

PPL ELECTRIC UTILITIES CORP

Form DEF 14C

March 11, 2005

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**SCHEDULE 14C**

Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement.

**PPL Electric Utilities Corporation**

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(Name of Registrant as Specified in Its Charter)

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PPL Electric Utilities Corporation  
Notice of Annual Meeting  
April 19, 2005  
and  
Information Statement  
(including appended  
2004 Financial Statements)

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**Notice of Annual Meeting of Shareowners**

The Annual Meeting of Shareowners of PPL Electric Utilities Corporation ( PPL Electric Utilities or the Company ) will be held at the offices of the Company at Two North Ninth Street, Allentown, Pennsylvania, on Tuesday, April 19, 2005, at 8 a.m. The Annual Meeting will be held for the purposes stated below and more fully described in the accompanying Information Statement, and to transact such other business as may properly come before the Annual Meeting or any adjournments thereof:

1. The election of directors.

The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting.

Proxies are not being solicited from PPL Electric Utilities shareowners because a quorum exists for the Annual Meeting based on the PPL Electric Utilities stock held by its parent, PPL Corporation ( PPL ). PPL owns all of the outstanding common stock and as a result 99% of the voting shares of PPL Electric Utilities, and intends to vote all of these shares in favor of the election of the Company s nominees as directors.

Only shareowners of record at the close of business on Monday, February 28, 2005, will be entitled to vote at the Annual Meeting or any adjournments thereof. All shareowners are invited to attend the Annual Meeting in person. If the Annual Meeting is interrupted or delayed for any reason, the shareowners attending the adjourned Annual Meeting shall constitute a quorum and may act upon such business as may properly come before the Annual Meeting.

By Order of the Board of Directors,

Elizabeth Stevens Duane

Secretary

March 11, 2005

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### Information Statement

The Company's principal executive offices are located at Two North Ninth Street, Allentown, Pennsylvania 18101, telephone number 610-774-5151. This Information Statement was first released to shareowners on or about March 11, 2005.

PPL Electric Utilities' parent, PPL Corporation ( PPL ), owns all of the shares of the Company's outstanding common stock, which represents 99% of PPL Electric Utilities' outstanding voting shares. As a result, a quorum exists for the Annual Meeting based on PPL's stock ownership. **ACCORDINGLY, WE ARE NOT ASKING THE SHAREOWNERS FOR A PROXY, AND SHAREOWNERS ARE REQUESTED NOT TO SEND US A PROXY.**

### OUTSTANDING STOCK AND VOTING RIGHTS

The Board of Directors has established Monday, February 28, 2005, as the record date for shareowners entitled to vote at the Annual Meeting (the Record Date ). The transfer books of the Company will not be closed. PPL Electric Utilities' Amended and Restated Articles of Incorporation (the Articles ) divide its voting stock into four classes: 4<sup>1</sup>/<sub>2</sub>% Preferred Stock, Series Preferred Stock, Preference Stock and Common Stock. There were no shares of Preference Stock outstanding on the Record Date. Each currently outstanding share of each class of stock entitles the holder to one vote upon any business properly presented to the Annual Meeting. A total of 78,535,052 shares was outstanding on the Record Date, consisting of 78,029,863 shares of Common Stock all owned by PPL, 247,524 shares of 4<sup>1</sup>/<sub>2</sub>% Preferred Stock and 257,665 shares of Series Preferred Stock.

As of February 15, 2005, there are no entities known by the Company to be the beneficial owner of five percent (5%) or more of any class of the Company's voting stock entitled to vote at the Annual Meeting. As discussed above, all of the holders of the preferred stock of the Company have less than one percent (1%) of the total voting power of the Company.

Although proxies are not being solicited, shareowners may attend the Annual Meeting and vote in person. If you plan to attend the Annual Meeting and vote in person, we will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, you must bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on February 28, 2005, the record date for voting. PPL intends to vote all of its shares of the Company's common stock, or 99% of the voting shares of the Company, in favor of election of each of the nominees for director (see Election of Directors ), thereby assuring the election of these directors.

To preserve voter confidentiality, the Company voluntarily limits access to shareowner voting records to certain designated employees of PPL Services Corporation. These employees sign a confidentiality agreement which prohibits them from disclosing the manner in which a shareowner has voted to any employee of Company affiliates or to any other person (except to the Judges of Election or the person in whose name the shares are registered), unless otherwise required by law.

With respect to the election of directors, shareowners have the unconditional right of cumulative voting. Shareowners may vote in this manner by multiplying the number of shares registered in their respective names on the Record Date by the total number of directors to be elected at the Annual Meeting and casting all of such votes for one nominee or distributing them among any two or more nominees. The nominees receiving the highest number of votes, up to the number of directors to be elected, will be elected. Authority to vote for any individual nominee can be withheld by striking a line through that person's name in the list of nominees on the ballot. Shares will be voted for the remaining nominees on a pro rata basis.

### PROPOSAL 1: ELECTION OF DIRECTORS

The nominees this year are John R. Biggar, Paul T. Champagne, Dean A. Christiansen, Robert J. Grey, William F. Hecht, Rick L. Klingensmith, James H. Miller, Roger L. Petersen, Bryce L. Shriver and John F. Sipics, who are currently serving as directors. The Board of Directors has no reason to believe that any of the nominees will become unavailable for election, but, if any nominee should become unavailable prior to the meeting, PPL intends to vote its shares of PPL Electric Utilities common stock for the election of such other person as the Board of Directors may recommend in place of that nominee.



**The Board of Directors  
recommends that shareowners vote FOR Proposal 1**

**NOMINEES FOR DIRECTORS:**

**JOHN R. BIGGAR**, 60, serves as Executive Vice President and Chief Financial Officer of the Company's parent, PPL. He is also a director of PPL, and is a manager of PPL Energy Supply, LLC and PPL Transition Bond Company, LLC, each a subsidiary of PPL. Mr. Biggar earned a bachelor's degree in political science from Lycoming College and a Juris Doctor degree from the College of Law at Syracuse University. He joined the Company in 1969. Before being named as Executive Vice President and Chief Financial Officer of PPL in 2001, Mr. Biggar served two years as Senior Vice President and Chief Financial Officer and 14 years as Vice President-Finance. Mr. Biggar has been a Director since 2000.

**PAUL T. CHAMPAGNE**, 46, serves as President of PPL EnergyPlus, LLC, a subsidiary of PPL that markets energy in key U.S. markets. Mr. Champagne earned a bachelor's degree in chemical engineering and completed master's course work in mechanical engineering at the University of Illinois. Mr. Champagne served as President of PPL Global, LLC, a PPL subsidiary, for three years and prior to that as its Vice President and Senior Development Officer. Prior to joining PPL Global in 1995, he served in several business development positions at Edison Mission Energy, including Midwest regional manager. Mr. Champagne has been a Director since 2000.

**DEAN A. CHRISTIANSEN**, 45, is Managing Director of Sales and Marketing for Capital Markets Engineering and Trading, LLC ( CMET ), a New York-based investment banking boutique providing, among other services, structured finance securitization and financial engineering solutions to the capital markets. Prior to joining CMET in August 2004, Mr. Christiansen was the President of Acacia Capital, Inc., a New York City-based corporate finance advisory firm founded in 1990. From October 2000 to July 2003, he also served as President and a Director of Lord Securities Corporation of New York, a financial services and administration company with operations world-wide. Mr. Christiansen received a degree in government from the University of Notre Dame and has completed additional studies in Aerospace engineering. Mr. Christiansen is also a member of the board of PPL Transition Bond Company, LLC. He has been a Director since 2001.

**ROBERT J. GREY**, 54, serves as Senior Vice President, General Counsel and Secretary of the Company's parent, PPL and is a manager of PPL Energy Supply, LLC. Mr. Grey earned his bachelor's degree from Columbia University, a law degree from Emory University, and a Master of Laws degree from George Washington University. Before being named as Senior Vice President, General Counsel and Secretary of PPL and the Company in 1996, Mr. Grey served as Vice President, General Counsel and Secretary. Before joining the Company in 1995, Mr. Grey served as General Counsel for Long Island Lighting Company and was a partner with the law firm of Preston Gates & Ellis. He has been a Director since 2000.

**WILLIAM F. HECHT**, 62, is Chairman, President and Chief Executive Officer of the Company's parent, PPL and is Chairman of the Company. Mr. Hecht received bachelor's and master's degrees in electrical engineering from Lehigh University, and joined the Company in 1964. He was elected President and Chief Operating Officer in 1991 and was named Chairman, President and Chief Executive Officer of the Company in 1993, and to his PPL position in February 1995. Mr. Hecht is a director of DENTSPLY International Inc., the Federal Reserve Bank of Philadelphia, RenaissanceRe Holdings Ltd. and PPL, is a manager of PPL Energy Supply, LLC and serves on the board of a number of civic and charitable organizations. Mr. Hecht has been a Director since 1990.

**RICK L. KLINGENSMITH**, 44, is president of PPL Global, LLC, the subsidiary of PPL that owns and operates electricity distribution businesses in Latin America and the United Kingdom. Mr. Klingensmith joined PPL Global in February 2000 as General Manager of Global Assets. In August 2000, he was promoted to Vice President-Finance. Prior to joining PPL Global, Mr. Klingensmith was Manager of Energy Systems Assets and Acquisitions for Air Products and Chemicals, Inc. in Allentown, Pennsylvania. Before joining Air Products, Mr. Klingensmith was an engineer in the power systems group of Stone & Webster

Engineering Corporation. Mr. Klingensmith earned a bachelor's degree in engineering science and mechanics from Pennsylvania State University and a master's degree in business administration from the Darden School of the University of Virginia. He has been a Director since 2004.

**JAMES H. MILLER**, 56, is Executive Vice President and Chief Operating Officer of the Company's parent, PPL. Prior to his current appointment in September 2004, Mr. Miller served as President of PPL Generation,

LLC, a PPL subsidiary that operates power plants in the United States. He also serves as a manager of PPL Montana, LLC. Mr. Miller earned a bachelor's degree in electrical engineering from the University of Delaware and served in the U.S. Navy nuclear program. Before joining PPL Generation, LLC in February 2001, Mr. Miller served as Executive Vice President and Vice President, Production of USEC, Inc. from 1995 and prior to that time as President of ABB Environmental Systems, President of UC Operating Services, President of ABB Resource Recovery Systems and Plant Manager of Delmarva Power and Light Co. Mr. Miller has been a Director since 2001.

