

SECURITIES AND EXCHANGE COMMISSION

FORM U-1

Application or declaration under the act 1935

Filing Date: **1994-03-18**
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FILER

ENERGY INITIATIVES INC

CIK: **840716** | State of Incorporation: **NJ** | Fiscal Year End: **1231**
Type: **U-1** | Act: **35** | File No.: **070-08395** | Film No.: **94516859**

Business Address
*100 INTERPACE PKWY
PARSIPPANY NJ 07054*

SEC File No. 70-_____

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM U-1

APPLICATION

UNDER

THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935 ("Act")

GENERAL PUBLIC UTILITIES CORPORATION ("GPU")
100 Interpace Parkway
Parsippany, New Jersey 07054

GENERAL PORTFOLIOS CORPORATION ("GPC")
Mellon Bank Center
Tenth and Market Streets
Wilmington, Delaware 19801

ENERGY INITIATIVES, INC. ("EI")
One Upper Pond Road
Parsippany, NJ 07054

(Names of companies filing this statement and addresses
of principal executive offices)

GENERAL PUBLIC UTILITIES CORPORATION
(Name of top registered holding company parent of applicants)

Don W. Myers, Vice President
and Treasurer
M.A. Nalewako, Secretary

Douglas E. Davidson, Esq.
Berlack, Israels & Liberman
120 West 45th Street

GPU Service Corporation
100 Interpace Parkway
Parsippany, NJ 07054

New York, New York 10036

B.L. Levy, President
K.A. Tomblin, Secretary
Energy Initiatives, Inc.
One Upper Pond Road
Parsippany, NJ 07054

(Names and addresses of agents for service)

ITEM 1. DESCRIPTION OF PROPOSED TRANSACTIONS.

A. By Orders dated February 5, 1985 (HCAR No. 35-23893) and February 13, 1985 (HCAR No. 35-23600) in SEC File No. 70-7058, the Commission, among other things, authorized the organization of EI as a wholly-owned subsidiary of Jersey Central Power & Light Company ("JCP&L"), itself a wholly-owned subsidiary of GPU. EI was authorized, among other things, to invest in certain qualifying facilities, as defined in the Public Utility Regulatory Policies Act of 1978 ("PURPA") and the regulations of the Federal Energy Regulatory Commission thereunder. By Orders dated November 2, 1988 (HCAR No. 35-24738) and March 22, 1989 (HCAR No. 35-24843) in SEC File No. 70-7525, the Commission, among other things, authorized GPU to organize and acquire all of the common stock of GPC and to contribute to GPC 51,975 shares of ACE Limited and 7,866 shares of Excel Limited, both Cayman Island corporations, and authorized GPC to acquire all of the common stock of EI from JCP&L. By Order dated December 18, 1992 (HCAR

No. 35-25715) in SEC File No. 70-7727 the Commission, among other things, authorized EI to engage in preliminary project development and administrative activities with respect to exempt wholesale generators ("EWG") as defined in Section 32(a)(1) of the Act.

B. When GPC was organized in 1988, it was anticipated that GPU would, subject to further Commission authorization, be investing in various non-rate regulated activities, in addition to EI, and that GPC would serve as the single vehicle through which such other investments would be made, managed and controlled. For a number of reasons, including subsequent

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amendments to the Internal Revenue Code, GPU has not made such investments and does not now anticipate doing so in the foreseeable future. Consequently, apart from its ownership of EI, and of the ACE and Excel shares, GPC has not been actively engaged in any business activities since its organization. Moreover, with the enactment of the Energy Policy Act of 1992 and its addition of Sections 32 and 33 to the Act, GPU intends to conduct future development and investment activities with respect to EWGs and foreign utility companies principally through one or more newly-formed direct subsidiaries of GPU.

C. Under these circumstances, GPU believes that retaining the GPC corporate entity is no longer necessary or appropriate. Accordingly, GPU proposes to merge GPC into EI, with EI becoming the surviving entity. Pursuant to the "short form" merger provisions of Section 253 of the Delaware Corporation Law, under which both EI and GPC are incorporated, upon consummation of the merger, all of the outstanding 100 shares, without par value, of GPC common stock owned by GPU would be canceled and EI would succeed to all of the assets and liabilities of GPC. EI would thus become a direct, wholly-owned subsidiary of GPU.

ITEM 2. FEES, COMMISSIONS AND EXPENSES.

The estimated fees, commissions and expenses to be incurred in connection with the proposed transactions will be supplied by amendment.

ITEM 3. APPLICABLE STATUTORY PROVISIONS.

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It is believed that Section 9(a) and 10 of the Act are applicable to the transactions proposed herein inasmuch as EI will be acquiring, by operation of law pursuant to the merger, the ACE and Excel shares now owned by GPC.

ITEM 4. REGULATORY APPROVALS.

No state commission has jurisdiction with respect to any aspect of the proposed transaction and, assuming your Commission authorizes and approves all aspects of the transaction (including the accounting therefor), no Federal commission other than your Commission has jurisdiction with respect to any aspect thereof.

ITEM 5. PROCEDURE.

It is requested that the Commission issue an order with respect to the transactions proposed herein at the earliest practicable date, but in any event not later than May 19, 1994. It is further requested that (a) there not be a recommended decision by an Administrative Law Judge or other responsible officer of the Commission, (b) the Office of Public Utility Regulation be permitted to assist in the preparation of the Commission's decision, and (c) there be no waiting period between the issuance of the Commission's order and the date on which it is to become effective.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENTS.

1. Exhibits:

A - None.

- B - Form of Certificate of Merger--to be filed by amendment.
- C - None.
- D - None.
- E - None.
- F - Opinion of Berlack, Israels & Liberman--to be filed by amendment.
- G - Proposed form of public notice.

2. Financial Statements

- 1-A GPU (corporate) Balance Sheets, actual and pro forma, as at December 31, 1993, and Statements of Income, actual and pro forma, and a statement of Retained Earnings for the twelve months ended December 31, 1993; pro forma journal entries.
- 1-B EI Balance Sheets, actual and pro forma, as at December 31, 1993, and Consolidated Statements of Income, actual and pro forma, and Statement of Retained Earnings, for the twelve months ended December 31, 1993; pro forma journal entries.
- 2. GPU Consolidated Financial Statements have not been included because the proposed transaction would have no effect thereon.

ITEM 7. INFORMATION AS TO ENVIRONMENTAL EFFECTS.

(a) The proposed transaction is for the purpose of financing GPU's business. As such, the issuance of an order by your Commission with respect to the proposed transactions which are the subject hereof is not a major Federal action

significantly affecting the quality of the human environment.

(b) No Federal agency has prepared or is preparing an environmental impact statement with respect to the proposed transactions which are the subject hereof.

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SIGNATURE

PURSUANT TO THE REQUIREMENTS OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, THE UNDERSIGNED COMPANIES HAVE DULY CAUSED THIS STATEMENT TO BE SIGNED ON THEIR BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

GENERAL PUBLIC UTILITIES CORPORATION
GENERAL PORTFOLIOS CORPORATION

By: _____
Don W. Myers, Vice President and
Treasurer

ENERGY INITIATIVES, INC.

