UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the period ended June 30, 2001

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	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-50350	PPL Montana, LLC (Exact name of Registrant as specified in its charter) (Delaware) 303 North Broadway - Suite 400 Billings, MT 59101 (406) 869-5100	54-1928759

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.

PPL Corporation	Yes X	No
PPL Electric Utilities Corporation	Yes X	No
PPL Montana, LLC	Yes X	No

PPL Montana, LLC's initial Registration Statement on Form S-4 became effective on March 2, 2001.

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

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PPL Corporation	Common stock, $.01 par value, 146,040,132 shares outstanding at July 31, 2001, excluding 30,993,637 shares held as treasury stock
PPL Electric Utilities Corporation	Common stock, no par value, 102,230,382 shares outstanding and all held by PPL Corporation at July 31, 2001, excluding 55,070,000 shares held as treasury stock
PPL Montana, LLC	PPL Corporation indirectly holds all of the member interests in PPL Montana, LLC.

PPL Corporation
PPL Electric Utilities Corporation
And

PPL Montana, LLC

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2001

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GLOSSARY OF TERMS AND ABBREVIATIONS

BG&E - Baltimore Gas & Electric Company.

CEMAR - Companhia Energetica do Maranhao, a Brazilian electric distribution company in which PPL Global has a majority ownership

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interest.

CGE - Compania General Electricidad, SA, a distributor of energy in Chile and Argentina, in which PPL Global has a minority ownership interest.

Clean Air Act - Federal legislation enacted to address certain environmental issues related to air emissions including acid rain, ozone and toxic air emissions.

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

Customer Choice Act - (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 - Pennsylvania Department of Environmental Protection.

Derivative - a financial instrument or other contract with all three of the following characteristics:

a. It has (1) one or more underlying instruments or contracts and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.

b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c. Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

DRIP - Dividend reinvestment plan.

Emel - Empresas Emel, S.A., a Chilean electric distribution holding company of which PPL Global has majority ownership.

EPA - Environmental Protection Agency.

EPS - Earnings per share.

FASB (Financial Accounting Standards Board) - a rulemaking organization that establishes financial accounting and reporting standards.

FERC (Federal Energy Regulatory Commission) - federal agency that regulates interstate transmission and wholesale sales of electricity and related matters.

Hyder - Hyder limited, a subsidiary of WPDL and previous owner of South Wales Electricity plc. In March 2001, South Wales Electricity plc was sold to WPDH.

ICP - Incentive Compensation Plan.

IRS - Internal Revenue Service.

ISO - Independent System Operator.

LIBOR - London Interbank Offered Rate.

Mirant - Mirant Corporation, formerly Southern Energy Inc., a diversified energy company based in Atlanta. PPL Global and Mirant jointly own WPDH and WPD Investment Holdings Ltd, the parent company of WPDL.

Montana Power - The Montana Power Company, a Montana-based company engaged in diversified energy and communication-related businesses. Montana Power sold its generating assets to PPL Montana in December 1999.

MPSC - Montana Public Service Commission.

NOx - nitrogen oxide.

NPDES - National Pollutant Discharge Elimination System.

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NRC (Nuclear Regulatory Commission) - federal agency that regulates operation of nuclear power facilities.

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) - additive to oil used in certain electrical equipment up to the late-1970s. Now classified as a hazardous chemical.

PEPS Units (Premium Equity Participating Security Units) - securities issued by PPL Capital Funding Trust I, consisting of a trust preferred security and a forward contract to purchase PPL Corporation common stock.

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PJM (PJM Interconnection, LLC) - operates the electric transmission network and electric energy market in the mid-Atlantic region of the U.S.

PLR - provider of last resort, referring to PPL Electric providing electricity to retail customers within its delivery territory who have chosen not to shop for electricity under the Customer Choice Act.

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 Capital Funding Trust I - a PPL Capital Funding subsidiary.

PPL Electric - PPL Electric Utilities Corporation, a regulated 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, which is a subsidiary of PPL and the parent of PPL Energy Supply.

PPL EnergyPlus - PPL EnergyPlus, LLC, an unregulated subsidiary of PPL Energy Supply, which markets wholesale and retail electricity, and supplies energy and energy services in newly deregulated markets.

PPL Energy Supply - PPL Energy Supply, LLC, the new parent company of PPL Generation, PPL EnergyPlus, PPL Global and other subsidiaries. PPL Energy Supply is a subsidiary of PPL Energy Funding.

PPL Gas Utilities - PPL Gas Utilities Corporation, a regulated subsidiary of PPL specializing in natural gas distribution, transmission and storage services, and the sale of propane.

PPL Generation - PPL Generation, LLC, an unregulated subsidiary of PPL Energy Supply which, effective July 1, 2000, owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, an unregulated subsidiary of PPL Energy Supply, which invests in and develops domestic and international power projects, and owns and operates international projects.

PPL Holtwood - PPL Holtwood, LLC, a subsidiary of PPL Generation which owns PPL's hydroelectric generating operations in Pennsylvania.

PPL Maine - PPL Maine, LLC, formerly Penobscot Hydro, LLC, which is a subsidiary of PPL Generation.

PPL Martins Creek - PPL Martins Creek, LLC, a fossil generation subsidiary of PPL Generation.

PPL Montana - PPL Montana, LLC, an unregulated subsidiary which generates electricity for wholesale sales in Montana and the Northwest, and a subsidiary of PPL Generation.

PPL Montour - PPL Montour, LLC, a fossil generation subsidiary of PPL Generation.

PPL Services - PPL Services Corporation, an unregulated subsidiary of PPL which provides shared services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL Transition Bond Company - PPL Transition Bond Company, LLC, a wholly-owned subsidiary of PPL Electric, formed to issue transition bonds under the Customer Choice Act.

PUC (Pennsylvania Public Utility Commission) - state agency that regulates certain ratemaking, services, accounting, and operations of Pennsylvania utilities.

RMC - Risk Management Committee.

RTO - regional transmission organization.

SCR - selective catalytic reduction.

SEC - Securities and Exchange Commission.

SFAS (Statement of Financial Accounting Standards) - accounting and financial reporting rules issued by the FASB.

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SNCR - selective non-catalytic reduction.

SO2 - sulfur dioxide.

Superfund - federal and state environmental legislation that addresses remediation of contaminated sites.

Synfuel projects - production facilities that manufacture synthetic fuel from coal or coal byproducts. Favorable federal tax credits are available on qualified synfuel products.

UGI - UGI Corporation.

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WPD - Western Power Distribution (South West) plc, a British regional electric utility company.

WPDH - WPD Holdings UK, a jointly owned subsidiary of PPL Global and Mirant. WPDH owns WPD and Westen Power Distribution (South Wales) plc.

WPDL - Western Power Distribution Limited, a wholly owned subsidiary of WPD Investment Holdings Ltd. which is a jointly owned subsidiary of PPL Global and Mirant. WPDL owns 100% of the common shares of Hyder.

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Forward-looking Information

Certain statements contained in this Form 10-Q 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, PPL Electric and PPL Montana believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to have been 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 the Financial Condition and Results of Operations sections 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 variations affecting customer energy usage; competition in retail and wholesale power markets; the effect of any business or industry restructuring; the profitability and liquidity of PPL and its subsidiaries; new accounting requirements or new interpretations or applications of existing requirements; operating performance of plants and other facilities; environmental conditions and requirements; system conditions and operating costs; development of new projects, markets and technologies; performance of new ventures; political, regulatory or economic conditions in states or countries where PPL or its subsidiaries conduct business; receipt of necessary governmental approvals; capital market conditions; stock price performance; foreign exchange rates; and the commitments and liabilities of PPL and its subsidiaries. Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL, PPL Electric and PPL Montana 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, PPL Electric or PPL Montana 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, PPL Electric and PPL Montana undertake no obligations to update the information contained in such statement to reflect subsequent developments or information.

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Part 1. FINANCIAL INFORMATION

Item 1. Financial Statements

In the opinion of PPL, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 2001 and December 31, 2000, and the Consolidated Statement of Income, Consolidated Statement of Cash Flows and Consolidated Statement of Shareowners' Common Equity and Comprehensive Income for the periods ended June 30, 2001 and 2000.

CONSOLIDATED STATEMENT OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Operating Revenues				
Retail electric and gas	$ 792	$ 711	$ 1,748	$ 1,556
Wholesale energy marketing and trading	437	491	906	953
Energy related businesses	180	95	321	201
Total	1,409	1,297	2,975	2,710
Operating Expenses				
Operation				
Fuel	127	109	314	254
Energy purchases	427	484	823	947
Other	198	146	382	315
Amortization of recoverable transition costs	55	46	126	109
Maintenance	88	75	142	124
Depreciation	64	70	127	138
Taxes, other than income	39	43	80	94
Energy related businesses	162	83	276	168
Total	1,160	1,056	2,270	2,149
Operating Income	249	241	705	561
Other Income - net	5	8	9	7
Income Before Interest, Income Taxes and Minority Interest	254	249	714	568
Interest Expense	88	92	192	180
Income Before Income Taxes and Minority Interest	166	157	522	388
Income Taxes	35	58	161	140
Minority Interest	1		3	1
Net Income Before Dividends on Preferred Securities	130	99	358	247
Dividends - Preferred Securities	13	7	19	13
Net Income Available for Common Stock	$ 117	$ 92	$ 339	$ 234
Earnings Per Share of Common Stock				
Basic	$ 0.80	$ 0.64	$ 2.33	$ 1.63
Diluted	$ 0.80	$ 0.64	$ 2.31	$ 1.63
Dividends Declared per Share of Common Stock	$ 0.265	$ 0.265	$ 0.53	$ 0.53

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Net Cash Provided by Operating Activities	$ 203	$ 254
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(207)	(214)
Investment in electric energy projects	(190)	(418)
Sale of nuclear fuel to trust		27
Repayment of notes receivable from affiliates	210	
Other investing activities - net	(3)	
Net cash used in investing activities	(190)	(605)
Cash Flows From Financing Activities		
Issuance of company-obligated mandatorily redeemable preferred securities	575	
Issuance of long-term debt		800
Issuance of common stock	42	13
Retirement of long-term debt	(350)	(275)
Deposit of funds for the retirement of long-term debt	(5)	
Termination of nuclear fuel lease		(154)
Payment of common and preferred dividends	(90)	(86)
Net increase (decrease) in short-term debt	(473)	128
Payments on capital lease obligations		(11)
Other financing activities - net	(24)	18
Net cash provided by (used in) financing activities	(325)	433
Net Increase (Decrease) In Cash and Cash Equivalents	(312)	82
Cash and Cash Equivalents at Beginning of Period	480	133
Cash and Cash Equivalents at End of Period	$ 168	$ 215

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEET
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2001	December 31, 2000
Assets		
Current Assets		
Cash and cash equivalents	$ 168	$ 480
Accounts receivable (less reserve: 2001, $67; 2000, $70)	550	588
Notes receivable from affiliated companies		114
Unbilled revenues	237	279
Fuel, materials and supplies - at average cost	243	197
Prepayments	78	40
Deferred income taxes	49	75
Unrealized derivative gains	256	79
Other	99	93
	1,680	1,945
Investments		
Investments in unconsolidated affiliates - at equity	736	800
Investments in unconsolidated affiliates - at cost	130	46
Nuclear plant decommissioning trust fund	273	268
Other	52	47
	1,191	1,161
Property, Plant and Equipment - net		
Electric utility plant in service		
Transmission and distribution	2,811	2,841
Generation	2,341	2,177
General	295	294
	5,447	5,312
Construction work in progress	258	261
Nuclear fuel	114	123
Electric utility plant	5,819	5,696
Gas and oil utility plant	190	177
Other property	72	75
	6,081	5,948
Regulatory and Other Noncurrent Assets		
Recoverable transition costs	2,299	2,425
Other	911	881
	3,210	3,306
	$ 12,162	$ 12,360

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEET
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2001	December 31, 2000
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 564	$ 902
Notes payable to affiliated companies		135
Long-term debt	353	317
Above market NUG contracts	90	93
Accounts payable	387	506
Taxes	104	223
Interest	37	42
Dividends	52	45
Unrealized derivative losses	197	84
Other	156	164
	1,940	2,511
Long-term Debt	4,081	4,467
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits	1,409	1,412
Above market NUG contracts	537	581
Other	964	976
	2,910	2,969
Commitments and Contingent Liabilities		
Minority Interest	58	54
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Debentures	825	250
Preferred Stock		
With sinking fund requirements	46	47
Without sinking fund requirements	50	50
	96	97
Shareowners' Common Equity		
Common stock	2	2
Capital in excess of par value	1,937	1,895
Treasury stock	(836)	(836)
Earnings reinvested	1,260	999
Accumulated other comprehensive income	(75)	(36)
Capital stock expense and other	(36)	(12)
	2,252	2,012
	$ 12,162	$ 12,360

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENT OF SHAREOWNERS' COMMON EQUITY AND COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Common stock at beginning of period	$ 2	$ 2	$ 2	$ 2
Common stock at end of period	2	2	2	2
Capital in excess of par value at beginning of period	1,919	1,860	1,895	1,860
Common stock issued	18	13	42	13
Capital in excess of par value at end of period	1,937	1,873	1,937	1,873
Treasury stock at beginning of period	(836)	(836)	(836)	(836)
Treasury stock at end of period	(836)	(836)	(836)	(836)
Earnings reinvested at beginning of period	1,182	758	999	654
Net income available for common stock (b)	117	92	339	234
Cash dividends declared on common stock	(39)	(38)	(78)	(76)
Earnings reinvested at end of period	1,260	812	1,260	812
Accumulated other comprehensive income (loss) at beginning of period	(253)	(35)	(36)	(55)
Unrealized (loss) on available-for-sale securities (b)	(1)		(3)	
Foreign currency translation adjustments (b)	(46)	(28)	(71)	(8)
Unrealized gain on qualifying derivatives (b)	225		35	
Accumulated other comprehensive income (loss) at end of period	(75)	(63)	(75)	(63)
Capital stock expense and other at beginning of period	(12)	(12)	(12)	(12)
Issuance costs and other charges to issue PEPS Units	(24)		(24)	
Capital stock expense and other at end of period	(36)	(12)	(36)	(12)
Total Shareowners' Common Equity	$ 2,252	$ 1,776	$ 2,252	$ 1,776
Common stock shares at beginning of period (a)	145,623	143,697	145,041	143,697
Common stock issued through the DRIP, ICP and structured equity program	410	603	992	603
Common stock shares at end of period	146,033	144,300	146,033	144,300

(a) In thousands. $.01 par value, 390 million shares authorized. Each share entitles the holder to one vote on any question presented to any shareowners' meeting

(b) Statement of Comprehensive Income:

Net income available for common stock	$ 117	$ 92	$ 339	$ 234
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net of tax (benefit) of $(3), $(9), $(13), $(7)	(46)	(28)	(71)	(8)
Unrealized gain on qualifying derivatives, net of tax (benefit) of $149, $17	225		35	
Unrealized (loss) on available-for-sale securities, net of tax (benefit) of $(0), $(2)	(1)		(3)	
Total other comprehensive income (loss)	178	(28)	(39)	(8)
Comprehensive Income	$ 295	$ 64	$ 300	$ 226

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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PPL CORPORATION

Notes to Consolidated Financial Statements

Terms and abbreviations appearing in Notes to Consolidated Financial Statements are explained in the glossary.

1. Interim Financial Statements

Certain information in footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S., has been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These financial statements should be read in conjunction with the financial statements and notes included in PPL's Annual Report to the SEC on Form 10-K for the year ended December 31, 2000. Note 17 to the Financial Statements in that report describes the corporate realignment effected on July 1, 2000.

Certain amounts in the June 30, 2000 and December 31, 2000 financial statements have been reclassified to conform to the presentation in the June 30, 2001 financial statements.

2. Segment and Related Information

PPL's reportable segments are Supply, Delivery, International and Corporate. The Supply group includes the domestic energy marketing and generation operations of PPL EnergyPlus and PPL Generation, respectively. The Supply group also includes domestic development operations. The Delivery group includes the regulated electric and gas delivery operations of PPL Electric and PPL Gas Utilities. The International group includes the following operations of PPL Global: the acquisition and development of international energy projects, and the ownership and operation of international energy projects. The majority of PPL Global's international investments are located in the U.K., Chile, El Salvador and Brazil. Corporate includes interest expense not directly allocated to the segments. In prior periods such interest was allocated for segment reporting purposes. Segments, other than Corporate, include direct charges, as well as an allocation of indirect corporate costs, for services provided by PPL Services. These services costs include functions such as financial, legal, human resources, and information services.

Previously, there was a "Development" group that included the activities now reflected in the "International" group and the domestic development operations, now part of the "Supply" group.

Previously reported information has been restated to conform to the current presentation. Financial data for PPL's business segments are as follows (millions of dollars):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Income Statement data				
Revenues from external customers				
Supply.....	$ 944	$ 891	$1,982	$1,880
Delivery.....	326	277	692	599
International.....	139	129	301	231
	1,409	1,297	2,975	2,710

Intersegment revenues
N/A - There are no intersegment revenues.

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Net Income				
Supply.....	93	67	259	171
Delivery.....	21	21	62	53
International.....	15	11	38	23
Corporate.....	(12)	(7)	(20)	(13)
	$ 117	$ 92	339	$ 234

	June 30, 2001	December 31, 2000
Balance Sheet data		
Total assets		
Supply.....	$ 3,371	$ 3,348
Delivery.....	5,724	6,049
International.....	2,097	2,246
Corporate.....	970	717
	$12,162	$12,360

3 Investment in Unconsolidated Affiliates - at Equity

PPL's investments in unconsolidated affiliates accounted for under the equity method were $736 million and $800 million at June 30, 2001 and December 31, 2000, respectively. The most significant investment was PPL Global's investment in WPDH, which was $455 million at June 30, 2001 and $479 million at December 31, 2000. At June 30, 2001, PPL Global had a 51% equity ownership interest in WPDH, but shared joint control with Mirant. Accordingly, PPL Global accounts for its investment in WPDH (and other investments where it has majority ownership but lacks voting control) under the equity method of accounting.

Summarized below is information from the financial statements of unconsolidated affiliates, as included in PPL's consolidated financial statements under the equity method for the periods noted (millions of dollars):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Income Statement data				
Revenues.....	$ 156	$ 111	$ 332	$ 252
Operating Income.....	80	62	167	127
Net Income.....	65	41	144	85

	June 30, 2001	December 31, 2000
Balance Sheet Data		
Current Assets.....	$ 868	$ 396
Noncurrent Assets.....	4,533	4,904
Current Liabilities.....	443	409
Noncurrent Liabilities.....	3,541	3,365

4. Earnings Per Share

Basic EPS is calculated by dividing earnings available to common shareowners ("Net Income Available for Common Stock" on the Consolidated Statement of Income) by the weighted average number of common shares outstanding during the period. In the calculation of diluted EPS, weighted average shares outstanding are increased for additional shares that would be outstanding if potentially dilutive securities were converted to common stock.