**ROGER L. PETERSEN**, 54, serves as President of PPL Development Company, LLC, a subsidiary of PPL that engages in development, acquisition and divestiture activities. Prior to being named to this position in September 2004, he was the President of PPL Global, LLC, a subsidiary of PPL that currently operates electricity distribution businesses in Latin America and the United Kingdom and that previously invested in and developed power projects world-wide. Prior to being named President of PPL Global in October 2001, Mr. Petersen served as President and Chief Executive Officer of PPL Montana, a subsidiary of PPL, for two years, and Vice President and Chief Operating Officer of PPL Global for four years. Mr. Petersen also served as regional Vice President of Edison Mission Energy and as project manager of U.S. and international projects at Fluor Corporation. Mr. Petersen earned a business management degree from the University of California at Los Angeles, a bachelor's degree in mechanical engineering from South Dakota State University and a master's degree in engineering from California Polytechnic University at Pomona. Mr. Petersen has been a Director since 2001, except for the period of January 1, 2004 through August 31, 2004.

**BRYCE L. SHRIVER**, 57, is President and Chief Nuclear Officer of PPL Generation, LLC, the subsidiary of PPL Corporation that operates power plants in the United States. Mr. Shriver joined PPL in September 1999 as General Manager for the Susquehanna nuclear power plant. He was named Vice President-Nuclear Site Operations in January 2000, and became Senior Vice President and Chief Nuclear Officer in May 2002 before being named to his current position in September 2004. Prior to joining PPL, Mr. Shriver served in a variety of leadership and key management positions at the Tennessee Valley Authority, Virginia Power Company and the University of Virginia. He also served as a nuclear power engineer with the U.S. Navy. Mr. Shriver received Bachelor of Science and Ph.D. degrees in metallurgical engineering and a master's degree in nuclear engineering, all from the University of Missouri at Rolla. He also earned his M.B.A. from Averett College, Danville, Va. He has been a director since 2004.

**JOHN F. SIPICS**, 56, is President of the Company. He also serves as Chief Executive Officer of PPL Gas Utilities Corporation. Mr. Sipics earned bachelor's and master's degrees in electrical engineering from Lehigh University. He is also a registered professional engineer in Pennsylvania. Before being named to his current position in 2003, Mr. Sipics served as Vice President-Asset Management for two years and Vice President-Delivery Services and Economic Development, which later became Regulatory Support, for three years. Mr. Sipics joined the Company as an engineer in 1970 and served in a variety of positions prior to those described above. Mr. Sipics also serves on the boards and committees of a variety of industry associations, and is a director of the Greater Lehigh Valley Chapter of the United Way. Mr. Sipics has been a director since 2003.

## **GENERAL INFORMATION REGARDING DIRECTORS AND EXECUTIVE OFFICERS**

### **Director Attendance at Board Meetings**

The Board of Directors held one Board meeting and four Executive Committee meetings during 2004. Each current director attended at least 75% of the meetings held by the Board and its Executive Committee during the year, except for Mr. Biggar, due to a death in his family. The average attendance of current directors at the Board and Committee meetings held during 2004 was 88%. Directors are expected to regularly attend all meetings of the Board, its Executive Committee and shareowners. All directors, except for one, attended the 2004 Annual Meeting of Shareowners.



### **Compensation of Directors**

The Company pays Lord Securities Corporation an annual fee of \$7,000 for providing the services of its independent director, Dean A. Christiansen. Directors who are employees of the Company or its affiliates receive no separate compensation for service on the Board of Directors or its Executive Committee.

### **Stock Ownership**

As noted above, all of the outstanding common stock of PPL Electric Utilities is owned by PPL. No directors or executive officers own any PPL Electric Utilities preferred stock.

### **Shareowner Communications with Board**

Shareowners interested in communicating with the directors as a group may write to the Board of Directors c/o Corporate Secretary's Office, PPL Electric Utilities Corporation, Two North Ninth Street, Allentown, Pennsylvania 18101. The Secretary of the Company forwards all correspondence to the respective Board members, with the exception of commercial solicitations, advertisements or obvious junk mail. Concerns relating to accounting, internal controls or auditing matters are to be immediately brought to the attention of PPL's Office of Business Ethics and Compliance and are handled in accordance with procedures established by PPL's Audit Committee with respect to such matters.

### **Code of Ethics**

The Company's parent maintains its *Standards of Conduct and Integrity*, which have been adopted by the Company and are applicable to all Board members and employees of the Company and its subsidiaries, including the principal executive officer, the principal financial officer and the principal accounting officer of the Company. The full text of the *Standards* can be found in the Corporate Governance section of PPL's Web site ([www.pplweb.com/about/corporate+governance.htm](http://www.pplweb.com/about/corporate+governance.htm)).

### **Board Committees**

The Company does not have standing audit, nominating and compensation committees of the Board of Directors.

**Executive Committee.** During the periods between Board meetings, the Executive Committee's function is to act on behalf of the Board on appropriate matters that do not require full Board approval under the Pennsylvania Business Corporation Law or the Company's articles of incorporation and bylaws. This Committee met four times during 2004. The members of the Executive Committee are Mr. Hecht (chair), and Messrs. Biggar and Sipics.

**Nominations.** The Board of Directors of the Company makes the nominations for election of directors for the Company and does not have a separate standing nominating committee. As PPL owns all of the shares of the Company's common stock, which represents 99% of the Company's outstanding voting shares, PPL has a quorum and voting power for the purpose of election of directors of the Company, and PPL recommends to the Board of Directors of the Company all of the nominees for directors of the Company. Therefore, the Board of Directors of the Company acts upon these recommendations and actions of PPL. Most of the directors nominated are officers of PPL and its subsidiaries, including the Company. In addition, because the Amended and Restated Articles of Incorporation require the Company to have at all times a director who is independent, the Board of Directors will nominate one independent director for election to the Board of Directors. The current independent director, Mr. Christiansen, was chosen by the Company's board, upon the recommendation of PPL. Because PPL controls the vote and the nomination of directors of the Company, the Company has not recently received any director recommendations from owners of voting preferred stock of the Company. Shareowners interested in recommending nominees for directors should submit their recommendations in writing to: Secretary, PPL Electric Utilities Corporation, Two North Ninth Street, Allentown, Pennsylvania 18101. In order to be considered, nominations by shareowners must be received by the Company 75 days prior to the 2006 Annual Meeting and must contain the information required by the Bylaws, such as the name and address of the shareowner making the nomination and of the proposed nominees and certain other information concerning the shareowner and the nominee.



In considering the candidates recommended by PPL, the Board of Directors seeks individuals who possess strong personal and professional ethics, high standards of integrity and values, independence of thought and judgment and who have senior corporate leadership experience, including within PPL. The Company believes that prior business experience is valuable and provides a necessary basis for consideration of the many complicated issues associated with PPL Electric Utilities' business and the impact of related decisions on PPL and other shareowners, customers, employees and the general public. In addition, the Board of Directors seeks individuals who have a broad range of demonstrated abilities and accomplishments beyond corporate leadership. These abilities include the skill and expertise sufficient to provide sound and prudent guidance with respect to all of the Company's operations and interests. After completing the evaluation process, the Board of Directors votes on whether to approve the nominees. Each nominee to be elected who is named in this Information Statement was recommended by PPL in accordance with the practices described above.

### Retirement Plans for Executive Officers

PPL Electric Utilities' officers are eligible for benefits under the PPL Retirement Plan, a defined benefit plan, and the PPL Supplemental Executive Retirement Plan (SERP) upon retirement from an affiliated company. For purposes of calculating benefits under the PPL Retirement Plan, the compensation used is base salary, plus certain cash incentive awards, less amounts deferred under the PPL Officers Deferred Compensation Plan. Base salary, including any amounts deferred, is listed in the Summary Compensation Table on page 7. For purposes of calculating benefits under the SERP, the compensation used is base salary, cash bonus, and, in some cases, the value of any restricted stock grant for the year in which earned (as described below), as well as dividends paid on restricted stock. To measure compensation for the last year of employment prior to retirement, the PPL Retirement Plan and the SERP use a pro-rated amount of an assumed cash incentive award.

Benefits payable under the PPL Retirement Plan are subject to limits set forth in the Internal Revenue Code (the Code) and are not subject to any deduction for Social Security benefits or any other offset. Benefits are computed on the basis of the life annuity form of pension at normal retirement age of 65. The SERP is an unfunded, non-contributory plan. Unlike the PPL Retirement Plan, the SERP provides for the inclusion of earnings in excess of the limits contained in the Code, including deferred incentive compensation, in the calculation of final average earnings, and for benefits in excess of the limits provided under the Code. Except as described above, benefits payable under the SERP are computed on the same basis and are offset by PPL Retirement Plan benefits and for those officers eligible for benefits under the old formula described below, the maximum Social Security benefit payable at age 65. Benefits under both plans are reduced for retirement prior to age 60. Generally, absent a specifically authorized exception, no benefit is payable under the SERP if years of credited service are less than 10 years.

The following table shows the estimated gross annual retirement benefits for the Named Executive Officers listed on page 7 payable under the PPL SERP formula.

### Estimated Annual Retirement Benefits at Normal Retirement Age of 65

Five-Year Average Annual Compensation	Years of Service			
	15 Years	20 Years	25 Years	30 Years
\$ 300,000	\$ 90,000	\$ 120,000	\$ 142,500	\$ 165,000
350,000	105,000	140,000	166,250	192,500
400,000	120,000	160,000	190,000	220,000
450,000	135,000	180,000	213,750	247,500
500,000	150,000	200,000	237,500	275,000

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550,000	165,000	220,000	261,250	302,500
600,000	180,000	240,000	285,000	330,000
650,000	195,000	260,000	308,750	357,500
700,000	210,000	280,000	332,500	385,000

As of January 1, 2005, the years of credited service under the PPL Retirement Plan for Messrs. Sipics and Abel were 33 and 30, respectively. Mr. Farr does not have any years of credited service under the PPL Retirement Plan. The years of credited service under the SERP for each of these officers were as follows: Mr. Sipics 26, Mr. Farr 6 and Mr. Abel 23. The total SERP benefit will not increase beyond 30 years for any participant.

For officers hired on or after January 1, 1998, including Mr. Farr, benefits under the SERP were revised as follows: (i) restricted stock grants are not included in compensation for purposes of calculating benefits under the SERP; (ii) the percentage of pay provided as a retirement benefit is changed from 2.7% for the first 20 years of service plus 1.0% for the next 10 years, to 2.0% for the first 20 years and 1.5% for the next 10 years; and (iii) credit for years of service will commence as of the employee's date of hire instead of at age 30.

For officers hired prior to January 1, 1998, benefits under the SERP are calculated under the greater of the old formula or the new formula, except that compensation for purposes of the old formula includes restricted stock grants only to the extent earned through December 31, 2001, and will be frozen as of December 31, 2001, and compensation for purposes of the new formula includes restricted stock grants only to the extent earned through December 31, 1997.