By: _____
B.L. Levy, President

Date: March 18, 1994

EXHIBIT AND FINANCIAL STATEMENTS TO BE FILED BY EDGAR

Exhibit:

G - Proposed form of public notice

Financial Statements:

1-A - GPU (corporate) Balance Sheets, actual and pro forma, as at December 31, 1993, and Statements of Income, actual and pro forma, and a statement of Retained Earnings for the twelve months ended December 31, 1993; pro forma journal entries.

1-B - EI Balance Sheets, actual and pro forma, as at December 31, 1993, and Consolidated Statements of Income, actual and pro forma, and Statement of Retained Earnings, for the twelve months ended December 31, 1993; pro forma journal entries.

EXHIBIT G

SECURITIES AND EXCHANGE COMMISSION
(RELEASE NO. 35-_____; 70-_____)

GENERAL PUBLIC UTILITIES CORPORATION
GENERAL PORTFOLIOS CORPORATION
ENERGY INITIATIVES, INC.

NOTICE OF PROPOSAL TO MERGE SUBSIDIARY CORPORATIONS

General Public Utilities Corporation, 100 Interpace Parkway, Parsippany, New Jersey 07054 ("GPU"), a registered holding company, and its wholly-owned direct and indirect subsidiaries, General Portfolios Corporation, Mellon Bank Center, Tenth and Market Streets, Wilmington, Delaware 10801 ("GPC") and Energy Initiatives, Inc., One Upper Pond Road, Parsippany, New Jersey, 07054 ("EI"), have filed an application with the Commission pursuant to Sections 9(a) and 10 of the Public Utility Holding Company Act of 1935 (the "Act").

GPC was organized in 1988 as a subsidiary of GPU for the purpose of investing in non-rate regulated activities. At the time of its organization, GPC acquired all of the outstanding common stock of EI from Jersey Central Power & Light Company, a subsidiary of GPU, and GPU contributed 51,975 shares of stock ACE Limited and 7,806 shares of stock of Excel Limited, both Cayman Island corporations, to GPC.

Apart from its ownership of EI and the ACE and Excel shares GPC has not actively engaged in any business activities since its organization and does not now anticipate doing so.

Under the circumstances, GPU believes that retaining the GPC corporate entity is no longer necessary, and accordingly,

proposes to merge GPC into EI with EI surviving the merger. EI

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would thus become a direct, wholly-owned subsidiary of GPC and would succeed to all of the assets and liabilities of GPC, including the ACE and Excel shares.

The Application and any amendments thereto are available for public inspection through the Commission's Office of Public Reference. Interested persons wishing to comment or request a hearing should submit their views in writing by _____, 1994 to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the applicant at the address specified above. Proof of service (by affidavit, or in case of an attorney at law, by certificate) should be filed with the request. Any request for a hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in this matter. After said date, the Application, as it may be amended, may be granted.

Jonathan G. Katz
Secretary

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GENERAL PUBLIC UTILITIES CORPORATION
BALANCE SHEETS
ACTUAL AND PRO FORMA
AT DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

<u><S></u>	Actual (Unaudited) <C>	Adjustments (See pages 3-4) <C>	Pro Forma <C>
ASSETS			
Investments:			
Investments in subsidiaries	\$2 693 641	\$ 179 254	\$2 872 895
Other investments	3 422	-	3 422
Total investments	2 697 063	179 254	2 876 317
Current Assets:			
Cash and temporary cash investments	68	(200 000)	(199 932) *
Accounts receivable, net	337	-	337
Prepayments	5	-	5
Total current assets	410	(200 000)	(199 590)
Total Assets	\$2 697 473	\$ (20 746)	\$2 676 727
LIABILITIES AND CAPITAL			
Common Stock and Surplus:			
Common stock	\$ 314 458	\$ -	\$ 314 458
Capital surplus	667 683	-	667 683
Retained earnings	1 815 740	(27 246)	1 788 494
Total	2 797 881	(27 246)	2 770 635
Less: reacquired common stock, at cost	185 258	-	185 258
Total common stockholders' equity	2 612 623	(27 246)	2 585 377
Current Liabilities:			
Notes payable	32 100	10 000	42 100
Accounts payable	301	-	301
Taxes accrued	5	(3 500)	(3 495)
Interest accrued	104	-	104
Other	51 491	-	51 491
Total current liabilities	84 001	6 500	90 501
Deferred credits and other liabilities	849	-	849
Total Liabilities and Capital	\$2 697 473	\$ (20 746)	\$2 676 727

<FN>

* The pro forma balance sheet does not reflect any future cash dividends to be received by GPU from its three electric utility Subsidiaries. The dividends would be paid from future

earnings.

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

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GENERAL PUBLIC UTILITIES CORPORATION
STATEMENTS OF INCOME AND RETAINED EARNINGS
ACTUAL AND PRO FORMA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

	Actual (Unaudited) <C>	Adjustments (See pages 3-4) <C>	Pro Forma <C>
Income:			
Equity in earnings of subsidiaries	\$ 301 591	\$ (20 746)	\$ 280 845
Other income, net	44	-	44
Total	301 635	(20 746)	280 889
Expense, Taxes and Interest:			
General expenses	4 125	10 000	14 125
Income tax expense	-	(3 500)	(3 500)
Interest expense	1 837	-	1 837
Total	5 962	6 500	12 462
Net Income	\$ 295 673	\$ (27 246)	\$ 268 427
Retained Earnings:			
Balance at beginning of period	\$1 716 196	\$ -	\$1 716 196
Add - Net income	295 673	(27 246)	268 427
Deduct - Cash dividends declared on common stock	189 150	-	189 150
Other adjustments	6 979	-	6 979
Balance at end of period	\$1 815 740	\$ (27 246)	\$1 788 494

<FN>

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

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GENERAL PUBLIC UTILITIES CORPORATION
PRO FORMA ADJUSTMENTS
AT DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

	(1)		
<S>		<C>	<C>
Investments in subsidiaries (EI)		\$ 39 135	
Investments in subsidiaries (GPC)			\$ 39 135

To reflect on GPU's books the proposed merger of GPC into EI. Upon consummation of the merger, all of the outstanding 100 shares, without par value, of GPC common stock would be canceled and EI would become a direct wholly-owned subsidiary of GPU.

(2)

Investments in subsidiaries	\$200 000	
Cash and temporary cash investments		\$200 000

To record the total cash capital contributions to be made, from time to time during the period, beginning with the effectiveness of the authorization sought and ending December 31, 1996, by GPU to its three electric operating subsidiaries, in an amount up to \$200 million. GPU expects that the capital contributions will primarily be financed from short-term bank borrowings previously or subsequently authorized by the Commission (SEC File No. 70-7933).

(3)

Other operation & maintenance	\$ 10 000	
Notes payable		\$ 10 000

To reflect the maximum exposure to GPU under Guarantee obligations to secure EI short-term borrowings. The total principal amount guaranteed by GPU would not exceed \$10 million, and would be in addition to the amount which GPU is otherwise authorized to guarantee on behalf of EI (SEC File No. 70-7727).

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GENERAL PUBLIC UTILITIES CORPORATION
PRO FORMA ADJUSTMENTS
AT DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

(4)

<S>	<C>	<C>
Taxes accrued	\$ 3 500	
Income tax expense		\$ 3 500

To reflect the decrease in the provision for federal income taxes attributable to the potential expense resulting from the fulfilling of Guarantee obligations to secure EI short-term

borrowings, not to exceed \$10 million
(SEC File No. 70-7727).