Potentially dilutive securities for PPL consist of stock options granted under the incentive compensation plans, stock units representing common stock granted under directors compensation programs, and PEPS Units.

The basic and diluted earnings per share calculations, and the reconciliation of the shares used in the calculations, are shown below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
(Millions of Dollars or Thousands of Shares)				
Net Income Available for Common				

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Stock (Numerator).....	$ 117	$ 92	$ 339	$ 234
Shares (Denominator)				
Number of shares on which basic earnings per share is calculated = Weighted-average shares outstanding during the period.....	145,901	144,137	145,608	143,948
Add: Incremental shares attributable to stock options.....	730	36	794	8
Add: Incremental shares attributable to stock units.....	69	61	69	61
Number of shares on which diluted earnings per share is calculated.....	146,700	144,234	146,471	144,017
Basic EPS.....	$ .80	$ .64	$ 2.33	$ 1.63
Diluted EPS.....	$ .80	$ .64	$ 2.31	$ 1.63

In May 2001, PPL issued 23 million PEPS Units that contain a purchase contract component for PPL's common stock, as detailed in Note 7. The PEPS Units will only be dilutive if the average price of PPL's common stock exceeds $65.03 for any period. Therefore, they were excluded from the diluted earnings per share calculations for the three and six months ended June 30, 2001.

Stock options to purchase 607,790 and 1,975,750 common shares for the three and six months ended June 30, 2000, respectively, were not included in those periods' computations of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares. Therefore, the effect would have been antidilutive.

5. Financial Instruments

PPL enters into forward-starting interest rate swaps with various counterparties to hedge interest rate risk associated with anticipated debt issuances. These swaps obligate PPL to pay a specific fixed rate of interest on the notional amount of each swap in exchange for a floating rate of interest on the notional amount, to be determined on the effective date. If interest rates rise, the swaps increase in value and offset a higher rate of interest on new debt. At June 30, 2001, PPL had entered into $625 million notional amount of interest rate swaps with maturities of five to ten years at fixed rates varying from
5.39% to 6.189%. These swaps are scheduled to start in July through October 2001, but PPL intends to terminate them as the associated debt is issued. Any gains or losses realized when the debt is issued, and the swaps are terminated, will be amortized over the life of the new debt. The estimated fair value of these agreements, which represents the amount PPL would receive if it had terminated these agreements at June 30, 2001, was $11 million.

PPL has also entered into current-starting interest rate swap agreements whereby PPL agreed to pay a fixed rate of interest and receive a floating rate of interest. These swaps economically adjust the mix of fixed and floating rate debt by converting floating rate notes to fixed rate notes. As of June 30, 2001, PPL had entered into, and had outstanding, $175 million notional amount of such swaps that mature in 2002. The estimated fair value of these agreements, which represents the amount

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PPL would pay if it had terminated these agreements at June 30, 2001, was $2 million.

During the first quarter of 2001, PPL completed the forward purchase of 51 million euros to pay for certain equipment in 2002 and 2003. The estimated value of these forward purchases as of June 30, 2001, being the amount PPL would have to pay to terminate them, was $5 million. Any gains or losses realized when the transactions close will be amortized over the life of the equipment. PPL also entered into forward contracts to sell British pounds sterling in anticipation of the repayment during the second quarter of 2001 of loans to purchase the Hyder shares. A total of 78 million British pounds sterling were sold forward for the second quarter. In March 2001, PPL realized gains of $3 million on maturing positions and entered into new forward sales of a small notional amount.

6. Sales to Other Electric Utilities

Under FERC-approved interconnection and power supply agreements, PPL EnergyPlus supplied capacity and energy to UGI. This agreement was terminated in February 2001.

PPL EnergyPlus had a contract to provide BG&E with 129,000 kilowatts, or 6.6%, of PPL Susquehanna's share of capacity and related energy from the Susquehanna station. PPL EnergyPlus provided 407 million kWh to BG&E through May 2001, at which point the contract ended.

PPL Montana provides power to Montana Power under two wholesale transition sales agreements. These agreements expire in December 2001 and June 2002. In April 2001, PPL announced that PPL EnergyPlus had offered to provide Montana Power with 500 megawatts of energy for five years beginning July 1, 2002. PPL EnergyPlus would sell this energy at 4 cents per kWh to the extent that the energy is produced by certain designated units of PPL Montana. See Note 14 for further discussion regarding the proposed supply agreement.

7. Credit Arrangements and Financing Activities

PPL Electric and PPL Capital Funding issue commercial paper and borrow from banks to provide short-term funds. PPL Capital Funding's commercial paper is guaranteed by PPL. Bank borrowings generally bear interest at rates negotiated at the time of the borrowing. At June 30, 2001, PPL Electric and PPL Capital Funding had $440 million of short-term debt outstanding at interest rates ranging from 4.20% to 4.55% per annum.

In December 2000 and in January 2001, PPL Capital Funding entered into two separate three month $200 million credit facilities. In March 2001, both facilities were extended to June 2001. At March 31, 2001, PPL Capital Funding had borrowed $200 million under each facility at floating rates tied to either one, two or three month LIBOR. These funds were used for general corporate purposes, including making loans to PPL subsidiaries to reduce their debt balances. In May 2001, PPL Capital Funding repaid its borrowings under both facilities and the credit facilities were terminated.

In order to enhance liquidity, and as a credit back-stop to the commercial paper programs, PPL Electric, PPL Capital Funding and PPL (as guarantor for PPL Capital Funding) shared a 364-day $750 million credit facility and a five-year $300 million credit facility, each with a group of banks. During June 2001, these credit facilities were terminated and replaced with a $400 million PPL Electric 364-day revolving credit facility and two PPL Energy Supply credit facilities: a $600 million 364-day facility and a $500 million three-year facility. In addition, in June 2001, PPL Capital Funding entered into a 364-day revolving credit facility with PPL Energy Supply. PPL has guaranteed PPL Capital Funding's obligations under this agreement. At June 30, 2001, no borrowings were outstanding under any of these facilities.

At March 31, 2001, PPL Capital Funding had caused lenders under its credit facilities to issue letters of credit in the amount of $186 million and $22 million on behalf of PPL Montana and Griffith Energy, LLC, respectively. During the second quarter of 2001, the letters of credit in support of PPL Montana were cancelled and replaced by letters of credit issued directly by lenders under PPL Montana's credit facility.

PPL Montana has a $100 million three-year credit facility to provide working capital. As of June 30, 2001, no borrowings were outstanding under this facility. However, PPL Montana had caused the lenders under such facility to issue letters of credit on its behalf in the aggregate amount of $21 million. PPL Montana is required to reimburse such lenders for any drawings under such letters of credit. In April 2001, PPL Montana also entered into a new $150 million 364-day credit facility. As of June 30, 2001, no borrowings were outstanding under this facility. In the event that PPL Montana were to draw down under this facility and cause lenders to issue letters of credit on its behalf, PPL Montana would be required to reimburse the issuing lenders. PPL has executed a commitment to the lenders under PPL Montana's $150 million credit facility that PPL will provide (or cause PPL Energy Supply to provide if PPL Energy Supply has an investment grade rating on its senior unsecured debt) letters of credit at such times and in such amounts as are necessary to permit PPL Montana to remain in compliance with its fixed price forward energy contracts or its derivative financial instruments entered into to manage energy price risks, to the extent that PPL Montana cannot provide such letters of credit under its existing credit agreements.

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At June 30, 2001, PPL Capital Funding had issued approximately $1.5 billion of medium-term notes, of which $1.3 billion were issued at fixed rates between
5.75% and 8.375%, and $175 million at floating rates tied to three-month LIBOR. There were no issuances of medium-term notes in the first half of 2001.

In March 2001, PPL Electric deposited with its Mortgage Trustee $5 million for the purpose of retiring, on July 1, 2001, all of its outstanding First Mortgage Bonds, 9-3/8% Series due 2021, at par value through the maintenance and replacement fund provisions of its Mortgage. These bonds have been retired.

In March 2001, PPL Electric made a payment of $9.6 million to buy back an option related to its 6-1/8% Reset Put Securities due 2006. The option would have permitted a third party to remarket these securities, at higher interest rates, in May 2001. PPL Electric recorded this charge, net of the $1.8 million balance remaining on the third party option. The net charge of $7.8 million is included in "Interest Expense" on the Consolidated Statement of Income for the six months ended June 30, 2001. PPL Electric retired the $200 million, 6-1/8% Reset Put Securities in May 2001.

During the first six months of 2001, PPL Transition Bond Company made principal payments on bonds totaling $129 million.

In December 2000, PPL initiated a Structured Equity Shelf Program for the issuance of up to $100 million in PPL common stock in small amounts on a periodic basis. As of June 30, 2001, PPL had issued $16 million of common stock under this program.

In May 2001, PPL issued 23 million of 7.75% PEPS Units for $575 million. Each PEPS Unit had an issue price of $25 and consists of a contract to purchase shares of PPL common stock on or prior to May 18, 2004 and a trust preferred security of PPL Capital Funding Trust I with a stated liquidation amount of $25. Each purchase contract yields 0.46% per year in contract adjustment payments, paid quarterly, on the $25 stated amount of the PEPS Unit and requires the holders of the contracts to purchase a number of shares of PPL common stock on or prior to May 18, 2004. The number of shares required to be purchased will depend on the average market price of PPL's common stock prior to the purchase date, subject to certain limitations. The holders' obligations to purchase shares under the purchase contracts may be settled by applying the proceeds of a remarketing of the trust preferred securities, which have been pledged to secure these obligations. Each trust preferred security yields 7.29% per year, paid quarterly, until May 18, 2004. The Trust's sole source of funds for distributions are from payments of interest on the 7.29% subordinated notes of PPL Capital Funding, due May 18, 2006, issued to the Trust. The trust preferred securities will be remarketed during the period beginning on the third business day immediately preceeding February 18, 2004, and ending prior to the third business day preceeding May 18, 2004. The interest rate on the subordinated notes and the yield on the trust preferred securities will be reset at a rate that will be equal to or greater than 7.29%. PPL has unconditionally guaranteed the payment of principal and interest on the subordinated notes issued to the Trust by PPL Capital Funding. PPL has also guaranteed the payments on the trust preferred securities, to the extent that the Trust has funds available for payment.

The $575 million of trust preferred securities are included in "Company- obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Debentures" on the Consolidated Balance Sheet at June 30, 2001. Net proceeds of $558 million were received, after giving effect to $17 million of issuance expenses. PPL used these proceeds to pay down short-term debt. The $17 million of issuance expenses were charged to "Capital stock expense and other" on the Consolidated Balance Sheet, as well as $7 million for the present value of the estimated liability for contract adjustment payments.

In June 2001, a subsidiary of PPL Generation agreed to partner with an independent party in a synfuel project. The independent party will install and operate synthetic fuel production equipment at the Brunner Island and Montour generating stations. This project is expected to result in annual savings in fuel costs for PPL Generation. The investment in this project was not significant.

8. Acquisitions, Development and Divestitures

Domestic Generation Project

In January 2001, PPL Montour acquired an additional interest in the coal-fired Conemaugh Power Plant from Potomac Electric Power Company. Under the terms of the acquisition agreement, PPL Montour and a subsidiary of Allegheny Energy, Inc. jointly acquired a 9.72% interest in the 1,711-megawatt plant. PPL Montour paid $78 million for this additional 83-megawatt interest. The purchase increased PPL Montour's ownership interest to 16.25% in the two-unit plant.

In April 2001, PPL Global announced plans to develop a power plant near University Park in Chicago, Illinois at an expected cost of approximately $305 million. The plant would be a 540-megawatt, simple-cycle, natural gas-fired electric generation facility and is expected to be in service by the summer of 2002. PPL Susquehanna also announced plans to increase the capacity of its Susquehanna nuclear plant by 100 megawatts with the installation of more efficient steam turbines on each of the two units. These improvements will be made in the spring of 2003 and 2004 and are expected to cost approximately $120 million.

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International Distribution Projects

In January 2001, PPL Global purchased an additional 5.6% of CGE from the Claro group, bringing its total investment to $141 million, or about 8.5%. CGE provides electricity delivery service to 1.4 million customers in Chile, and natural gas delivery service to 200,000 customers in Santiago.

In May 2001, WPDL successfully completed the sale of Hyder's water business, Welsh Water, to the Welsh firm Glas Cymru Cyfyngedig for one British pound sterling and the assumption of all of Welsh Water's debt.

Energy Related Businesses

In February 2001, a subsidiary of PPL Energy Services Northeast, Inc. (formerly Western Massachusetts Holdings, Inc.) executed an agreement acquiring certain service assets from mechanical contracting and engineering subsidiaries of NiSource Inc. for an amount that was not significant. Assets acquired include contracts in process, accounts receivable, fixed assets and intangibles.

In April 2001, PPL Energy Services Northeast acquired two additional mechanical contracting and engineering firms: Elmsford Sheet Metal Works, Inc. and Westech International Inc. The purchase prices for these companies, both based in New York, were not significant.

9. Commitments and Contingent Liabilities

Wholesale Energy Commitments

As part of the purchase of generation assets from Montana Power, PPL Montana agreed to supply electricity under two wholesale transition service agreements. In addition, PPL Montana assumed a power purchase agreement and another power sales agreement. In accordance with purchase accounting guidelines, PPL Montana recorded a liability of $118 million as the estimated fair value of the contracts at the acquisition date. The supply and purchase contracts are prospectively amortized over the contract terms as adjustments to "Wholesale energy marketing and trading" revenues and "Energy purchases" respectively, on the Consolidated Statement of Income. The unamortized balance at June 30, 2001 was $89 million and is included in "Other" in the "Deferred Credits and Other Noncurrent Liabilities" section of the Consolidated Balance Sheet.

Liability for Above Market NUG Contracts

At June 30, 1998, PPL Electric recorded an $854 million loss accrual for above market contracts with NUGs. Effective January 1999, PPL Electric began reducing this liability as an offset to "Energy purchases" on the Consolidated Statement of Income. This reduction is based on the estimated timing of the purchases from the NUGs and projected market prices for this generation. The final existing NUG contract expires in 2014. In connection with the corporate realignment, effective July 1, 2000, the remaining balance of this liability was transferred to PPL EnergyPlus. The liabilities associated with these above market NUG contracts were $627 million at June 30, 2001.

Commitments - Acquisitions and Development Activities

PPL Global and its subsidiaries have committed additional capital and extended loans to certain affiliates, joint ventures and partnerships in which they have an interest. At June 30, 2001, PPL Global and its subsidiaries had approximately $1 billion of such commitments. The majority of these commitments are for the lease of turbine generators and related equipment for domestic generation projects.

Nuclear Insurance

PPL Susquehanna is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program which provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At June 30, 2001, this maximum assessment was about $20 million.

PPL Susquehanna's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about $9.5 billion under provisions of The Price Anderson Amendments Act of 1988. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program. In the event of a nuclear incident at any of the reactors covered by The Price Anderson Amendments Act of 1988, PPL Susquehanna could be assessed up to $176 million per incident, payable at $20 million per year.

Environmental Matters

Air

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The Clean Air Act deals, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. PPL subsidiaries are in substantial compliance with the Clean Air Act.

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The DEP has finalized regulations requiring further seasonal (May-June) NOx reductions to 80% from 1990 levels starting in 2003. These further reductions are based on the requirements of the Northeast Ozone Transport Region Memorandum of Understanding and two EPA ambient ozone initiatives: the September 1998 EPA State Implementation Plan (SIP) call (i.e., EPA's requirement for states to revise their SIPs) issued under Section 110 of the Clean Air Act, requiring reductions from 22 eastern states, including Pennsylvania; and the EPA's approval of petitions filed by Northeastern states, requiring reductions from sources in 12 Northeastern states and Washington D.C., including PPL sources. The EPA's SIP-call was substantially upheld by the D.C. Circuit Court of Appeals in an appeals proceeding.

Although the Court extended the implementation deadline to May 2004, the DEP has not changed its rules accordingly. PPL expects to achieve the 2003 NOx reductions with the recent installation of SCR technology on the Montour units and possibly SCR or SNCR on a Brunner Island unit.

The EPA has also developed a revised ambient ozone standard and a new standard for ambient fine particulates. These standards were challenged and remanded to the EPA by the D.C. Circuit Court of Appeals in 1999. However, on appeal to the United States Supreme Court, the D.C. Circuit Court's decision was reversed in part and remanded to the D.C. Circuit Court. The new particulates standard, if finalized, may require further reductions in SO2 for certain PPL subsidiaries and year-round NOx reductions commencing in 2010-2012 at SIP-call levels in Pennsylvania, and at slightly less stringent levels in Montana. The revised ozone standard, if finalized, is not expected to have a material effect on facilities of PPL subsidiaries.

Under the Clean Air Act, the EPA has been studying the health effects of hazardous air emissions from power plants and other sources, in order to determine what emissions should be regulated, and has determined that mercury emissions must be regulated. In this regard, the EPA is expected to develop regulations by 2004.

In 1999, the EPA initiated enforcement actions against several utilities, asserting that older, coal-fired power plants operated by those utilities have, over the years, been modified in ways that subject them to more stringent "New Source" requirements under the Clean Air Act. The EPA has since issued notices of violation and commenced enforcement activities against other utilities. At this time, PPL is unable to predict whether such EPA enforcement actions will be brought with respect to any of its affiliates' plants. However, the EPA regional offices that regulate plants in Pennsylvania (Region III) and Montana (Region VIII) have indicated an intention to issue information requests to all utilities in their jurisdiction, and the Region VIII office has issued such a request to PPL Montana's Corette plant. PPL has responded to the information request. PPL cannot presently predict what, if any, action the EPA might take. The EPA has reportedly suspended further enforcement activity pending an interagency review of the "New Source" program. Should the EPA initiate one or more enforcement actions against PPL, compliance with any such EPA enforcement actions could result in additional capital and operating expenses in amounts which are not now determinable, but which could be significant.

The New Jersey Department of Environment Protection and some New Jersey residents have raised environmental concerns with respect to the Martins Creek Plant, particularly with respect to SO2 emissions. PPL Martins Creek is discussing these concerns with the New Jersey Department of Environmental Protection. The cost of addressing these concerns is not now determinable, but could be significant.