**SUMMARY COMPENSATION TABLE**

The following table summarizes all compensation for the President and the most highly compensated executive officers ( Named Executive Officers ) for the last three fiscal years. Mr. McCabe resigned as Vice President and Controller on February 20, 2004, and Mr. Farr was elected as Vice President and Controller effective August 23, 2004. Although Mr. McCabe resigned as Vice President and Controller in 2004, he is included in the table due to his severance compensation. For the years included in the table, Messrs. McCabe and Abel were not paid separately as officers of PPL Electric Utilities, but were employees of PPL Services Corporation. Prior to becoming Vice President and Controller in August 2004, Mr. Farr served as Senior Vice President of PPL Global, LLC during 2004, and prior to that was a vice president of PPL Global. Restricted stock awards and stock options are for shares of PPL.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary <sup>(1)</sup> (\$)	Bonus <sup>(1)(2)</sup> (\$)	Other Annual Compensation <sup>(3)</sup> (\$)	Restricted Stock Award <sup>(4)</sup> (\$)	Options <sup>(5)</sup> (#)	All Other Compensation <sup>(6)</sup> (\$)
John F. Sipics President	2004	288,769	50,730	5,577	408,893	23,650	8,987
	2003	210,954	0	4,808	236,691	11,990	8,226
	2002	192,806	78,533	14,909	56,272	11,980	7,088
Paul A. Farr Vice President and Controller	2004	244,700	81,750	7,458	342,035	11,140	4,283
	2003	194,909	58,498	2,877	120,848	11,570	103,073
	2002	187,979	82,279	17,163	64,555	10,880	46,292
Joseph J. McCabe Former Vice President and Controller	2004	40,987	0	42,638	0	13,440	119,628
	2003	235,584	78,000	0	71,000	14,160	6,278
	2002	226,201	95,825	0	68,796	13,560	5,707
James E. Abel Treasurer	2004	242,192	112,100	4,646	133,265	13,350	7,301
	2003	233,446	53,962	1,000	132,348	13,860	6,909
	2002	221,418	96,486	900	67,340	13,270	6,154

<sup>1</sup> Salary and bonus data include deferred cash compensation. Mr. Farr was elected Vice President and Controller effective August 23, 2004. Mr. Farr deferred \$18,200 of salary in 2004, \$15,600 of salary and \$41,140 of bonus in 2003, and \$10,100 of salary and \$28,465 of bonus in 2002. Mr. McCabe resigned as Vice President and Controller on February 20, 2004 and was not eligible for a cash bonus or restricted stock awards for 2004 performance.

Messrs. Sipics and Farr elected to implement an Exchange (as defined below) of \$118,370 and \$81,750 respectively, of their cash bonus for 2004 for restricted stock units under the Premium Exchange Program (as defined below). Messrs. Sipics, Farr and Abel elected to implement an Exchange of \$113,608, \$42,137 and \$44,151, respectively of their cash bonuses for 2003 for restricted stock units under the Premium Exchange Program. See description of the Premium Exchange Program under Compensation Report of the Board of Directors. The value of these restricted stock units are reflected under the Restricted Stock Award column of this table.

- <sup>3</sup> Includes compensation for vacation earned, but not taken, for Mr. Sipics of \$5,577 in 2004, \$4,808 in 2003, and \$14,909 in 2002, for Mr. Farr of \$7,458 in 2004, \$2,877 in 2003 and \$17,163 in 2002, for Mr. McCabe of \$42,638 in 2004, and for Mr. Abel of \$3,746 in 2004. Also includes fees earned by Mr. Abel of \$900 for 2004, \$1,000 in 2003 and \$900 in 2002 for serving as a director of Safe Harbor Water Power Corporation, an affiliate of the Company.
- <sup>4</sup> The dollar value of restricted common stock awards was calculated by multiplying the number of shares or units awarded by the closing price per share or unit on the date of the grant. As of December 31, 2004, the officers listed in this table held the following number of shares of restricted common stock and restricted stock units, with the following values: Mr. Sipics 7,920 (\$421,978), Mr. Farr 17,700 (\$943,056), Mr. McCabe 0 and Mr. Abel 5,990 (\$319,147). These year-end data do not include awards made in January 2005 for 2004 performance, or awards which had originally been restricted and for which the restriction periods have lapsed or been lifted. Dividends or dividend equivalents are paid currently on restricted stock awards. All outstanding restricted stock awards to these individuals have a restriction period of three years, except for 12,300 shares of restricted common stock for Mr. Farr that are restricted until April 27, 2027, under the retention agreement discussed below.
- <sup>5</sup> All of the stock options of Mr. McCabe for his 2004 award listed here were forfeited on March 1, 2004 pursuant to the terms of the Incentive Compensation Plan.
- <sup>6</sup> Includes Company contributions to the Officers' Deferred Savings Plan and ESOP accounts. Also includes relocation expenses of \$101,069 for 2003 and \$44,050 for 2002 paid to Mr. Farr, and a foreign services premium of \$654 paid to Mr. Farr in 2002. For Mr. McCabe, 2004 amounts include severance payment of \$118,398.

**OPTION GRANTS IN LAST FISCAL YEAR**

The following table provides information on stock options for shares of PPL granted to the Named Executive Officers during 2004.

Name	Individual Grants <sup>(1)</sup>				Grant Date Value
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in 2004	Exercise or Base Price	Expiration Date	Grant Date Present Value <sup>(2)</sup>
J. F. Sipics	23,650	3.1%	\$ 45.18	1/22/2014	\$ 312,653
P. A. Farr	11,140	1.5	45.18	1/22/2014	147,271
J. J. McCabe <sup>(3)</sup>	13,440	1.8	45.18	1/22/2014	177,677
J. E. Abel	13,350	1.8	45.18	1/22/2014	176,487

<sup>1</sup> Exercisable in three equal annual installments beginning January 22, 2005.

<sup>2</sup> Values indicated are an estimate based on a discounted Black-Scholes option pricing model. The actual value realized, if any, will be determined by the excess of the stock price over the exercise price on the date the option is exercised. There is no certainty that the actual value realized will be at or near the value estimated by the discounted Black-Scholes option pricing model.

<sup>3</sup> All of the stock options of Mr. McCabe for his 2004 award listed here were forfeited on March 1, 2004 pursuant to the terms of the Incentive Compensation Plan.

Assumptions used for the discounted Black-Scholes option pricing model are as follows:

Risk-free interest rate	3.79%
Volatility	33.79%
Dividend yield	3.51%
Time of exercise	10 years
Risk of forfeiture	94.11%

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES**

The following table summarizes information for the Named Executive Officers concerning exercises of stock options for shares of PPL during 2004 and the number and values of all unexercised stock options as of December 31, 2004.

**Number of Securities**

**Value of Unexercised**

Name	Shares Acquired on Exercise #	Value Realized \$	Underlying Unexercised Options at December 31, 2004		In-the-Money Options at December 31, 2004	
			Exercisable #	Unexercisable #	Exercisable \$	Unexercisable \$
J. F. Sipics	0	\$	26,034	35,636	373,918	414,351
P. A. Farr	7,483	342,526	5,380	22,480	55,596	298,240
J. J. McCabe	51,453	2,372,053	15,750	0	162,757	0
J. E. Abel	19,043	895,272	5,550	27,013	57,353	358,881

Value of unexercised options at fiscal year-end represents the difference between the exercise price of any outstanding in-the-money option grant and \$53.49, the average of the high and low price of PPL common stock on December 31, 2004.

#### **CHANGE-IN-CONTROL ARRANGEMENTS**

PPL entered into agreements with each of the Named Executive Officers, which provide benefits to the officers upon certain terminations of employment following a change in control of PPL (as such term is defined in the agreements). The benefits provided under these agreements replace any other severance benefits provided to these officers by PPL, or any prior severance agreement.

Each of the agreements continues in effect until December 31, 2006, and the agreements generally are automatically extended for additional one-year periods. Upon the occurrence of a change in control, the agreements will expire no earlier than 36 months after the month in which the change in control occurs. Each agreement provides that the officer will be entitled to the severance benefits described below if PPL terminates the officer's employment following a change in control for any reason other than death, disability, retirement or cause, or if the officer terminates employment for good reason (as such terms are defined in the agreements).

The benefits consist of a lump sum payment equal to three times the sum of (a) the officer's base salary in effect immediately prior to date of termination, or if higher, immediately prior to the first occurrence of an event or circumstance constituting good reason and (b) the highest annual bonus in respect of the last three fiscal years ending immediately prior to the fiscal year in which the change in control occurs, or if higher, the fiscal year immediately prior to the fiscal year in which first occurs an event or circumstance constituting good reason. In addition, under the terms of each agreement, PPL would provide the officer and dependents with continuation of welfare benefits for the 36-month period following separation (reduced to the extent the officer receives comparable benefits from another employer), and would pay the officer unpaid incentive compensation that has been allocated or awarded for a previous performance period, the maximum prorated awards for the current performance period, a lump sum payment having an actuarial present value equal to the additional pension benefits the officer would have received had the officer continued to be employed by the Company for an additional 36 months, outplacement services for up to three years and, for Messrs. Sipics and Farr, a gross-up payment for any excise tax imposed under the Internal Revenue Code. In addition, under the agreements, PPL would provide post-retirement health care and life insurance benefits to officers who would have become eligible for such benefits within the 36-month period following the change in control.

In addition, in the event of a change in control, the restriction period applicable to any outstanding restricted stock or restricted stock unit awards lapses under the Incentive Compensation Plan, and all restrictions on the exercise of any outstanding stock options lapse under the Incentive Compensation Plan.

#### **RETENTION AGREEMENTS**

PPL has executed an agreement with Mr. Farr granting him 12,300 shares of restricted PPL common stock. The restriction period will lapse on April 27, 2027. In the event of death or disability, the restriction period on a prorated portion of these shares will lapse immediately. In the event of a change in control of PPL, the restriction period on all of these shares will lapse immediately if there is an involuntary termination of employment that is not for cause (as such terms are defined in the agreements). In the event Mr. Farr is terminated for cause, or he terminates his employment with all PPL affiliated companies prior to April 27, 2027, all shares of this restricted stock will be forfeited.

