

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-08-02** | Period of Report: **1994-06-30**
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FILER

PENNSYLVANIA POWER CO

CIK: **77278** | IRS No.: **250718810** | State of Incorporation: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-03491** | Film No.: **94541214**
SIC: **4911** Electric services

Business Address
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P O BOX 891
NEW CASTLE PA 16103-0891
4126525531*

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 1-3491

PENNSYLVANIA POWER COMPANY
(Exact name of Registrant as specified in its charter)

Pennsylvania 25-0718810
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1 E. Washington St., P.O. Box 891, New Castle, PA 16103
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 412-652-5531

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

6,290,000 shares of common stock, \$30 par value, outstanding as of August 2, 1994

PENNSYLVANIA POWER COMPANY

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PART I. FINANCIAL INFORMATION

PENNSYLVANIA POWER COMPANY

STATEMENTS OF INCOME

(Unaudited)

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES	\$74,700	\$70,266	\$153,058	\$144,540
OPERATING EXPENSES AND TAXES:				
Fuel and purchased power	14,072	13,686	31,256	31,238
Nuclear operating costs	8,207	7,213	17,226	14,749
Other operating costs	23,922	15,287	37,336	33,729
Total operation and maintenance expenses	46,201	36,186	85,818	79,716
Provision for depreciation	6,628	7,779	14,227	16,203
Deferral of net regulatory assets	(1,664)	(1,755)	(2,648)	(2,640)
General taxes	5,568	5,412	11,912	11,729
Income taxes	4,264	6,086	11,860	9,972
Total operating expenses and taxes	60,997	53,708	121,169	114,980
OPERATING INCOME	13,703	16,558	31,889	29,560
OTHER INCOME	522	200	936	268
TOTAL INCOME	14,225	16,758	32,825	29,828
NET INTEREST:				
Interest expense	8,627	8,890	17,203	17,660
Allowance for borrowed funds used during construction	(179)	(237)	(312)	(458)
Net interest	8,448	8,653	16,891	17,202
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	5,777	8,105	15,934	12,626
Cumulative effect to January 1, 1993 of a change in accounting for unbilled revenues (net of income taxes of \$4,108,000)	--	--	--	5,653
NET INCOME	5,777	8,105	15,934	18,279
PREFERRED STOCK DIVIDEND REQUIREMENTS	1,681	1,534	3,037	3,069
EARNINGS ON COMMON STOCK	\$ 4,096	\$ 6,571	\$ 12,897	\$ 15,210

<FN>

The accompanying Notes to Financial Statements are an integral part of these statements.

</TABLE>

<TABLE>

PENNSYLVANIA POWER COMPANY

BALANCE SHEETS
(Unaudited)

<CAPTION>

	June 30, 1994	December 31, 1993
	-----	-----
	(In thousands)	
ASSETS		

<S>	<C>	<C>
UTILITY PLANT:		
In service, at original cost.	\$1,203,414	\$1,209,961
Less--Accumulated provision for depreciation. . .	398,045	394,530
	-----	-----
	805,369	815,431
	-----	-----
Construction work in progress-		
Electric plant.	16,405	10,996
Nuclear fuel.	11,150	8,604
	-----	-----
	27,555	19,600
	-----	-----
	832,924	835,031
	-----	-----
OTHER PROPERTY AND INVESTMENTS	8,969	15,064
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	26,646	12,819
Receivables-		
Customers (less accumulated provisions of \$513,000 and \$559,000, respec- tively, for uncollectible accounts).	32,213	28,122
Parent company.	16,420	19,737
Other	13,732	17,427
Materials and supplies, at average cost-		
Fuel.	5,730	4,350
Other	12,087	12,088
Prepayments	6,055	4,868
	-----	-----
	112,883	99,411
	-----	-----
DEFERRED CHARGES:		
Regulatory assets	227,572	222,301
Other	7,322	9,176
	-----	-----
	234,894	231,477
	-----	-----
	\$1,189,670	\$1,180,983
	=====	=====

</TABLE>

<TABLE>

PENNSYLVANIA POWER COMPANY

BALANCE SHEETS
(Unaudited)

<CAPTION>

	June 30, 1994	December 31, 1993
--	------------------	----------------------

(In thousands)