Water/Waste

The final NPDES permit for the Montour plant contains stringent limits for iron discharges. The results of a toxic reduction study show that additional water treatment facilities or operational changes are needed at this station. A plan for these changes is being developed and will be submitted to the DEP in the fall of 2001.

In 2000, the EPA significantly tightened the water quality standard for arsenic. However, the EPA has now withdrawn the standard in order to further study the matter. A tightened standard may require PPL subsidiaries to further treat wastewater and/or take abatement action at several of its power plants, the cost of which is not now determinable, but which could be significant.

The EPA's proposed requirements for new or modified water intake structures will affect where generating facilities are built, will establish intake design standards, and could lead to requirements for cooling towers at new power plants. These proposed regulations are expected to be finalized by November 2001. The rule could require new or modified cooling towers at one or more PPL subsidiary stations. Another new rule, expected to be finalized in 2003, will address existing structures. Each of these rules could impose significant costs on PPL, which are not now determinable.

Superfund and Other Remediation

In 1995, PPL Electric entered into a consent order with the DEP to address a number of sites where it may be liable for remediation. This may include potential PCB contamination at certain PPL Electric substations and pole sites; potential contamination at a number of coal gas manufacturing facilities formerly owned and operated

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by PPL Electric; and oil or other contamination which may exist at some of PPL Electric's former generating facilities. In connection with the July 1, 2000 corporate realignment, PPL Electric's generation facilities were transferred to subsidiaries of PPL Generation. As of June 30, 2001, work has been completed on over 80% of the sites included in the consent order.

In 1996, PPL Gas Utilities entered into a similar consent order with the DEP to address a number of sites where subsidiaries of PPL Gas Utilities may be liable for remediation. The sites primarily include former coal gas manufacturing facilities. Subsidiaries of PPL Gas Utilities are also investigating the potential for any mercury contamination from gas meters and regulators. Any sites will likely be addressed under the consent order.

At June 30, 2001, PPL Electric and PPL Gas Utilities had separately accrued $5 million and $14 million, respectively, representing the estimated amounts they will have to spend for site remediation, including those sites covered by each company's consent orders mentioned above.

In October 1999, the Montana Supreme Court held in favor of several citizens' groups that the right to a clean and healthful environment is a fundamental right guaranteed by the Montana Constitution. The court's ruling could result in significantly more stringent environmental laws and regulations, as well as an increase in citizens' suits under Montana's environmental laws. The effect on PPL Montana of any such changes in laws or regulations or any such increase in legal actions are not now determinable, but could be significant.

Under the Montana Power acquisition agreement, PPL Montana is indemnified by Montana Power for any pre-acquisition environmental liabilities. However, this indemnification is conditioned on certain circumstances that could result in PPL Montana and Montana Power sharing in certain costs within limits set forth in the agreement.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs for PPL subsidiaries that cannot be estimated at this time.

General

Due to the environmental issues discussed above or others, PPL subsidiaries may be required to modify, replace or cease operating certain facilities to comply with statutes, regulations and actions by regulatory bodies or courts. In this regard, PPL subsidiaries also may incur capital expenditures, operating expenses and other costs in amounts which are not now determinable, but which could be significant.

Credit Support for Affiliated Companies

PPL provides certain guarantees for its subsidiaries. Specifically, PPL guarantees all of the debt of PPL Capital Funding. As of June 30, 2001, PPL had guaranteed $1.5 billion of medium-term notes and $425 million of commercial paper issued by PPL Capital Funding. PPL had also guaranteed certain obligations of PPL EnergyPlus for up to $839 million under power purchase and sales agreements. PPL had also guaranteed certain obligations of other subsidiaries, totaling $588 million at June 30, 2001.

10. Related Party Transactions

PPL Global provided temporary financing to WPDL and WPDH in connection with the acquisition of Hyder. The outstanding loan receivables and accrued interest, 154.5 million British pounds sterling (approximately $220 million), were repaid in May 2001.

At December 31, 2000, PPL Global had a $135 million note payable to an affiliate of WPDH. The note was denominated in U.S. dollars, and provided for interest at market rates. PPL Global repaid this note in January 2001.

See Note 14 for information regarding the agreement whereby PPL EnergyPlus will supply electricity to PPL Electric, to meet PPL Electric's PLR obligation.

11. Adoption of SFAS 133

PPL adopted SFAS 133, "Accounting for Derivative Instrument and Hedging Activities," on January 1, 2001. SFAS 133 requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate.

In accordance with the transition provisions of SFAS 133, PPL recorded a cumulative-effect adjustment of $11 million in earnings to recognize the difference between the carrying values and fair values of derivatives not designated as hedging instruments. The pre-tax adjustments are included as an increase to "Wholesale energy market and trading" revenues and a decrease to "Energy purchases" on the Consolidated Statement of Income for the six months ended June 30, 2001. PPL also recorded a cumulative-effect charge of $182 million in "Accumulated

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other comprehensive income" in the Shareowners' Common Equity section of the

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Consolidated Balance Sheet to recognize the difference between the carrying values and fair values of derivatives designated as cash flow hedging instruments. During the twelve months ended December 31, 2001, PPL expects to reclassify $145 million into earnings from the transition adjustment that was recorded in other comprehensive income.

Accounting for Derivatives and Hedging Activities

All derivatives are recognized on the balance sheet at their fair value. According to SFAS 133, fair value is defined as the amount at which an asset (liability) could be bought (incurred) or sold (settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. On the date the derivative contract is entered into, PPL designates the derivative as:

. A hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge),

. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge),

. A foreign-currency fair-value or cash flow hedge ("foreign currency" hedge),

. A hedge of a net investment in a foreign operation, or

. A non-hedge derivative.

Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of a derivative that is highly effective as, and that is designated as and qualifies as, a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged. Changes in the fair value of derivatives that are designated as and qualify as foreign currency hedges are recorded in either current period earnings or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. If however, a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustment account within equity. Changes in the fair value of derivatives that are not designated as hedging instruments are reported in current period earnings.

PPL formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. PPL formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

PPL discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; when the derivative expires or is sold, terminated or exercised; or when the derivative is dedesignated as a hedge instrument because it is unlikely that a forecasted transaction will occur or management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value, and the hedged asset or liability will no longer be adjusted for changes in its fair value. When hedge accounting is voluntarily discontinued so that the forecasted transaction can be re-hedged with a new hedging instrument, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will remain until the hedged forecasted transaction impacts earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period earnings.

Derivative Instruments and Hedging Activities

PPL's primary market risk exposures are associated with commodity prices, interest rate risk and currency exchange rates. PPL actively manages the market risk inherent in its commodity, debt and foreign currency positions. The PPL Board of Directors has adopted risk management policies to manage the risk exposures related to energy prices, interest rates and foreign currency exchange rates. These policies monitor and assist in controlling these market risks and use derivative instruments to manage some associated commodity, debt, and foreign currency activities. As of June 30, 2001, PPL held derivative instruments designated as cash flow hedging instruments.

PPL's derivative activities are subject to the management, direction and control of the RMC. The

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RMC is composed of the chief financial officer and other officers of PPL. The RMC reports to the Board of Directors on the scope of its derivative activities. The RMC sets forth risk-management philosophy and objectives through a corporate policy, provides guidelines for derivative-instrument usage, and establishes procedures for control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity.

Market risk is the adverse effect on the value of a transaction that results from a change in commodity prices, interest rates or currency exchange rates. The market risk associated with commodity price, interest rate and foreign exchange contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken.

PPL utilizes forward contracts, futures contracts, options and swaps as part of its risk management strategy to minimize unanticipated fluctuations in earnings caused by commodity price, interest rate and foreign currency volatility.

PPL maintains a commodity price risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. Fluctuations in electricity, natural gas and oil commodity prices cause firm commitments for the purchase or sale of these commodities to develop unrealized gains or losses when compared to current commodity prices; and actual cash outlays for the purchase of electricity, gas and oil to differ from anticipated cash outlays. PPL uses forwards, futures, swaps and options to hedge these risks.

PPL maintains an interest rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. Specific goals are to lower the cost of its borrowed funds and adjust the fixed versus variable composition of its debt portfolio as warranted. Interest rate fluctuations create an unrealized appreciation or depreciation in the market value of PPL's debt when compared to its cost. Gains or losses on derivative instruments that are linked to the debt, however, will generally offset the effect of this unrealized appreciation or depreciation in market value. Additionally, interest rate fluctuations can create an increase or decrease in the interest expense associated with future anticipated debt issuances. Gains or losses on derivative instruments that are linked to the anticipated future debt issuance, however, will generally offset the effect of this increased or decreased future borrowing cost.

PPL maintains a foreign currency risk management strategy that uses derivative instruments to protect against unanticipated fluctuations in earnings and cash flows caused by volatility in currency exchange rates. Movements in foreign currency exchange rates pose a risk to PPL's operations since exchange rate changes may affect cross-border transactions that involve equipment purchases made in foreign currencies. Additionally, various subsidiary investments and repatriated dividends are denominated in foreign currency, thereby creating exposures to changes in exchange rates. PPL uses foreign-currency forward exchange contracts to hedge these risks.

By using derivative instruments to hedge exposures to changes in commodity rates, interest rates and exchange rates, PPL exposes itself to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes PPL, which creates repayment risk for PPL. When the fair value of the derivative contract is negative, PPL owes the counterparty and, therefore does not possess repayment risk. PPL attempts to mitigate the credit (or repayment) risk in derivative instruments by entering into transactions with counterparties who meet credit rating criteria, limiting the amount of exposure to each counterparty, and monitoring the financial condition of its counterparties. Additionally, in certain circumstances, PPL obtains credit enhancements and/or enters into bilateral collateral arrangements.

Fair Value Hedges

PPL enters into financial contracts to hedge a portion of the fair values of firm commitments to transport fuel to its generating facilities. For the six months ended June 30, 2001, PPL had no derivative instruments designated as fair value hedges.

Cash Flow Hedges

PPL enters into physical and financial contracts, including forwards, futures and swaps, to hedge the price risk associated with electric, gas and oil commodities. These contracts range in maturity through 2008. For the three and six months ended June 30, 2001, PPL recorded net-of-tax gains of $219 million and $22 million, respectively (reported in "Accumulated other comprehensive income" in the Shareowners' Common Equity section of the Consolidated Balance Sheet). The most significant portion of these gains is attributable to forward sales contracts and financial swaps in which PPL has reserved and stands ready to deliver energy from the planned output of its generating units. In these cases, PPL will realize a margin that represents the difference between the sales price and the average cost of generation.

As a result of an unplanned outage and changes in other economic conditions, PPL discontinued certain cash flow hedges which resulted in net gains of $33 million and $4 million for the three and six months ended

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June 30, 2001, respectively (reported in "Wholesale energy marketing and trading" revenues in the Consolidated Statement of Income). Additionally, PPL recognized a $5 million credit to income resulting from cash flow hedge ineffectiveness.

As of June 30, 2001, the deferred net gains on derivative instruments in accumulated other comprehensive income that are expected to be reclassified into earnings during the next twelve months were $15 million. Transactions and events that are expected to occur over the next twelve months and will necessitate reclassifying these derivative gains to earnings include the sale of electricity, and the purchase and sale of natural gas and the purchase of oil, all of which are facilitated through physical or financial contracts. PPL expects the majority of these gains to be largely offset by the inverse changes in the market value of the underlying commodities such as the electricity generated and the physical gas and oil purchased.

PPL enters into financial interest rate swaps contracts to hedge interest expense associated with both existing and anticipated debt issuances. These swaps range in maturity through 2008. For the three and six months ended June 30, 2001, PPL recognized net-of-tax gains of $8 million and $6 million, respectively (reported as a credits to "Accumulated other comprehensive income" in the Shareowners' Common Equity section of the Balance Sheet). PPL expects these gains to be offset through higher interest rates incurred on the issuance of anticipated debt.

As of June 30, 2001, the deferred net gains on derivative instruments in accumulated other comprehensive income that are expected to be reclassified into earnings during the next twelve months were $1 million. Transactions and events that are expected to occur over the next twelve months and will necessitate reclassifying these derivative gains to earnings include the related amortization associated with the issuance of debt and the repricing of variable rate debt.

PPL enters into foreign currency forward contracts to hedge exchange rates associated with firm commitments denominated in foreign currencies. These forwards range in maturity through 2003. For the three and six months ended June 30, 2001, PPL recognized net-of-tax losses of $1 million and $3 million, respectively (reported as charges to "Accumulated other comprehensive income" in the Shareowners' Common Equity section of the Balance Sheet). PPL expects these losses to be offset by an inverse change in the exchange rate of the underlying commodity, the firm commitment. PPL expects none of these losses to be reclassified into earnings over the next twelve months.

Implementation Issues

On June 29, 2001, the FASB issued definitive guidance on Derivatives Implementation Group issue C15: "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity." Issue C15 provides additional guidance on the classification and application of SFAS 133 relating to purchases and sales of electricity utilizing forward contracts and options. This guidance became effective as of July 1, 2001.

Purchases and sales of forward electricity and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business would generally be considered "normal purchases and normal sales" under SFAS 133. These transactions are outside of the scope of SFAS 133 and therefore are not required to be marked to fair value in the financial statements. As a result, Issue C15 guidance applies to forward transactions classified as cash flow hedges with an after tax gain of $35 million carried in the "Accumulated other comprehensive income" in the Shareowners' Common Equity section of the Consolidated Balance Sheet, which will no longer be designated as cash flow hedges, and will be removed from common equity as the contracts deliver through 2008. Additionally, Issue C15 guidance applies to forward transactions classified as non-hedge with a before tax gain of $2 million reported in current earnings as of June 30, 2001. PPL is still interpreting and evaluating the impact that the application of this guidance will have upon option contracts classified as non-hedge with an insignificant before tax gain reported in current earnings as of June 30, 2001.

Unrealized Gains/Losses on Derivatives Qualified as Hedges
(Millions of Dollars)
(After tax)

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	June 30, 2001	
	Three Months Ended	Six Months Ended
Unrealized losses on derivatives qualified as hedges, beginning of period:.....	$ (190)	$ 0
Unrealized gains (losses) arising during period:		
Cumulative effect of change in accounting principle at January 1, 2001.....	(182)	
Other unrealized gains	250	225
Less: reclassification for gains included in net income.....	25	8
Other comprehensive income.....	225	35
Unrealized gains on derivatives qualified as hedges, end of period	$ 35	$ 35

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12. New Accounting Standards

SFAS 141

On June 30, 2001, the FASB issued SFAS 141, "Business Combinations," which eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, it requires the reassessment of intangible assets to determine if they are appropriately classified either separately or within goodwill. SFAS 141 is effective for business combinations initiated after June 30, 2001. PPL adopted SFAS 141 on July 1, 2001, with no material impact on net income.

SFAS 142

On June 30, 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The impact of adopting SFAS 142 is not yet determinable, but may be material.

SFAS 143

On June 30, 2001, the FASB approved SFAS 143, "Accounting for Asset Retirement Obligations," on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciated in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS 143 is not yet determinable, but may be material.

13. Sales to California Independent System Operator and to Other Pacific Northwest Purchasers

Through subsidiaries, PPL has made approximately $18 million of sales to the California Independent System Operator ("Cal ISO"), for which PPL has not yet been paid in full. Given the myriad of electricity supply problems presently faced by the California electric utilities and the Cal ISO, PPL cannot predict when it will receive payment. As of June 30, 2001, PPL has fully reserved for possible underrecoveries of payments for these sales.

Litigation arising out of the California electricity supply situation has been filed at the FERC and in California courts against sellers of energy to the Cal ISO. The plaintiffs and intervenors in these proceedings allege abuses of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws, among other things, and seek price caps on wholesale sales in California and other western power markets, refunds of excess profits allegedly earned on these sales, and other relief, including treble damages and attorney's fees. Certain of PPL's subsidiaries have intervened in the FERC proceedings in order to protect their interests, but have not been named as defendants in any of the court actions. In addition, attorneys general in several western states, including California, have begun investigations related to the electricity supply situation in California and other western states. FERC currently is considering whether to order refunds for sales made into California markets, including sales made by PPL subsidiaries. FERC also is considering whether to order refunds for sales made in the Pacific Northwest, including sales made by PPL subsidiaries. PPL cannot predict whether any of its subsidiaries will eventually be the target of any governmental investigation or named in these lawsuits, refund proceedings or other lawsuits, the outcome of any such proceeding or whether the ultimate impact on PPL or its subsidiaries of the electricity supply situation in California and other western states will be material.

14. Subsequent Events

Strategic Initiative

In April 2001, PPL announced a plan to confirm the structural separation of PPL Electric from PPL and PPL's other affiliated companies, in a transaction that enables PPL Electric to reduce business risk by securing a supply contract adequate for it to meet its PLR obligations, enables PPL EnergyPlus to lock in an electric supply agreement at current favorable prices, and enables PPL to raise capital at attractive rates for its unregulated businesses, while allowing PPL to retain valuable advantages related to operating both energy supply and energy delivery businesses.

The strategic initiative is designed to substantially reduce PPL Electric's exposure to volatility in energy prices through 2009 and to reduce its business and financial risk profile by, among other things, limiting its business activities to the transmission and distribution of electricity and businesses related to or arising out of the electric transmission and distribution businesses.

Under this initiative, PPL Electric is taking the following steps:

. PPL Electric has obtained a long-term electric supply contract, at prices generally equal to the pre-

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determined "capped" rates under the 1998 PUC settlement order it is authorized to charge its PLR customers, to satisfy its PLR obligations to retail customers from 2002 through 2009;

. PPL Electric will limit its businesses to electric transmission and distribution and activities relating to or arising out of those businesses;

. PPL Electric will adopt amendments to its Articles of Incorporation and Bylaws containing corporate governance and operating provisions designed to reinforce its corporate separateness from affiliated companies;

. PPL Electric will appoint an independent director to its Board of Directors and require the unanimous consent of the Board of Directors, including the consent of the independent director, to amendments to these corporate governance and operating provisions or to the commencement of any insolvency proceeding, including any filing of a voluntary petition in bankruptcy or other similar actions;

. PPL Electric will appoint an independent compliance administrator to review, on a semi-annual basis, its compliance with the new corporate governance and operating requirements contained in its amended Articles of Incorporation and Bylaws; and

. PPL Electric will adopt a plan of division pursuant to the Pennsylvania Business Corporation Law. The plan of division will result in two separate corporations. PPL Electric will be the surviving corporation and a new Pennsylvania corporation will be created. Under the plan of division, $5 million of cash and certain of PPL Electric's potential liabilities will be allocated to the new corporation. PPL will guarantee the obligations of the new corporation with respect to such liabilities.