#### **SEPARATION AGREEMENTS**

Effective February 20, 2004, Mr. McCabe resigned as Vice President and Controller of PPL and certain of its subsidiaries, including the Company. As part of a separation arrangement with an affiliate, Mr. McCabe received a lump-sum payment of \$118,398. Based on his credited years of service, Mr. McCabe was also eligible to receive benefits under the PPL Retirement Plan and the SERP equal to about \$96,000 per year, together with retiree medical and life insurance benefits. Additionally, all restrictions on stock awards granted in 2002 and 2003 were accelerated, the restricted stock units granted in 2004 were paid in the cash equivalent, and all stock options granted prior to January 1, 2004 became exercisable.

#### **COMPENSATION REPORT OF THE BOARD OF DIRECTORS**

##### **GENERALLY**

PPL Corporation (together with its subsidiaries, PPL) is the parent holding company for numerous subsidiaries. PPL's principal operating subsidiaries are PPL Electric Utilities, PPL EnergyPlus, LLC, PPL Generation, LLC and PPL Global, LLC.

The Compensation and Corporate Governance Committee of PPL's Board of Directors (the Committee) establishes compensation and benefit practices for the members of PPL's Corporate Leadership Council (which sets corporate policy for PPL) and the presidents of PPL's principal operating subsidiaries, including Mr. Sipics (collectively, the executive officers). Mr. Sipics has no position with PPL

but is a PPL executive officer by virtue of his position as President of the Company. This Committee is comprised entirely of independent outside directors.

Messrs. Farr, McCabe<sup>1</sup> and Abel were officers of the Company and certain other affiliated companies during 2004. Accordingly, their compensation discussed herein includes compensation earned for services to the Company and its affiliates.

### **COMPENSATION PHILOSOPHY**

The compensation practices for Named Executive Officers discussed below are intended to provide a balance of base salary, short-term incentive opportunities tied to achievement of specific corporate performance goals, and long-term awards intended to promote sustained performance over the medium and longer-term. During 2004, the annual cash incentive program continued to be based on objective, measurable goals. Effective for 2004 performance, the long-term incentive program, consisting of restricted stock units and stock options, was restructured to balance focus on sustained medium-term (three-year) performance goals, strategic objectives and longer-term growth in shareowner value.

While a meaningful ownership of PPL common stock by executives has always been an important part of the Company's compensation philosophy, during 2003 the Committee adopted specific ownership requirements under the Executive Equity Ownership Program ( Equity Guidelines ). The Equity Guidelines provide that executive officers should maintain levels of ownership of PPL Common Stock ranging in value from two times to five times base salary. Executive officers are expected to achieve their minimum Equity Guidelines level by December 31, 2005. Until the minimum ownership amount is achieved, executive officers are expected to retain in PPL Common Stock (or PPL Common Stock units) 100% of the gain realized from the vesting of restricted stock and stock units and the exercise of options (net of taxes and, in the case of options, the cost of the exercise). To assist executive officers in achieving or surpassing their minimum ownership amount, in 2003 the Committee adopted the Cash Incentive Premium Exchange Program ( Premium Exchange Program ). Under this program, executives may elect to defer all or a portion of the annual cash incentive award for PPL restricted stock units equal to 140% of the amount so deferred (an Exchange ). The PPL restricted stock units are subject to a three-year vesting period, with only the 40% premium portion subject to forfeiture during the restriction period. These two programs encourage increased stock ownership on the part of the executive officers, which further aligns the interests of management and shareowners.

Other compensation components, including retirement, retention, when appropriate, and change-in-control benefits, are also maintained to enhance the company's ability to attract and retain highly qualified executive talent. These compensation components are discussed under specific headings below.

### **COMMITTEE MEETINGS**

The Committee reviews the current levels of compensation, appropriate market reference points and actual performance against approved goals for the performance period over the course of two Committee meetings. The Committee's independent, nationally recognized compensation consultant provides assistance during this evaluation. Additionally, in making individual pay decisions, the Committee uses evaluations of the Named Executive Officers conducted by the Chief Executive Officer.

### **BASE SALARIES**

In general, the Committee's objective is to provide salary levels that are sufficiently competitive with comparable companies to enable the Company to attract and retain high-quality executive talent. To meet this objective, the Committee regularly reviews salary information for similar companies provided by its independent compensation consultant. In addition, the Committee annually reviews the performance of each executive officer to determine the appropriate level of base salary for that executive officer.

For Mr. Sipics, the Committee reviewed salary ranges by comparing salary levels with those at companies of comparable size to the Company in the energy industry. For Messrs. Farr, McCabe and Abel, PPL's

<sup>1</sup> Effective February 20, 2004, Mr. McCabe resigned as Vice President and Controller of PPL and certain of its subsidiaries, including the Company.

Corporate Leadership Council reviewed salary ranges by comparing these salary levels with those at companies of comparable size to the Company in the energy industry and in general industry.

After reviewing salary data for executive positions at comparable companies, the actual salary and the performance of Mr. Sipics, the Committee made appropriate salary adjustments for him, effective as of January 1, 2004. The base salaries for each of Messrs. McCabe and Abel were approved by PPL Corporation's Corporate Leadership Council after a review of performance and competitive market data, also effective as of January 1, 2004. Since Mr. Farr did not become Vice President and Controller of PPL and the Company until August 23, 2004, the Corporate Leadership Committee adjusted his base salary at that time, after a review of market data, and consideration of experience, time in the position and other factors.

## **INCENTIVE AWARDS**

### **Short-term Incentive Annual Cash Awards**

Cash incentive awards are made to the Named Executive Officers for the achievement of specific, independent goals established for each calendar year. For 2004, the following award targets as a percentage of base salary were established for each Named Executive Officer: Mr. Sipics 50%, and Messrs. Farr and Abel 40%.

Annual awards are determined by applying these target percentages to the percentage of goal attainment. The performance goals for the year are established by the Committee, and the Committee reviews actual results at year-end to determine the appropriate goal attainment percentage to apply to the salary targets.

For Mr. Sipics, the goal categories for 2004 included specific financial and operational measures for PPL and its subsidiaries. The weightings for each of these categories are allocated 40% to PPL's earnings per share and enhanced shareowner value, 40% to the financial and operational performance of the Company, and 20% to certain operating subsidiaries of PPL. In the case of Messrs. Farr, McCabe and Abel, the goal categories for 2004 included specific financial and operational measures for PPL and key subsidiaries, and also consideration of individual performance. The weightings for each of these categories are allocated 40% to PPL's earnings per share and enhanced shareowner value, 40% to the financial and operational performance of certain operating subsidiaries and 20% to individual performance. Included in the operating goals for all Named Executive Officers were specific requirements tied to compliance with the Sarbanes-Oxley Act of 2002.

The level of goal attainment was measured at the end of the year, with the exception of Mr. McCabe, and the category weightings were multiplied by the annual award target for each position to determine each executive officer's cash award for 2004 performance.

### **Long-term Incentive Restricted Stock Unit and Stock Option Awards**

Effective for 2004 performance, the long-term incentive program was restructured to reduce the weight of stock options and increase the use of restricted stock, and to adjust the basis on which restricted stock incentive awards are made.

#### **Restricted Stock Awards**

Restricted stock incentive awards are based on the achievement of two components: (i) sustained financial and operational results and (ii) specific strategic objectives designed to enable PPL to continue to provide value to its shareholders. Sustained financial and operational achievement was determined by averaging the most recent three years of annual performance measures used for the cash awards. Strategic objectives were related to increasing shareowner value through implementation of certain long-term corporate initiatives, including actions to influence the evolution of government policies toward more competitive markets, develop an internal corporate structure to optimize PPL's wholesale hedging strategy, develop and retain management skills, and establish the financial profile necessary to optimize growth opportunities when the wholesale electricity markets strengthen.

Awards are made in the form of restricted stock units equivalent to the dollar value of the percentage applied to base pay in effect at the end of the year. Because of the three-year restriction period, this type of

equity award encourages executive officers to continue their service at the Company or its affiliates. This program also encourages increased stock ownership on the part of the executives and aligns the interests of management and shareowners.

**Stock Option Awards**

The Committee may grant the executive officers options to purchase shares of PPL's common stock in the future. Because the exercise price for these options is based on the market price of the stock at the time of the grant, the ultimate value received by the option holders is directly tied to increases in the stock price. Therefore, stock options serve to closely link the interests of management and shareowners and motivate executives to make decisions that will serve to increase the long-term shareowner value. Additionally, the option grants include vesting and termination provisions that are designed to encourage the option holders to remain employees of the Company or its affiliates.

The following long-term incentive award targets as a percentage of base salary were established for each executive officer:

**Long-term Incentive Program**

Name and Position	Restricted Stock Units		Stock Options
	(Targets as % of Salary)		
	Sustained Financial and Operational Results	Strategic Objective Results	Stock Price Performance
President	40%	40%	80%
Vice President and Controller	40%	40%	80%
Treasurer	26.25%	26.25%	52.5%

\* \* \* \* \*

Based on its review of the incentive goals achieved for 2004, the Committee in January 2005 made the following incentive award to Mr. Sipics, and in February 2005, PPL's Corporate Leadership Committee made the following incentive awards to Messrs. Farr and Abel:

**2004 Short-term Incentive Cash Awards**

Name and Position	Cash Incentive Awards	
	Performance Attained	Cash Bonus
John F. Sipics President <sup>(1)</sup>	116.6%	\$169,100
Paul A. Farr Vice President and Controller <sup>(1)</sup>	121.1%	\$163,500
Joseph J. McCabe Former Vice President and Controller <sup>(2)</sup>	n/a	n/a

James E. Abel Treasurer	115.1%	\$112,100
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<sup>1</sup> Messrs. Sipics and Farr elected to implement an Exchange of \$118,370 and \$81,750, respectively, for 3,110 and 2,140 restricted stock units, respectively, under the terms of the Premium Exchange Program described above.

<sup>2</sup> Mr. McCabe resigned as Vice President and Controller of PPL and the Company on February 20, 2004 and was not eligible for awards.

**2004 Long-term Incentive Restricted Stock Unit and Stock Option Awards**

Name and Position	Restricted Stock Unit Incentive Awards				Stock Option Awards
	Sustained Financial & Operational Results		Strategic Objective Results		
	Performance Attained	Award Value	Performance Attained	Award Value	
John F. Sipics President	107.8%	\$125,048	100%	\$116,000	23,650
Paul A. Farr Vice President and Controller	107.8%	\$116,424	100%	\$108,000	11,140 <sup>(1)</sup>
Joseph. J. McCabe Former Vice President and Controller	n/a	n/a	n/a	n/a	13,440 <sup>(2)</sup>
James E. Abel Treasurer	107.8%	\$ 68,896	100%	\$ 63,911	13,350

<sup>1</sup> Mr. Farr's 2004 stock option award was made by PPL's Corporate Leadership Council in February 2004, under the Incentive Compensation Plan for Key Employees, as a Vice President of PPL Global, LLC.