<C>

<C>

CAPITALIZATION AND LIABILITIES

<S>

CAPITALIZATION:

Common stockholder's equity-

Common stock, \$30 par value,

authorized 6,500,000 shares-

6,290,000 shares outstanding.	\$ 188,700	\$ 188,700
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Other paid-in capital	(397)	(310)
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Retained earnings.	68,599	66,392
----------------------------	--------	--------

Total common stockholder's equity	256,902	254,782
---------------------------------------------	---------	---------

Preferred stock-

Not subject to mandatory redemption.	50,905	50,905
----------------------------------------------	--------	--------

Subject to mandatory redemption.	15,000	20,500
------------------------------------------	--------	--------

Long-term debt -

Associated companies	14,783	16,401
--------------------------------	--------	--------

Other.	423,777	424,154
----------------	---------	---------

	761,367	766,742
--	---------	---------

CURRENT LIABILITIES:

Currently payable preferred stock

and long-term debt-

Associated companies.	10,015	10,216
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Other	6,879	1,788
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Accounts payable-

Associated companies	8,149	7,755
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Other.	31,326	32,680
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Accrued taxes.	7,692	6,658
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Accrued interest	9,992	9,924
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Other.	17,895	14,308
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	91,948	83,329
--	--------	--------

DEFERRED CREDITS:

Accumulated deferred income taxes.	274,060	273,319
--------------------------------------------	---------	---------

Accumulated deferred investment tax credits.	32,885	33,560
------------------------------------------------------	--------	--------

Other.	29,410	24,033
----------------	--------	--------

	336,355	330,912
--	---------	---------

COMMITMENTS, GUARANTEES AND

CONTINGENCIES (Note 2)

	\$1,189,670	\$1,180,983
--	-------------	-------------

<FN>

The accompanying Notes to Financial Statements are an integral part of these balance sheets.

</TABLE>

<TABLE>

PENNSYLVANIA POWER COMPANY

STATEMENTS OF CASH FLOWS

(Unaudited)

<CAPTION>

Three Months Ended
June 30,

Six Months Ended
June 30,

	1994	1993	1994	1993
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 5,777	\$ 8,105	\$15,934	\$18,279
Adjustments to reconcile net income to net cash from operating activities-				
Provision for depreciation	6,628	7,779	14,227	16,203
Nuclear fuel and lease amortization	1,653	798	4,827	3,277
Deferred income taxes, net	(96)	5,234	2,386	6,254
Investment tax credits, net	(338)	(435)	(675)	(871)
Allowance for equity funds used during construction	(123)	(125)	(220)	(213)
Deferred fuel costs, net	(1,926)	(2,831)	(2,203)	(3,946)
Cumulative effect of a change in accounting for unbilled revenues	--	--	--	(5,653)
Other	(375)	--	(747)	--
Internal cash before dividends	11,200	18,525	33,529	33,330
Receivables	(10,978)	(1,361)	2,921	6,767
Materials and supplies	(1,301)	(1,533)	(1,379)	(74)
Accounts payable	10,060	5,933	2,761	4,802
Other	14,720	(15,546)	13,011	(16,667)
Net cash provided from operating activities	23,701	6,018	50,843	28,158
CASH FLOWS FROM FINANCING ACTIVITIES:				
New Financing-				
Notes payable, net	--	21,000	--	17,000
Redemptions and Repayments-				
Preferred stock	--	--	362	800
Long-term debt	1,644	10,728	4,807	13,236
Dividend Payments-				
Common stock	5,347	5,347	10,693	10,693
Preferred stock	1,355	1,534	2,709	3,062
Net cash provided from (used for) financing activities	(8,346)	3,391	(18,571)	(10,791)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property additions	5,397	10,201	18,155	20,636
Other	(647)	91	290	91
Net cash used for investing activities	4,750	10,292	18,445	20,727
Net increase (decrease) in cash and cash equivalents	10,605	(883)	13,827	(3,360)
Cash and cash equivalents at beginning of period	16,041	1,186	12,819	3,663
Cash and cash equivalents at end of period	\$26,646	\$ 303	\$26,646	\$ 303

<FN>
The accompanying Notes to Financial Statements are an integral part of these statements.