The enhancements to PPL Electric's legal separation from its affiliates are intended to minimize the risk that a court would order PPL Electric's assets and liabilities to be substantively consolidated with those of PPL or another affiliate of PPL in the event that PPL or another PPL affiliate were to become a debtor in a bankruptcy case. Taken collectively with the other steps in the strategic initiative to reduce its business risk profile, PPL Electric anticipates that it can increase the leverage in its capital structure, replacing higher-cost equity with lower-cost debt, and thus lower its total cost of capital.

At a special meeting of PPL Electric shareowners held on July 17, 2001, the plan of division and the amendments to PPL Electric's Articles of Incorporation and Bylaws referred to above were approved. The plan of division and the amendments to the Articles of Incorporation and Bylaws will become effective upon filing of articles of division and the plan of division with the Secretary of State of the Commonwealth of Pennsylvania. This filing will be made in conjunction with the issuance of the PPL Electric debt.

Under the Pennsylvania Customer Choice Act, PPL Electric is required to act as a PLR to provide electricity to its delivery customers who do not select an alternate supplier. As part of a restructuring settlement with the PUC, PPL Electric agreed to provide such electricity to such customers at pre-set rates through 2009. While these generation supply rates vary by customer class, the settlement provided for average rates ranging from 4.16 cents per kWh in 2001, increasing to 5.02 cents per kWh in 2009. PPL Electric currently has a full requirements supply agreement with PPL EnergyPlus designed to enable PPL Electric to meet this obligation until the end of 2001. Under its existing contract with PPL Electric, PPL EnergyPlus provides all of PPL Electric's supply needs at the price cap level through 2001, regardless of the prevailing market price. As part of the strategic initiative, PPL Electric solicited bids to contract with energy suppliers to meet its obligation to deliver energy to its customers from 2002 through 2009.

In June 2001, PPL Electric announced that PPL EnergyPlus was the low bidder, among six bids examined, and was selected as the company to provide for the energy supply requirements of PPL Electric from 2002 through 2009. Under this contract, PPL EnergyPlus will provide electricity at pre-established capped prices that PPL Electric is authorized to charge its PLR customers, and receive a $90 million payment by January 1, 2002, to offset differences between the revenues expected under the capped prices and projected market prices through the life of the supply agreement (as projected by PPL EnergyPlus at the time of its bid). The contract results in PPL EnergyPlus having an eight-year contract at current market prices.

In July 2001, the energy supply contract was approved by the PUC and accepted for filing by the FERC.

Also in July 2001, PPL Electric filed a shelf registration statement with the SEC to issue up to $900 million in debt. PPL Electric will use a portion of the proceeds of any debt issuances under the registration statement to make the $90 million up-front payment to PPL EnergyPlus under the terms of the long-term energy supply contract, and to repurchase a portion of its common stock from PPL. The remainder of the proceeds will be used for general corporate purposes.

The common stock repurchase by PPL Electric will make additional capital available to PPL for PPL's growing, higher-return, unregulated generation business.

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Turbine Leases

In September 2000, a subsidiary of PPL Global entered into a $470 million operating lease for turbine generators, which in November 2000 was increased to $550 million to also include related equipment (SCRs, transformers and spare engines). The turbines are under an operating lease structure that eliminates PPL's need for cash outlays during the turbine manufacturing process and diversifies PPL's portfolio. The payment obligations of the PPL Global subsidiary under this operating lease have been guaranteed by PPL.

In May 2001, another PPL Global subsidiary entered into an operating lease arrangement, initially for $900 million and increased in July 2001 to $1.06 billion upon syndication, for the development, construction and operation of several commercial power generation facilities. Certain obligations of the PPL Global subsidiary under this operating lease have been guaranteed by PPL and PPL Energy Supply. PPL's guarantee will fall away upon the satisfaction of a number of conditions, including PPL Energy Supply obtaining specified credit ratings with respect to its debt.

Energy Supply to Montana Power

PPL Montana has two transition agreements to supply wholesale electricity to Montana Power. One agreement provides for the sale of 200 megawatts from the leasehold interest in Colstrip Unit 3 until December 2001. The second agreement covers Montana Power until its remaining load is zero, but in no event later than June 2002. In April 2001, PPL announced that PPL EnergyPlus has offered to provide Montana Power with 500 megawatts of energy to be supplied by PPL Montana. The delivery term of this new contract would be for five years beginning July 1, 2002, which is the day after the termination date of the second transition agreement, pursuant to which PPL Montana supplies energy to Montana Power to serve its retail load not served by other providers or provided by Montana Power's remaining generation.

Under the proposed new contract, PPL Montana would be obligated to sell this energy to Montana Power only to the extent that the energy is produced by certain designated units of PPL Montana. The price under the contract would be fixed at 4 cents per kWh. However, if PPL Montana is subjected to significantly increased costs or regulatory burdens by the MPSC or the Montana Legislature or any other governmental authority during the contract period, PPL Montana could pass the resulting costs through to Montana Power as an addition to the contract price. Also, in that event PPL Montana could terminate the contract. Montana Power has not accepted the new contract. If PPL EnergyPlus and Montana Power agree to a contract, it would be submitted to the MPSC and the FERC for review and approval.

In June 2001, the MPSC issued an order (MPSC Order) in which it found that Montana Power must continue to provide electric service to its customers at tariffed rates until its transition plan under the Montana Electricity Utility Industry Restructuring and Customer Choice Act is finally approved, and that purchasers of generating assets from Montana Power must provide electricity to meet Montana Power's full load requirements at prices to Montana Power that reflect costs calculated as if the generation assets had not been sold. PPL Montana purchased Montana Power's interest in two coal-fired plants and 11 hydroelectric units in 1999.

In July 2001, PPL Montana filed a complaint against the MPSC with the U.S. District Court in Helena, Montana, challenging the MPSC Order. In its complaint, PPL Montana asserted, among other things, that the Federal Power Act preempts states from exercising regulatory authority over sale of electricity in wholesale markets, and requested the court to declare the MPSC action preempted, unconstitutional and void. In addition, the complaint requested that the MPSC be enjoined from seeking to exercise any authority, control or regulation of wholesale sales from PPL Montana's generating assets.

At this time, PPL cannot predict the outcome of the proceedings related to the MPSC Order, whether PPL Montana and Montana Power will reach a new supply agreement, whether any such agreement will be approved by the MPSC or the FERC on acceptable terms, what actions the MPSC, the Montana Legislature or any other governmental authority may take on these or related matters, or the ultimate impact on PPL and PPL Montana of any of these matters.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the section entitled "Review of the Financial Condition and Results of Operations" in PPL's Annual Report to the SEC on Form 10-K for the year ended December 31, 2000. Terms and abbreviations appearing in Management's Discussion and Analysis of Financial Condition and Results of Operations are explained in the glossary.

Results of Operations

The following discussion explains significant changes in principal items on the Consolidated Statement of Income, comparing the three and six months ended June 30, 2001, to the comparable periods in 2000.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any indication of future operating results. Future operating results will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods are not necessarily indicative of results or trends for the year. Finally, PPL Global acquired CEMAR in June 2000, and fully consolidated its accounts in September 2000. Accordingly, the results for the first half of 2001 include CEMAR, whereas the results for the first half of 2000 do not.

Earnings

Earnings per share were $.80 during the three months ended June 30, 2001, compared with $.64 per share during the same period in 2000. The second quarter of 2000 benefited from a nonrecurring item of $.04 per share related to an insurance settlement for environmental liability coverage. Excluding this nonrecurring item, earnings per share in the second quarter of 2001 were $.20 per share, or 33%, higher than the adjusted earnings of $.60 per share in the second quarter of 2000.

This earnings improvement was primarily due to higher earnings of PPL Montana, resulting from increased margins on wholesale energy sales. This reflects higher wholesale energy prices in the western U.S. The second quarter earnings improvement also reflects favorable tax credits from synfuel operations. These earnings improvements were partially offset by a $.17 per share gain on the sale of emission allowances recorded in the second quarter of 2000.

Earnings per share were $2.33 (or $2.31 diluted) during the six months ended June 30, 2001, compared with $1.63 per share during the same period in 2000. After eliminating the aforementioned $.04 per share nonrecurring item, earnings per share in the first half of 2001 were $.74 per share, or 47%, higher than the adjusted earnings in the first half of 2000.

This earnings improvement was primarily attributable to the reasons noted above, as well as higher earnings of PPL Global. This reflects higher equity earnings in international projects, as well as the equity in earnings of WPDL, which acquired Hyder in October 2000.

Operating Revenues

Retail Electric and Gas

The increase (decrease) in retail revenues from electric and gas operations was attributable to the following (millions of dollars):

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June 30, 2001 vs. June 30, 2000

	Three Months Ended	Six Months Ended
Retail Electric Revenue		
PPL Electric		
electric delivery.....	$ 1	$ 3
PLR electric generation supply.....	87	136
PPL EnergyPlus		
electric generation supply...	(40)	(61)
PPL Global international		
electric delivery.....	25	71
Other.....	(2)	(4)
	71	145
Retail Gas Revenue		
PPL Gas Utilities.....	4	28
PPL EnergyPlus.....	6	19
	10	47
	$ 81	$ 192

Operating revenues from retail electric operations increased by $81 million and $192 million for the three and six months ended June 30, 2001, respectively, when compared to the same periods in 2000. PPL Electric revenues as a PLR increased by $87 million and $136 million for the three and six months ended June 30, 2001, respectively, due to fewer retail customers shopping for electricity under Pennsylvania's Customer Choice Act. Revenues from PPL Global were also higher in both periods, primarily due to revenues of CEMAR. Partially offsetting these increases were lower PPL EnergyPlus retail revenues. This was primarily due to expirations of contracts with existing customers and an increased emphasis on competing in wholesale markets.

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Pursuant to the Customer Choice Act and a restructuring settlement with the PUC, PPL Electric is required, through 2009, to provide electricity at pre-set prices to its delivery customers who do not select an alternate supplier. While these supply rates vary by customer class, the settlement provides for average rates ranging from 4.16 cents per kWh in 2001, increasing to 5.02 per kWh in 2009. As part of such settlement agreement, PPL Electric also agreed to a cap on its average transmission and distribution rates of 1.74 cents per kWh through 2004.

Both PPL Gas Utilities and PPL EnergyPlus experienced higher retail gas revenues during the three and six months ended June 30, 2001, when compared to the same periods in 2000. PPL Gas Utilities' increase was primarily due to a base rate increase effective January 1, 2001, and higher off-system sales volumes. PPL EnergyPlus' increase was primarily due to higher gas prices.

Wholesale Energy Marketing and Trading

The increase (decrease) in revenues from wholesale energy marketing and trading activities was attributable to the following (millions of dollars):

	June 30, 2001 vs. June 30, 2000	
	Three Months Ended	Six Months Ended
Eastern markets		
Bilateral/Spot market.....	$ (13)	$ (76)
Cost-based.....	(11)	(16)
Gas & oil.....	(42)	(54)
Other.....	3	(1)
	(63)	(147)
Western markets.....	36	157
Intercompany eliminations.....	(27)	(57)
	$ (54)	$ (47)

Wholesale energy marketing and trading revenues decreased by $54 million and $47 million for the three and six months ended June 30, 2001, when compared to the same periods in 2000. Decreases in eastern markets were partially offset by increases in western markets for both periods.

The decrease in eastern markets was primarily due to lower gas and oil trading activity, and the expiration of capacity and energy agreements with JCP&L and BG&E. The decrease in revenues also reflects lower bilateral/spot market sales, due to unplanned outages, creating fewer opportunities to sell forward and less trading activity. The increase in western markets was due to higher wholesale energy prices related to the energy supply shortage in the western U.S.

In June 2001, the FERC instituted a series of price controls designed to mitigate (or cap) prices in the entire western U.S. as a result of the California energy crisis. These price controls have had the effect of significantly lowering spot and forward energy prices in the western U.S.

Energy Related Businesses

Energy related businesses contributed $18 million and $12 million to the operating income of PPL for the three months ending June 30, 2001 and 2000, respectively. For the six months ending June 30, 2001 and 2000, these businesses contributed a total of $45 million and $33 million, respectively, to operating income. The improvement in 2001 primarily reflects PPL Global's higher equity earnings from WPDH, and other international investments, and equity in the earnings of WPDL, which acquired Hyder in September 2000. PPL Global's equity earnings, net of

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its development, administrative and general expenses, contributed an additional $24 million in operating income for the six months ended June 30, 2001, compared to the same period in 2000. These gains and others from PPL mechanical contracting and engineering subsidiaries were partially offset by pre-tax operating losses from synfuel projects. However, after recording tax credits associated with synfuel operations, the synfuel projects contributed approximately $11 million to net income for the six months ended June 30, 2001. (See "Income Taxes" for further information).

Fuel

Fuel costs increased by $18 million and $60 million for the three and six months ended June 30, 2001, compared with the same periods in 2000.

Electric fuel costs increased by $12 million for the three months ended June 30, 2001, compared with the same period in 2000. The increase was attributed to higher usage of PPL Generation's oil/gas fired units as well as higher per-unit costs for this generation. The units were needed to compensate for an unplanned outage at a coal-fired station. The increase in fossil fuel expense was partially offset by recognized mark-to-market gains on gas transactions.

Electric fuel increased by $29 million for the six months ended June 30, 2001, compared with the same period in 2000. The increase was attributed to the reasons noted above, as well as higher coal prices, partially offset by lower nuclear fuel costs.

The cost of natural gas and propane increased by $6 million and $31 million for the three and six months ended June 30, 2001, compared with the same periods in 2000. The second quarter increase reflects higher per-unit prices for gas purchases. The year-to-date increase reflects higher prices as well as higher off-system volume due to higher demand.

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Energy Purchases

The increase (decrease) in energy purchases was attributed to the following (millions of dollars):

	June 30, 2001 vs. June 30, 2000	
	Three Months Ended	Six Months Ended
Domestic		
Eastern markets.....	$ (65)	$ (157)
Western markets.....	(4)	6
International.....	12	27
	$ (57)	$ (124)

Energy purchases decreased by $57 million and $124 million during the three and six months ended June 30, 2001, respectively, compared with the same periods in 2000. These decreases were primarily due to lower eastern market purchases, partially offset by higher international purchases. The decrease in eastern markets was attributable to lower quantities of wholesale purchases needed to supply wholesale load obligations, lower quantities of gas purchases for wholesale activity, as well as lower purchases for PPL EnergyPlus retail sales. These decreases were partially offset by recognized losses on certain long-term forward transactions, an increase in prices for wholesale purchases, and higher volumes of interchange activity to compensate for an unplanned outage. International increases were primarily due to energy purchases by CEMAR.

Other Operation Expenses

Other operation expenses increased by $52 million and $67 million for the three and six months ended June 30, 2001, respectively, when compared with the same periods in 2000. These increases include a $40 million gain on the sale of emission allowances recognized by PPL Electric in the second quarter of 2000, $11 million of CEMAR expenses, and PPL Montana's lease of the Colstrip generating facilities in the first half of 2001, as opposed to depreciating these facilities in the first half of 2000. These increases were partially offset by lower pension costs recorded in 2001. These lower pension costs resulted from pension investment performance.

Amortization of Recoverable Transition Costs

Amortization of recoverable transition costs increased by $9 million and $17 million, respectively, during the three and six months ended June 30, 2001, when compared with the same periods in 2000. These increases were primarily due to the collection of CTC revenues related to prior year CTC deferrals of amounts in excess of the rate cap.

Maintenance Expenses

Maintenance expenses increased by $13 million and $18 million for the three and six month periods ended June 30, 2001, respectively, when compared to the same periods in 2000. These increases were primarily due to higher general maintenance costs at PPL's fossil plants and refueling outage costs at PPL Susquehanna. The increase at the fossil plants reflects a wider scope of outage activities, and the acceleration of other outage work generally completed in the fall. The increase in refueling outage costs reflects additional overtime and contractor costs to improve plant equipment reliability, as well as the timing of refueling outage costs.

Depreciation

Depreciation decreased by $6 million and $11 million for the three and six months ended June 30, 2001, respectively, when compared to the same periods in 2000. These decreases were primarily due to a change in the estimated economic remaining useful lives of certain PPL generating plants based on studies done in conjunction with corporate realignment activities undertaken in early 2000. Also contributing to the decreases were PPL Montana's sale and leaseback of its investment in the Colstrip plant in July 2000, and a change in life characteristics for transmission and distribution property. These reductions in depreciation expense were partially offset by depreciation of CEMAR's transmission, distribution and other assets.

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Taxes, Other Than Income

Taxes other than income decreased by $4 million and $14 million for the three and six months ended June 30, 2001, respectively, compared with the same periods in 2000. These changes were primarily the result of lower gross receipts tax accruals due to a reduction in the Pennsylvania gross receipts tax rate, and lower PPL EnergyPlus retail electric revenues in 2001 as compared to 2000. Property taxes were also lower in 2001 as compared to the same periods in 2000.

Financing Costs

Interest expense decreased by $4 million for the three months ended June 30, 2001, when compared with the same period in 2000. This was primarily the result of reductions in interest due to the retirement of first mortgage bonds and transition bonds, and lower levels of short-term debt. These decreases were partially offset by higher levels of medium-term note balances as compared to the second quarter of 2000.

Interest expense increased by $12 million for the six months ended June 30, 2001, when compared to the same period in 2000. This increase was primarily the result of higher levels of medium-term debt and

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commercial paper balances, interest expense of CEMAR, and the buy-back of a call option to re-market securities. These increases were partially offset by retirements of first mortgage bonds and transition bonds, and lower levels of short-term debt.

Dividends on preferred securities increased by $6 million for the three and six months ended June 30, 2001, as compared to the same periods in 2000. This was primarily due to the issuance of PEPS Units in May 2001.

Income Taxes

Income taxes decreased by $23 million and increased by $21 million for the three and six months ended June 30, 2001, respectively, when compared to the same periods in 2000. PPL's pre-tax book income was higher in both periods in 2001. The increased income tax expense was offset by an adjustment for federal synfuel tax credits recognized in the second quarter of 2001, following an evaluation of the IRS' revenue procedures as they apply to the synfuel projects.

Financial Condition

Energy Marketing and Trading Activities

PPL, through PPL EnergyPlus, purchases and sells energy at the wholesale level under FERC market-based tariffs throughout the U.S. PPL enters into agreements to market energy and capacity from its generating assets with the expectation of profiting from market price fluctuations.