<sup>2</sup> All of the stock options of Mr. McCabe for his 2004 award listed here were forfeited on March 1, 2004 pursuant to the terms of the Incentive Compensation Plan.

**COMPENSATION OF THE PRESIDENT**

In establishing 2004 salary for Mr. Sipics, the Committee reviewed the salaries of presidents of comparable companies. As a result of this review, the Committee set his salary at \$290,000, effective January 1, 2004.

Based on the Company's performance on the specific corporate financial and operational goals and strategic objectives discussed above, Mr. Sipics received the cash and restricted stock unit awards outlined in the tables above. His cash award was equal to approximately 58.3% of his salary and his restricted stock unit awards were equal to approximately 83.1% of his salary comprised of 43.1% for sustained financial and operational results and 40% for strategic objective results. In addition, Mr. Sipics was granted stock options in 2004, as described above.

The Board of Directors

William F. Hecht, Chairman  
John R. Biggar  
Paul T. Champagne  
Dean A. Christiansen  
Robert J. Grey  
Rick L. Klingensmith

James H. Miller  
Roger L. Petersen  
Bryce L. Shriver  
John F. Sipics

**INDEPENDENT AUDITOR**

PPL's Audit Committee, which consists entirely of independent directors who are not employees of the Company or its affiliates, appointed PricewaterhouseCoopers LLP ( PwC ) to serve as independent auditor for the year ending December 31, 2005, for PPL and its subsidiaries, including the Company. If the shareowners of PPL do not ratify the appointment of PwC, the selection of the independent auditor will be reconsidered by the Audit Committee of PPL.

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**FEES TO INDEPENDENT AUDITOR FOR 2004 AND 2003**

The following table presents fees billed by PwC for the fiscal years ended December 31, 2004 and December 31, 2003 for professional services rendered for the audit of the Company's annual financial statements and for fees billed for other services rendered by PwC.

	2004	2003
	(In thousands)	
Audit fees <sup>(a)</sup>	\$ 343	\$ 287
Audit-related fees <sup>(b)</sup>	84	77
Tax fees <sup>(c)</sup>		
All other fees <sup>(d)</sup>		

- (a) Includes audit of annual financial statements and review of financial statements included in the Company's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Fees for audits of employee benefit plans and consultation to ensure appropriate accounting and reporting in connection with various business and financing transactions.
- (c) PwC did not render any professional services for tax-related matters for the Company for the fiscal years ended December 31, 2004 and December 31, 2003.
- (d) PwC did not render any professional services for any other matters for the fiscal years ended December 31, 2004 and December 31, 2003, other than the Audit Fees and Audit-Related Fees included above.

**Approval of Fees.** PPL's Audit Committee has procedures for pre-approving audit and non-audit services to be provided by PPL's independent auditor. The procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the Company's independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, PPL's Audit Committee has established specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are reviewed by the Chair of PPL's Audit Committee, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full PPL Audit Committee no later than its next meeting.

PPL's Audit Committee approved 100% of the 2004 and 2003 audit and audit-related fees.

Representatives of PwC are not expected to be present at the Annual Meeting.

**MISCELLANEOUS**

The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting.

**PROPOSALS FOR 2006 ANNUAL MEETING**

To be included in the Information Statement for the 2006 Annual Meeting, any proposal intended to be presented at that meeting by a shareowner must be received by the Secretary of the Company no later than November 11, 2005. To be properly brought before the Annual Meeting, any proposal must be received not later than 75 days in advance of the date of the 2006 Annual Meeting.

**ANNUAL FINANCIAL STATEMENTS**

The Company's annual financial statements and related management discussion are appended to this document.

By Order of the Board of Directors.

Elizabeth Stevens Duane

*Secretary*

March 11, 2005

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**Schedule A**  
**PPL Electric Utilities Corporation**  
**2004 Financial Statements**

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## GLOSSARY OF TERMS AND ABBREVIATIONS

**1945 First Mortgage Bond Indenture** PPL Electric's Mortgage and Deed of Trust, dated as of October 1, 1945, to Deutsche Bank Trust Company Americas, as trustee, as supplemented.

**2001 Senior Secured Bond Indenture** PPL Electric's Indenture, dated as of August 1, 2001, to JPMorgan Chase Bank, as trustee, as supplemented.

**AFUDC** (Allowance for Funds Used During Construction) the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction cost.

**APB** Accounting Principles Board.

**ARB** Accounting Research Bulletin.

**CTC** competitive transition charge on customer bills to recover allowable transition costs under the Customer Choice Act.

**Customer Choice Act** the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

**DEP** Department of Environmental Protection, a state government agency.

**EITF** Emerging Issues Task Force, an organization that assists the FASB in improving financial reporting through the identification, discussion and resolution of financial accounting issues within the framework of existing authoritative literature.

**EMF** electric and magnetic fields.

**ESOP** Employee Stock Ownership Plan.

**FASB** Financial Accounting Standards Board, a rulemaking organization that establishes financial accounting and reporting standards.

**FERC** Federal Energy Regulatory Commission, the federal agency that regulates interstate transmission and wholesale sales of electricity and related matters.

**FIN** FASB Interpretation.

**FSP** FASB Staff Position.

**GAAP** generally accepted accounting principles.

**ICP** Incentive Compensation Plan.

**ICPKE** Incentive Compensation Plan for Key Employees.

**ITC** intangible transition charge on customer bills to recover intangible transition costs associated with securitizing stranded costs under the Customer Choice Act.

**kWh** kilowatt-hour, basic unit of electrical energy.

**LIBOR** London Interbank Offered Rate.

**NUGs** (Non-Utility Generators) generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

**PCB** polychlorinated biphenyl, an additive to oil used in certain electrical equipment up to the late-1970s. It is now classified as a hazardous chemical.

**PJM** (PJM Interconnection, L.L.C.) operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

**PLR** (Provider of Last Resort) The role of PPL Electric in providing electricity to retail customers within its delivery territory who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

**PP&E** property, plant and equipment.

**PPL** PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding and other subsidiaries.

**PPL Capital Funding** PPL Capital Funding, Inc., a PPL financing subsidiary.

**PPL Electric** PPL Electric Utilities Corporation, a regulated utility subsidiary of PPL that transmits and distributes electricity in its service territory and provides electric supply to retail customers in this territory as

a PLR.

**PPL Energy Funding** PPL Energy Funding Corporation, a subsidiary of PPL and the parent company of PPL Energy Supply.

**PPL EnergyPlus** PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply, that markets wholesale and retail electricity, and supplies energy and energy services in deregulated markets.

**PPL Energy Supply** PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent

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company of PPL Generation, PPL EnergyPlus, PPL Global and other subsidiaries.

**PPL Gas Utilities** PPL Gas Utilities Corporation, a regulated utility subsidiary of PPL that specializes in natural gas distribution, transmission and storage services, and the competitive sale of propane.

**PPL Generation** PPL Generation, LLC, a subsidiary of PPL Energy Supply, that owns and operates U.S. generating facilities through various subsidiaries.

**PPL Global** PPL Global, LLC, a subsidiary of PPL Energy Supply, that owns and operates international energy businesses that are focused on the distribution of electricity.

**PPL Services** PPL Services Corporation, a subsidiary of PPL, that provides shared services for PPL and its subsidiaries.

**PPL Transition Bond Company** PPL Transition Bond Company, LLC, a subsidiary of PPL Electric that was formed to issue transition bonds under the Customer Choice Act.

**PUC** Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

**PUC Final Order** final order issued by the PUC on August 27, 1998, approving the settlement of PPL Electric's restructuring proceeding.

**PURPA** Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

**SEC** Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

**SFAS** Statement of Financial Accounting Standards, the accounting and financial reporting rules issued by the FASB.

**SPE** special purpose entity.

**Superfund** federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

**VEBA** Voluntary Employee Benefit Association Trust, trust accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF PPL ELECTRIC UTILITIES CORPORATION**

Terms and abbreviations appearing here are explained in the glossary. Dollars are in millions, unless otherwise noted.

### **Forward-looking Information**

Statements contained in these financial statements concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts are forward-looking statements within the meaning of the federal securities laws. Although PPL Electric believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. In addition to the specific factors discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section herein, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

market demand and prices for energy, capacity and fuel;

weather conditions affecting customer energy usage;

the effect of any business or industry restructuring;

PPL Electric's profitability and liquidity;

new accounting requirements or new interpretations or applications of existing requirements;

transmission and distribution system conditions and operating costs;

environmental conditions and requirements;

development of markets and technologies;

political, regulatory or economic conditions in regions where PPL Electric conducts business;

receipt of necessary governmental permits, approvals and rate relief;

the outcome of litigation against PPL Electric;

capital market conditions and decisions regarding capital structure;

the market prices of equity securities and the impact on pension income and resultant cash funding requirements for defined benefit pension plans;

PPL Electric's securities and credit ratings;

state and federal regulatory developments;

new state or federal legislation, including new tax legislation; and

PPL Electric's commitments and liabilities.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL Electric on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PPL Electric to predict all of such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL Electric undertakes no obligation to update the information contained in such statement to reflect subsequent developments or information.

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## Overview

PPL Electric provides electricity delivery service in eastern and central Pennsylvania. Its headquarters are in Allentown, PA. PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the highest level of quality and reliability and at the most efficient cost.

PPL Electric's electricity delivery business is rate-regulated. Accordingly, PPL Electric is subject to regulatory risks in terms of the costs that it may recover and the investment returns that it may collect in customers' rates.

An important challenge for PPL Electric is to maintain a strong credit profile. In the past few years, investors, analysts and rating agencies that follow companies in the energy industry have been particularly focused on the credit quality and liquidity position of these companies. PPL Electric is focused on strengthening its balance sheet and improving its liquidity position, thereby improving its credit profile.

The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations is to provide information concerning PPL Electric's past and expected future performance in implementing the strategy and challenges outlined above. Specifically:

**Results of Operations** provides an overview of PPL Electric's operating results in 2004, 2003 and 2002, starting with a review of earnings. The earnings review discusses the outcome of the delivery rate increase that PPL Electric filed with the PUC in 2004. **Results of Operations** also includes an explanation of changes during this three-year period in significant income statement components, such as operating revenues, operation and maintenance expenses, financing costs and income taxes.

**Financial Condition Liquidity** provides an analysis of PPL Electric's liquidity position and credit profile, including its sources of cash (including bank credit facilities and sources of operating cash flow) and uses of cash (including contractual commitments and capital expenditure requirements) and the key risks and uncertainties that impact PPL Electric's past and future liquidity position and financial condition. This subsection also includes a listing of PPL Electric's current credit ratings.