</TABLE>

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PENNSYLVANIA POWER COMPANY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1 - FINANCIAL STATEMENTS:

The condensed financial statements reflect all normal recurring

adjustments which are, in the opinion of management, necessary to fairly present results of operations for the interim periods. These statements should be read in conjunction with the financial statements and notes thereto included in Pennsylvania Power Company's (Company) 1993 Annual Report to Stockholders. The results of operations are not intended to represent results of operations for any future period.

2 - COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Construction Program --

The Company, a wholly owned subsidiary of Ohio Edison Company (Edison), currently forecasts expenditures of approximately \$140,000,000 for property additions and improvements from 1994-1998, of which approximately \$27,000,000 is applicable to 1994. The Company's investment in nuclear fuel is expected to be approximately \$38,000,000 during the 1994-1998 period, of which approximately \$9,000,000 is applicable to 1994.

Guarantees --

The Company, together with the other Central Area Power Coordination Group companies, has severally guaranteed certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield Plant. As of June 30, 1994, the Company's share of the guarantee was \$11,212,000. The price under the coal supply contract, which includes certain minimum payments, has been determined to be sufficient to satisfy the debt and lease obligations.

Environmental Matters --

Various federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company has estimated additional capital expenditures for environmental compliance of approximately \$17,000,000, which is included in the construction forecast under "Construction Program" for 1994 through 1998.

The Clean Air Act Amendments of 1990 require significant reductions of sulfur dioxide and oxides of nitrogen from the Company's coal-fired generating units by 1995 and additional emission reductions by 2000. Compliance options include, but are not limited to, installing additional pollution control equipment, burning less polluting fuel, purchasing emission allowances from others, operating existing facilities in a manner which minimizes pollution and retiring facilities. In a system compliance plan for the Company and Edison submitted to the Pennsylvania Public Utility Commission and to the Environmental Protection Agency, the Company stated that reductions for the years 1995 through 1999 are likely to be achieved by burning lower sulfur fuel, generating more electricity at its lower emitting plants and/or purchasing emission allowances. The Company continues to evaluate its compliance plan and other compliance

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PENNSYLVANIA POWER COMPANY
NOTES TO FINANCIAL STATEMENTS (Continued)
(Unaudited)

options as they arise. Plans for complying with the year 2000 reductions are less certain at this time.

The Pennsylvania Department of Environmental Resources has issued regulations dealing with the storage, treatment, transportation and disposal of residual waste such as coal ash and scrubber sludge. These regulations impose additional requirements relating to permitting, ground water monitoring, leachate collection systems, closure, liability insurance and operating matters. The Company is developing and analyzing various compliance

options and is presently unable to determine the ultimate increase in capital and operating costs at existing sites.

Legislative and administrative action and the effect of court decisions can be expected in the future (as they have in the past) to change the way that the Company must operate in order to comply with environmental laws and regulations. With respect to any such changes and to the environmental matters described above, the Company expects that any resulting additional capital costs which may be required, as well as any required increase in operating costs, would ultimately be recovered from its customers.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pennsylvania Power Company:

We have reviewed the accompanying balance sheet of Pennsylvania Power Company (a Pennsylvania corporation and a wholly-owned subsidiary of Ohio Edison Company) as of June 30, 1994, and the related statements of income and cash flows for the three-month and six-month periods ended June 30, 1994 and 1993. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet and statement of capitalization of Pennsylvania Power Company as of December 31, 1993, and the related statements of income, retained earnings, capital stock and other paid-in capital, cash flows and taxes for the year then ended (not presented separately herein). In our opinion, the information set forth in the accompanying balance sheet as of December 31, 1993 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

Cleveland, Ohio,
August 2, 1994

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PENNSYLVANIA POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Operating revenues were up \$4,400,000 and \$8,500,000 for the quarter and six month periods ended June 30, 1994, respectively, as compared with the same periods last year. However, earnings were lower in the second quarter primarily due to voluntary early retirement programs offered to qualifying employees, discussed more fully below.

For the first half of 1994, total kilowatt-hour sales increased by 3.4% due to a 9.0% rise in retail sales. Residential and commercial sales increased 10.4% and 9.7%, respectively, due to increased weather-related demand and to an increasing customer base. Sales to industrial customers increased 7.4% due to increased demand by manufacturers in the primary metals industry. Sales to other utilities were down 11.8% during the first half of 1994. Increased demand in the retail sector and capacity constraints limited the Company's opportunities to sell power off system.

