear fuel core of $30 million. By orders dated July 2, 1979 and August 9, 1979, the Nuclear Regulatory Commission ("NRC") directed that TMI-1 remain in a shut down condition until resumption of operation is authorized by the NRC, after public hearings and the satisfaction of various requirements set forth in such orders. The NRC has not yet established a firm time schedule for the completion of the hearings and decision.

In their rate orders issued in June 1979, the PaPUC and Board of Public Utilities of the State of New Jersey ("NJBPU") determined that the capital and operating costs associated with TMI-1 should continue to be reflected in base rates. However, on September 20, 1979, the PaPUC issued an order instituting an investigation to determine whether the costs of Met-Ed and Penelec associated with TMI-1 should be removed from their base rates. Similar issues have been raised by some of the parties in the proceedings initiated before the NJBPU in January 1980 by JCP&L which are referred to below. Operating and capital costs for TMI-1 in base revenues aggregate approximately $54 million annually.

In order to make provisions for the substantial expenditures required for clean up and repair, replacement energy and other added costs resulting from this accident, the Corporation and its subsidiaries entered into a revolving credit agreement with a group of banks in June 1979 (see Note 4). In addition, JCP&L and Penelec each issued $50 million of first mortgage bonds in June 1979 and JCP&L sold $47.5 million of first mortgage bonds in October 1979, $25 million of which was applied to the payment of maturing bonds.

On January 23, 1980, the NRC ordered Met-Ed to pay a fine of $155,000 for safety, maintenance, procedural and training violations at TMI. Such fine was paid on February 13, 1980. The NRC has also stated that, depending upon the findings of continuing investigations into the TMI-2 accident, it may take additional enforcement action such as assessing additional civil penalties or ordering the suspension, modification or revocation of Met-Ed's license to operate TMI-2. Met-Ed does not know what the ultimate outcome of this matter will be.

On October 30, 1979, the Presidential (Kemeny) Commission on the Accident at Three-Mile Island issued its report. The Report states, in part, that its "investigation has revealed problems with the 'system' that manufactures, operates and regulates nuclear power plants" and the shortcomings which turned the incident into a serious accident "are attributable to the utility, to suppliers of equipment and to the federal commission that regulates nuclear power." On January 23, 1980, the NRC's Special Inquiry Group (Rogovin) reported the results of its investigation of the accident at TMI-2. Its conclusions with respect to the assignment of responsibility for the accident were similar to those of the Kemeny Commission. The Corporation does not know what effect, if any, these reports will have upon it or its subsidiaries.

Other investigations and inquiries into the nature, causes and consequences of the TMI-2 accident commenced by various federal and state bodies are continuing. The Corporation is unable to estimate the full scope and nature of these continuing investigations or the potential consequences thereof to the investors in the securities of the Corporation and its subsidiaries. The Corporation is also unable to determine the impact, if any, the results of such investigations may have on the proceedings to return TMI-1 to operation and the efforts to rehabilitate TMI-2.

On January 31, 1979, JCP&L was granted a $33.8 million annual rate increase by the NJBPU, which, among other things, reflected in base rates its investment in TMI-2 and the operating and maintenance costs associated with the unit. On June 18, 1979, the NJBPU issued a rate order reducing annual base revenues by $29 million which represents JCP&L's annual capital and operating cost associated with its interest in TMI-2. The order also provided for a reduction in energy revenues of $7.3 million over a prospective eighteen month period as an offset to base rate revenues attributable to TMI-2, collected during April, May and June 1979. Accordingly, such amount was recorded as a charge to energy costs by JCP&L in June 1979. In addition, the order authorized JCP&L to increase its levelized energy adustment charges to its customers over the period July 1, 1979-December 31, 1980, by an amount which the NJBPU believed would be sufficient to recover the replacement power costs associated with the non-availability of TMI since March 31, 1979. On September 5, 1979, the NJBPU authorized JCP&L to increase its levelized energy adjustment clause charges to recover increases in energy costs, not associated with TMI, anticipated for the period September 1, 1979-August 31, 1980; such increase is expected to provide approximately $70 million of revenues during that period.

During the first quarter of 1979, Met-Ed and Penelec were granted retail rate increases by the PaPUC which, among other things, reflected in base rates their investment in TMI-2 and the operating and maintenance costs associated with the unit. On April 19, 1979 and April 25, 1979, the PaPUC, as a result of the accident, established temporary rates for Met-Ed and Penelec, respectively, reducing annual base revenues by the operating and capital costs associated with their interest in TMI-2. These actions effectively revoked, prior to becoming effective, the $46.6 million increase in base rates granted Met-Ed on March 22, 1979, returning the rates to levels in effect prior to that rate order. In Penelec's case, the PaPUC prospectively reduced the $56.2 million rate increase which the company had been billing since January 27, 1979 by $25.0 million.

On June 19, 1979, the PaPUC issued a rate order which directed that Met-Ed's and Penelec's temporary rates prescribed by its April 19, 1979 and April 25, 1979 orders be made permanent. In addition, the order established levelized energy adjustment clauses for Met-Ed and Penelec for the period July 1, 1979-December 31, 1980 at a level which the PaPUC believed would be sufficient to recover the increases in the companies' energy costs during that period. This levelized energy adjustment clause did not make provision for the increased energy costs experienced by Met-Ed and Penelec during the March 28-June 30, 1979 period, but the discussion at the public meeting at which such order was entered indicated that such costs will ultimately be recoverable. The order also made provision for the amortization through base rates by Met-Ed of $5.8 million annually of previously deferred energy costs of $14 million, and by Penelec of $5.5 million annually of previously deferred energy costs of $19.4 million.

The increases in the subsidiaries' levelized energy adjustment charges granted by the NJBPU and PaPUC in June 1979 assumed that TMI-1 would resume the generation of electricity on January 1, 1980. In light of the NRC's action requiring that TMI-1 remain in a shut-down condition until resumption of operation is authorized by it, while allowing similar type units to operate, and as a result of increased fuel costs, Met-Ed on November 1, 1979 and JCP&L on January 21, 1980 filed with their respective state commissions for increases in their levelized energy clause charges. Met-Ed requested an increase of $55 million annually effective January 1, 1980 and JCP&L an increase of $142 million annually effective March 1, 1980. JCP&L and Met-Ed, in filings with their respective state commissions, indicated that failure by the Commission to act in a positive and timely manner on their requests could result in the inability of JCP&L and Met-Ed to obtain additional short term financing and thus impair their ability to meet their obligations in the future.