**Financial Condition Risk Management** includes an explanation of PPL Electric's risk management activities regarding commodity price risk and interest rate risk.

**Application of Critical Accounting Policies** provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require PPL Electric's management to make significant estimates, assumptions and other judgments. Although PPL Electric's management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on PPL Electric's results of operations and financial condition, as reflected in PPL Electric's Financial Statements.

The information provided in Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with PPL Electric's Financial Statements and the accompanying Notes.

### Results of Operations

The following discussion, which explains significant annual changes in principal items on the Statement of Income, compares 2004 to 2003 and compares 2003 to 2002.

#### Earnings

Income available to PPL was as follows:

2004	2003	2002
\$ 74	\$ 25	\$ 39



The after-tax changes in income available to PPL were primarily due to:

	<b>2004 vs. 2003</b>	<b>2003 vs. 2002</b>
Delivery revenues (net of CTC/ITC amortization, interest expense on transition bonds and ancillary charges)	\$ 5	\$ 11
Operation and maintenance expenses	(3)	(15)
Taxes, other than income (excluding gross receipts tax)	9	(6)
Depreciation	(2)	(5)
Reduction in tax reserves associated with stranded costs securitization	22	
Interest income on IRS tax settlement	5	
Financing costs (excluding transition bond interest expense)	2	(6)
Other	6	(7)
Unusual item workforce reduction (Note 14)	5	14
	\$ 49	\$ (14)

The year-to-year changes in earnings components are discussed in the balance of Results of Operations.

PPL Electric's future earnings could be, or will be, impacted by a number of factors, including the following:

In March 2004, PPL Electric filed a request with the PUC for an overall annual net increase in distribution rates of approximately \$164 million (subsequently amended to \$160 million), based on a return on equity of 11.5%, and notified the PUC that it planned to pass through to customers approximately \$57 million in increased transmission charges imposed on PPL Electric by PJM. In December 2004, the PUC approved an increase in PPL Electric's distribution rates of approximately \$137 million (based on a return on equity of 10.7%), and approved PPL Electric's proposed mechanism for collecting the additional \$57 million in transmission-related charges, for a total increase of approximately \$194 million, effective January 1, 2005.

PPL Electric has agreed to provide electricity supply to its PLR customers at predetermined rates through 2009, and it has entered into PUC-approved, full requirements energy supply agreements with PPL EnergyPlus to fulfill its PLR obligation. The predetermined charges for generation supply which PPL Electric collects from its PLR customers and pays to PPL EnergyPlus under the energy supply agreements provide for annual increases in each year commencing in 2006 and continuing through 2009. PPL Electric's PLR obligation after 2009 will be determined by the PUC pursuant to rules that have not yet been promulgated.

In January 2005, severe ice storms hit PPL Electric's service territory. PPL Electric had to restore service to about 238,000 customers. Although the actual cost of these storms and the specific allocation of such cost between operation and maintenance expense and capital costs is not yet finalized, PPL Electric currently estimates a total cost of \$22 million, with approximately 85% being expensed.

On February 11, 2005, PPL Electric filed a petition with the PUC for authority to defer and amortize for regulatory accounting and reporting purposes its actual cost of these storms, excluding capitalized costs of approximately \$3 million and regular payroll expenses of approximately \$2 million (pursuant to PUC precedent on this issue). If the PUC grants this petition, PPL Electric's management at that time will assess the recoverability of these costs in PPL Electric's next general rate increase proceeding. Based on the PUC's action on

the petition and management's assessment, PPL Electric would either record these storm expenses, excluding regular payroll, as a regulatory asset in accordance with SFAS 71, Accounting for the Effects of Certain Types of Regulation, or record these storm expenses on its income statement. If the PUC grants the petition before PPL Electric files its Form 10-Q for the first quarter of 2005, the result of this assessment will be reflected in PPL Electric's financial statements for the first quarter of 2005. If the PUC has not acted on or has denied the petition by such date, PPL Electric would record these storm expenses on its income statement. At this time, PPL Electric cannot predict the outcome of this matter.

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See Note 8 to the Financial Statements for potential commitments and contingent liabilities that may impact future earnings.

See Application of Critical Accounting Policies for an overview of accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require PPL Electric's management to make significant estimates, assumptions and other judgments. Although PPL Electric's management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain.

See Note 17 to the Financial Statements for new accounting standards that have been issued but not yet adopted by PPL Electric that may impact future earnings.

### Operating Revenues

#### Retail Electric (Including to Affiliate)

The increases in revenues from retail electric operations were attributable to the following:

	2004 vs. 2003	2003 vs. 2002
PLR electric generation supply	\$ 94	\$ 22
Electric delivery	(7)	48
Delivery and PLR supply to PPL Generation	(5)	(15)
Other	(1)	
	\$ 81	\$ 55

The increase in revenues from retail electric operations for 2004 compared with 2003 was primarily due to: higher PLR revenues due to higher energy and capacity rates, and a 3.6% increase in volume, in part due to the return of customers previously served by alternate suppliers; partially offset by

lower electric delivery revenues due to a decrease in ITC and CTC revenue as a result of lower ITC rates, and several rate groups reaching their cap; and

lower sales to PPL Generation. PPL Generation's power plants began self-supplying their station use in April 2003, rather than taking supply from PPL Electric.

The increase in revenues from retail electric operations for 2003 compared with 2002 was primarily due to: higher PLR revenues due to higher energy and capacity rates; and

higher electric delivery revenues resulting from a 1.1% increase in delivery sales, in part due to colder winter weather in the first quarter of 2003; partially offset by

lower sales to PPL Generation. PPL Generation's power plants began self-supplying their station use in April 2003, rather than taking supply from PPL Electric.

#### Wholesale Electric

PPL Electric wholesale revenues are derived from sales to municipalities. The \$23 million decrease in wholesale electric revenues in 2004 compared with 2003 was due to the expiration of all municipal purchase power agreements at the end of January 2004.

#### Wholesale Electric to Affiliate

PPL Electric has a contract to sell to PPL EnergyPlus the electricity that PPL Electric purchases under contracts with NUGs. The termination of one NUG contract in April 2003 and another in February 2002 caused PPL Electric to purchase \$8 million less NUG energy in 2003 compared to 2002. PPL Electric therefore had less electricity to sell to PPL EnergyPlus.

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**Energy Purchases from Affiliate**

Energy purchases from affiliate increased by \$56 million in 2004 compared with 2003. The increase reflects an increase in PLR load, as well as higher prices for energy purchased under the power supply contracts with PPL EnergyPlus needed to support PLR load.

Energy purchases from affiliate increased by \$13 million in 2003 compared with 2002, reflecting higher prices under the power supply contracts with PPL EnergyPlus.

**Other Operation and Maintenance**

The increases in other operation and maintenance expenses were primarily due to:

	2004 vs. 2003	2003 vs. 2002
Increase in pension costs	\$ 5	\$ 13
Lower net rent allocations to other PPL affiliates in 2004 and 2003	4	6
Write-off of Hurricane Isabel costs not approved for recovery by the PUC	4	
Increase in expenses related to pole attachments	2	
Increase (decrease) in other postretirement benefit expense	(11)	7
Increases in expenses in responding to customers' service calls		2
Work performed to assure reliability of the T&D system		2
Environmental accrual in 2003 for a former manufactured gas plant	(2)	2
Estimated reduction in salaries and benefits as a result of the workforce reduction initiated in 2002		(8)
Vacation liability adjustment in 2002 in conjunction with the workforce reduction		(7)
Other net	6	9
	\$ 8	\$ 26

**Depreciation**

Depreciation increased by \$4 million in 2004 compared to 2003 and by \$9 million in 2003 compared to 2002. These increases were primarily due to plant additions, including the Automated Meter Reading project. Additionally, 2003 compared with 2002 was impacted by software additions.

**Taxes, Other Than Income**

In the first quarter of 2004, PPL Electric reversed a \$14 million accrued liability for 1998 and 1999 PURTA taxes that had been accrued based on potential exposure in the proceedings regarding the Susquehanna nuclear station tax assessment. The rights of the third-party intervenors to further appeal expired in 2004. The reversal is the primary reason for the \$12 million decrease in taxes in 2004, compared with 2003. Also contributing to the decrease was lower capital stock tax expense. These decreases were partially offset by higher gross receipts tax expense.

Taxes, other than income, increased by \$11 million in 2003 compared with 2002 due to the settlement of prior years' capital stock tax refund claims of \$8 million in 2002, and higher taxes related to an increase in the basis on which capital stock tax is calculated in 2003.

**Workforce Reduction**

See Note 14 to the Financial Statements for information on the charges recorded in 2003 and 2002.

**Other Income net**

See Note 10 to the Financial Statements for details of other income and deductions.

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## Financing Costs

Interest expense decreased by \$21 million in 2004 compared to 2003 and by \$7 million in 2003 compared to 2002. These decreases reflect the net impact of long-term debt retirements. Over the past two years, \$824 million of long-term debt retirements have occurred, while new issuances over the same period totaled \$190 million.

Distributions on preferred securities decreased by \$13 million in 2003 compared to 2002 due to retirements and redemptions of preferred securities and preferred stock.

## Income Taxes

Income tax expense decreased by \$10 million in 2004 compared with 2003. This decrease was primarily attributable to:

- a \$22 million tax benefit recognized in 2004 related to a reduction in tax reserves associated with stranded costs securitization predicated upon management's reassessment of its best estimate of probable tax exposure, relative to 2003; offset by

- a \$15 million increase in income tax expense related to higher pre-tax book income.

Income tax expense did not change for 2003 compared with 2002. This was due to lower pre-tax book income, resulting in a \$5 million reduction in income taxes, offset by a \$3 million increase in income tax expense related to the filing of PPL Electric's income tax returns.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns by taxing authorities. However, the amount ultimately paid upon resolution of any issues raised by such authorities may differ materially from the amount accrued. In evaluating the exposure associated with various filing positions, PPL Electric accounts for changes in probable exposures based on management's best estimate of the amount that should be recognized. An allowance is maintained for the tax contingencies, the balance of which management believes to be adequate. During 2004, PPL Electric reached partial settlement with the IRS with respect to the tax years 1991 through 1995 and received a cash refund in the amount of \$45 million. As a result of this settlement, the net tax impact recorded in 2004 was not significant.

See Note 2 to the Financial Statements for details on effective income tax rates and other income tax related matters.