(5)

Equity in earnings of subsidiaries	\$ 20 746	
Investments in subsidiaries		\$ 20 746

To reflect the anticipated net income effect from the (1) New Letters of Credit (SEC File No. 70-8141 and SEC File No. 70-8323), and (2) leasing of excess fiber optic system capacity (SEC File No. 70-7850).

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

General Public Utilities Corporation (the Corporation) is a holding company registered under the Public Utility Holding Company Act of 1935. The Corporation does not directly operate any utility properties, but owns all the outstanding common stock of three electric utilities -- Jersey Central Power & Light Company (JCP&L), Metropolitan Edison Company (Met-Ed) and Pennsylvania Electric Company (Penelec) (the Subsidiaries). The Corporation also owns all the common stock of GPU Service Corporation (GPUSC), a service company; GPU Nuclear Corporation (GPUN), which operates and maintains the nuclear units of the Subsidiaries; and General Portfolios Corporation (GPC), parent of Energy Initiatives, Inc., which develops, owns and operates nonutility generating facilities. All of these companies considered together with their subsidiaries are referred to as the "GPU System."

These notes should be read in conjunction with the notes to consolidated financial statements included in the 1993 Annual Report on Form 10-K. For disclosures required by generally accepted accounting principles, see the 1993 Annual Report on Form 10-K.

1. COMMITMENTS AND CONTINGENCIES

NUCLEAR FACILITIES

The Subsidiaries have made investments in three major nuclear projects -- Three Mile Island Unit 1 (TMI-1) and Oyster Creek, both of which are operational generating facilities, and Three Mile Island Unit 2 (TMI-2), which was damaged during a 1979 accident. At December 31, 1993, the Subsidiaries' net investment in TMI-1 and Oyster Creek, including nuclear fuel, was \$670 million and \$784 million, respectively. TMI-1 and TMI-2 are jointly owned by JCP&L, Met-Ed and Penelec in the percentages of 25%, 50% and 25%, respectively. Oyster Creek is owned by JCP&L.

Costs associated with the operation, maintenance and retirement of nuclear plants have continued to increase and become less predictable, in large part due to changing regulatory requirements and safety standards and experience gained in the construction and operation of nuclear facilities. The GPU System may also incur costs and experience reduced output at its nuclear plants because of the design criteria prevailing at the time of construction

and the age of the plants' systems and equipment. In addition, for economic or other reasons, operation of these plants for the full term of their now assumed lives cannot be assured. Also, not all risks associated with ownership or operation of nuclear facilities may be adequately insured or insurable. Consequently, the ability of electric utilities to obtain adequate and timely recovery of costs associated with nuclear projects, including replacement power, any unamortized investment at the end of the plants' useful life (whether scheduled or premature), the carrying costs of that investment and retirement costs, is not assured. Management intends, in general, to seek recovery of any such costs described above through the ratemaking process, but recognizes that recovery is not assured.

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1. COMMITMENTS AND CONTINGENCIES (Continued)

TMI-2: The 1979 TMI-2 accident resulted in significant damage to, and contamination of, the plant and a release of radioactivity to the environment. The cleanup program was completed in 1990. After receiving Nuclear Regulatory Commission (NRC) approval, TMI-2 entered into long-term monitored storage in December 1993.

As a result of the accident and its aftermath, individual claims for alleged personal injury (including claims for punitive damages), which are material in amount, have been asserted against the Corporation and the Subsidiaries. Approximately 2,100 of such claims are pending in the U.S. District Court for the Middle District of Pennsylvania. Some of the claims also seek recovery for injuries from alleged emissions of radioactivity before and after the accident. Questions have not yet been resolved as to whether the punitive damage claims are (a) subject to the overall limitation of liability set by the Price-Anderson Act (\$560 million at the time of the accident) and (b) outside the primary insurance coverage provided pursuant to that Act (remaining primary coverage of approximately \$80 million as of December 31, 1993). If punitive damages are not covered by insurance or are not subject to the Price-Anderson liability limitation, punitive damage awards could have a material adverse effect on the financial position of the GPU System.

In June 1993, the Court agreed to permit pre-trial discovery on the punitive damage claims to proceed. A trial of twelve allegedly representative cases is scheduled to begin in October 1994. In February 1994, the Court held that the plaintiffs' claims for punitive damages are not barred by the Price-Anderson Act to the extent that the funds to pay punitive damages do not come out of the U.S. Treasury. The Court also denied the defendants' motion seeking a dismissal of all cases on the grounds that the defendants complied with applicable federal safety standards regarding permissible radiation releases from TMI-2 and that, as a matter of law, the defendants therefore did not breach any duty that they may have owed to the individual plaintiffs. The Court stated that a dispute about what radiation and emissions were released cannot be resolved on a motion for summary judgment.

NUCLEAR PLANT RETIREMENT COSTS

Retirement costs for nuclear plants include decommissioning the radiological portions of the plants and the cost of removal of nonradiological

structures and materials. As described in the Nuclear Fuel Disposal Fee section of Note 2, the disposal of spent nuclear fuel is covered separately by contracts with the U.S. Department of Energy (DOE).

In 1990, the Subsidiaries submitted a report, in compliance with NRC regulations, setting forth a funding plan (employing the external sinking fund method) for the decommissioning of their nuclear reactors. Under this plan, the Subsidiaries intend to complete the funding for Oyster Creek and TMI-1 by the end of the plants' license terms, 2009 and 2014, respectively. The TMI-2 funding completion date is 2014, consistent with TMI-2 remaining in long-term storage and being decommissioned at the same time as TMI-1. Under the NRC

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1. COMMITMENTS AND CONTINGENCIES (Continued)

regulations, the funding targets (in 1993 dollars) for TMI-1 and Oyster Creek are \$143 million and \$175 million, respectively. Based on NRC studies, a comparable funding target for TMI-2 (in 1993 dollars), which takes into account the accident, is \$228 million. The NRC is currently studying the levels of these funding targets. Management cannot predict the effect that the results of this review will have on the funding targets. NRC regulations and a regulatory guide provide mechanisms, including exemptions, to adjust the funding targets over their collection periods to reflect increases or decreases due to inflation and changes in technology and regulatory requirements. The funding targets, while not actual cost estimates, are reference levels designed to assure that licensees demonstrate adequate financial responsibility for decommissioning. While the regulations address activities related to the removal of the radiological portions of the plants, they do not establish residual radioactivity limits nor do they address costs related to the removal of nonradiological structures and materials.

In 1988, a consultant to GPUN performed site-specific studies of TMI-1 and Oyster Creek that considered various decommissioning plans and estimated the cost of decommissioning the radiological portions of each plant to range from approximately \$205 to \$285 million and \$220 to \$320 million, respectively (adjusted to 1993 dollars). In addition, the studies estimated the cost of removal of nonradiological structures and materials for TMI-1 and Oyster Creek at \$72 million and \$47 million, respectively.