With respect to JCP&L's proceeding, on February 27, 1980, the administrative law judge granted a motion of intervenors in that proceeding to deal initially with energy costs other than those relating to the replacement of TMI generation and to continue the proceedings for TMI replacement energy costs. On March 6, 1980, the NJBPU authorized JCP&L to increase its levelized energy adjustment clause charges, effective March 6, 1980, for non-TMI energy costs by a factor estimated to produce approximately $84 million of additional annual revenues. The NJBPU also stated in this order that it will shortly take up the issue of the retention of TMI-1 in JCP&L's base rates.

On February 8, 1980, the PaPUC issued an order permitting Met-Ed to increase its levelized energy clause charges, subject to investigation, by an additional $55 million annually, effective March 1, 1980. This order is effective pending final resolution of the issues in the proceedings referred to in the next paragraph and does not determine that any specific costs are recoverable.

On November 1, 1979, the PaPUC ordered Met-Ed to show cause why its governmental authorization to conduct public utility operations should not be revoked. Met-Ed has responded to such order contending that there is no basis for such revocation and that such revocation would be contrary to the public interest. On November 8, 1979 the PaPUC combined into one proceeding (i) its investigation to determine whether Met-Ed's and Penelec's costs associated with TMI-1 should continue to be reflected in base rates, (ii) Met-Ed's request for additional energy clause adjustment revenues and (iii) its show cause order why Met-Ed's authorization to conduct public utility operations should be revoked. By orders dated February 8, 1980, the PaPUC stated that it expected to complete these combined proceedings on May 23, 1980.

During the pendency of the proceedings which resulted in the June 18, 1979 order of the NJBPU, certain intervenors requested that the NJBPU consider the issue of fault regarding the causation of the TMI-2 accident. At that time, the NJBPU ruled that this issue would be considered in a later phase of such proceedings. On January 23, 1980, the NJBPU directed the filing of legal memoranda attempting to identify the legal standards which should govern the NJBPU's evaluation of fault, the legal and factual contentions regarding fault, the regulatory consequences of a fault finding, the NJBPU's legal authority to impose such consequences and the implications thereof. Such memoranda have been filed. On March 6, 1980, the NJBPU stated that it will establish a hearing date to begin consideration of the above issues.

As indicated by the preceding paragraphs, the depreciation and return requirements associated with the investment in TMI-2 (amounting to approximately $94 million per year) are not being recovered from customers. Such depreciation and return requirements are currently being reflected in the financial statements in that (a) depreciation charges in respect of the unit are being provided and charged to expense, (b) the interest and preferred stock dividend components of that investment are being accrued, and (c) the earnings per share of common stock are determined on a basis which reflects all outstanding shares including the shares issued to finance the common stock components of that investment.

The Price-Anderson Amendments to the Nuclear Energy Act limit liability to third parties to $560 million for each nuclear incident. Coverage of the first $140 million (raised to $160 million following the accident) of such liability is provided by private insurance. The next $335 million (reduced to $315 million following the accident) is provided by assessments of up to the limit of $5 million per nuclear reactor per incident, but not more than $10 million in any calendar year. The remainder is provided by a government indemnity. Based on the ownership of three nuclear reactors, the subsidiaries' maximum potential assessment under these provisions would be $15 million per incident but not more than $30 million per calendar year for claims covered by this insurance.

The Corporation's private insurance under Price-Anderson provides that coverage is reduced by claims paid but is subject to reinstatement to original coverage limits upon approval by the insurance carriers. The subsidiaries have applied for such reinstatement but are unable at this time to ascertain whether or when such reinstatement will be approved. The NRC has informed Met-Ed that the failure by it to obtain such reinstatement could result in the suspension or revocation of its license to operate TMI-2.

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

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

Class suits for damages on behalf of purchasers of GPU common stock during the period August 25, 1975 through April 1, 1979 have also been instituted against the Corporation and certain of its directors as a result of the accident. These suits have raised questions, which have not yet been resolved, as to whether certain claims are beyond the insurance coverage for directors' and officers' liability carried by the System companies.

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

Forked River Project: In view of the impact of the accident at TMI-2 on its financing capability, JCP&L suspended construction on its Forked River nuclear generating station during the second quarter of 1979. JCP&L's investment in the project at December 31, 1979 was approximately $384 million, approximately $30 million of which has been included in JCP&L's rate base. Of this investment, $75 million reflects the accrual of allowance for funds used during construction ("AFC"). JCP&L does not know when it will be able to resume construction of the station, whether it will be able to finance completion of the station without substantial rate relief and participation by other entities, and what additional modifications, if any, will be required upon resumption of construction. There are no current plans for near-term resumption of construction of the station. Prior to the accident, JCP&L was negotiating for the sale of undivided interests in the station to two unaffiliated utilities, one of which has since indicated it is no longer interested in such a purchase. JCP&L does not know whether it will be able to sell any undivided interest in the station.

In addition, JCP&L is unable to estimate what effect any delay in, or moratorium on, the issuance by the NRC of construction permits or operating licenses for nuclear generation stations may have on the resumption of construction or the eventual issuance of an operating license for the Forked River station.

JCP&L is currently reviewing possible alternatives for the supply of additional capacity, including the possible conversion of the Forked River project to a coal-fired facility. Pending resolution of these matters, JCP&L has continued to accrue AFC on its investment in Forked River.

Oyster Creek Outage: The Oyster Creek nuclear generating station, owned by JCP&L is currently being refueled, a process which has been extended beyond its scheduled length for maintenance and possible repairs. At this date, the schedule for its resumption of operations is uncertain. Replacement power for the station's output costs approximately $3.5 million per week.