If PPL were unable to deliver firm capacity and energy under these agreements, under certain circumstances it would be required to pay damages. These damages would be based on the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, non-performance by counterparties (or their counterparties) with which it has power contracts, and other factors could affect PPL's ability to meet its firm capacity or energy obligations, or cause significant increases in the market price of replacement capacity and energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty non-performance in the future. PPL attempts to mitigate risks associated with open contract positions by reserving generation capacity to deliver electricity to satisfy its net firm sales contracts and, when necessary, by purchasing firm transmission service.

Credit risk relates to the risk of loss that PPL would incur as a result of non-performance by counterparties pursuant to the terms of their contractual obligations. PPL maintains credit policies and procedures with respect to counterparties (including requirements that counterparties meet certain credit ratings criteria) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL has concentrations of suppliers and customers in the electric and natural gas industries, including electric utilities, natural gas distribution companies and other energy marketing and trading companies. These concentrations of counterparties may impact PPL's overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. To date, PPL has not experienced any significant losses due to non-performance by counterparties. However, given the current electric energy situation in California, PPL has established a reserve with respect to certain sales to the California ISO for which PPL has not yet been paid. See Note 13 to the Financial Statements for a discussion related to the California situation.

Market Risk Sensitive Instruments

Quantitative and Qualitative Disclosures About Market Risk

PPL actively manages the market risk inherent in its commodity, debt, and foreign currency and equity positions as detailed in Note 11 to the Financial Statements. Nonetheless, adverse changes in commodity prices, interest rates, foreign currency exchange rates and equity prices may result in losses in earnings, cash flows and/or fair values. The forward-looking information presented below provides only estimates of what may occur in the future, assuming certain adverse market conditions, due to reliance on model assumptions. As a result, actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses.

Commodity Price Risk

PPL uses various methodologies to simulate forward price curves in the energy markets to estimate the size and probability of changes in market value resulting from commodity price movements. The methodologies require several key assumptions, including selection of confidence levels, the holding period of the commodity positions, and the depth and applicability to future periods of historical commodity price information.

As of June 30, 2001, PPL estimated that a 10% adverse movement in market prices across all geographic areas and time periods could have decreased the value of its

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non-hedge portfolio by approximately $1 million. For PPL's hedge portfolio, a 10% adverse movement in market prices across all geographic areas and time periods could have decreased the value of its hedge portfolio by approximately $33 million. However, this would have been offset by an increase in the value of the underlying commodity, the electricity generated. In addition to commodity price risk, PPL's commodity positions are also subject to operational and event risks including, among others, increases in load demand and forced outages at power plants.

PPL's risk management program is designed to manage the risks associated with market fluctuations in the price of electricity, natural gas, oil and emission allowances. PPL's risk management policy and programs include risk identification and risk limits management, with measurement and controls for real-time monitoring. PPL has entered into fixed-price forward and option contracts that required physical delivery of the commodity, exchange-for- physical transactions and over-the-counter contracts (such as swap agreements where settlement is generally based on the difference between a fixed and index- based price for the underlying commodity). PPL expects the use of these contracts to be ongoing.

PPL also executes these contracts to take advantage of market opportunities. As a result, PPL may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated.

Commodity Price Risk - PPL Electric

Currently, PPL Electric and PPL EnergyPlus have a power sales agreement under which PPL EnergyPlus sells to PPL Electric, under a predetermined pricing arrangement, energy, capacity, and ancillary services to fulfill PPL Electric's PLR obligation through 2001. PPL EnergyPlus has contracted to supply PPL Electric with long-term power for the period 2002 through 2009. See Note 14 to the Financial Statements for additional information. As a result, PPL Electric has shifted any electric price risk relating to its PLR obligation to PPL EnergyPlus for 2001 through 2009.

Interest Rate Risk

PPL and its subsidiaries, including PPL Electric, have issued debt to finance their operations. PPL has also issued debt to provide funds for unregulated energy investments, which also increases interest rate risk. PPL manages interest rate risk by using financial derivative products to adjust the mix of fixed and floating-rate interest rates in its debt portfolios, adjusting the duration of its debt portfolios and locking in U.S. treasury rates (and interest rate spreads over treasuries) in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and losses in the fair value of PPL's and PPL Electric's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2001, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was estimated at $3 million.

PPL is also exposed to changes in the fair value of its debt portfolio. At June 30, 2001, PPL 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 $51 million.

PPL utilizes various risk management instruments to reduce its exposure to adverse interest rate movements for future anticipated financings. While PPL is exposed to changes in the fair value of these instruments, they are designed such that any economic loss in value should be offset by interest rate savings at the time the future anticipated financing is completed. At June 30, 2001, PPL estimated its potential exposure to a change in the fair value of these instruments, through a 10% adverse movement in interest rates, was approximately $23 million.

See Notes 5 and 11 to the Financial Statements for a discussion of financial derivative instruments outstanding at June 30, 2001.

Foreign Currency Risk

PPL Global has investments in international energy-related distribution facilities. PPL Global is exposed to foreign currency risk primarily through investments in affiliates in Latin America and Europe. In addition, PPL may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge foreign currency exposures, including firm commitments, recognized assets or liabilities, and net investments. At June 30, 2001, PPL had a purchase obligation for equipment payable in euros. In addition, PPL Global expects the payment of certain payables in British pounds sterling. Therefore, as of June 30, 2001, PPL had entered into forward contracts for the purchase of 52 million euros and the sale of 78 million British pounds sterling. See Notes 5 and 11 to the Financial Statements for additional information.

Nuclear Decommissioning Fund - Securities Price Risk

PPL Susquehanna maintains trust funds, as required by the NRC, to fund certain costs of decommissioning the Susquehanna station. As of June 30, 2001, these funds were invested primarily in domestic equity securities and fixed-rate, fixed income securities and are reflected at

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fair value on PPL's Consolidated Balance Sheet. The mix of securities is designed to provide returns to be used to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed rate, fixed income securities are exposed to changes in interest rates. PPL Susquehanna actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. A hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $18 million reduction in the fair value of the assets at June 30, 2001.

PPL Electric's restructuring settlement agreement in 1998 provides for the collection of authorized nuclear decommissioning costs through the CTC. Additionally, PPL Electric is permitted to seek recovery from customers of up to 96% of any increases in these costs. Under the purchase agreement between PPL Electric and PPL EnergyPlus, these revenues are passed on to PPL EnergyPlus. Similarly, these revenues are passed on to PPL Susquehanna under a power purchase agreement between PPL EnergyPlus and PPL Susquehanna. Therefore, PPL's securities price risk is expected to remain insignificant.

Acquisitions and Development

At June 30, 2001, PPL Global had investments in foreign facilities, including consolidated investments in Emel, EC, CEMAR and others. See Note 3 to the Financial Statements for information on PPL Global's unconsolidated investments accounted for under the equity method.

See Note 8 to the Financial Statements for information regarding acquisitions and development activities.

Development activities continue on the Griffith and Wallingford projects, located near Kingman, Arizona and Wallingford, Connecticut, respectively. These facilities are expected to be operational during the third quarter of 2001, and will add in excess of 500 megawatts of capacity.

Also, PPL Global is pursuing the development of a 600-megawatt combined cycle facility in Lower Mount Bethel, Pennsylvania. The facility, at an estimated cost of $400-$450 million, is expected to be in service in late 2003 or early 2004, pending necessary governmental approvals.

Financing Activities

See Notes 7 and 14 to the Financial Statements for a discussion of financing activities.

Financing and Liquidity

Cash and cash equivalents decreased by $394 million more during the six months ended June 30, 2001, compared with the same period in 2000. The reasons for this change were:

. A $51 million decrease in cash provided by operating activities, primarily due to lower balances of accounts payable, accrued taxes, and accrued interest.

. A $415 million decrease in cash used in investing activities, primarily due to less investment in electric energy projects. Investing activities for the six months ended June 30, 2000, included the acquisition of CEMAR.

. A $758 million decrease in cash provided by financing activities, reflecting a decrease in the net issuance of securities, and a decrease in short-term debt.

Financial Indicators

Earnings for 2001 and 2000 were impacted by nonrecurring items. (See "Earnings" in PPL's Form 10-K for the year ended December 31, 2000 for additional information.) The following financial indicators reflect the elimination of these impacts from earnings, and provide an additional measure of the underlying earnings performance of PPL and its subsidiaries:

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	Twelve Months Ended June 30,	
	2001 vs.	2000
Earnings per share, diluted, as adjusted	$ 4.00	$ 2.76
Return on average common equity	30.25%	24.87%
Times interest earned before income taxes	3.24	2.90
Dividends declared per share	$ 1.06	$ 1.03

Environmental Matters

See Note 9 to the Financial Statements for a discussion of environmental matters.

Increasing Competition

The electric utility industry has experienced, and will continue to experience, a significant increase in the level of competition in the energy supply market at both the state and federal level. PPL believes that as deregulation of the energy industry continues on both the federal and state levels and retail markets are opened to new participants and new services, competition will continue to be intense. Additionally, competitive pressures have resulted from technological advances in power generation and electronic communications, and the energy markets have become more efficient. Refer

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to PPL's Form 10-K for the year ended December 31, 2000 for a discussion of state and federal activities in this regard.

PPL EnergyPlus serves industrial and commercial customers in Pennsylvania, New Jersey, Delaware and Montana. PPL EnergyPlus is also licensed to sell energy in Maine, Maryland and Massachusetts.

In June 2001, the FERC issued orders calling for the formation of one RTO throughout the Mid-Atlantic region (PJM), New York and New England. In response, PPL is taking the position that a single northeastern RTO is a significant step forward in establishing a reliable and properly functioning wholesale electricity market in the region. PPL strongly supports the most comprehensive amalgamation of the existing and proposed northeast pools, including the establishment of a single RTO as well as the elimination of marketplace distinctions and control area boundaries. FERC's northeastern RTO proceeding is continuing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Market Risk Sensitive Instruments" in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Item 1. Financial Statements

In the opinion of PPL Electric, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 2001 and December 31, 2000, and the Consolidated Statement of Income, Consolidated Statement of Cash Flows, and Consolidated Statement of Shareowner's Common Equity and Comprehensive Income for the periods ended June 30, 2001 and 2000. All nonutility operating transactions are included in "Other Income - net" in PPL Electric's Consolidated Statement of Income. These financial statements have been impacted by the corporate realignment on July 1, 2000. See Note 7 to the Financial Statements for additional information.

CONSOLIDATED STATEMENT OF INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Operating Revenues				
Retail electric	$ 564	$ 598	$ 1,203	$1,320
Wholesale energy marketing and trading	50	404	105	803
Energy related businesses	11	4	17	10
Total	625	1,006	1,325	2,133
Operating Expenses				
Operation				
Fuel		88		200
Energy purchases	344	388	723	779
Other	62	96	121	237
Amortization of recoverable transition costs	55	46	126	109
Maintenance	13	67	26	109
Depreciation	22	58	45	116
Taxes, other than income	27	39	55	85
Energy related businesses	10	7	16	13
Total	533	789	1,112	1,648
Operating Income	92	217	213	485
Other Income - net	1	12	5	23
Income Before Interest and Income Taxes	93	229	218	508
Interest Expense	52	64	114	125
Income Before Income Taxes	41	165	104	383
Income Taxes	13	63	36	144
Net Income Before Dividends on Preferred Securities	28	102	68	239
Dividends - Preferred Securities	7	7	13	13
Net Income Available for Common Stock	$ 21	$ 95	$ 55	$ 226

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Net Cash Provided by Operating Activities	$ 155	$ 258
Cash Flows From Investing Activities		
Expenditures for property, plant and equipment	(65)	(155)
Sale of nuclear fuel to trust		27
Net decrease in notes receivable from parent and affiliates	70	6
Other investing activities - net	(10)	
Net cash used in investing activities	(5)	(122)
Cash Flows From Financing Activities		
Retirement of long-term debt	(329)	(275)
Deposit of funds for the retirement of long-term debt	(5)	
Termination of nuclear fuel lease		(154)
Payments on capital lease obligation		(11)
Payment of common and preferred dividends	(37)	(51)
Net increase (decrease) in short-term debt	(40)	466
Redemption of preferred stock	(1)	
Net cash used in financing activities	(412)	(25)
Net Increase (Decrease) in Cash and Cash Equivalents	(262)	111
Cash and Cash Equivalents at Beginning of Period	267	52
Cash and Cash Equivalents at End of Period	$ 5	$ 163

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEET
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2001	December 31, 2000
Assets		
Current Assets		
Cash and cash equivalents	$ 5	$ 267
Accounts receivable (less reserve: 2001, $18; 2000, $16)	208	173
Accounts receivable from parent and affiliates	30	99
Notes receivable from parent and affiliates		70
Income tax receivable	36	51
Unbilled revenues	107	137
Fuel, materials and supplies - at average cost	31	30
Prepayments	42	4
Deferred income taxes	39	35
Other	9	9
	507	875
Investments	28	18
Property, Plant and Equipment - net		
Electric utility plant in service		
Transmission and distribution	2,205	2,183
General	180	180
	2,385	2,363
Construction work in progress	33	33
Electric utility plant	2,418	2,396
Other property	5	5
	2,423	2,401
Regulatory and Other Noncurrent Assets		
Recoverable transition costs	2,299	2,425
Other	305	304
	2,604	2,729
	$ 5,562	$ 6,023

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEET
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2001	December 31, 2000
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 19	$ 59
Long-term debt	277	240
Accounts payable	37	62
Accounts payable to parent and affiliates	131	207
Taxes	46	51
Dividends	30	23
Interest and other	63	82
	603	724
Long-term Debt	2,521	2,886
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits	736	724
Other	173	182
	909	906
Commitments and Contingent Liabilities		
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Debentures	250	250
Preferred Stock		
With sinking fund requirements	46	47
Without sinking fund requirements	50	50
	96	97
Shareowner's Common Equity		
Common stock	1,476	1,476
Additional paid-in capital	55	55
Treasury stock	(632)	(632)
Earnings reinvested	301	277
Accumulated other comprehensive income	(1)	
Capital stock expense and other	(16)	(16)
	1,183	1,160
	$ 5,562	$ 6,023

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENT OF SHAREOWNER'S COMMON EQUITY AND COMPREHENSIVE INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Common stock at beginning of period	$ $1,476	$ 1,476	$ 1,476	$ 1,476
Common stock at end of period	1,476	1,476	1,476	1,476
Additional paid-in capital at beginning of period	55	55	55	55
Additional paid-in capital at end of period	55	55	55	55
Treasury stock at beginning of period	(632)	(632)	(632)	(632)
Treasury stock at end of period	(632)	(632)	(632)	(632)
Earnings reinvested at beginning of period	304	512	277	419
Net income available for common stock (b)	21	95	55	226
Cash dividends declared on common stock	(24)	(38)	(31)	(76)
Earnings reinvested at end of period	301	569	301	569
Accumulated other comprehensive income (loss) at beginning of period		(6)		(6)
Unrealized (loss) on qualifying derivatives (b)	(1)		(1)	
Accumulated other comprehensive income (loss) at end of period	(1)	(6)	(1)	(6)
Capital stock expense and other at beginning of period	(16)	(16)	(16)	(16)
Capital stock expense and other at end of period	(16)	(16)	(16)	(16)
Total Shareowner's Common Equity	$ 1,183	$ 1,446	$ 1,183	$ 1,446
Common stock shares at beginning of period (a)	102,230	102,230	102,230	102,230
Common stock shares at end of period	102,230	102,230	102,230	102,230

(a) In thousands. No par value. 170 million shares authorized.
All common shares of PPL Electric stock are owned by PPL.

(b) Statement of Comprehensive Income, net of tax:				
Net income available for common stock	$ 21	$ 95	$ 55	$ 226
Other comprehensive income, net of tax:				
Unrealized (loss) on qualifying derivatives, net of tax (benefit) of $0, ($1)	(1)		(1)	
Total other comprehensive income	(1)		(1)	
Comprehensive Income	$ 20	$ 95	$ 54	$ 226

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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PPL ELECTRIC UTILITIES CORPORATION

Notes to Consolidated Financial Statements

Terms and abbreviations appearing in Notes to Consolidated Financial Statements are explained in the glossary.

1. Interim Financial Statements

Certain information in footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S., has been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These financial statements should be read in conjunction with the financial statements and notes included in PPL Electric's Annual Report to the SEC on Form 10-K for the year ended December 31, 2000.

Certain amounts in the June 30, 2000 and December 31, 2000 financial statements have been reclassified to conform to the presentation in the June 30, 2001 financial statements.

2. Credit Arrangements and Financing Activities

PPL Electric issues commercial paper and borrows from banks to provide short-term funds for general corporate purposes. Bank borrowings generally bear interest at rates negotiated at the time of the borrowing. At June 30, 2001, PPL Electric had $15 million of commercial paper outstanding at an interest rate of 4.29%.

In order to enhance liquidity, and as a credit back-stop to the commercial paper programs, PPL Electric, PPL Capital Funding and PPL (as guarantor for PPL Capital Funding) shared a 364-day $750 million credit facility and a five-year $300 million credit facility, each with a group of banks. At June 30, 2001, these credit facilities were retired, and PPL Electric obtained a new $400 million 364-day facility. No borrowings were outstanding under this facility at June 30, 2001.

In March 2001, PPL Electric deposited with its Mortgage Trustee $5 million for the purpose of retiring, on July 1, 2001, all of its outstanding First Mortgage Bonds, 9-3/8% Series due 2021, at par value through the maintenance and replacement fund provisions of its Mortgage. These bonds have been retired.

During the first six months of 2001, PPL Transition Bond Company made principal payments on bonds totaling $129 million.

In March 2001, PPL Electric made a payment of $9.6 million to buy back an option related to its 6 1/8% Reset Put Securities due 2006. The option would have permitted a third party to remarket these securities at higher interest rates in May 2001. PPL Electric recorded this charge, net of the $1.8 million balance remaining on the third party option. The net charge of $7.8 million is included in "Interest Expense" on the Consolidated Statement of Income for the six months ended June 30, 2001. PPL Electric retired the $200 million, 6-1/8% Reset Put Securities in May 2001.

3. Commitments and Contingent Liabilities

Environmental Matters

Superfund and Other Remediation

In 1995, PPL Electric entered into a consent order with the DEP to address a number of sites where PPL Electric may be liable for remediation. This may include potential PCB contamination at certain PPL Electric substations and pole sites, potential contamination at a number of coal gas manufacturing facilities formerly owned and operated by PPL Electric, and oil or other contamination which may exist at some of PPL Electric's former generating facilities. As of June 30, 2001, work had been completed on over 80% of the sites included in the consent order.