The ultimate cost of retiring the GPU System's nuclear facilities may be materially different from the funding targets and the cost estimates contained in the site-specific studies and cannot now be more reasonably estimated than the level of the NRC funding target because such costs are subject to (a) the type of decommissioning plan selected, (b) the escalation of various cost elements (including, but not limited to, general inflation), (c) the further development of regulatory requirements governing decommissioning, (d) the absence to date of significant experience in decommissioning such facilities and (e) the technology available at the time of decommissioning. The Subsidiaries charge to expense and contribute to external trusts amounts collected from customers for nuclear plant decommissioning and nonradiological costs. In addition, the Subsidiaries have contributed to external trusts amounts written off for nuclear plant decommissioning in 1990 and 1991.

TMI-1 and Oyster Creek:

JCP&L is collecting revenues for decommissioning, which are expected to result in the accumulation of its share of the NRC funding target for each plant. JCP&L is also collecting revenues based on estimates, adopted in rate orders issued in 1991 and 1993 by the New Jersey Board of Regulatory Commissioners (NJBRC), for the cost of removal of nonradiological structures and materials at each plant based on its share of an estimated \$15.3 million for TMI-1 and \$31.6 million for Oyster Creek. In January 1993, the Pennsylvania Public Utility Commission (PaPUC) granted Met-Ed revenues for decommissioning costs of TMI-1 based on its share of the NRC funding target and nonradiological cost of removal as estimated in the site-specific study. Effective October 1993, the PaPUC approved a rate change for Penelec which increased the collection of revenues for decommissioning costs for TMI-1 to a

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1. COMMITMENTS AND CONTINGENCIES (Continued)

basis equivalent to that granted Met-Ed. Collections from customers for decommissioning expenditures are deposited in external trusts and are classified as Decommissioning Funds on the balance sheet, which includes the interest earned on these funds. Provision for the future expenditure of these funds has been made in accumulated depreciation, amounting to \$29 million for TMI-1 and \$80 million for Oyster Creek at December 31, 1993.

Management believes that any TMI-1 and Oyster Creek retirement costs, in excess of those currently recognized for ratemaking purposes, should be recoverable through the ratemaking process.

TMI-2:

The Corporation and its Subsidiaries have recorded a liability amounting to \$229 million as of December 31, 1993, for the radiological decommissioning of TMI-2, reflecting the NRC funding target. The Subsidiaries record escalations, when applicable, in the liability based upon changes in the NRC funding target. The Subsidiaries have also recorded a liability in the amount of \$20 million for incremental costs specifically attributable to monitored storage. Such costs are expected to be incurred between 1994 and 2014, when decommissioning is forecast to begin. In addition, the Subsidiaries have recorded a liability in the amount of \$71 million for nonradiological cost of removal. The above amounts for retirement costs and monitored storage are reflected as Three Mile Island Unit 2 Future Costs on the balance sheet. JCP&L has made a nonrecoverable contribution of \$15 million to an external decommissioning trust. Met-Ed and Penelec have made nonrecoverable contributions of \$40 million and \$20 million, respectively, to external decommissioning trusts relating to their shares of the accident-related portion of the decommissioning liability.

The NJBRC and the PaPUC have granted JCP&L and Met-Ed, respectively, decommissioning revenues for the remainder of the NRC funding target and allowances for the cost of removal of nonradiological structures and materials. In March 1993, a PaPUC rate order for Met-Ed allowed for the future recovery of certain TMI-2 retirement costs. The recovery of these TMI-2 retirement costs will begin when the amortization of the TMI-2 investment ends, at the same annual amount (\$6.3 million for recovery of radiological decommissioning and \$2.0 million for nonradiological cost of removal, net of gross receipts tax). In May 1993, the Pennsylvania Office of

Consumer Advocate filed a petition for review with the Pennsylvania Commonwealth Court seeking to set aside the PaPUC's 1993 rate order. The matter is pending before the court. If the 1993 rate order is reversed, Met-Ed and Penelec would be required to write off a total of approximately \$170 million for retirement costs. Penelec intends to request decommissioning revenues and an allowance for the cost of removal of nonradiological structures and materials, equivalent to its share of the amounts granted to Met-Ed, in its next retail base rate filing. Management intends to seek recovery for any increases in TMI-2 retirement costs, but recognizes that recovery cannot be assured.

Upon TMI-2's entering long-term monitored storage, the Subsidiaries will incur currently estimated incremental annual storage costs of \$1 million. The

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1. COMMITMENTS AND CONTINGENCIES (Continued)

Subsidiaries have deferred the \$20 million for the total estimated incremental costs attributable to monitored storage. The JCP&L share of these costs has been recognized in rates by the NJBRC. Met-Ed and Penelec believe these costs should be recoverable through the ratemaking process.

INSURANCE

The GPU System has insurance (subject to retentions and deductibles) for its operations and facilities including coverage for property damage, liability to employees and third parties, and loss of use and occupancy (primarily incremental replacement power costs). There is no assurance that the GPU System will maintain all existing insurance coverages. Losses or liabilities that are not completely insured, unless allowed to be recovered through ratemaking, could have a material adverse effect on the financial position of the GPU System.

The decontamination liability, premature decommissioning and property damage insurance coverage for the TMI station (TMI-1 and TMI-2 are considered one site for insurance purposes) and for Oyster Creek totals \$2.7 billion per site. In accordance with NRC regulations, these insurance policies generally require that proceeds first be used for stabilization of the reactors and then to pay for decontamination and debris removal expenses. Any remaining amounts available under the policies may then be used for repair and restoration costs and decommissioning costs. Consequently, there can be no assurance that in the event of a nuclear incident, property damage insurance proceeds would be available for the repair and restoration of the stations.

The Price-Anderson Act limits the GPU System's liability to third parties for a nuclear incident at one of its sites to approximately \$9.4 billion. Coverage for the first \$200 million of such liability is provided by private insurance. The remaining coverage, or secondary protection, is provided by retrospective premiums payable by all nuclear reactor owners. Under secondary protection, a nuclear incident at any

licensed nuclear power reactor in the country, including those owned by the GPU System, could result in assessments of up to \$79 million per incident for each of the GPU System's three reactors, subject to an annual maximum payment of \$10 million per incident per reactor. In 1993, GPUN requested an exemption from the NRC to eliminate the secondary protection requirements for TMI-2. This matter is pending before the NRC.

The GPU System has insurance coverage for incremental replacement power costs resulting from an accident-related outage at its nuclear plants. Coverage commences after the first 21 weeks of the outage and continues for three years at decreasing levels beginning at \$1.8 million for Oyster Creek and \$2.6 million for TMI-1, per week.

Under its insurance policies applicable to nuclear operations and facilities, the GPU System is subject to retrospective premium assessments of up to \$52 million in any one year, in addition to those payable under the Price-Anderson Act.

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1. COMMITMENTS AND CONTINGENCIES (Continued)

ENVIRONMENTAL MATTERS

As a result of existing and proposed legislation and regulations, and ongoing legal proceedings dealing with environmental matters, including but not limited to acid rain, water quality, air quality, global warming, electromagnetic fields, and storage and disposal of hazardous and/or toxic wastes, the GPU System may be required to incur substantial additional costs to construct new equipment, modify or replace existing and proposed equipment, remediate or clean up waste disposal and other sites currently or formerly used by it, including formerly owned manufactured gas plants and mine refuse piles, and with regard to electromagnetic fields, postpone or cancel the installation of, or replace or modify, utility plant, the costs of which could be material. Management intends to seek recovery through the ratemaking process for any additional costs, but recognizes that recovery cannot be assured.