Coal Purchase Costs: In January and April 1977, the PaPUC issued amended complaints asserting that Met-Ed and Penelec made payments in 1974 for coal that were $9.8 million and $4.9 million, respectively, in excess of those required by their contracts, and that such excess payments were without justification and directing Met-Ed and Penelec to show cause why they should not be required to refund $9.8 million and $4.9 million, respectively, to their customers. Met-Ed and Penelec believe that the payments which they made were justified and that there is no basis for requiring such refunds and they so responded to the complaints. In November 1979, the administrative law judge who heard the evidence in the complaint against Met-Ed for 1974 recommended that Met-Ed refund $2.7 million, plus interest, to its customers. Met-Ed filed exceptions to such recommendation, asserting that the evidence does not support any refund. Other parties filed exceptions asserting that the refunds should be increased. Oral argument before the PaPUC was held in February 1980 and the matter is awaiting decision.

In November and December 1978, the PaPUC issued further complaints asserting that Met-Ed and Penelec incurred excess costs of $4.6 million and \$.8 million, respectively, for coal during 1975 and 1976, and that such excess payments were without justification and directing Met-Ed and Penelec to show cause why they should not be required to refund \$4.6 million and \$.8 million, respectively, to their customers. Such complaints were based on audit reports prepared by the PaPUC staff. Met-Ed and Penelec believe that the payments which they made were justified and that there is no basis for requiring such refunds, and they have so responded to the complaints.

The Corporation is unable at this time to predict the outcome of these matters.

Compliance Audits: During 1977 and 1978, the staff of the Federal Energy Regulatory Commission ("FERC") conducted compliance audits of Met-Ed's and Penelec's accounting records covering the periods ending December 31, 1976 and December 31, 1977, respectively. The remaining unresolved issues concern the base to which AFC accruals were applied. If such issues were to be unfavorably resolved, the resulting reduction in consolidated earnings would approximate \$2.8 million. Met-Ed and Penelec believe that the FERC's position is not justified and they are contesting it.

Nuclear Fuel Litigation: In 1971, JCP&L entered into a contract for the purchase of three nuclear fuel reloads for the Oyster Creek Station, with an option for five additional annual reloads beginning in 1976. In 1974 the supplier offered an extension of that contract to cover five additional annual reloads beginning in 1981. JCP&L believes that it effectively exercised the option in the initial contract and accepted the offer to extend the contract to cover the annual reloads through 1985. The supplier disputes this position and, in November 1978, submitted bills for material and services in the aggregate amount of approximately \$33 million, covering reloads supplied in 1977, 1978 and 1979. The supplier stated that its objective was to establish revised prices and other terms and conditions rather than to diminish supplies and, without prejudice to its legal position, provided the 1979 annual fuel reload. Of the \$33 million claimed by the supplier to be due, JCP&L has paid approximately \$3.8 million and is of the opinion that the balance of approximately \$29 million is not payable by it and has so informed the supplier. On January 26, 1979, the supplier filed suit against JCP&L, the Corporation and GPU Service Corporation. JCP&L has filed a counterclaim for a declaratory judgment confirming its view of the contractual status and for damages and has also filed another suit against the supplier and its parent seeking damages. JCP&L believes that any additional amount that it might be required to pay if the supplier is successful in its suit would be valid costs and should be recognized for rate-making purposes. However, there can be no assurance that this will be the case. If the suits were to be resolved in the supplier's favor, JCP&L would incur \$6.7 million in additional fuel expense, based on the amount of fuel consumed through December 31, 1979.

Other: The subsidiaries' construction programs, which extend over several years, contemplate expenditures of approximately \$275 million during 1980. In connection with these construction programs the subsidiaries have incurred substantial commitments.

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

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

JCP&L was a participant in the Atlantic generating station project. In December 1978, the non-affiliated co-owner and principal sponsor of the station announced the abandonment of the project. At December 31, 1979, JCP&L's investment in the project was \$4.2 million. JCP&L plans to seek regulatory approval to amortize this investment, net of related income tax reductions of \$1.4 million, over a period of years for rate-making purposes. The NJBPU has accorded such treatment for similar items in the past.

2. Summary of Significant Accounting Policies:

General: The consolidated financial statements include the accounts of all subsidiaries.

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

Operating Revenues: Revenues are generally recorded on the basis of billings rendered.

Deferred Energy Costs: The subsidiaries follow a policy of recognizing energy costs in the period in which the related energy clause revenues are billed.

Deferred energy costs at December 31, 1979 include (a) amounts accumulated prior to the TMI-2 accident which are being amortized to income in accordance with ratemaking orders (JCP&L—$52 million at a rate of $2.3 million per year, and Pennsylvania subsidiaries—$22.5 million at a rate of $11.3 million per year), and (b) amounts accumulated subsequent to the TMI-2 accident reflecting the operation of levelized energy adjustment clauses placed in effect pursuant to ratemaking orders entered in June and September 1979 (see Note 1).

Depreciation: The Corporation's subsidiaries provide for depreciation at annual rates determined and revised periodically, on the basis of studies, to be sufficient to amortize the original cost of depreciable property over estimated remaining service lives, which are generally longer than those employed for tax purposes. The subsidiaries use depreciation rates which, on an aggregate composite basis, resulted in an approximate annual rate of 3.17%, 3.07%, 3.02%, 2.95%, and 2.88% for the years 1979, 1978, 1977, 1976 and 1975, respectively.

Effective January 1, 1977, to conform with ratemaking treatment, Met-Ed and Penelec are charging depreciation expense with the cost of removal (less salvage) as incurred rather than including it in the provision for depreciation.

Nuclear Plant Decommissioning Costs: In accordance with ratemaking determinations (a) JCP&L is charging to expense and crediting to a non-funded reserve amounts intended to provide over their service lives for the cost of decommissioning nuclear plants at the end of their useful lives (estimated for purposes of the ratemaking determinations to range between $27 and $36 million per unit in then current dollars assuming in-place entombment), and (b) Met-Ed and Penelec are charging to expense amounts intended to provide over their service lives for the decommissioning of their shares of the radioactive components of their nuclear units (approximately $24 million per unit in then current dollars for rate-making purposes). In accordance with rate-making requirements, these charges make no provision for possible inflation in decommissioning costs during the period prior to decommissioning but are expected to be subject to modification to take cognizance of that factor.