At June 30, 2001, PPL Electric had accrued approximately $5 million, representing the amount it estimates it will have to spend for site remediation, including those sites covered by its consent order mentioned above.

Guarantees of Affiliated Companies

At June 30, 2001, PPL Electric provided a guarantee in the amount of $7 million in support of Safe Harbor Water Power Corporation, in which PPL Electric had an ownership interest prior to the corporate realignment, and in which PPL Holtwood now has an ownership interest.

4. Related Party Transactions

As part of the corporate realignment, PPL Electric entered into power sales agreements with PPL EnergyPlus for the purchase of electricity to

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meet its obligations as a PLR for customers who have not selected an alternative supplier under the Customer Choice Act. Under the terms of these agreements, this electricity is purchased by PPL Electric at the applicable shopping credits authorized by the PUC, plus nuclear decommissioning costs, less state taxes. These purchases totaled $294 million and $622 million for the three and six months ended June 30, 2001, respectively, and are included in "Energy purchases" on the

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Consolidated Statement of Income. These agreements end on December 31, 2001. See Note 8 for a discussion of the new agreement with PPL EnergyPlus, whereby PPL EnergyPlus will provide electricity for PPL Electric's PLR load obligation through 2009.

Also as part of the corporate realignment, PPL Electric executed a reciprocal contract with PPL EnergyPlus to sell electricity purchased under contracts with NUGs. PPL Electric purchases electricity from the NUGs at contractual rates, and then sells the electricity at the same price to PPL EnergyPlus. These revenues totaled $43 million and $88 million for the three and six months ended June 30, 2001, respectively, and are included in Operating Revenues as "Wholesale energy marketing and trading" on the Consolidated Statement of Income.

Corporate functions such as financial, legal, human resources and information services were transferred to PPL Services in the corporate realignment. PPL Services bills the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of these services that are not directly charged to PPL subsidiaries are allocated to certain of the subsidiaries based on the relative capital invested by PPL in these subsidiaries. During the three and six months ended June 30, 2001, PPL Services charged PPL Electric approximately $16 million and $33 million for direct expenses, and allocated PPL Electric overhead costs of approximately $6 million and $11 million, respectively.

5. Adoption of SFAS 133

PPL Electric adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. SFAS 133 requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria area met. SFAS 133 requires that as of the date of adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate. At June 30, 2001 and December 31, 2000, PPL Electric had no derivative instruments.

6. New Accounting Standards

SFAS 141

On June 30, 2001, the FASB issued SFAS 141, "Business Combinations," which eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, it requires the reassessment of intangible assets to determine if they are appropriately classified either separately or within goodwill. SFAS 141 is effective for business combinations initiated after June 30, 2001. PPL Electric adopted SFAS 141 on July 1, 2001, with no material impact on net income.

SFAS 142

On June 30, 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The impact of adopting SFAS 142 is not yet determinable, but will be immaterial.

SFAS 143

On June 30, 2001, the FASB approved SFAS 143, "Accounting for Asset Retirement Obligations", on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciated in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS 143 is not yet determinable, but may be material.

7. Corporate Realignment

On July 1, 2000, PPL and PPL Electric completed a corporate realignment in order to effectively separate PPL Electric's regulated transmission and distribution operations from its recently deregulated generation operations and to better position the companies and their affiliates in the new competitive marketplace. The realignment included PPL Electric's transfer of certain generation and related assets, and associated liabilities, to PPL and its unregulated subsidiaries at book value. The net book value of this transfer was $271 million, and was recorded effective July 1, 2000.

As a result of the corporate realignment, PPL Electric's principal businesses are the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania, and the supply of electricity to retail customers in that territory as a PLR. Other subsidiaries of PPL and PPL Electric are generally aligned in the new corporate structure according to their principal business functions.

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The corporate realignment followed receipt of various regulatory approvals, including approvals from the PUC, the FERC, the NRC and the IRS.

8. Subsequent Events

In April 2001, PPL announced a plan to confirm the structural separation of PPL Electric from PPL and PPL's other affiliated companies, in a transaction that enables PPL Electric to reduce business risk by securing a supply contract adequate for it to meet its PLR obligations while allowing PPL to retain valuable advantages related to operating both energy supply and energy delivery businesses.

The strategic initiative is designed to substantially reduce PPL Electric's exposure to volatility in energy prices through 2009 and to reduce its business and financial risk profile by, among other things, limiting its business activities to the transmission and distribution of electricity and businesses related to or arising out of the electric transmission and distribution businesses.

Under this initiative, PPL Electric is taking the following steps:

. PPL Electric has obtained a long-term electric supply contract, at prices generally equal to the pre-determined "capped" rates under the 1998 PUC settlement order it is authorized to charge its PLR customers, to satisfy its PLR obligations to retail customers from 2002 through 2009;

. PPL Electric will limit its businesses to electric transmission and distribution and activities relating to or arising out of those businesses;

. PPL Electric will adopt amendments to its Articles of Incorporation and Bylaws containing corporate governance and operating provisions designed to reinforce its corporate separateness from affiliated companies;

. PPL Electric will appoint an independent director to its Board of Directors and require the unanimous consent of the Board of Directors, including the consent of the independent director, to amendments to these corporate governance and operating provisions or to the commencement of any insolvency proceeding, including any filing of a voluntary petition in bankruptcy or other similar actions;

. PPL Electric will appoint an independent compliance administrator to review, on a semi-annual basis, its compliance with the new corporate governance and operating requirements contained in its amended Articles of Incorporation and Bylaws; and

. PPL Electric will adopt a plan of division pursuant to the Pennsylvania Business Corporation Law. The plan of division will result in two separate corporations. PPL Electric will be the surviving corporation and a new Pennsylvania corporation will be created. Under the plan of division, $5 million of cash and certain of PPL Electric's potential liabilities will be allocated to the new corporation. PPL will guarantee the obligations of the new corporation with respect to such liabilities.

The enhancements to PPL Electric's legal separation from its affiliates are intended to minimize the risk that a court would order PPL Electric's assets and liabilities to be substantively consolidated with those of PPL or another affiliate of PPL in the event that PPL or another PPL affiliate were to become a debtor in a bankruptcy case. Taken collectively with the other steps in the strategic initiative to reduce its business risk profile, PPL Electric anticipates that it can increase the leverage in its capital structure, replacing higher-cost equity with lower-cost debt and thus lower its total cost of capital.

At a special meeting of PPL Electric shareowners held on July 17, 2001, the plan of division and the amendments to PPL Electric's Articles of Incorporation and Bylaws referred to above were approved. The plan of division and the amendments to the Articles of Incorporation and Bylaws will become effective upon filing of articles of division and the plan of division with the Secretary of State of the Commonwealth of Pennsylvania. This filing will be made in conjunction with the issuance of the PPL Electric debt.

Under the Pennsylvania Customer Choice Act, PPL Electric is required to act as a PLR to provide electricity to its delivery customers who do not select an alternate supplier. As part of a restructuring settlement with the PUC, PPL Electric agreed to provide such electricity to such customers at pre-set rates through 2009. While these generation supply rates vary by customer class, the settlement provided for average rates ranging from 4.16 cents per kWh in 2001, increasing to 5.02 cents per kWh in 2009. PPL Electric currently has a full requirements supply agreement with PPL EnergyPlus designed to enable PPL Electric to meet this obligation until the end of 2001. Under its existing contract with PPL Electric, PPL EnergyPlus provides all of PPL Electric's supply needs at the price cap level through 2001, regardless of the prevailing market price. As part of the strategic initiative, PPL Electric solicited bids to contract with energy suppliers to meet its obligation to deliver energy to its customers from 2002 through 2009.

In June 2001, PPL Electric announced that PPL EnergyPlus was the low bidder, among six bids examined, and was selected as the company to provide for the energy supply requirements of PPL Electric from 2002 through 2009. Under this contract, PPL

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EnergyPlus will provide electricity at pre-established capped prices and receive a $90 million payment by January 1, 2002, to offset differences between the revenues expected under the capped prices that PPL Electric is authorized to charge its PLR customers, and projected market prices through the life of the supply agreement (as projected by PPL EnergyPlus at the time of its bid). The contract results in PPL EnergyPlus having an eight-year contract at current market prices.

In July 2001, the energy supply contract was approved by the PUC and accepted for filing by the FERC.

Also in July 2001, PPL Electric filed a shelf registration statement with the SEC to issue up to $900 million in debt. PPL Electric will use a portion of the proceeds of any debt issuances under the registration statement to make the $90 million up-front payment to PPL EnergyPlus under the terms of the long-term energy supply contract, and to repurchase a portion of its common stock from PPL. The remainder of the proceeds will be used for general corporate purposes.

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PPL ELECTRIC UTILITIES CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the section entitled "Review of the Financial Condition and Results of Operations" in PPL Electric's Annual Report to the SEC on Form 10-K for the year ended December 31, 2000. Terms and abbreviations appearing in Management's Discussion and Analysis of Financial Condition and Results of Operations are explained in the glossary.

Results of Operations

The following discussion explains significant changes in principal items on the Consolidated Statement of Income comparing the three and six months ended June 30, 2001, to the comparable periods in 2000.

Certain items on the Consolidated Statement of Income have been impacted by the corporate realignment undertaken by PPL and PPL Electric effective July 1, 2000. See Note 7 to the Financial Statements for information regarding the corporate realignment. The Consolidated Statement of Income of PPL Electric for the first six months of 2001 includes the results of its remaining activities (the transmission and distribution of electricity in its service territory and the supply of electricity as a PLR in this territory under Pennsylvania's Customer Choice Act). The results for the first six months of 2000 also include PPL Electric's former electric generation and unregulated wholesale and retail marketing functions. When discussing the results of operations for 2001 compared with 2000, the estimated results of operations of the electric generation and unregulated marketing assets during the first six months of 2000 are eliminated for purposes of comparability.

The Consolidated Statement of Income reflects the results of past operations and is not intended as any indication of future operating results. Future operating results will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods are not necessarily indicative of results or trends for the year.

Earnings

PPL Electric's net income available for common stock decreased by $74 million and $171 million for the three and six months ended June 30, 2001, respectively, when compared with the same periods in 2000. After eliminating the estimated results of assets transferred in the corporate realignment from the results in 2000, earnings increased by $5 million and decreased by $2 million, respectively, for the three and six month periods. The increase in adjusted earnings during the three months ended June 30, 2001 compared with the same period in 2000 was primarily due to higher deliveries of electricity to retail customers and lower interest expense. These earnings gains were partially offset by an insurance settlement for environmental liability coverage recorded in April 2000.

Operating Revenues

Retail Electric

The increase (decrease) in revenues from retail electric operations was attributable to the following (millions of dollars):

	June 30, 2001 vs. June 30, 2000	
	Three Months Ended	Six Months Ended
PPL Electric		
electric delivery.....	$ 1	$ 3
PLR electric generation supply.....	87	136
PPL EnergyPlus		
electric generation supply.....	(125)	(259)
Other.....	3	3
	$ (34)	$ (117)

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Operating revenues from retail electric operations decreased by $34 million for the three months ended June 30, 2001, when compared to the same period in 2000. After eliminating the revenues of assets transferred in the corporate realignment from the results for the second quarter of 2000, retail electric revenues increased by $91 million. This increase was primarily due to higher PPL Electric revenues as a PLR, attributable to a 21% increase in sales volume. This reflects a decrease in retail electric customers shopping for electricity under the Customer Choice Act. Deliveries of electricity also increased by 3% between the periods.

Operating revenues from retail electric operations decreased by $117 million for the six months ended June 30, 2001, when compared to the same period in 2000. After eliminating the revenues of assets transferred in the corporate realignment from the results for the first half of 2000, retail electric revenues increased by $142 million. This was primarily due to higher PPL Electric revenues as a PLR, attributable to a 20% increase in electricity supply, compared with the first half of 2000. Deliveries of electricity also increased by 4% between the periods.

Pursuant to the Customer Choice Act and a restructuring settlement with the PUC, PPL Electric is required, through 2009, to provide electricity at pre-set prices to its delivery customers who do not select an alternate

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supplier. While these supply rates vary by customer class, the settlement provides for average rates ranging from 4.16 cents per kWh in 2001, increasing to 5.02 per kWh in 2009. As part of such settlement agreement, PPL Electric also agreed to a cap on its average transmission and distribution rates of 1.74 cents per kWh through 2004.

Wholesale Energy Marketing and Trading

The increase (decrease) in revenues from wholesale energy marketing and trading activities was attributable to the following (millions of dollars):

	June 30, 2001 vs. June 30, 2000	
	Three Months Ended	Six Months Ended
PPL Electric		
Bilateral Sales	$ (260)	$ (508)
PJM	(47)	(69)
Cost based contracts	(31)	(65)
Gas and oil sales	(63)	(148)
NUG purchases sold to affiliate	43	88
Other	4	4
	$ (354)	$ (698)

Wholesale energy marketing and trading revenues decreased by $354 million and $698 million for the three and six months ended June 30, 2001, when compared to the same periods in 2000. After eliminating the revenues of assets transferred in the corporate realignment from the results for 2000, wholesale revenues were essentially unchanged between the periods. The remaining wholesale revenues consist of sales to municipalities and the sale of power (purchased from NUGs) to PPL EnergyPlus.

Energy Related Business

Energy related businesses contributed $1 million to the operating income of PPL Electric for both the three and six months ended June 30, 2001.

For the three and six months ended June 30, 2000, these activities negatively impacted operating income by $3 million in each period. After deducting the results of the mechanical contracting and engineering companies and synfuel operations, all of which were transferred in the corporate realignment, PPL Electric's remaining energy related business broke even on a pre-tax basis for the three and six months ended June 30, 2000.

Fuel

Effective with the July 1, 2000 corporate realignment, the generation of electricity, and the acquisition of fuel for that generation, was transferred to PPL Generation.

Energy Purchases

Energy purchases decreased by $44 million and $56 million for the three and six months ended June 30, 2001, compared with the same periods in 2000. After eliminating the expenses of assets transferred in the corporate realignment from the results for the first half of 2000, energy purchases increased by $83 million and $141 million for the three and six months ended June 30, 2001, respectively. The increases represent the additional purchases required to support PPL Electric's higher PLR load.

Other Operation Expenses

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Other operation expenses decreased by $34 million and $116 million for the three and six months ended June 30, 2001, when compared with the same periods in 2000. After eliminating the expenses associated with assets transferred in the corporate realignment from the results for 2000, other operation expenses increased by $11 million and $10 million for the three and six months ended June 30, 2001. These increases were due primarily to an insurance settlement for environmental liability coverage recorded in the second quarter of 2000, which reduced other operation expenses in that period.

Amortization of Recoverable Transition Costs

Amortization of recoverable transition costs increased by $9 million and $17 million during the three and six months ended June 30, 2001, when compared with the same periods in 2000. These increases were primarily due to the collection of CTC revenues related to prior year CTC deferrals of amounts in excess of the rate cap.

Maintenance Expenses

Maintenance expenses decreased by $54 million during the three months ended June 30, 2001, when compared with the same period in 2000. After eliminating the expenses of assets transferred in the corporate realignment from the results for the second quarter of 2000, maintenance expenses were virtually unchanged from the prior year.

Maintenance expenses decreased by $83 million during the six months ended June 30, 2001, when compared with the same period in 2000. After eliminating the expenses of assets transferred in the corporate realignment from the results for the first half of 2000, maintenance expenses decreased by $2 million.

Depreciation

Depreciation decreased by $36 million and $71 million for the three and six months ended June 30, 2001, respectively, when compared with the same periods in 2000. After eliminating the expenses of assets

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transferred in the corporate realignment from the 2000 results, depreciation decreased by $2 million and $3 million for the three and six months ended June 30, 2001. These decreases reflect a change in life characteristics for transmission and distribution property.

Taxes, Other Than Income

Taxes other than income decreased by $12 million and $30 million during the three and six months ended June 30, 2001, respectively, when compared to the same periods in 2000. After eliminating the taxes associated with the assets transferred in the corporate realignment from the results for the first half of 2000, taxes other than income were approximately the same in both periods.

Other Income - net

Other income, net of deductions, decreased by $11 million during the three months ended June 30, 2001, when compared with the same period in 2000. After eliminating the income and deductions of assets transferred in the corporate realignment from the results for the second quarter of 2000, other income was relatively unchanged during the second quarter of 2001.

Other income, net of deductions, decreased by $18 million during the six months ended June 30, 2001, when compared with the same period in 2000. After eliminating the income and deductions of assets transferred in the corporate realignment from the results for the first half of 2000, other income decreased by $3 million between the periods. This decrease was primarily due to income recorded in June 2000 due to the demutualization of a medical insurance provider.

Financing Costs

Interest expense decreased by $12 million and $11 million during the three and six months ended June 30, 2001, respectively, when compared with the same periods in 2000. After eliminating the interest expense associated with assets transferred in the corporate realignment from the results for 2000, interest expense decreased by $17 million and $21 million during the three and six months ended June 30, 2001, respectively, when compared with the same periods in 2000. The lower interest expense was primarily due to retirements of first mortgage bonds and transition bonds, and lower levels of intercompany debt.

Income Taxes

Income tax expenses decreased by $50 million during the three months ended June 30, 2001, when compared with the same period in 2000. After eliminating the taxes associated with the assets transferred in the corporate realignment from the results for the second quarter of 2000, income taxes increased by $2 million during the second quarter of 2001. This change was primarily due to an increase in adjusted pre-tax book income.

Income taxes decreased by $108 million during the six months ended June 30, 2001, when compared with the same period in 2000. After eliminating the expenses of assets transferred in the corporate realignment from the results for the first half of 2000, income taxes were relatively unchanged.

Financial Condition

Energy Marketing and Trading Activities

In connection with the corporate realignment, effective July 1, 2000, PPL Electric's unregulated energy marketing and trading activities were transferred to PPL EnergyPlus.

Market Risk Sensitive Instruments

Commodity Price Risk - PPL Electric

Currently, PPL Electric and PPL EnergyPlus have a long-term power sales agreement under which PPL EnergyPlus will sell to PPL Electric, at a predetermined pricing arrangement, energy, capacity, and ancillary services to fulfill PPL Electric's PLR obligation through 2001. PPL EnergyPlus has contracted to supply PPL Electric with long-term power for the period 2002 through 2009. As a result, PPL Electric has shifted any electric price risk to PPL EnergyPlus for 2001 through 2009.

Interest Rate Risk

PPL Electric has issued debt to finance its operations, which increases interest rate risk. At June 30, 2001, PPL Electric's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was approximately $700,000.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. At June 30, 2001, PPL Electric estimated that its potential

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exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was approximately $18 million.