Total kilowatt-hour sales were up 3.5% during the second quarter of 1994 compared to the same period last year due to an 8.1% increase in retail sales. Residential and commercial sales rose 7.1% and 5.8%, respectively, while industrial sales increased 10.5%. Sales to other utilities fell 13.1% during the quarter.

As a result of a prolonged refueling outage at the Perry Plant, the Company's nuclear operating costs have increased in the second quarter and year to date periods of 1994 as compared to the corresponding periods of 1993. In conjunction with the refueling outage, the company operating the Perry Plant has been undertaking significant corrective maintenance work designed to improve the unit's performance. Activities relating to this outage were essentially complete by the end of July 1994. Other operating costs increased in the second quarter of 1994 compared to 1993 primarily due to a \$9,600,000 charge relating to the voluntary early retirement programs offered to qualifying employees.

Capital Resources and Liquidity

The Company has continuing cash requirements for planned capital expenditures and debt maturities. During the remainder of the year, capital requirements for property additions and capital leases are expected to be approximately \$19,000,000, including \$6,000,000 for nuclear fuel. The Company has additional cash requirements of approximately \$600,000 to meet maturities of long-term debt during the remainder of 1994. In July 1994, the Company also redeemed \$6,000,000 of preferred stock.

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PENNSYLVANIA POWER COMPANY

As of June 30, 1994, the Company had approximately \$27,000,000 of cash and temporary investments and no short-term indebtedness. The Company had \$5,000,000 of unused short-term bank lines of credit as of June 30, 1994, and \$32,000,000 of bank facilities which may be borrowed for up to several days at the banks' discretion.

The Company's performance initiatives activities are continuing and opportunities for improvement and savings are being identified. As a result, certain projects and activities have been eliminated and other process improvements and revenue opportunities are being pursued. In conjunction with these results, the Company announced, in May 1994, the offering of a voluntary early retirement program to 60 eligible nonunion employees, with 56 employees accepting the offer. In addition, the Company offered a similar program to 54 eligible members of Utility Workers Union of America Local 140. Those employees have until August 22, 1994 to accept the offer.

On June 16, 1994, the Pennsylvania Public Utility Commission (PPUC) issued an order approving the Company's settlement petition to remove New Castle Units 1 and 2 from service and to terminate the annual capacity power sales arrangement from the Company to Ohio Edison. The order requires the Company to refund \$4,750,000 to customers by reducing its energy cost rate (ECR) from April 1, 1994 through March 31, 1997. On July 7, 1994, the PPUC adopted an order requiring the Company to refund \$4,221,000 to its customers over a two year period beginning August 1, 1994. The refunds represent final resolution of a December 1991 PPUC order that required the Company to refund replacement power costs recovered from customers through the ECR during an extended outage at Beaver Valley Unit 1 in 1979. There will be no material adverse effect to net income in future periods as a result of these refunds.

The Company currently has agreements to serve five municipalities; three of the agreements expire September 1, 1994. The Company is currently negotiating with these municipalities concerning their electric service.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit

Number

15 Letter from independent public accountants.

Pursuant to paragraph (b) (4) (iii) (A) of Item 601 of Regulation S-K, the Company has not filed as an exhibit to this Form 10-Q any instrument with respect to long-term debt if the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Company, but hereby agrees to furnish to the Commission on request any such documents.

(b) Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 2, 1994

PENNSYLVANIA POWER COMPANY

Registrant

/s/ Robert P. Wushinske

Robert P. Wushinske
Vice President and Treasurer
Chief Accounting Officer

Pennsylvania Power Company
1 E. Washington Street
P. O. Box 891
New Castle, Pennsylvania 16103

Gentlemen:

We are aware that Pennsylvania Power Company has incorporated by reference in its previously filed Registration Statements No. 33-47372, 33-62450 and 33-65156, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, which includes our report dated August 2, 1994, covering the unaudited interim financial statements contained therein. Pursuant to Rule 436(c) of Regulation C of the Securities Act of 1933, such report is not considered a part of the Registration Statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

ARTHUR ANDERSEN & CO.

Cleveland, Ohio,
August 2, 1994