Amortization of Nuclear Fuel: The amortization of nuclear fuel is provided on a unit of production basis. Rates are determined and periodically revised to amortize the cost over the useful life. Prior to December 1, 1976, amortization of nuclear fuel costs included estimated costs of reprocessing such fuel and estimated residual value of uranium and plutonium. Due to the uncertain future of government approvals for reprocessing and plutonium recycling, the Corporation's subsidiaries, effective December 1, 1976, began using amortization rates for nuclear fuel at TMI which makes no current provision for reprocessing costs and gives no credit for residual values. Effective September 1, 1977, similar treatment was adopted pursuant to authorization by the NJBPU for the Oyster Creek station nuclear fuel. Also effective September 1, 1977, JCP&L is providing for estimated future handling costs for the spent Oyster Creek nuclear fuel, and similar treatment will be provided for future handling costs for the spent TMI nuclear fuel when required. Previously accumulated estimated residual credits, net of previously accumulated estimated costs of reprocessing, for the Oyster Creek station nuclear fuel are being amortized to fuel expense on a unit of production basis. Should reprocessing eventually be undertaken, the Corporation expects that any difference between such costs and accumulated reserves will be recognized prospectively in the rate-making process.

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

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

Tax Depreciation: The subsidiaries of the Corporation generally utilize liberalized depreciation methods and the shortest depreciation lives permitted by the Internal Revenue Code in computing depreciation deductions and provide for deferred income taxes where permitted in the rate-making process.

Investment Credits: The 3% investment credits are being amortized over a 10-year period while the 4% and 10% investment credits are being amortized over the estimated service lives of the related facilities.

Investment credits applicable to the Tax Reduction Act Employee Stock Ownership Plan ("TRAESOP") are remitted to the Plan Trustee and have no effect on income. As a result of the nuclear accident referred to in Note 1, the Corporation has suspended the TRAESOP.

Pension Plans: The Corporation's subsidiaries have several pension plans including plans applicable to all employees, the accrued costs of which are being funded. The costs of supplemental pension plans applicable only to supervisory employees were not funded prior to 1976. The previously unfunded supplemental pension plan costs are being funded during the five year period beginning January 1, 1977. Prior service costs applicable to all plans are being amortized and funded over 25-year periods.

Mine Development Costs: These costs are being amortized to income over the estimated life (20 years) of the mines.

3. Allowance for Funds Used During Construction:

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

To the extent permitted in the rate-making proceedings of the subsidiaries, the income tax reductions associated with the interest component of AFC have been allocated to reduce interest charges and, correspondingly, have not reduced income taxes charged to operating expenses. Pursuant to such rate orders, the Pennsylvania subsidiaries employ a net of tax accrual rate for AFC. JCP&L employed a partial net of tax AFC accrual rate from June 1975 through July 1976, and, effective September 1977, began employing a net of tax accrual rate for AFC on certain construction projects while using a gross AFC rate on others.

The subsidiaries have accrued AFC using rates which, on an aggregate composite basis, resulted in annual rates of 8.60%, 7.99%, 9.03%, 8.71% and 8.12% for the years 1979, 1978, 1977, 1976 and 1975, respectively.

4. Short-Term Borrowing Arrangements:

In June 1979, the Corporation and its subsidiaries entered into a revolving credit agreement with a group of banks, under which they had available, at December 31, 1979, $292 million of credit, of which $171 million were utilized for outstanding borrowings. Such available credit can be increased to $412 million upon the approval of banks holding 85% of the notes outstanding. The agreement provides for a commitment fee of one-half of one percent per annum of each bank's total commitment (whether used or unused). Interest rates on such borrowings range from 105% to 111% of the prime rate.

The Corporation has guaranteed all borrowings outstanding under the revolving credit agreement. In order to secure such guarantee, plus the Corporation's $39 million term loan and the guarantee by the Corporation of $17.8 million of loans to GPU Service Corporation ("GPUSC"), the Corporation has pledged the common stock of JCP&L, Met-Ed, Penelec and GPUSC.

JCP&L and Met-Ed have secured their notes under the revolving credit agreement by granting a security interest in certain nuclear fuel in the process of refinement, conversion, enrichment and fabrication. Such nuclear fuel was recorded, on the December 31, 1979 balance sheet, at a cost of \$30.5 million. In addition, Met-Ed has pledged \$40 million of first mortgage bonds as security for its indebtedness under the revolving credit agreement.

The revolving credit agreement and the purchase agreements of the bonds sold by JCP&L and Penelec subsequent to the accident at TMI-2 (\$147.5 million) contain provisions for the immediate payment of the indebtedness involved upon the occurrence of an event deemed by the majority of the lenders or holders of an issue to have a materially adverse effect on the borrower.

In addition, the Corporation and its subsidiaries have informal lines of credit with various lenders. These arrangements generally provide for the maintenance of compensating balances ranging from a minimum of 10% of the available line of credit to a maximum of 10% of the line plus 10% of the loans outstanding, as determined on a daily average basis. At December 31, 1979 and 1978, the lines of credit available under these arrangements totaled approximately \$27 million and \$255 million, respectively. At December 31, 1979, \$1.2 million was maintained as compensating balances. Substantially all of the cash at December 31, 1978 was maintained as compensating balances. Under the revolving credit agreement, the amount of debt outstanding under these external lines cannot exceed \$15,000,000.

The maximum aggregate amount of bank borrowings outstanding at any month-end during 1979 was \$230 million. For the year 1979, the average daily amount outstanding was approximately \$157.2 million, having a weighted average interest rate of 14.2%. Bank borrowings outstanding at December 31, 1979 aggregated \$171 million having a weighted average interest rate of 17.2%.

The maximum aggregate amount of bank borrowings outstanding at any month-end during 1978 was \$102 million. For the year 1978, the average daily amount outstanding was approximately \$67 million, having a weighted average interest rate of 8.6%. Bank borrowings outstanding at December 31, 1978 aggregated \$90,100,000 having a weighted average interest rate of 11.1%.