Market events that are inconsistent with historical trends could cause actual results to differ from estimated levels.

Financing Activities

See Notes 2 and 8 to the Financial Statements for a discussion of financing activities.

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Financing and Liquidity

Cash and cash equivalents decreased by $373 million more during the six months ended June 30, 2001, compared with the same period in 2000. The reasons for this change were:

. A $103 million decrease in cash provided by operating activities, primarily due to the operating income of assets transferred in the corporate realignment.

. A $117 million decrease in cash used in investing activities, primarily due to lower property, plant and equipment expenditures in 2001, due to the transfer of generation assets as part of the corporate realignment. Also, repayment of notes receivable from parent and affiliates were greater during the six months ended June 30, 2001.

. A $387 million increase in cash used in financing activities, primarily due to greater retirements of long-term debt, and decreases in short-term debt.

Financial Indicators

Earnings for the twelve months ended June 30, 2001 and 2000 were impacted by nonrecurring items and restructuring impacts. See "Earnings" in PPL Electric's Form 10-K for the year ended December 31, 2000 for additional information. The following financial indicators for PPL Electric reflect the elimination of these impacts from earnings, and provide an additional measure of the underlying earnings performance of PPL Electric and its subsidiaries. For purposes of comparability with 2001, the estimated results of assets transferred in the corporate realignment were also eliminated for the twelve months ended June 30, 2000.

	12 Months Ended June 30,		
	2001	2000	
	Adjusted for Realignment	Not Adjusted for Realignment	
Earnings available to PPL (adjusted, in millions).....	$ 72	$ 91	$ 394
Times interest earned before income taxes.....	1.59	1.66	3.44

Environmental Matters

See Note 3 to the Financial Statements for a discussion of environmental matters.

Increasing Competition

The electric utility industry has experienced, and will continue to experience, a significant increase in the level of competition in the energy supply market at both the state and federal level. PPL Electric's PLR supply business will be affected by customers who select alternate suppliers. Refer to PPL Electric's Form 10-K for the year ended December 31, 2000 for a discussion of state and federal activities in this regard.

In June 2001, the FERC issued orders calling for the formation of one RTO throughout the Mid-Atlantic region (PJM), New York and New England. In response, PPL Electric is taking the position that a single northeastern RTO is a significant step forward in establishing a reliable and properly functioning wholesale electricity market in the region. PPL Electric strongly supports the most comprehensive amalgamation of the existing and proposed northeast pools, including the establishment of a single RTO as well as the elimination of marketplace distinctions and control area boundaries. FERC's northeastern RTO proceeding is continuing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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Reference is made to "Market Risk Sensitive Instruments" in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Part 1. FINANCIAL INFORMATION

Item 1. Financial Statements

In the opinion of PPL Montana, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 2001 and December 31, 2000, and the Consolidated Statement of Income, Consolidated Statement of Cash Flows and Consolidated Statement of Member's Equity and Comprehensive Income for the periods ended June 30, 2001 and 2000.

CONSOLIDATED STATEMENT OF INCOME
PPL Montana, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Operating Revenues				
Wholesale energy marketing and trading	$ 99	$ 63	$ 281	$ 124
Other revenues			1	1
Total	99	63	282	125
Operating Expenses				
Operation				
Fuel	5	7	14	16
Energy purchases	17	21	34	28
Other operation and maintenance	29	17	49	29
Transmission	2	3	5	7
Depreciation	2	4	5	8
Taxes, other than income	5	3	8	7
Total	60	55	115	95
Operating Income	39	8	167	30
Other Income - net	1	1	2	1
Interest Expense	2	10	4	19
Income (Loss) Before Income Taxes	38	(1)	165	12
Income Taxes	15		65	5
Net Income (Loss)	$ 23	$ (1)	$ 100	$ 7

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
PPL Montana, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2001	2000
Net Cash Provided by Operating Activities	$ 123	$ 22
Cash Flows From Investing Activities		
Proceeds from sale of property, plant and equipment	1	
Expenditures for property, plant and equipment	(12)	(10)
Net cash used in investing activities	(11)	(10)
Cash Flows From Financing Activities		
Borrowings on revolving line of credit		5
Repayments on revolving line of credit		(15)
Distribution to Member	(167)	
Net cash used in financing activities	(167)	(10)
Net Increase (Decrease) in Cash and Cash Equivalents	(55)	2
Cash and Cash Equivalents at Beginning of Period	79	3
Cash and Cash Equivalents at End of Period	$ 24	$ 5

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEET
PPL Montana, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2001	December 31, 2000
Assets		
Current Assets		
Cash and cash equivalents	$ 24	$ 79
Accounts receivable (less reserve: 2001, $ 19 ; 2000, $18)	15	87
Accounts receivable from joint owners	5	7
Accounts receivable from affiliates	3	
Fuel, materials and supplies - at average cost	5	5
Unrealized derivative gains	49	2
Deferred income taxes	19	20
Prepayments and other	4	3
	124	203
Noncurrent Assets		
Property, plant and equipment - net	434	428
Deferred income taxes	23	31
Other	48	34
	505	493
	$ 629	$ 696
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 39	$ 50
Accounts payable to affiliates		18
Accounts payable to Member	35	38
Accrued expenses	14	17
Unrealized derivative losses	39	
Wholesale energy commitments	24	23
	151	146
Noncurrent Liabilities		
Employee benefit obligations	9	8
Wholesale energy commitments	65	75
Other	17	14
	91	97
Commitments and Contingent Liabilities		
Member's Equity	387	453
	$ 629	$ 696

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENT OF MEMBER'S EQUITY AND COMPREHENSIVE INCOME
PPL Montana, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Member's equity at beginning of period	$ 430	$ 425	$ 453	$ 417
Net income (a)	23	(1)	100	7
Distribution to Member	(67)		(167)	
Member's equity at end of period	386	424	386	424
Accumulated other comprehensive income (loss) at beginning of period	(182)			
Unrealized gain on qualifying derivatives (a)	183		1	
Accumulated other comprehensive income at end of period	1		1	
Total Member's Equity	$ 387	$ 424	$ 387	$ 424
(a) Statement of Comprehensive Income (Loss):				
Net income (loss)	$ 23	$ (1)	$ 100	$ 7
Other comprehensive income, net of taxes:				
Unrealized gain on qualifying derivatives, net of tax of $117, $0	183		1	
Total other comprehensive income	183		1	
Comprehensive Income (Loss)	$ 206	$ (1)	$ 101	$ 7

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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PPL MONTANA, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Terms and abbreviations appearing in Notes to Consolidated Financial Statements are explained in the glossary.

1. Interim Financial Statements

Certain information in footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S., has been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These financial statements should be read in conjunction with the financial statements and notes included in PPL Montana's Form S-4 Registration Statement filed with the SEC on March 2, 2001 for the year ended December 31, 2000.

Certain amounts in the December 31, 2000 financial statements have been reclassified to conform to the presentation in the June 30, 2001 financial statements.

2. Credit Arrangements and Financing Activities

PPL Montana has a $100 million Tranche B Revolver which matures in November 2002. The maturity date may be extended with the consent of the lenders. The Tranche B Revolver provides that up to $75 million of the commitment may be used to issue letters of credit. At June 30, 2001, there were no amounts outstanding under the Tranche B Revolver and $21 million of letters of credit were issued thereunder.

In April 2001, PPL Montana entered into a new credit facility to allow for incremental letter of credit capacity of $150 million. At June 30, 2001, there were no amounts outstanding under this facility.

3. Commitments and Contingent Liabilities

Wholesale Energy Commitments

As part of the purchase of generation assets from Montana Power, PPL Montana agreed to supply electricity under two wholesale transition service agreements. In addition, PPL Montana assumed a power purchase agreement and a power sales agreement. In accordance with purchase accounting guidelines, PPL Montana recorded a liability of $118 million, the estimated fair value of the agreements at the acquisition date. The supply and purchase agreements are prospectively amortized over the agreement terms as adjustments to "Wholesale energy marketing and trading" revenues and "Energy purchases," respectively, on the Consolidated Statement of Income. The unamortized balance at June 30, 2001 was $89 million.

Environmental Matters
Air

The Clean Air Act deals, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions. PPL Montana is substantially compliant with the Clean Air Act.

The EPA has developed a revised ambient ozone standard and a new standard for ambient fine particulates. These standards were challenged and remanded to the EPA by the D.C. Circuit Court of Appeals in 1999. The United States Supreme Court is reviewing the Circuit Court decision. The new particulates standard, if finalized, may require further reductions in SO2 emissions for PPL Montana.

Under the Clean Air Act, the EPA has been studying the health effects of hazardous air emissions from power plants and other sources, in order to determine what should be regulated, and has determined that mercury emissions must be regulated. In this regard, the EPA is expected to develop regulations by 2004.

In 1999, the EPA initiated enforcement actions against several utilities, asserting that older, coal-fired power plants operated by those utilities have, over the years, been modified in ways that subject them to more stringent "New Source" requirements under the Clean Air Act. The EPA has since issued notices of violation and commenced enforcement activities against other utilities, and has threatened to continue expanding its enforcement actions. At this time, PPL Montana is unable to predict whether such EPA enforcement actions will be brought with respect to any of its affiliates' plants. However, the EPA's regional offices that regulate PPL Montana's generation plants have indicated an intention to issue information requests to all utilities in its jurisdiction and have issued such a request to PPL Montana related to its Corette plant. PPL Montana has responded to the information request. PPL Montana cannot predict what, if any, enforcement action the EPA might take. The EPA has reportedly suspended further enforcement activity pending an interagency review of the "New Source" program. Should the EPA initiate one or more enforcement actions against PPL Montana, compliance with any such EPA enforcement action could result in additional capital and operating expenses in amounts which are not now determinable, but which could be significant.

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Water/Waste

In 2000, the EPA significantly tightened the water quality standard for arsenic. However, the EPA has now withdrawn the standard in order to further study the matter. A tightened standard may require PPL Montana to further treat wastewater and/or take abatement action at several of its power plants, the cost of which is not now determinable, but which could be significant.

EPA's proposed requirements for new or modified water intake structures will affect where generating facilities are built, will establish intake design standards, and could lead to requirements for cooling towers at new power plants. These proposed regulations are expected to be finalized by November 2001. The rule could require new or modified cooling towers at one or more PPL Montana stations. Another new rule, expected to be finalized in 2003, will address existing structures. Each of these rules could impose significant costs on PPL Montana, which are not now determinable.

Remediation

In October 1999, the Montana Supreme Court held in favor of several citizens' groups that the right to a clean and healthful environment is a fundamental right guaranteed by the Montana Constitution. The court's ruling could result in significantly more stringent environmental laws and regulation as well as an increase in citizens' suits under Montana's environmental laws. The effect on PPL Montana of any such changes in laws or regulations or any such increase in legal actions are not now determinable, but could be significant.

PPL Montana has been indemnified by Montana Power for any preacquisition environmental liabilities. However, this indemnification is conditioned on certain circumstances that can result in PPL Montana and Montana Power sharing in certain costs within limits set forth in the Asset Purchase Agreement.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs for PPL Montana that cannot be estimated at this time.

General

Due to the environmental issues discussed above or other environmental matters, PPL Montana may be required to modify, replace or cease operating certain facilities to comply with statutes, regulations and actions by regulatory bodies or courts. In this regard, PPL Montana also may incur capital expenditures, operating expenses and other costs in amounts which are not now determinable, but which could be significant.

Source of Labor Supply

Approximately 68% and 2% of the PPL Montana employees are represented by International Brotherhood of Electrical Workers (IBEW) and Teamsters, respectively. In 2001, PPL Montana reached a new three-year contract with the employees represented by the IBEW local 1638 and reached a new four-year contract with IBEW Local 44. PPL Montana is also currently negotiating with the Teamsters for a new employment agreement.

4. Sales to California Independent System Operator and to Other Pacific Northwest Purchasers

PPL Montana has made approximately $18 million of sales to the California Independent System Operator ("Cal ISO"), for which PPL Montana has not yet been paid in full. Given the myriad of electricity supply problems presently faced by the California electric utilities and the Cal ISO, PPL Montana cannot predict when it will receive payment. As of June 30, 2001, PPL Montana has fully reserved for possible underrecoveries of payments for these sales.

Litigation arising out of the California electricity supply situation has been filed at the FERC and in California courts against sellers of energy to the Cal ISO. The plaintiffs and intervenors in these proceedings allege abuses of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws, among other things, and seek price caps on wholesale sales in California and other western power markets, refunds of excess profits allegedly earned on these sales, and other relief, including treble damages and attorney's fees. PPL Montana has intervened in the FERC proceedings in order to protect its interests, but have not been named as a defendant in any of the court actions. In addition, attorneys general in several western states, including California, have begun investigations related to the electricity supply situation in California and other western states. FERC currently is considering whether to order refunds for sales made into California markets, including sales made by PPL Montana. FERC also is considering whether to order refunds for sales made in the Pacific Northwest, including sales made by PPL Montana. PPL Montana cannot predict whether it will eventually be the target of any governmental investigation or named in these lawsuits, refund proceedings, or other lawsuits, the outcome of any such proceeding or whether the ultimate impact on PPL Montana of the electricity supply situation in California and other western states will be material.

5. Pending Transactions

PPL Global, an indirect wholly-owned subsidiary of PPL and an affiliate of PPL Montana, was party to separate asset purchase agreements with

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Electric Company and Puget Sound Energy, Inc. to purchase their respective interests in the Colstrip Units and certain related transmission assets and rights. The interested parties mutually agreed to terminate these asset purchase agreements in 2000.

The Montana Power Asset Purchase Agreement, previously assigned to PPL Montana by PPL Global, provided that if neither the Puget Sound Energy, Inc. or Portland General Electric Company acquisitions were consummated, PPL Montana would be required to purchase a portion of Montana Power's interest in the 500 kilovolt Colstrip Transmission System for $97 million. PPL Montana is currently in discussions with Montana Power to pursue alternatives to acquiring this entire interest in the Colstrip Transmission System as contemplated by the Asset Purchase Agreement. These discussions are ongoing; therefore, PPL Montana cannot predict whether it will buy all, or less than all of Montana Power's entire interest in the Colstrip Transmission System, or what the purchase price will be if a purchase occurs.

6. Adoption of SFAS 133

PPL Montana adopted SFAS 133, "Accounting for Derivative Instrument and Hedging Activities," on January 1, 2001. SFAS 133 requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate.

In accordance with the transition provisions of SFAS 133, PPL Montana had no recorded cumulative-effect adjustment in earnings to recognize the difference between the carrying values and fair values of derivatives not designated as hedging instruments as per SFAS 133. PPL Montana recorded a cumulative-effect adjustment charge of $156 million in accumulated other comprehensive income in Member's Equity on the Consolidated Balance Sheet, to recognize the difference between the carrying values and fair values of derivatives designated as cash flow hedging instruments as per SFAS 133. PPL Montana expects to reclassify $120 million into earnings from the transition adjustment that was recorded in other comprehensive income during the twelve months ended December 31, 2001.

Accounting for Derivatives and Hedging Activities

All derivatives are recognized on the balance sheet at their fair value. According to SFAS 133, fair value is defined as the amount at which an asset (liability) could be bought (incurred) or sold (settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. On the date the derivative contract is entered into, PPL Montana designates the derivative as:

. A hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge),

. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge),

. A foreign-currency fair-value or cash flow hedge ("foreign currency" hedge),

. A hedge of a net investment in a foreign operation, or

. A non-hedge derivative.

Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated as and qualifies as, a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged. Changes in the fair value of derivatives that are designated as and qualifies as foreign currency hedges are recorded in either current period earnings or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. If however, a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within equity. Changes in the fair value of derivatives that are not designated as hedging instruments are reported in current-period earnings.

PPL Montana formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. PPL Montana formally assesses, both at the hedge's

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inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

PPL Montana discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; when the derivative expires or is sold, terminated or exercised; or when the derivative is dedesignated as a hedge instrument because it is unlikely that a forecasted transaction will occur or management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value, and the hedged asset or liability will no longer be adjusted for changes in its fair value. When hedge accounting is voluntarily discontinued so that the forecasted transaction can be re-hedged with a new hedging instrument, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will remain until the hedged forecasted transaction impacts earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period earnings.

Derivative Instruments and Hedging Activities

PPL Montana's primary market risk exposures are associated with commodity prices. PPL Montana actively manages the market risk inherent in its commodity positions. The Board of Directors of PPL Montana has adopted a risk management policy to manage the risk exposures related to energy prices. This policy monitors and assists in controlling market risk and use of derivative instruments to manage some associated commodity activities. For the three and six months ended June 30, 2001, PPL Montana held derivative instruments designated as cash flow hedging instruments.

PPL Montana's derivative activities are subject to the management, direction and control of RMC. The RMC is composed of the chief financial officer and other officers of PPL. The RMC reports to the Board of Directors of PPL on the scope of its derivative activities. The RMC sets forth risk-management philosophy and objectives through a corporate policy, provides guidelines for derivative-instrument usage, and establishes procedures for control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity. Market risk is the adverse effect on the value of a financial transaction that results from a change in commodity prices, interest rates or currency exchange rates. The market risk associated with commodity price, interest rate and foreign exchange contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken.

PPL Montana utilizes financial and physical contracts as part of its risk management strategy to minimize unanticipated fluctuations in earnings caused by commodity price volatility.

PPL Montana maintains a commodity price risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. Fluctuations in electricity commodities cause firm commitments for purchase or sale of these commodities to develop unrealized gains or losses when compared to current commodity prices. PPL Montana uses swaps to hedge these risks.

By using derivative instruments to hedge exposures to changes in commodity rates, interest rates and exchange rates, PPL Montana exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes PPL Montana, which creates repayment risk for PPL Montana. When the fair value of the derivative contract is negative, PPL Montana owes the counterparty and, therefore it does not possess repayment risk. PPL Montana attempts to mitigate the credit (or repayment) risk in derivative instruments by entering into transactions with counterparties who meet credit rating criteria, limiting the amount of exposure to each counterparty, and monitoring the financial condition of its counterparties. Additionally, in certain circumstances, PPL Montana obtains credit enhancements and/or enters into bilateral collateral arrangements.

Fair Value Hedges

PPL Montana had no derivative instruments designated as fair value hedges for the six months ended June 30, 2001.

Cash Flow Hedges

PPL Montana enters into financial swap contracts to hedge the price risk associated with electric commodities. These contracts range in maturity through 2006. For the three and six months ended June 30, 2001 PPL Montana recorded net-of-tax gains of $183 million and $400,000, respectively (reported in accumulated other comprehensive income in Member's

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Equity on the Consolidated Balance Sheet). PPL Montana has reserved and stands ready to deliver energy from the planned output of its generating units. In these cases, PPL Montana realized a margin that represents the difference between the sales price and the average cost of generation.