To comply with the federal Clean Air Act Amendments of 1990, the GPU System expects to expend up to \$590 million for air pollution control equipment by the year 2000. Costs associated with the capital invested in this equipment and the increased operating costs of the affected stations should be recoverable through the ratemaking process.

The GPU System companies have been notified by the Environmental Protection Agency (EPA) and state environmental authorities that they are among the potentially responsible parties (PRPs) who may be jointly and severally liable to pay for the costs associated with the investigation and remediation at ten hazardous and/or toxic waste sites. In addition, the GPU System companies have been requested to supply information to the EPA and state environmental authorities on several other sites for which they have not yet been named as PRPs. The Subsidiaries have also been named in lawsuits requesting damages for hazardous and/or toxic substances allegedly released into the environment. The ultimate cost of remediation will depend upon changing circumstances as site investigations continue, including (a) the existing technology required for site cleanup, (b) the remedial action plan

chosen and (c) the extent of site contamination and the portion attributed to the GPU System companies.

JCP&L has entered into agreements with the New Jersey Department of Environmental Protection and Energy for the investigation and remediation of 17 formerly-owned manufactured gas plant sites. One of these sites has been repurchased by JCP&L. JCP&L has also entered into various cost sharing agreements with other utilities for some of the sites. At December 31, 1993, JCP&L has an estimated environmental liability of \$35 million recorded on its balance sheet relating to these sites. The estimated liability is based upon ongoing site investigations and remediation efforts, including capping the sites and pumping and treatment of ground water. If the periods over which the remediation is currently expected to be performed are lengthened, JCP&L believes that it is reasonably possible that the ultimate costs may range as high as \$60 million. Estimates of these costs are subject to significant uncertainties as JCP&L does not presently own or control most of these sites; the environmental standards have changed in the past and are subject to future change; the accepted technologies are subject to further development; and the

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1. COMMITMENTS AND CONTINGENCIES (Continued)

related costs for these technologies are uncertain. If JCP&L is required to utilize different remediation methods, the costs could be materially in excess of \$60 million.

In June 1993, the NJBRC approved a mechanism for the recovery of future manufactured gas plant remediation costs through JCP&L's Levelized Energy Adjustment Clause (LEAC) when expenditures exceed prior collections. The NJBRC decision provides for interest to be credited to customers until the overrecovery is eliminated and for future costs to be amortized over seven years with interest. JCP&L is currently awaiting a final NJBRC order. JCP&L is pursuing reimbursement of the above costs from its insurance carriers, and will seek to recover costs to the extent not covered by insurance through this mechanism.

The GPU System companies are unable to estimate the extent of possible remediation and associated costs of additional environmental matters. Also unknown are the consequences of environmental issues, which could cause the postponement or cancellation of either the installation or replacement of utility plant. Management believes the costs described above should be recoverable through the ratemaking process.

OTHER COMMITMENTS AND CONTINGENCIES

The NJBRC has instituted a generic proceeding to address the appropriate recovery of capacity costs associated with electric utility power purchases from nonutility generation projects. The proceeding was initiated, in part, to respond to contentions of the New Jersey Public Advocate, Division of Rate Counsel (Rate Counsel), that by permitting utilities to recover such costs through the LEAC, an excess or "double recovery" may result when combined with the recovery of the utilities' embedded capacity costs through their base rates. In September 1993, JCP&L and the other New Jersey electric utilities filed motions for summary judgment with the NJBRC requesting that the NJBRC

dismiss contentions being made by Rate Counsel that adjustments for alleged "double recovery" in prior periods are warranted. Rate Counsel has filed a brief in opposition to the utilities' summary judgment motions including a statement from its consultant that in his view, the "double recovery" for JCP&L for the 1988-92 period would be approximately \$102 million. Management believes that the position of Rate Counsel is without merit. This matter is pending before the NJBRC.

JCP&L's two operating nuclear units are subject to the NJBRC's annual nuclear performance standard. Operation of these units at an aggregate annual generating capacity factor below 65% or above 75% would trigger a charge or credit based on replacement energy costs. At current cost levels, the maximum annual effect on net income of the performance standard charge at a 40% capacity factor would be approximately \$10 million. While a capacity factor below 40% would generate no specific monetary charge, it would require the issue to be brought before the NJBRC for review. The annual measurement period, which begins in March of each year, coincides with that used for the LEAC. At the request of the PaPUC, Met-Ed and Penelec, as well as the other Pennsylvania utilities, have supplied the PaPUC with proposals which may

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1. COMMITMENTS AND CONTINGENCIES (Continued)

result in the PaPUC adopting a generic nuclear performance standard in the future.

In December 1993, the NJBRC denied JCP&L's request to participate in the proposed power supply and transmission facilities agreements between the Subsidiaries and Duquesne Light Company (Duquesne). As a result of this action and other developments, the Subsidiaries notified Duquesne that they were exercising their rights under the agreements to withdraw from and thereby terminate the agreements. Consequently, the Subsidiaries wrote off the \$25 million they had invested in the project.

The GPU System's construction programs, for which substantial commitments have been incurred and which extend over several years, contemplate expenditures of \$663 million during 1994. As a consequence of reliability, licensing, environmental and other requirements, substantial additions to utility plant may be required relatively late in their expected service lives. If such additions are made, current depreciation allowance methodology may not make adequate provision for the recovery of such investments during their remaining lives. Management intends to seek recovery of any such costs through the ratemaking process, but recognizes that recovery is not assured.

As a result of the Energy Policy Act of 1992 (Energy Act) and actions of regulatory commissions, the electric utility industry appears to be moving toward a combination of competition and a modified regulatory environment. In accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), the GPU System's financial statements reflect assets and costs based on current cost-based ratemaking regulations. Continued accounting under FAS 71 requires that the following criteria be met:

- a) A utility's rates for regulated services provided to its customers are established by, or are subject to approval by, an independent third-

party regulator;

- b) The regulated rates are designed to recover specific costs of providing the regulated services or products; and
- c) In view of the demand for the regulated services and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover a utility's costs can be charged to and collected from customers. This criteria requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

A utility's operations can cease to meet those criteria for various reasons, including deregulation, a change in the method of regulation, or a change in the competitive environment for the utility's regulated services. Regardless of the reason, a utility whose operations cease to meet those criteria should discontinue application of FAS 71 and report that discontinuation by eliminating from its balance sheet the effects of any actions of regulators that had been recognized as assets and liabilities pursuant to FAS 71 but

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1. COMMITMENTS AND CONTINGENCIES (Continued)

which would not have been recognized as assets and liabilities by enterprises in general.

If a portion of the GPU System's operations continues to be regulated and meets the above criteria, FAS 71 accounting may only be applied to that portion. Write-offs of utility plant and regulatory assets may result for those operations that no longer meet the requirements of FAS 71. In addition, under deregulation, the uneconomical costs of certain contractual commitments for purchased power and/or fuel supplies may have to be expensed. Management believes that to the extent that the GPU System no longer qualifies for FAS 71 accounting treatment, a material adverse effect on its results of operations and financial position may result.