## Financial Condition

### Liquidity

PPL Electric is focused on maintaining a strong liquidity position and strengthening its balance sheet, thereby improving its credit profile. PPL Electric believes that its cash on hand, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken as a whole, provide sufficient resources to fund its ongoing operating requirements, future security maturities and estimated future capital expenditures. PPL Electric currently expects cash on hand at the end of 2005 to be approximately \$100 million, with about \$300 million in credit facilities and up to \$150 million in short-term debt capacity related to an asset-backed commercial paper program. However, PPL Electric's cash flows from operations and its access to cost effective bank and capital markets are subject to risks and uncertainties, including but not limited to, the following:

- unusual or extreme weather that may damage PPL Electric's transmission and distribution facilities or affect energy sales to customers;

- ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses; and

- a downgrade in PPL Electric's credit ratings that could negatively affect its ability to access capital and increase the cost of maintaining credit facilities and any new debt.

At December 31, 2004, PPL Electric had \$151 million in cash and cash equivalents and \$42 million of short-term debt compared to \$162 million in cash and cash equivalents and no short-term debt at December 31,



2003, and \$29 million in cash and cash equivalents and \$15 million of short-term debt at December 31, 2002. The \$42 million increase in short-term debt from 2003 to 2004 resulted entirely from loan proceeds attributable to the asset-backed commercial paper program, of which the full amount was used to cash collateralize letters of credit. The change in short-term debt from 2002 to 2003 reflects the repayment of PPL Electric commercial paper. The changes in cash and cash equivalents resulted from the following:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net Cash Provided by Operating Activities	\$ 898	\$ 528	\$ 270
Net Cash Provided by (Used in) Investing Activities	(523)	(145)	89
Net Cash Used in Financing Activities	(386)	(250)	(365)
Increase (Decrease) in Cash & Cash Equivalents	\$ (11)	\$ 133	\$ (6)

#### **Net Cash Provided by Operating Activities**

Net cash provided by operating activities increased by \$370 million in 2004 versus 2003, reflecting primarily the receipt of \$300 million in cash collateral related to the PLR energy supply agreements and a federal income tax refund.

An important element supporting the stability of PPL Electric's cash from operations is its long-term purchase contracts with PPL EnergyPlus. These contracts provide sufficient energy for PPL Electric to meet its PLR obligation through 2009, at the predetermined capped rates it is entitled to charge its customers over this period. These contracts require cash collateral or other credit enhancement, or reductions or terminations of a portion of the entire contract through cash settlement in the event of a downgrade of PPL Electric or adverse changes in market prices. For example, if PPL Electric's ratings were lowered to below investment grade and energy prices decreased by 10% from year-end 2004 or 2003 price levels, PPL Electric estimates that, based on its December 31, 2004 positions, it would not have had to post additional collateral compared to \$300 million at December 31, 2003. The maximum amount that PPL Electric would have to post under these contracts is \$300 million.

The increase of \$258 million in net cash provided by operating activities in 2003 compared to 2002 reflected working capital improvements resulting from a decrease in accounts receivable and an increase in accounts payable. The savings from a workforce reduction program that was commenced in 2002 was more than offset by rising transmission and distribution operating costs.

#### **Net Cash Provided by (Used in) Investing Activities**

Net cash used in investing activities increased by \$378 million in 2004 versus 2003 primarily as a result of initiating a \$300 million demand loan to an affiliate. The primary use of cash for investing activities is capital and investment expenditures. See "Capital Expenditure Requirements" for capital and investment expenditures in 2004 and expected expenditures in 2005 through 2009. In 2005, PPL Electric expects to be able to fund all of its capital expenditures with cash from operations.

The increase of \$234 million in net cash used in investing activities in 2003 compared to 2002 was primarily the result of a lower loan repayment by an affiliate.

#### **Net Cash Used in Financing Activities**

Net cash used in financing activities increased by \$136 million in 2004 compared to 2003, due to the lack of new long-term debt issuances in 2004 compared to \$190 million in 2003. In 2004, the \$386 million of cash used in financing activities consisted of net debt retirements of \$352 million and common and preferred dividends of \$26 million.

PPL Electric's debt financing activity in 2004 was as follows:

	<b>Issuances</b>	<b>Retirements</b>
PPL Transition Bond Company Transition Bonds		\$ (264)
PPL Electric First Mortgage Bonds		(71)
PPL Electric Senior Secured Bonds		(59)
PPL Electric Asset-backed Commercial Paper (net change)	\$ 42	
<b>Total</b>	<b>\$ 42</b>	<b>\$ (394)</b>
<b>Net reduction</b>		<b>\$ (352)</b>

Debt issued during 2004 had stated interest rates ranging from 1.1% to 2.3% and with maturities in 2004 or 2005. See Note 4 to the Financial Statements for more detailed information regarding PPL Electric's financing activities.

In March 2004, PPL Electric reactivated its commercial paper program to provide it with an additional financing source to fund its short-term liquidity needs, if and when necessary. At December 31, 2004, PPL Electric had no commercial paper outstanding.

In August 2004, PPL Electric began participating in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of \$150 million from a commercial paper conduit sponsored by a financial institution. PPL Electric expects to use the proceeds from the program for general corporate purposes and to cash collateralize letters of credit. At December 31, 2004, the loan balance outstanding was \$42 million, all of which was being used to cash collateralize letters of credit.

At December 31, 2004, PPL Electric's total committed borrowing capacity under credit facilities and the use of this borrowing capacity were as follows:

	<b>Committed Capacity</b>	<b>Borrowed</b>	<b>Letters of Credit Issued (b)</b>	<b>Available Capacity</b>
PPL Electric Credit Facilities (a)	\$ 300			\$ 300

- (a) PPL Electric's credit facilities allow for borrowings at LIBOR-based rates plus a spread, depending upon the company's public debt rating. PPL Electric also has the capability to cause the lenders to issue up to \$300 million of letters of credit under these facilities, which issuances reduce available borrowing capacity.

The credit facilities contain a financial covenant requiring debt to total capitalization to not exceed 70%. At December 31, 2004 and 2003, PPL Electric's consolidated debt to total capitalization percentages, as calculated in accordance with its credit facilities, were 54% and 57%. The credit facilities also contain certain representations and warranties that must be made for PPL Electric to borrow under them, including, but not limited to, a material adverse change clause that relates to PPL Electric's ability to perform its obligations under the credit agreements and related loan documents.

(b) PPL Electric has a reimbursement obligation to the extent any letters of credit are drawn.

These credit agreements contain various other covenants. Failure to meet those covenants beyond applicable grace periods could result in acceleration of due dates of borrowings and/or termination of the agreements. PPL Electric monitors the covenants on a regular basis. At December 31, 2004, PPL Electric was in material compliance with those covenants. At this time PPL Electric believes that these covenants and other borrowing conditions will not limit access to these funding sources.

PPL Electric's 2001 Senior Secured Bond Indenture restricts dividend payments in the event that PPL Electric fails to meet interest coverage ratios or fails to comply with certain requirements included in its Articles of Incorporation and Bylaws to maintain its separateness from PPL and PPL's other subsidiaries. PPL Electric does not, at this time, expect that any of such limitations would significantly impact its ability to declare dividends.

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The decrease of \$115 million in net cash used in financing activities in 2003 compared to 2002 reflects the repayment of long-term debt. In 2003, the \$250 million of cash used in financing activities primarily consisted of net debt retirements of \$255 million, preferred stock retirements of \$31 million, and common and preferred dividends paid of \$32 million, offset by a contribution from parent of \$75 million.

### Operating Leases

PPL Electric has operating lease agreements to lease vehicles, office space, land, buildings, personal computers and other equipment. These leasing structures provide PPL Electric with additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees. Failure to meet these covenants could limit or restrict access to these funds or require early payment of obligations. At this time, PPL Electric believes that these covenants will not limit access to these funding sources or cause acceleration or termination of the leases.

See Note 5 to the Financial Statements for further discussion of the operating leases.

### Contractual Obligations

At December 31, 2004, the estimated contractual cash obligations of PPL Electric were as follows:

Contractual Cash Obligations	Total	Less			
		Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term Debt (a)	\$ 2,548	\$ 336	\$ 989	\$ 881	\$ 342
Capital Lease Obligations					
Operating Leases	49	13	18	10	8
Purchase Obligations (b)	8,890	1,564	3,517	3,809	
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP					
Total Contractual Cash Obligations	\$ 11,487	\$ 1,913	\$ 4,524	\$ 4,700	\$ 350

(a) Reflects maturities only. Includes \$1.2 billion of transition bonds issued by PPL Transition Bond Company in 1999 to securitize a portion of PPL Electric's stranded costs. This debt is non-recourse to PPL Electric.

(b) The payments reflected herein are subject to change, as the purchase obligation reflected is an estimate based on projected obligated quantities and projected pricing under the contract.

### Credit Ratings

Standard & Poor's Ratings Services (S&P), Moody's Investors Service, Inc. (Moody's) and Fitch Ratings (Fitch) periodically review the credit ratings on the debt and preferred securities of PPL Electric and its subsidiary. Based on their respective reviews, the rating agencies may make certain ratings revisions.

The ratings of S&P, Moody's and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric or its subsidiary, PPL Transition Bond Company. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to their securities.

The following table summarizes the credit ratings of PPL Electric and its subsidiary, PPL Transition Bond Company, at December 31, 2004:

	Moody's	S&P	Fitch
<b>PPL Electric</b>			
Senior Unsecured/ Issuer Rating	Baa2	A-	
First Mortgage Bonds	Baa1	A-	A-
Pollution Control Bonds (a)	Aaa	AAA	
Senior Secured Bonds	Baa1	A-	A-
Commercial Paper	P-2	A-2	F2
Preferred Stock	Ba1	BBB	BBB+
Outlook	STABLE	NEGATIVE	STABLE
<b>PPL Transition Bond Company</b>			
Transition Bonds	Aaa	AAA	AAA

(a) Insured as to payment of principal and interest.

#### **Rating Agency Actions in 2004**

In March 2004, Moody's and Fitch confirmed their ratings of P-2 and F2, respectively, for PPL Electric's commercial paper.

In May 2004, S&P affirmed its A-/A-2 rating and negative outlook on PPL Electric.

#### **Subsequent Ratings Events**

In January 2005, S&P affirmed PPL Electric's A-/A-2 corporate credit ratings and has favorably revised its outlook on the company to stable from negative following the authorization of a \$194 million rate increase by the PUC. S&P indicated that the outlook revision reflects its expectations that the rate increase, effective January 1, 2005, will allow for material improvement in PPL Electric's financial profile, which had lagged S&P's expectations in recent years. S&P indicated that the stable outlook reflects its expectations that PPL Electric will rapidly improve and then maintain financial metrics more consistent with its ratings. S&P indicated that it expects PPL Electric's operations to remain stable through the expiration of the PLR agreement.