5. Long-Term Debt Maturities:

Long-term debt due during the years 1980 through 1984 is as follows:

	(In Thousands)			
Year	*First Mortgage Bonds*	*Debentures*	*Other*	*Totals*
1980	\$ 15,334	\$5,000	\$18,480	\$ 38,814
1981	9,321	5,900	44,433	59,654
1982	21,625	5,900	5,433	32,958
1983	101,830	5,900	200	107,930
1984	90,856	5,900	4,000	100,756

Substantially all of the subsidiaries' property is subject to the lien of their respective mortgages.

6. Cumulative Preferred Stock—Mandatory Redemption:

At December 31, 1979 and 1978 the subsidiaries had outstanding the following issues of cumulative preferred stock which are subject to mandatory redemption requirements:

	Shares Outstanding		*Stated Value (In Thousands)*	
	1979	1978	1979	1978
JCP&L:				
13.5% Series F	187,500	200,000	\$18,750	\$20,000
11% Series G(1)	250,000	250,000	25,000	25,000
Due within one year	(25,000)	(12,500)	(2,500)	(1,250)
Penelec:				
11.72% Series J(1)	200,000	212,500	20,000	21,250
10.88% Series K(1)	320,000	320,000	32,000	32,000
Due within one year	(28,500)	(12,500)	(2,850)	(1,250)
Totals	904,000	957,500	\$90,400	\$95,750

(1) sold in 1975

JCP&L has had an annual redemption requirement of 12,500 shares of the Series F preferred stock since 1975. It also has an annual redemption requirement of 12,500 shares of the Series G preferred stock beginning in 1980.

Penelec has had an annual redemption requirement of 12,500 shares of the Series J preferred stock since 1976. It also has an annual redemption requirement of 16,000 shares of the Series K preferred stock beginning in 1980.

All redemptions are at the stated values of the shares, plus accrued dividends. No redemptions of preferred stock may be made unless dividends on all preferred stock for all past quarterly dividend periods have been paid or declared and set aside for payment.

The subsidiaries aggregate mandatory redemption requirement for all issues of cumulative preferred stock outstanding at December 31, 1979 is $26,750,000 through 1984.

7. Cumulative Preferred Stock—No Mandatory Redemption:

At December 31, 1979 and 1978, the subsidiaries had outstanding the following issues of cumulative preferred stock, which are redeemable solely at the option of the issuers:

	Shares Outstanding	*Stated Value (In Thousands)*
JCP&L:		
4% Series	125,000	$ 12,500
9.36% Series	250,000	25,000
8.12% Series	250,000	25,000
8% Series	250,000	25,000
7.88% Series	250,000	25,000
8.75% Series H(1)	2,000,000	50,000
Met-Ed:		
3.90% Series	117,729	11,773
4.35% Series	33,24[illegible]	3,325
3.85% Series	29,[illegible]75	2,917
3.80% Series	18,122	1,812
4.45% Series	35,637	3,564
8.12% Series	160,000	16,000
7.68% Series G	350,000	35,000
8.32% Series H	250,000	25,000
8.12% Series I	250,000	25,000
8.32% Series J	150,000	15,000
Penelec:		
4.40% Series B	56,810	5,681
3.70% Series C	97,054	9,705
4.05% Series D	63,696	6,370
4.70% Series E	28,739	2,874
4.50% Series F	42,969	4,297
4.60% Series G	75,732	7,573
8.36% Series H	250,000	25,000
8.12% Series I	250,000	25,000
9.00% Series L(2)	1,400,000	35,000
Total	6,783,912	$423,391

(1) sold in 1977
(2) sold in 1976

At December 31, 1979 and 1978, the subsidiaries were authorized to issue 37,035,000 shares (JCP&L—15,600,000 shares, Met-Ed—10,000,000 shares, and Penelec—11,435,000 shares) of cumulative preferred stock, no par value.

8. Common Stock and Capital Surplus:

Of the 75 million authorized shares of $2.50 par value common stock of the Corporation, 61,264,000 shares were issued and outstanding at December 31, 1979 and 28,000 shares were recorded as reacquired at $2.50 per share.

During the period January 1, 1975 through December 31, 1979, the Corporation issued additional shares of common stock as follows:

		(In Thousands)	
Year	*Number of Shares*	*Par Value Credited to Common Stock*	*Excess over Par Value Credited to Capital Surplus*
1975	7,399,000	$18,497	$84,296
1976	507,000	1,266	7,431
1977	4,458,000	11,146	72,767
1978	1,250,000	3,124	19,467
1979	293,000	731	4,188

9. Consolidated Retained Earnings:

Under the revolving credit agreement, $300,000,000 of the balance of consolidated retained earnings is restricted as to the payment of cash dividends on common stock.

10. Income Taxes:

Examination of Federal income tax returns through 1976 has been completed and the years 1977 and 1978 are currently under review. The Corporation and its subsidiaries have provided for any anticipated liabilities that may result from such examination.

Income tax expense for the years 1975 through 1979 was less than the amount computed by applying the statutory rate to book income subject to tax as follows:

	(In Millions)				
	1979	1978	1977	1976	1975
Operating income before income taxes	$343	$339	$349	$310	$277
Other income, net	9	4		1	1
Totals	352	343	349	311	278
Interest expense	(193)	(160)	(152)	(139)	(128)
Book income subject to income tax	$159	$183	$197	$172	$150
Income tax at statutory rate (a)	$ 73	$ 88	$ 95	$ 82	$ 72
Excess of tax over book depreciation (flow through portion) (Note 2)	(2)	(10)	(7)	(9)	(12)
Amortization of accumulated investment credits (Note 2)	(5)	(4)	(4)	(4)	(4)
Other adjustments	(3)	(2)		1	2
Income tax expense	$ 63	$ 72	$ 84	$ 70	$ 58
Effective income tax rate	40%	39%	43%	41%	39%

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

Income tax expense is comprised of the following:

	(In Millions)				
	1979	1978	1977	1976	1975
Federal income tax	$ 3	$(20)(b)	$ 9(c)	$33	$15(d)
State income tax	7	5	9	5	8
Income taxes on other income, net	5	2	1	1	1
Income taxes attributable to the allowance for borrowed funds (Note 3)	(8)	(15)	(13)	(11)	(9)
Provision for taxes currently payable (refundable)	7	(28)(b)	6(c)	28	15(d)
Deferred income taxes, net	68	58	35	34	27
Current investment credits	(7)(a)	46(b)	47(c)	12	20(d)
Amortization of accumulated investment credits	(5)	(4)	(4)	(4)	(4)
Income tax expense	$ 63	$ 72	$84	$70	$58

(a) Redetermination of prior years' investment credits resulting from 1979 net operating loss. This amount is reflected in the 1978 unused investment credit.