The Subsidiaries have entered into long-term contracts with nonaffiliated mining companies for the purchase of coal for certain generating stations in which they have ownership interests. The contracts, which expire between 1994 and the end of the expected service lives of the generating stations, require the purchase of either fixed or minimum amounts of the stations' coal requirements. The price of the coal is determined by formulas providing for the recovery by the mining companies of their costs of production. The Subsidiaries' share of the cost of coal purchased under these agreements is expected to aggregate \$89 million for 1994.

The Subsidiaries have entered into agreements with other utilities for the purchase of capacity and energy for various periods through 1999. These agreements provide for up to 2,130 MW in 1994, declining to 1,307 MW in 1995 and 183 MW by 1999. Payments pursuant to these agreements are estimated to aggregate \$244 million in 1994. The price of the energy purchased under these agreements is determined by contracts providing generally for the recovery by the sellers of their costs.

The Subsidiaries have also entered into power purchase agreements with

independently owned power production facilities (nonutility generators) for the purchase of energy and capacity for periods up to 25 years. The majority of these agreements are subject to penalties for nonperformance and other contract limitations. While a few of these facilities are dispatchable, most are must-run and generally obligate the Subsidiaries to purchase all of the power produced up to the contract limits. The agreements have been approved by the state regulatory commissions and permit the Subsidiaries to recover energy and demand costs from customers through their energy clauses. These agreements provide for the sale of approximately 2,452 MW of capacity and energy to the GPU System by the mid-to-late 1990s. As of December 31, 1993, facilities covered by these agreements having 1,193 MW of capacity were in service, and 215 MW were scheduled to commence operation in 1994. Payments made pursuant to these agreements were \$491 million, \$471 million and \$343 million for 1993, 1992 and 1991, respectively, and are estimated to aggregate \$551 million for 1994. The price of the energy and capacity to be purchased under these agreements is determined by the terms of the contracts. The rates payable under a number of these agreements are substantially in excess of current market prices. While the Subsidiaries have been granted full recovery of these costs from customers by the state commissions, there can be no assurance that the Subsidiaries will continue to be able to recover these

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1. COMMITMENTS AND CONTINGENCIES (Continued)

costs throughout the term of the related contracts. The emerging competitive market has created additional uncertainty regarding the forecasting of the System's energy supply needs which, in turn, has caused the Subsidiaries to change their supply strategy to seek shorter term agreements offering more flexibility. At the same time, the Subsidiaries are attempting to renegotiate, and in some cases buy out, high cost long-term nonutility generation contracts where opportunities arise. The extent to which the Subsidiaries may be able to do so, however, or recover associated costs through rates, is uncertain. Moreover, these efforts have led to disputes before both the NJBRC and the PaPUC, as well as to litigation, and may result in claims against the Subsidiaries for substantial damages. There can be no assurance as to the outcome of these matters.

During the normal course of the operation of their businesses, in addition to the matters described above, the GPU System companies are from time to time involved in disputes, claims and, in some cases, as defendants in litigation in which compensatory and punitive damages are sought by customers, contractors, vendors and other suppliers of equipment and services and by employees alleging unlawful employment practices. It is not expected that the outcome of these matters will have a material effect on the GPU System's financial position or results of operations.

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ENERGY INITIATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ACTUAL AND PRO FORMA
AT DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

<S>	Actual (Unaudited) <S>	Adjustments (See pages 18-20) <S>	Pro Forma <S>
ASSETS			
Property and equipment	\$ 660	\$ -	\$ 660
Less, accumulated depreciation	(215)	-	(215)
Net	445	-	445
Investment in partnerships	19 330	-	19 330
Current Assets:			
Cash & temporary investments	5 350	10 431	15 781
Accounts receivable	2 238	-	2 238
Notes receivable	300	-	300
Deferred tax assets	112	-	112
Prepayments & deposits	31	1	32
Total	8 031	10 432	18 463
Non-current Assets:			
Cash surrender value of Company life insurance	12	-	12
Deferred income taxes	-	1 113	1 113
Investment/Cogen Corp	-	-	-
Investment/Selkirk	5 526	-	5 526
Investment/Polsky	2 739	-	2 739
Other investments	-	3 779	3 779
Restricted investment	2 500	-	2 500
Total	10 777	4 892	15 669
Total Assets	\$38 583	\$15 324	\$ 53 907

<FN>

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

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ENERGY INITIATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ACTUAL AND PRO FORMA
AT DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

<S>	Actual (Unaudited) <C>	Adjustments (See pages 18-20) <C>	Pro Forma <C>
LIABILITIES AND CAPITAL			
Common Stock & Surplus:			
Common stock	\$ 100	\$ -	\$ 100
Paid in capital	47 600	3 917	51 517
Retained earnings	(13 673)	704	(12 969)
Total	34 027	4 621	38 648
Current Liabilities:			
Accounts payable	1 794	2	1 796
Accrued vacation	158	-	158
Accrued bonuses	161	-	161
Accrued liabilities	-	40	40
Interest payable	-	750	750
Notes payable	-	10 000	10 000
Taxes accrued	(869)	(115)	(984)
Deferred revenues	112	-	112
Total	1 356	10 677	12 033
Deferred Credits:			
Deferred income taxes	873	-	873
Deferred credits	33	26	59
Deferred revenue	2 294	-	2 294
Total	3 200	26	3 226
Total Liabilities and Capital	\$38 583	\$ 15 324	\$ 53 907

<FN>

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

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ENERGY INITIATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
ACTUAL AND PRO FORMA
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1993
(IN THOUSANDS)

<CAPTION>

<S>	Actual (Unaudited) <C>	Adjustments (See pages 18-20) <C>	Pro Forma <C>
Operating Revenues	\$ 3 281	\$ -	\$ 3 281

Operating Expenses:			
Operation and maintenance	4 246	33	4 279
Depreciation	159	-	159
Total	4 405	33	4 438
Net Operating Income	(1 124)	(33)	(1 157)
Other Income and Deductions:			
Equity in losses of partnerships	(914)	-	(914)
Interest income	403	335	738
Interest expense	(4)	(750)	(754)
Gain on retirement of fixed assets	36	-	36
Total	(479)	(415)	(894)
Income Before Income Taxes	(1 603)	(448)	(2 051)
Income tax expense	244	(209)	35
Net Income (Loss)	\$ (1 847)	\$ (239)	\$ (2 086)
Retained Earnings:			
Balance at Beginning of Period	\$ (11 826)	\$ 943	\$ (10 883)
Net Income (Loss)	(1 847)	(239)	(2 086)
Balance at End of Period	\$ (13 673)	\$ 704	\$ (12 969)

<FN>

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

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ENERGY INITIATIVES, INC. AND SUBSIDIARIES
PRO FORMA ADJUSTMENTS
AT DECEMBER 31, 1993
(IN THOUSANDS)

(1)

Investment in GPC	\$ 5 108	
Paid in capital		\$ 3 917
Retained earnings		1 191*

To record the proposed merger of GPC common equity into EI.