#### **Off-Balance Sheet Arrangements**

PPL Electric has entered into certain guarantee agreements that are within the scope of FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. See Note 8 to the Financial Statements for a discussion on guarantees.

#### **Risk Management**

##### **Market Risk**

##### *Commodity Price Risk - PLR Contracts*

PPL Electric and PPL EnergyPlus have power supply agreements under which PPL EnergyPlus sells to PPL Electric (under a predetermined pricing arrangement) energy and capacity to fulfill PPL Electric's PLR obligation through 2009. As a result, PPL Electric has shifted any electric price risk relating to its PLR obligation to PPL EnergyPlus through 2009. See Note 9 to the Financial Statements for information on the PLR contracts.

##### *Interest Rate Risk*

PPL Electric has issued debt to finance its operations, which increases its interest rate risk. At December 31, 2004 and 2003, PPL Electric's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was insignificant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. At December 31, 2004, PPL Electric estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was approximately \$50 million, compared to \$59 million at December 31, 2003.

### Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric.

For additional information on related party transactions, see Note 9 to the Financial Statements.

### Capital Expenditure Requirements

The schedule below shows PPL Electric's current capital expenditure projections for the years 2005-2009 and actual spending for the year 2004:

	Actual		Projected			
	2004	2005	2006	2007	2008	2009
Construction expenditures (a)						
Transmission and distribution facilities	\$ 179	\$ 186	\$ 205	\$ 255	\$ 242	\$ 256

- (a) Construction expenditures include AFUDC and capitalized interest, which are expected to be less than \$3 million in each of the years 2005-2009.

PPL Electric's capital expenditure projections for the years 2005-2009 total \$1.1 billion. Capital expenditure plans are revised periodically to reflect changes in market and asset regulatory conditions. PPL Electric also leases vehicles, personal computers and other equipment, as described in Note 5 to the Financial Statements.

### Environmental Matters

See Note 8 to the Financial Statements for a discussion of environmental matters.

### New Accounting Standards

See Note 17 to the Financial Statements for information on new accounting standards adopted in 2004 or pending adoption.

### Application of Critical Accounting Policies

PPL Electric's financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations of PPL Electric, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the financial statements. (These accounting policies are also discussed in Note 1 to the Financial Statements.) PPL's senior management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with its Audit Committee. In addition, PPL's senior management has reviewed the following disclosures regarding the application of these critical accounting policies with the Audit Committee.

#### 1) Pension and Other Postretirement Benefits

As described in Note 7 to the Financial Statements, PPL Electric participates in, and is allocated a significant portion of the liability and net periodic pension cost of the PPL Retirement Plan and the PPL Postretirement Benefit Plan. PPL follows the guidance of SFAS 87, Employers' Accounting for Pensions, and SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, when accounting for these benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and



expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

**Discount Rate** The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future.

**Expected Return on Plan Assets** Management projects the future return on plan assets considering prior performance, but primarily based upon the plans' mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs PPL Electric records currently.

**Rate of Compensation Increase** Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

**Health Care Cost Trend Rate** Management projects the expected increases in the cost of health care.

In selecting discount rates, PPL considers fixed-income security yield rates. At December 31, 2004, PPL decreased the discount rate for its domestic plans from 6.25% to 5.75% as a result of decreased fixed-income security returns.

In selecting an expected return on plan assets, PPL considers tax implications, past performance and economic forecasts for the types of investments held by the plan. At December 31, 2004, PPL's expected return on plan assets for its domestic pension plans remained at 9.0%.

In selecting a rate of compensation increase, PPL considers past experience in light of movements in inflation rates. At December 31, 2004, PPL's rate of compensation increase remained at 4.0% for its domestic plans.

In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2004, PPL's health care cost trend rates were 10% for 2005, gradually declining to 5.0% for 2010.

A variance in the assumptions listed above could have a significant impact on the accrued pension and other postretirement benefit liabilities and reported annual net periodic pension and other postretirement benefit cost allocated to PPL Electric. The following chart reflects the sensitivities in the 2004 Financial Statements associated with a change in certain assumptions. While the chart below reflects either an increase or decrease in each assumption, the inverse of this change would impact the accrued pension and other postretirement benefit liabilities and reported annual net periodic pension and other postretirement benefit cost by a similar amount in the opposite direction. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

Actuarial Assumption	Increase (Decrease)		
	Change in Assumption	Impact on Liabilities	Impact on Cost
Discount Rate	(0.25)%	\$ 2	\$ 2
Expected Return on Plan Assets	(0.25)%	2	2
Rate of Compensation Increase	0.25%	1	1

At December 31, 2004, PPL Electric's Balance Sheet reflected a net liability of \$72 million for pension liabilities and prepaid other postretirement benefit costs allocated from plans sponsored by PPL Services.

In 2004, PPL Electric was allocated net periodic pension and other postretirement costs charged to operating expense of \$10 million. This amount represents a \$6 million reduction in the charge recognized during 2003. This reduction was primarily due to decreased postretirement costs resulting from increased employee cost sharing, offset by increased pension costs resulting from the decrease in the discount rate at December 31, 2003.

Refer to Note 7 to the Financial Statements for additional information regarding pension and other postretirement benefits.

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## 2) Loss Accruals

PPL Electric periodically accrues losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. These events are called contingencies, and PPL Electric's accounting for such events is prescribed by SFAS 5, Accounting for Contingencies. SFAS 5 defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that the loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. FASB defines probable as cases in which the future event or events are likely to occur. SFAS 5 does not permit the accrual of contingencies that might result in gains. PPL Electric continuously assesses potential loss contingencies for environmental remediation, litigation claims, income taxes, regulatory penalties and other events.

PPL Electric also has accrued estimated losses on long-term purchase commitments when significant events have occurred. For example, estimated losses were accrued when PPL Electric's generation business was deregulated. Under regulatory accounting, PPL Electric recorded the above-market cost of energy purchases from NUGs as part of its purchased power costs on an as-incurred basis, since these costs were recovered in regulated rates. When the generation business was deregulated, the estimated loss associated with these long-term purchase commitments to make above-market NUG purchases was recorded because PPL Electric was committed to purchase electricity at above market prices but it could no longer recover these costs in regulated rates.

The accounting aspects of estimated loss accruals include: (1) the initial identification and recording of the loss; (2) the determination of triggering events for reducing a recorded loss accrual; and (3) the on-going assessment as to whether a recorded loss accrual is sufficient. All three aspects of accounting for loss accruals—the initial identification and recording of a probable loss, the identification of triggering events to reduce the loss accrual, and the ongoing assessment of the sufficiency of a recorded loss accrual—require significant judgment by PPL Electric's management.

### **Initial Identification and Recording of the Loss Accrual**

PPL Electric uses its internal expertise and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

PPL Electric has identified certain events which could give rise to a loss, but which do not meet the conditions for accrual under SFAS 5. SFAS 5 requires disclosure, but not a recording, of potential losses when it is reasonably possible that a loss has been incurred. The FASB defines reasonably possible as cases in which the chance of the future event or events occurring is more than remote but less than likely. See Note 8 to the Financial Statements for disclosure of potential loss contingencies, most of which have not met the criteria for accrual under SFAS 5.

### **Reducing Recorded Loss Accruals**

When an estimated loss is accrued, PPL Electric identifies, where applicable, the triggering events for subsequently reducing the loss accrual. The triggering events generally occur when the contingency has been resolved and the actual loss is incurred, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

Certain loss accruals are systematically reduced based on the expiration of contract terms. An example of this is the loss accrual for above-market NUG purchase commitments, which is described below. This loss accrual is being reduced over the lives of the NUG purchase contracts.

Allowances for excess or obsolete inventory are reduced as the inventory items are pulled from the warehouse shelves and sold as scrap or otherwise disposed.

Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted or when underlying amounts are ultimately collected.

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Environmental and other litigation contingencies are reduced when the contingency is resolved and PPL Electric makes actual payments or the loss is no longer considered probable.

**On-Going Assessment of Recorded Loss Accruals**

PPL Electric reviews its loss accruals on a regular basis to assure that the recorded potential loss exposures are sufficient. This involves on-going communication and analyses with internal and external legal counsel, engineers, tax specialists, operation management and other parties.

The largest loss accrual that had been on PPL Electric's balance sheet was for an impairment of above-market NUG purchase commitments. This loss accrual reflected the estimated difference between the above-market contract terms, under the purchase commitments, and the fair value of the electricity to be purchased. This loss accrual was originally recorded at \$854 million in 1998, when PPL Electric's generation business was deregulated. This loss accrual was transferred to PPL EnergyPlus in the July 1, 2000, corporate realignment.

When the loss accrual related to NUG purchases was recorded in 1998, PPL Electric established the triggering events for when the loss accrual would be reduced. A schedule was established to reduce the liability based on projected purchases over the lives of the NUG contracts. All but one of the NUG contracts expire by 2009, with the last one ending in 2014. Prior to the July 1, 2000 transfer, PPL Electric reduced the above-market NUG liability based on the aforementioned schedule. As PPL Electric reduced the liability for the above-market NUG purchases, it offset the actual cost of NUG purchases, thereby bringing the net power purchase expense more in line with market prices.

**Other Information**

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services and other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, employee benefit plan audits and internal control reviews.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareowner  
of PPL Electric Utilities Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of preferred stock and long-term debt and the related consolidated statements of income, of cash flows and of shareowner's common equity present fairly, in all material respects, the financial position of PPL Electric Utilities Corporation and its subsidiaries ( PPL Electric ) at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of PPL Electric's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Philadelphia, Pennsylvania

February 25, 2005

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**CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,  
PPL Electric Utilities Corporation and Subsidiaries  
(Millions of Dollars)**

	2004	2003	2002
<b>Operating Revenues</b>			
Retail electric	\$ 2,683	\$ 2,597	\$ 2,527
Retail electric to affiliate	3	8	23
Wholesale electric	6	29	28
Wholesale electric to affiliate (Note 9)	154	152	160
Energy related businesses	1	2	10
Total	<b>2,847</b>	2,788	2,748
<b>Operating Expenses</b>			
Operation			
Energy purchases	218	211	208
Energy purchases from affiliate (Note 9)	1,500	1,444	1,431
Other operation and maintenance	353	345	319
Amortization of recoverable transition costs	257	260	226
Depreciation (Note 1)	107	103	94
Taxes, other than income (Note 2)	152	164	153
Energy related businesses	1	1	9
Workforce reduction (Note 14)		9	33
Total	<b>2,588</b>	2,537	2,473
<b>Operating Income</b>	<b>259</b>	251	275