(b) Includes 1978 investment tax credits of $27 million carried back to prior years, which is included in Accounts receivable-Other in the accompanying December 31, 1978 consolidated balance sheet.

(c) Reflects 1976 investment tax credits of $7 million, resulting from adoption of TRAESOP and the election to claim investment tax credits under the progress payment method.

(d) Reflects an investment credit carry-over of $12 million from 1974.

(e) Unused 1978 and 1979 investment credits of approximately $17 million and $29 million, respectively (including $5 million and $4 million, respectively, of TRAESOP credits) are available for carry-forward to future years.

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

	(In Millions)				
	1979	1978	1977	1976	1975
Liberalized depreciation (Note 2):					
Federal	$ 50	$ 37	$ 24	$ 21	$ 20
State		5	4	3	3
Deferral of energy costs (Note 2):					
Federal	33	7	8	9	5
State	(2)	1		2	
Revenue taxes —energy clause revenues (Note 12)	(4)				
Other	(9)	8	(1)	(1)	(1)
Totals	$ 68	$ 58	$ 35	$ 34	$ 27

11. Loans to Non-Affiliated Coal Companies:

Penelec is providing financing to non-affiliated mining companies supplying coal to the Homer City generating station under long-term contracts. These loans bear interest at a rate which is 1½% per annum above the prime interest rate.

12. Supplementary Income Statement Information:

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

	(In Millions)				
	1979	1978	1977	1976	1975
Maintenance (including applicable payroll charges)	$ 91	$108	$ 87	$79	$70
Other taxes:					
State and local gross receipts	$ 87	$ 75	$ 67	$55	$51
Gross revenue and franchise	20	17	14	12	11
State surtax	9	7	6	5	5
Capital stock	11	11	10	6	7
Real estate and personal property	12	11	11	10	10
Other	10	9	7	7	6
Totals	$149	$130	$115	$95	$90

The liability for New Jersey State franchise and gross receipt taxes and surtax is established in each year of exercise of such franchise based on the preceding year's gross receipts and no liability exists in a current year to pay a tax based on that year's gross receipts. JCP&L has consistently made provision in its accounts for such taxes on this basis. For rate-making purposes (including the operation of the energy adjustment clause) the NJBPU computes allowable expenses as including provision for such taxes based on the current year's gross receipts rather than those of the preceding year. Effective January 1, 1979, pursuant to a recommendation by the FERC, JCP&L began recording the state revenue taxes related to energy clause revenues in the period the revenues are collected.

13. Pension Plans:

Total pension costs for the years 1979, 1978, 1977, 1976 and 1975 amounted to approximately $22.8 million, $19.6 million, $16.8 million, $14.9 million, and $12.4 million, respectively. Based on the latest available actuarial reports as of January 1, 1979, the actuarially computed vested benefits under certain of the plans exceeded the actuarial value of trust assets or reserves created in respect of such plans by $13.6 million and the unfunded past service liabilities for the plans amounted to approximately $125.7 million, or 39% of the total reserve requirement.

14. General Public Utilities Corporation (Parent Company):

The balance sheets of the Corporation at December 31, 1979 and 1978 are summarized as follows:

	(In Millions)	
	1979	1978
ASSETS		
Investment in subsidiaries, at equity (Notes 1 and 4)	$1,491	$1,401
Cash		5
Other Assets	1	2
Total Assets	$1,492	$1,408
LIABILITIES AND CAPITAL		
Long-term debt	$ 39	$ 39
Notes payable (Note 4)	58	
Other liabilities	2	3
Totals	99	42
Common stock (Note 8)	153	153
Capital surplus, less capital stock expense	754	750
Retained earnings (Notes 1 and 9)	486	463
Commitments and Contingencies (Note 1)		
Totals	1,393	1,366
Total Liabilities and Capital	$1,492	$1,408

The income statements of the Corporation for the years 1975-1979 are summarized as follows:

	(In Millions)				
	1979	1978	1977	1976	1975
Equity in earnings of subsidiaries	$108	$145	$153	$130	$121
Interest expense	(9)	(3)	(7)	(6)	(11)
Other expenses	(3)	(3)	(3)	(3)	(3)
Net Income	$ 96	$139	$143	$121	$107

The statements of sources of funds used for investment in operating subsidiaries of the Corporation for the years 1975-1979 are summarized as follows:

	(In Millions)				
	1979	1978	1977	1976	1975
Net Income	$96	$139	$143	$121	$107
Equity in earnings of subsidiaries not distributed	(59)	(3)	(4)	(3)	(7)
Totals	37	136	139	118	100
Dividends paid	(73)	(106)	(98)	(92)	(85)
Totals	(36)	30	41	26	15
Other sources (uses), net	4		10	(1)	25
Totals	(32)	30	51	25	40
Sale of common stock (Note 8)	4	22	82	8	97
Sale of long-term debt			45		
Bank borrowings, net (Note 4)	58	(2)	(35)	37	(120)
Retirement of long-term debt		(6)	(58)		
Totals	$30	$ 44	$ 85	$ 70	$ 17
Cash capital contributions to operating subsidiaries	$30	$ 44	$ 85	$ 70	$ 17

15. Jointly Owned Generating Stations:

The Corporation's subsidiaries participated, with nonaffiliated utilities, in the following jointly owned generating stations at December 31, 1979:

		Balance (In Thousands)	
Station	*% Ownership*	*In Service*	*Accumulated Depreciation*
Homer City	50	$284,176	$37,013
Keystone	16.67	37,059	9,851
Conemaugh	16.45	43,911	8,737
Yards Creek	50	16,549	2,433
Seneca	20	13,100	1,647

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

16. Quarterly Financial Data (Unaudited):

(In Thousands Except Per Share Data)

	First Quarter		Second Quarter	
	1979	1978	1979	1978
Operating Revenues	$384,889	$345,812	$335,364	$315,254
Operating Income	$ 76,492	$ 66,591	$ 63,778	$ 56,052
Net Income	$ 35,744	$ 38,596	$ 19,936	$ 27,245
Earnings per Share	$ .59	$ .65	$ .33	$ .45
Average Shares	61,082	59,799	61,264	60,016

	Third Quarter		Fourth Quarter	
	1979	1978	1979	1978
Operating Revenues	$383,927	$336,278	$385,974	$329,300
Operating Income	$ 73,220	$ 66,639	$ 63,812	$ 65,147
Net Income	$ 25,591	$ 38,014	$ 14,512	$ 34,919
Earnings per Share	$ .42	$ .63	$ .23	$ .57
Average Shares	61,264	60,275	61,264	60,776

Net income for the fourth quarter of 1978 reflects a $5 million decrease in income tax expense due to the flow-through of a portion of the excess of tax over book depreciation, resulting from Three Mile Island Unit 2's being placed in service in December 1978, and a $2.7 million reduction in income tax expense, plus related interest of $1 million (net of tax), because of the final resolution of certain Federal income tax matters.

Net income for the second, third and fourth quarters of 1979 have been affected by the actions of the PaPUC and the NJBPU in removing TMI-2 from rate base subsequent to the accident described in Note 1.

17. Supplementary Information To Disclose The Effects Of Changing Prices (Unaudited):

The following supplementary information is supplied in accordance with the requirements of FASB Statement No. 33, *Financial Reporting and Changing Prices*, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure, since a number of subjective judgements and estimating techniques were employed in developing the information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant, and equipment, which includes land, land rights, intangible plant, property held for future use, construction work in progress, and other physical property, was determined by indexing the surviving plant by individual company equipment cost indices or by the Handy-Whitman Index of Public Utility Construction Costs. These current cost amounts do not necessarily represent the replacement cost or current value of existing plant productive capacity. The actual replacement of the capacity of present facilities will occur over many years as future facilities, different in kind from present facilities, are constructed and placed in service.

The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant, and equipment was determined by applying the depreciation rates of the Corporation's subsidiaries to their respective indexed average 1979 depreciable plant amounts.

Fuel inventories, nuclear fuel, the cost of fuel used in generation, and purchased power and interchange have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased power and interchange through the operation of energy adjustment clauses or adjustments in base rate schedules to actual costs. For this reason fuel inventories and nuclear fuel, are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

Under the rate making prescribed by the regulatory commissions to which the Corporation's subsidiaries are subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices, the subsidiaries believe they will be allowed to earn on the increased cost of their net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Consolidated Statement of Income Adjusted for Changing Prices, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Consolidated Statement of Income Adjusted for Changing Prices

	In Thousands		
For the Year Ended December 31, 1979	*Conventional Historical Cost*	*Constant Dollar Average 1979 Dollars*	*Current Cost Average 1979 Dollars*
Operating Revenues (a)	$1,490,154	*$1,490,154*	*$1,490,154*
Energy Costs (b)	545,457	*545,457*	*545,457*
Depreciation	141,224	*248,903*	*280,147*
Other Operating Expenses	460,266	*460,266*	*460,266*
Income Taxes	65,905	*65,905*	*65,905*
Total Operating Expenses	1,212,852	*1,320,531*	*1,351,775*
Operating Income	277,302	*169,623*	*138,379*
Other Income and Deductions	28,535	*28,535*	*28,535*
Interest Charges and Preferred Dividends	210,054	*210,054*	*210,054*
Income from continuing operations (a) (excluding reduction to net recoverable cost)	$ 95,783	*$ (11,896) (c)*	*$ (43,140)*
Income (loss) per common share (after preferred dividend requirements) (a)	$ 1.56	*$ (.19)*	*$ (.70)*
Change in net plant assets during 1979 due to increases in specific prices			*$ 594,918 (d)*
Less: Change in net plant assets during 1979 due to increase in general price level (inflation)			*$ 864,144*
Change in specific prices net of general price level (inflation)			*$ (269,226)*
Reduction to net recoverable cost of plant assets		*$ (363,695)*	*$ (95,002)*
Gain from decline in purchasing power of net amounts owed		*$ 281,599*	*$ 281,599*

(a) Revenues do not include amounts for the operating and return requirements associated with the subsidiaries' investment in TMI-2 and, correspondingly, the amounts of income from continuing operations have been adversely affected by this loss of revenues (see Note 1).

(b) Energy costs include fuel, power purchased and interchanged, and deferral of energy costs.

(c) Including the reduction to net recoverable cost, the (loss) from continuing operations on a constant dollar basis would have been ($375,591,000) for 1979.

(d) At December 31, 1979, current cost of property, plant, equipment, and other physical property net of accumulated depreciation, was $7,199,735,000 while historical cost or net cost recoverable through depreciation was $4,084,619,000.