(2)

Cash & temporary investments	\$ 431	
Prepayments & deposits	1	
Deferred income taxes	1 113	
Other investments	3 779	
Accounts payable		\$ 2
Accrued liabilities		40

Taxes accrued		148
Deferred credits		26
Investment in GPC		5 108

To record the proposed merger of GPC assets and liabilities into EI.

(3)

Retained earnings	\$	248	
Operation and maintenance expense		33	
Income tax expense		54	
Interest income			\$ 335

To transfer 1993 income and expense accounts of GPC to EI's books as part of the proposed merger.

* Includes \$943,000 for transfer of GPC's retained earnings balance at 12/31/92.

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ENERGY INITIATIVES, INC. AND SUBSIDIARIES
PRO FORMA ADJUSTMENTS
AT DECEMBER 31, 1993
(IN THOUSANDS)

(4)

Cash & temporary investments	\$10 000	
Notes payable		\$10 000

To reflect the short-term borrowings from commercial banks and other financial institutions which are to be guaranteed by GPU. Limited to an aggregate principal amount outstanding at any time, together with the aggregate amount of obligations outstanding under Reimbursement Agreements entered into by EI, of \$10 million (SEC File No. 70-7727).

(5)

Interest expense	\$	750	
Interest payable			\$ 750

To reflect the incremental annual interest expense resulting from the short-term borrowings of \$10 million (SEC File No. 70-7727).

(6)

Taxes accrued	\$	263	
Income tax expense			\$ 263

To reflect the decrease in the provision for federal income taxes attributable to the increase in interest expense from the short-term borrowings of \$10 million (SEC File 70-7727).

(7)

Investment in subsidiaries	\$	1	
Cash & temporary investments			\$ 1

To reflect the acquisition of all the capital stock of Services Sub, a Delaware corporation to be formed, for \$1,000 (SEC File No. 70-7727).

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ENERGY INITIATIVES, INC. AND SUBSIDIARIES
PRO FORMA ADJUSTMENTS
AT DECEMBER 31, 1993
(IN THOUSANDS)

(8)

Investment in subsidiaries	\$	1 000	
Cash & temporary investments			\$ 1 000

To reflect the cash capital contributions of \$1 million to Services Sub, a Delaware corporation to be formed (SEC File No. 70-7727).

(9)

Capital stock of subsidiaries	\$	1	
Capital surplus of subsidiaries		1 000	
Investment in subsidiaries			\$ 1 001

To eliminate, in consolidation, the intercompany investments in Services Sub (SEC File No. 70-7727).

Note: Pro forma journal entries 7, 8 and 9 are shown to illustrate the entries that would appear only on the books of Energy Initiatives, Inc. These entries have no effect on the consolidated financial statements of Energy Initiatives, Inc. and Subsidiaries.

Financial Statements

ENERGY INITIATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

ORGANIZATION AND BUSINESS

Energy Initiatives, Inc. (EI) which commenced operations on April 1, 1985, is a wholly-owned subsidiary of General Portfolios Corporation (GPC), a wholly-owned subsidiary of General Public Utilities Corporation (GPU). EI owns 100% of the common stock of the following active corporations: Elmwood Energy Corporation (EEC), Camchino Energy Corporation (Camchino), Geddes Cogeneration Corporation (Geddes) and Northeast Energy Corporation (NEC). In addition, it also owns 100% of the stock of the following corporations which are currently inactive: Hanover Energy Corporation and Armstrong Energy Corporation. Each of these subsidiaries was formed to develop, either directly, or indirectly through limited partnerships, cogeneration or small power production facilities which are qualifying facilities (QF's) under the Public Utility Regulatory Policies Act of 1978 (PURPA). Under current Federal regulations, EI and its subsidiaries may not own more than a 50% interest in such facilities after commencement of operation.

In June 1990, the Securities and Exchange Commission (SEC) authorized GPU, through GPC, to contribute additional amounts of up to \$60 million to EI through December 31, 1992. In December 1992, the SEC extended GPU's authority, through GPC, to contribute additional amounts up to \$60 million to EI through December 31, 1994. EI intends to utilize such contributions for investment in proposed QF projects, Exempt Wholesale Generators (EWG), as defined in the Energy Policy Act of 1992, preliminary project development costs, the purchase of ownership interests in existing QF's and EWG's and other corporate purposes.

EI also owns 100% of the stock of the following Canadian corporations which are currently inactive: EI Canada Holding Limited, EI Services Canada Limited, and EI Brooklyn Power Limited. These corporations were formed to purchase ownerships and to provide operations and management services to QF's and EWG's in Canada.

1. ACQUISITIONS, INVESTMENTS AND DIVESTITURES

Northeast Cogen, Inc.

In July 1989, NEC acquired all of the shares of capital stock of Northeast Cogen Inc. (NCI), an Indiana corporation engaged in the development of a 40 Megawatt (MW) cogeneration facility in Solvay, New York (Solvay Project) for approximately \$2.4 million. NEC agreed to pay the former owners an additional \$1.4 million contingent upon the satisfaction of certain conditions set forth in the Stock Purchase Agreement, including the closing of various transactions (financial closing) to provide sufficient financing to construct the Solvay Project. NEC accounted for its acquisition of NCI using the purchase method.

1. ACQUISITIONS, INVESTMENTS AND DIVESTITURES (Continued)

In December 1991, the former owners of NCI exercised their option to repurchase NCI at a purchase price of \$2.9 million. The purchase price, as specified in the Stock Purchase Agreement, was evidenced by a promissory note, which was deemed to be uncollectible. In December 1991, the remaining NCI investment, primarily comprised of deposits, property, plant and equipment and intangibles was written off for a net after tax loss of \$2.5 million. The before tax write-off of approximately \$3.4 million was included in operating expenses in 1991.

In July and August 1992, NEC received payments totaling approximately \$4 million from the former owners of NCI, representing payment of the promissory note with interest, along with the reimbursement of certain deposits, which resulted in after tax income of approximately \$2.7 million.

Onondaga Cogeneration Limited Partnership

In April 1989, Geddes acquired all of the general and limited partnership interests of Onondaga Cogeneration Limited Partnership (Onondaga), a New York partnership engaged in the development of an approximately 79 MW cogeneration facility in Geddes, New York (Geddes Project). Geddes accounted for its acquisition using the purchase method (Note 5).

At the acquisition date, Geddes paid \$1.3 million and assumed liabilities of the sellers estimated to be \$750,000. In June 1992, at project financing, Geddes paid an additional \$3 million to the sellers pursuant to the Restated Acquisition Agreement. Geddes may be required to pay additional amounts to the sellers contingent upon the consummation of certain transactions as specified in the Restated Acquisition Agreement.

Selkirk Option

In October 1992, the Company amended its option agreement dated June 28, 1991 to purchase interests in two cogeneration facilities located in Bethlehem, New York; a 79.9 MW facility currently in operation and a 270 MW facility currently under construction. The Company paid \$180,440 and \$3,695,210 for the option in 1992 and 1991, respectively. The Company also paid \$1,154,000 and \$1,083,784 of development contributions for the 270 MW project in accordance with the cost sharing agreement in 1992 and 1991, respectively.