Five-Year Comparison of Selected Supplementary Financial Data

Adjusted for Effects of Changing Prices

Year Ended December 31,	*(In Average 1979 Dollars)* 1979	1978	1977	1976	1975
Operating revenues (in thousands)					
As reported	$1,490,154	$1,326,644	$1,252,013	$1,068,753	$ 954,420
In 1979 purchasing power	1,490,154	1,476,010	1,499,656	1,362,738	1,287,164
Cash dividends per common share					
As reported	$ 1.20	$ 1.77	$ 1.70	$ 1.68	$ 1.68
In 1979 purchasing power	1.22	1.97	2.04	2.14	2.26
Market price per common share at year-e‍nd					
As reported	$ 8.625	$17.500	$20.875	$19.500	$17.000
In 1979 purchasing power	8.156	18.751	24.386	24.322	22.224
Average consumer price index	217.4	195.4	181.5	170.5	161.2
December consumer price index	229.9	202.9	186.1	174.3	166.3

Quarterly Stock Price and Dividend Data 1978-1979

1978	*Price* *High*	*Low*	*Dividends (Cents)*
First Quarter	$21⅛	$18¾	44
Second Quarter	20⅛	18	44
Third Quarter	19⅜	17⅜	44
Fourth Quarter	19⅝	16⅝	45
1979			
First Quarter	18⅞	16¾	45
Second Quarter	15⅛	8¾	25
Third Quarter	10⅜	9	25
Fourth Quarter	9¼	7	25

System Statistics

General Public Utilities Corporation and Subsidiary Companies

	1979	1978	1977	1976	1975
Generating Capacities and Peaks (MW):					
Installed capacity (at year end)(a)	8,262	8,281	7,190	7,038	7,115
Annual hourly peak load	6,173(b)	5,898(b)	5,760(b)	5,705(b)	5,244(b)
Reserve (%)	33.8	40.4	24.8	23.4	35.7
Net System Requirements (in thousands of MWH):					
Net generation	26,891	29,747	26,576	26,213	27,169
Power purchased and interchanged, net	7,982	4,275	5,926	5,489	2,558
Total Net System Requirements	34,873	34,022	32,502	31,702	29,727
Load Factor (%)	64.5	65.8	64.4	63.4	64.7
Production Data:					
Cost of fuel (in mills per KWH of generation):					
Coal	12.95	13.17	11.15	10.50	10.42
Oil	39.01	28.62	29.74	26.13	27.00
Nuclear	3.18	2.31	2.06	2.01	2.43
Other	35.77	27.58	22.82	16.44	16.45
Average	12.48	11.17	10.17	9.32	9.43
Generation by fuel type (%):					
Coal	67	57	56	59	58
Oil	6	9	10	9	9
Nuclear	25	34	33	31	32
Other (gas & hydro)	2		1	1	1
Totals	100	100	100	100	100
Electric Energy Sales (in thousands of MWH):					
Residential	10,754	10,715	10,257	9,932	9,418
Commercial	7,359	7,208	6,832	6,483	6,063
Industrial	11,974	11,447	10,849	10,477	9,847
Other	1,908	1,900	1,832	1,745	1,576
Totals	31,995	31,270	29,770	28,637	26,904
Electric Operating Revenues (in thousands):					
Residential	$ 597,757	$ 544,571	$ 515,522	$ 444,244	$395,329
Commercial	360,859	328,081	308,904	263,423	237,676
Industrial	431,104	365,456	342,487	285,056	258,355
Other	77,512	67,421	64,541	57,180	45,709
Totals from KWH Sales	1,467,232	1,305,529	1,231,454	1,049,903	937,069
Other revenues	20,479	18,721	18,222	16,273	15,259
Totals	$1,487,711	$1,324,250	$1,249,676	$1,066,176	$952,328
Customers—Year End (in thousands):					
Residential	1,386	1,364	1,339	1,320	1,299
Commercial	157	154	151	149	146
Industrial	10	9	9	10	10
Other	5	5	5	4	5
Totals	1,558	1,532	1,504	1,483	1,460
Price per KWH—all customers (cents)	4.59	4.18	4.14	3.67	3.48

(a) Includes the installed capacity of the Three Mile Island nuclear generating station Unit No. 1 of 800 MW and Unit No. 2 of 906 MW. The reserve capacity, excluding these units for 1979, would be 6.2%.

(b) Winter peak.

Directors

Louis J. Appell Jr. [1, 2, 3]
President
Susquehanna Broadcasting Co.
York, Pennsylvania 17405
(Communications and Consumer Products)

John F. Burditt [1, 2]
Chairman and Chief Executive Officer
ACF Industries, Inc.
New York, New York 10017
(Equipment Manufacturing)

Herman Dieckamp
President and Chief Operating Officer
General Public Utilities Corporation
Parsippany, New Jersey 07054

Val B. Diehl [1, 2]
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Nabisco Inc.
East Hanover, New Jersey 07936
(Consumer Packaged Products)

Warren J. Hayford [1, 3]
President and Chief Operating Officer
International Harvester Company
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(Equipment Manufacturing)

William G. Kuhns
Chairman and Chief Executive Officer
General Public Utilities Corporation
Parsippany, New Jersey 07054

John F. O'Leary [1, 3]
Energy Consultant
Washington, D.C. 20006

Dr. John W. Oswald [1]
President
Pennsylvania State University
University Park, Pennsylvania 16802

Paul R. Roedel [1, 2]
President and Chief Operating Officer
Carpenter Technology Corporation
Reading, Pennsylvania 19603
(Specialty Metals)

[1] *Member of Audit Committee*
[2] *Member of Personnel Committee*
[3] *Member of Nominating Committee*

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General Public Utilities Corporation

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Chairman and Chief Executive Officer

Herman Dieckamp
President and Chief Operating Officer

Verner H. Condon
Vice President and Chief Financial Officer

Edward J. Holcombe
Comptroller

John G. Graham
Treasurer

Helen M. Graydon
Secretary

Grace Wade
Assistant Secretary

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Jersey Central Power & Light Company
Madison Ave. at Punch Bowl Road
Morristown, N.J. 07960

Herman Dieckamp, Acting President
Metropolitan Edison Company
2800 Pottsville Pike
Reading, Pa. 19603

William A. Verrochi, President
Pennsylvania Electric Company
1001 Broad Street
Johnstown, Pa. 15907

GPU Service Corporation

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General Counsel

Transfer Agent and Registrar—Common Stock
Hartford National Bank and Trust Company
777 Main Street, Hartford, Ct. 06115

Agent—Dividend Reinvestment and Stock Purchase Plan—Common Stock
Hartford National Bank and Trust Company
P.O. Box 210, Hartford, Ct. 06101

GENERAL PUBLIC UTILITIES CORPORATION
100 Interpace Parkway
Parsippany, N. J. 07054

(201) 263-6500

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