In October 1992, at project financing of the 270 MW Project, the Company was reimbursed \$2,447,368 for its development contributions. The Company also made an equity contribution of \$1,181,093 to the Project, together with a letter of credit backed by a cash deposit in the principal amount of \$7.6 million to guarantee future equity contributions to the Project. In October 1993, the Company replaced the \$7.6 million deposit with a guarantee by GPU. In addition, the option agreement provides that the option be exercised prior to January 2, 1995 with an additional payment of \$5.5 million plus accrued interest subject to adjustment specified in the agreement. In the event the option is not exercised by the Company, the agreement provides that the

1. ACQUISITIONS, INVESTMENTS AND DIVESTITURES (Continued)

project shall repay all contributions made by the Company together with

interest at 12% per annum from the first distributions received by the partnership.

Polsky Energy Corporation

In September 1993, the Company entered into a stock purchase agreement with Polsky Energy Corporation (PEC), a Delaware Corporation engaged in the development of independent power production, whereby the Company would purchase common stock representing 9.9% of the voting shares and, in aggregate, not more than 29% of the total number of shares of all classes of stock for a total purchase price not to exceed \$8.5 million. The Company also has the right to provide the operations and maintenance services for several PEC projects under development.

At the acquisition date, the Company paid \$2.5 million, which represents approximately a 12% interest in PEC, for the initial installment of the stock purchase. The obligation for the remaining \$6 million of the aggregate purchase price shall be \$2.5 million on July 1, 1994, \$2 million on July 1, 1995, and \$1.5 million on July 1, 1996. In addition, the Company deposited \$2.5 million in an escrow account to guarantee its 1994 obligation, as required by the stock purchase agreement. The Company has accounted for this acquisition using the purchase method. The Company accounts for its investment using the equity method. The Company recorded Goodwill amortization on this investment in the amount of \$23,082, and equity losses in the amount of \$15,274.

2. PARTNERSHIP INTERESTS

Prime Energy Limited Partnership

EEC has a 1% interest as the sole general partner and a 49% interest as limited partner in Prime Energy Limited Partnership (PELP). PELP was organized to construct, own and operate a 65 MW cogeneration project in Elmwood Park, New Jersey (Marcal Project). The Marcal Project was placed in commercial operation in July 1989 at a total capitalized cost of approximately \$61 million, which was funded with nonrecourse debt collateralized by PELP's assets. PELP has a Power Purchase Agreement with an affiliate of EI for the sale of electricity and capacity from the Marcal Project.

O.L.S. Power Limited Partnership

Through Camchino, EI owns a 1% interest as general partner and a 49% interest as limited partner in O.L.S. Power Limited Partnership (O.L.S. Power), a Delaware limited partnership. The remaining limited partnership interests are owned by The Prudential Insurance Company of America. At December 31, 1992 Camchino had a total investment in O.L.S. Power of approximately \$2.2 million. At December 31, 1993 Camchino's investment in O.L.S. was written down to zero.

2. PARTNERSHIP INTERESTS (Continued)

On August 3, 1989, O.L.S. Power acquired, through O.L.S. Acquisition Corporation, all of the outstanding capital stock of O.L.S. Energy - Berkeley

(Berkeley), O.L.S. Energy - Chino (Chino) and O.L.S. Energy - Camarillo (Camarillo) for a total purchase price of approximately \$13.4 million. Berkeley, Chino and Camarillo are each lessees, pursuant to separate sale and leaseback agreements, of operating cogeneration facilities at the University of California - Berkeley (22.5 MW), the California State Correctional Facility in Chino (27 MW) and the State Hospital in Camarillo, California (27 MW), respectively.

The adjusted value of goodwill for Chino and Camarillo and the carrying value of goodwill for Berkeley as of December 31, 1993, is based on anticipated cash flows through 2017, which is the remaining facilities lease terms including renewals, and the expectation that the Energy Service Agreement's will continue through 2017.

Berkeley, GECC and UCB are currently involved in negotiations regarding the restructuring of the lease agreement and related operating agreements between the parties. The Company anticipates that the restructuring will occur in the first quarter of 1994. The objective of the restructuring is for Berkeley to improve the financial results and cash flows of the project.

In October 1991, Berkeley was notified by Pacific Gas & Electric that it is subject to utility users tax on natural gas purchases. The notification requested payment of approximately \$1,029,000 for the period July 31, 1988 through July 31, 1991. Berkeley responded that it believed that it was exempt from paying this tax under the tax ordinance because its natural gas purchases were used for the generation of electrical energy. In December 1991, Berkeley received a letter of response from the City of Berkeley requesting payment of the users tax as well as interest and penalties totalling approximately \$1.5 million through December 31, 1991, of which approximately \$1.2 million relates to the period through December 31, 1990. At December 31, 1991 Berkeley recorded the tax, including interest and penalties, in the financial statements. In addition, Berkeley expected to recover a portion of the tax and recorded a receivable of \$863,458 from the University of California - Berkeley (UCB) based on the cost of natural gas used by the facility to produce steam sold to UCB, resulting in a net book expense of \$721,703.

In September 1992, the city attorney for Berkeley concluded, based on a review of the ordinance, that the Utility Users Tax ordinance does not apply to Berkeley's purchase of gas used by the facility. The \$721,703 expense recorded in 1991 was subsequently reversed in 1992.

In 1993, the City of Berkeley amended the ordinance so as to apply to Berkeley the imposition of the tax effective July 1993. The imposition of the tax is not expected to have a material effect on operations.

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2. PARTNERSHIP INTERESTS (Continued)

Onondaga Cogeneration Limited Partnership

In April 1989, Geddes acquired all of the general and limited partnership interests of Onondaga Cogeneration Limited Partnership (Onondaga), a New York partnership (Note 4). In June 1992, Onondaga obtained project financing for the construction of the Geddes Project. Construction of the project is being

financed by a group of lenders through the Onondaga County Industrial Development Authority (OCIDA). OCIDA has provided for a construction loan of up to \$89.5 million, which will, subject to satisfaction of certain conditions, be converted to a term loan of up to \$82 million with a maturity of up to 15 years from the term loan conversion date of the project. Geddes made its capital contribution of \$13.5 million on December 17, 1993. In addition, the Lenders have required Geddes to provide for up to \$9 million of additional funding, in the form of equity letters of credit, to provide for cost overruns during the construction period and contingent obligations during the term loan period. Geddes, through EI, has provided a letter of credit to support other funding requirements in the amount of \$9 million, which has been guaranteed by GPU.

On the project financing date, Geddes became the sole general partner and a limited partner in Onondaga. The remaining limited partnership interests are owned by an non-affiliated party who contributed \$13.5 million in equity during 1992.

On December 18, 1993, the project commenced operations.

3. LEASE

In August 1992, EI terminated its prior lease agreement and entered into a new lease agreement for its corporate offices with an affiliated company (see Note 2) for a term of four years ending September 1, 1996. Rental Payments for 1993 and 1992, which includes a buyout of the prior lease agreement were approximately \$203,000 and \$407,000, respectively. In addition to the rental cost, EI is responsible for its proportionate share of certain operating costs incurred by the lessor, subject to annual adjustments in accordance with the lease agreement. Annual lease payments through 1995 will be approximately \$248,000, which includes \$82,000 of operating costs. In 1996, lease payments for the remaining 8 months will approximate \$166,000, including \$55,000 of operating costs.

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