As a result of changes in economic conditions, certain previously hedged transactions are no longer probable of occurring. Consequently, PPL Montana discontinued hedge accounting for such cash flow hedges which resulted in a net of tax gain of $7 million reported in current earnings for the three and six months ended June 30, 2001.

As of June 30, 2001, the deferred net losses on derivative instruments in accumulated other comprehensive income expected to be reclassified into earnings during the next twelve months are $4 million. The sale of associated electricity, that is expected to occur over the next twelve months, will necessitate reclassifying to earnings these derivative losses. PPL Montana expects the majority of these losses to be largely offset by the inverse changes in the market value of the underlying commodities, the electricity generated. PPL Montana expects these offsetting gains to exceed the mark-to-market losses on the associated derivative instruments when the transactions are recorded in future earnings over the next twelve months.

Unrealized Gains/Losses on Derivatives Qualified as Hedges
(Millions of Dollars)
(After tax)

	June 30, 2001	
	Three Months Ended	Six Months Ended
Unrealized losses on derivatives qualified as hedges, beginning of period:.....	$ (182)	$ 0
Unrealized gains (losses) arising during period:		
Cumulative effect of change in accounting principle at January 1, 2001.....		(156)
Other unrealized gains	190	164
Less: reclassification for gains included in net income.....	7	7
Other comprehensive income.....	183	1
Unrealized gains on derivatives qualified as hedges, end of period..	$ 1	$ 1

7. New Accounting Standards

SFAS 141

On June 30, 2001, the FASB issued SFAS 141, "Business Combinations," which eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, it requires the reassessment of intangible assets to determine if they are appropriately classified either separately or within goodwill. SFAS 141 is effective for business combinations initiated after June 30, 2001. PPL Montana adopted SFAS 141 on July 1, 2001, with no material impact on the financial statements.

SFAS 142

On June 30, 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and

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other acquired intangible assets with indefinite economic useful lives. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The impact of adopting SFAS 142 is not yet determinable, but will be immaterial.

SFAS 143

On June 30, 2001, the FASB approved SFAS 143, "Accounting for Asset Retirement Obligation," on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciated in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS 143 is not yet determinable, but may be material.

8. Subsequent Events

Energy Supply to Montana Power

PPL Montana has two transition agreements to supply wholesale electricity to Montana Power. One agreement provides for the sale of 200 megawatts from the leasehold interest in Colstrip Unit 3 until December 2001. The second agreement covers Montana Power until its remaining load is zero, but in no event later than June 2002. In April 2001, PPL announced that PPL EnergyPlus has offered to provide Montana Power with 500 megawatts of energy to be supplied by PPL

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Montana. The delivery term of this new contract would be for five years beginning July 1, 2002, which is the day after the termination date of the second contract, pursuant to which PPL Montana supplies energy to Montana Power to serve its retail load not served by other providers or provided by Montana Power's remaining generation.

Under the proposed new contract, PPL Montana would be obligated to sell this energy to Montana Power only to the extent that the energy is produced by certain designated units of PPL Montana. The price under the contract would be fixed at 4 cents per kWh. However, if PPL Montana is subjected to significantly increased costs or regulatory burdens by the MPSC or the Montana Legislature or any other governmental authority during the contract period, PPL Montana could pass the resulting costs through to Montana Power as an addition to the contract price. Also, in that event PPL Montana could terminate the contract. Montana Power has not accepted the new contract. If PPL EnergyPlus and Montana Power agree to a contract, it would be submitted to the MPSC and the FERC for review and approval.

In June 2001, the MPSC issued an order (MPSC Order) in which it found that Montana Power must continue to provide electric service to its customers at tariffed rates until its transition plan under the Montana Electricity Utility Industry Restructuring and Customer Choice Act is finally approved, and that purchasers of generating assets from Montana Power must provide electricity to meet Montana Power's full load requirements at prices to Montana Power that reflect costs calculated as if the generation assets had not been sold. PPL Montana purchased Montana Power's interest in two coal-fired plants and 11 hydroelectric units in 1999.

In July 2001, PPL Montana filed a complaint against the MPSC with the U.S. District Court in Helena, Montana, challenging the MPSC Order. In its complaint, PPL Montana asserted, among other things, that the Federal Power Act preempts states from exercising regulatory authority over sale of electricity in wholesale markets, and requested the court to declare the MPSC action preempted, unconstitutional and void. In addition, the complaint requested that the MPSC be enjoined from seeking to exercise any authority, control or regulation of wholesale sales from PPL Montana's generating assets.

At this time, PPL Montana cannot predict the outcome of the proceedings related to the MPSC Order, whether PPL Montana and Montana Power will reach a new supply agreement, whether any such agreement will be approved by the MPSC or the FERC on acceptable terms, what actions the MPSC, the Montana Legislature or any other governmental authority may take on these or related matters, or the ultimate impact on PPL Energy Supply and PPL Montana of any of these matters.

Energy Supply to Energy West Resources, Inc.

In July 2001, PPL Montana filed an action in state court and a responsive pleading in federal court, both related to a breach of contract by Energy West Resources, Inc. (Energy West), a Great Falls, Montana-based energy aggregator. Energy West had obtained a temporary restraining order stopping PPL Montana from filing with FERC for authority to terminate the contract with Energy West. In the federal action, PPL Montana had requested that the court refrain from issuing a preliminary injunction and lift a temporary restraining order that had been issued in July 2001, prohibiting PPL Montana from seeking to terminate the contract under which it supplies energy to Energy West. In the state action, PPL Montana is seeking a judgment that Energy West violated the terms of the supply contract and should pay damages of at least $7.5 million. Subsequently, in July 2001, the federal court judge dissolved the temporary restraining order and stayed all proceedings in the case pending resolution by the FERC of a request by PPL Montana to terminate the contract between PPL Montana and Energy West. PPL Montana cannot predict the ultimate outcome of these proceedings.

Energy Supply to Montana Energy Pool

PPL Montana has executed an agreement to supply 20 megawatts to the Montana energy pool at 3.5 cents per kWh through June 2002.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Montana's Form S-4 Registration Statement filed with the SEC on March 2, 2001 for the year ended December 31, 2000. Terms and abbreviations appearing in Management's Discussion and Analysis of Financial Condition and Results of Operations are explained in the glossary.

PPL Montana was formed to acquire, own, lease and operate the Montana portfolio. The aggregate purchase price for the Montana portfolio, which PPL Montana acquired on December 17, 1999, was $767 million, which included a $760 million payment to Montana Power and $7 million for transaction expenses. PPL Montana funded the acquisition with a $402 million indirect equity contribution from PPL and a $365 million draw under its credit facility. After the acquisition closed, PPL made additional indirect equity contributions of approximately $15 million. PPL is also required to provide an additional indirect equity contribution of a maximum of $97 million in the event that PPL Montana purchases a portion of Montana Power's interest in the Colstrip Transmission System.

In July 2000, PPL Montana completed a sale and leaseback of its interests in the Colstrip Generating Station. The owner lessors paid an aggregate amount of approximately $410 million for the leased assets. This amount was funded by equity contributions from the owner investor to the owner lessors in the amount of $72 million, and $338 million of the proceeds from the sale of pass-through trust certificates secured by lessor notes.

Results of Operations

The following discussion explains significant changes in principal items on the Consolidated Statement of Income, comparing the three and six months ended June 30, 2001, to the comparable periods in 2000.

PPL Montana has a limited operating history. Separate financial statements for PPL Montana are available only for the period since acquisition. Prior to that, the portfolio's operations were fully integrated with Montana Power's operations. Therefore, the Montana portfolio's results of operations were consolidated into the financial statements of Montana Power. In addition, the energy generated by the Montana portfolio was sold based on rates set by regulatory authorities.

Operating Revenues

Wholesale energy marketing and trading revenues were $99 million and $63 million for the three months ended June 30, 2001 and 2000, respectively. The increase in revenues was primarily due to higher wholesale energy prices related to an energy supply shortage in the western U.S.

Wholesale energy marketing and trading revenues were $281 million and $124 million for the six months ended June 30, 2001 and 2000, respectively. The increase in revenues was due to the foregoing reasons.

In June 2001, the FERC instituted a series of price controls designed to mitigate (or cap) prices in the entire western U.S. as a result of the California energy crisis. These price controls have had the effect of significantly lowering spot and forward energy prices in the western U.S., where PPL Montana sells power.

PPL Montana has two transition agreements to supply wholesale electricity to Montana Power. One agreement provides for the sale of 200 megawatts from the leasehold interest in Colstrip Unit 3 until December 2001. The other agreement covers Montana Power until the remaining load is zero, but in no event later than June 2002. In April 2001, PPL announced that PPL EnergyPlus has offered to provide Montana Power with 500 megawatts of energy to be supplied by PPL Montana. The delivery term of this new contract would be for five years beginning July 1, 2002, which is the day after the termination date of the second contract, pursuant to which PPL Montana supplies energy to Montana Power to serve its retail load not served by other providers or provided by Montana Power's remaining generation.

Under the proposed new contract, PPL Montana would be obligated to sell this energy to Montana Power only to the extent that the energy is produced by certain designated units of PPL Montana. The price under the contract would be fixed at 4 cents per kWh. However, if PPL Montana is subjected to significantly increased costs or regulatory burdens by the MPSC or the Montana Legislature or any other governmental authority during the contract period, PPL Montana could pass the resulting costs through to Montana Power as an addition to the contract price. Also, in that event PPL Montana could terminate the contract. Montana Power has not accepted the new contract. If PPL EnergyPlus and Montana Power agree to a contract, it would be submitted to the MPSC and the FERC for review and approval.

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In June 2001, the MPSC issued an order (MPSC Order) in which it found that Montana Power must continue to provide electric service to its customers at tariffed rates until its transition plan under the Montana Electricity Utility Industry Restructuring and Customer Choice Act is finally approved, and that purchasers of generating assets from Montana Power must provide electricity to meet Montana Power's full load requirements at prices to Montana Power that reflect costs calculated as if the generation assets had not been sold. PPL Montana purchased Montana Power's interest in two coal-fired plants and 11 hydroelectric units in 1999.

In July 2001, PPL Montana filed a complaint against the MPSC with the U.S. District Court in Helena, Montana, challenging the MPSC Order. In its complaint, PPL Montana asserted, among other things, that the Federal Power Act preempts states from exercising regulatory authority over sale of electricity in wholesale markets, and requested the court to declare the MPSC action preempted, unconstitutional and void. In addition, the complaint requested that the MPSC be enjoined from seeking to exercise any authority, control or regulation of wholesale sales from PPL Montana's generating assets.

As part of the purchase of generation assets from Montana Power, PPL Montana agreed to supply electricity to the United States Government on behalf of Flathead Irrigation Project. Under the agreement, which expires in December 2010, PPL Montana is required to supply approximately 7.5 megawatts of capacity year round, with an additional 3.7 megawatts during the months of April through October.

Operation Expense

Operation expenses increased by $5 million and $20 million for the three month and six months ended June 30, 2001, respectively, compared to the same periods in 2000. Operation expenses consist mainly of expenses for fuel, energy purchases, transmission tariffs, plant operations and maintenance, lease rental payments and general and administrative expenses.

Generation decreased by 252 and 576 million kWh for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. These decreases were primarily the result of lower hydroelectric generation caused by the lower than normal water flow in the northwestern U.S.

Fuel

Fuel decreased by $2 million for the three and six months ended June 30, 2001, compared to the same periods in 2000. These changes were primarily due to decreased coal costs and the use of less coal due to alternative fuel sources.

Energy Purchases

Energy purchases decreased by $4 million and increased by $6 million for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. The decrease for the three months ended was related to lower supply obligations under long-term supply commitments for the three months, resulting in less purchased power. The increase for the six months ended was the result of increased power costs in the western U. S.

As part of the purchase of generation assets from Montana Power, PPL Montana assumed a power purchase agreement, which expires in April 2010, with Basin Electric Power Cooperative. The agreement requires PPL Montana to purchase up to 98 megawatts of firm capacity from November through April of each year.

Other Operation and Maintenance Expenses

Other operation and maintenance expense increased by $12 million and $20 million for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. These increases were primarily due to lease expense associated with the Colstrip plant sale and leaseback.

Transmission Expenses

Transmission expenses decreased by $1 million and $2 million for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. These decreases were due to lower generation in the first six months of 2001 and more in-state sales in 2001, requiring less transmission usage.

Depreciation Expense

Depreciation expense decreased by $2 million and $3 million for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. These decreases were mainly due to the reduction of property, plant and equipment related to the sale and leaseback of PPL Montana's interest in the Colstrip plant completed in July 2000.

Other Income

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Other income remained relatively stable for the three months ended June 30, 2001 compared to the same period in 2000. Other income increased by $1 million for the six months ended June 30, 2001 compared to the same period in 2000. The change for the six-month period was due mainly to higher interest income from increased cash and cash equivalents on hand during the first quarter of 2001.

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Interest Expense

Interest expense decreased by $8 million and $15 million for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. Interest expense relates to interest on the credit facility, amortization of related financing costs and interest on accretion of wholesale energy commitments. These decreases were mainly due to the retirement of debt obligations in 2000.

Income Taxes

Income taxes increased by $15 million and $60 million for the three and six months ended June 30, 2001, respectively, compared to the same periods in 2000. These changes were due to the increase in taxable income in 2001.

Financial Conditions

PPL Montana is required to make semi-annual rent payments under the Colstrip leases on each January 2 and July 2 during the terms of the leases. PPL Montana's minimum rent obligations under the leases are approximately $21 million for 2001, $49 million for 2002, $47 million for 2003, $44 million for 2004, $38 million for 2005 and a total of $509 million for the remaining term of the leases. As a result of these obligations, a substantial portion of PPL Montana's cash flow from operations will be dedicated to payments of rent under the leases.

PPL Montana expects to make continued capital expenditures for the Montana portfolio. The average capital expenditures PPL Montana expects to make are approximately $20 million per year for the next three years. Compliance with environmental standards will continue to be reflected in PPL Montana's capital expenditures and operating costs. PPL Montana believes that cash flow from its operations will be sufficient to cover aggregate rent payments under the leases and, together with borrowings under its working capital facility, to cover expected capital expenditure requirements. If the cash flow from PPL Montana's operations is not sufficient, any unanticipated capital expenditures could adversely affect its cash flow from operations and operating income in the period incurred.

Sales to California Independent System Operator and to Other Pacific Northwest Purchasers

See Note 4 to the Financial Statements for information regarding sales to the California ISO.

Market Risk Sensitive Instruments

Quantitative and Qualitative Disclosures about Market Risk

PPL Montana actively manages the market risks inherent in its business. The Board of Directors of PPL has adopted a risk management policy to manage risk exposure. The policy establishes a risk management committee, comprised of certain executive officers, which oversees the risk management function. Nonetheless, adverse changes in commodity prices and interest rates may result in losses in earnings, cash flows and/or fair values. The forward-looking information presented below only provides estimates of what may occur in the future, assuming certain adverse market conditions, due to reliance on model assumptions. As a result, actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses.

Commodity Price Risk

PPL Montana uses various methodologies to simulate forward price curves in the energy markets to estimate the size and probability of changes in market value resulting from commodity price movements. The methodologies require several key assumptions, including selection of confidence levels, the holding period of the commodity positions and the depth and applicability to future periods of historical commodity price information.

At June 30, 2001, PPL Montana estimated that a 10% adverse movement in market prices across the markets PPL Montana operates in, and across all time periods, could have decreased the value of the non-trading and trading portfolio by approximately $15 million and $200,000 at June 30, 2001, respectively. However, this effect would have been offset by the change in the value of the underlying commodity, the electricity generated. In addition to commodity price risk, PPL Montana's commodity positions are also subject to operational and event risks including, among others, increases in load demand and forced outages at generating plants.

PPL Montana's risk management program is designed to manage the risks associated with market fluctuations in the price of electricity. PPL Montana's risk management policy and programs include risk identification and risk limits management, with measurement and controls for real time risk monitoring. PPL Montana has entered into fixed price forward contracts that require physical delivery of the commodity and derivative financial instruments consisting mainly of financial swaps where settlement is generally based on the difference between a fixed price and an index-based price for the underlying commodity.

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Interest Rate Risk

PPL Montana may use borrowings to provide funds for its operations. PPL Montana utilizes various risk management instruments to reduce its exposure to adverse interest rate movements through the use of financial derivative products to adjust the mix of fixed and floating-rate interest rates in its debt portfolio. PPL Montana has risk limits designed to balance risk exposure to volatility in interest expense and losses in the fair value of the debt portfolio due to changes in the absolute level of interest rates. PPL Montana had no borrowings outstanding as of June 30, 2001.

Financing and Liquidity

Cash and cash equivalents decreased by $57 million more for the six months ended June 30, 2001, compared with the same period in 2000. The reasons for the change were:

. A $101 million increase in cash provided by operating activities, primarily due to an increase in operating income.

. A $1 million increase in cash used in investing activities due to more expenditures for property, plant and equipment.

. A $157 million increase in cash used in financing activities due to distributions to the member.

Environment Matters

See Note 3 to the Financial Statements for a discussion of environmental matters.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Quantitative and Qualitative Disclosures About Market Risk," in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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PPL CORPORATION,
PPL ELECTRIC UTILITIES CORPORATION,
PPL MONTANA, LLC AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to "Legal Proceedings" in PPL's and PPL Electric's Annual Report to the SEC on Form 10-K for the year ended December 31, 2000, "Legal Matter" in PPL Montana's Form S-4 and to the PPL, PPL Electric and PPL Montana "Notes to Consolidated Financial Statements" for additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters.

Item 4. Submission of Matters to a Vote of Security Holders

At PPL's Annual Meeting of Shareowners held on April 27, 2001, the shareowners:

(1) Elected all three nominees for the office of director. The vote for all nominees was 115,682,632. The votes for individual nominees were as follows:

	Number of Votes	
Authority	For	Withhold
William F. Hecht	115,880,329	1,868,250
Stuart Heydt	115,682,632	2,065,947
W. Keith Smith	115,919,862	1,828,717

The vote to withhold authority for all nominees was 1,289,254.

(2) Ratified the appointment of PricewaterhouseCoopers LLP as independent auditors for the year ended December 31, 2001. The vote was 115,950,243 in favor and 807,612 against, with 990,724 abstaining.

At PPL Electric Utilities' Annual Meeting of Shareowners held on April 24, 2001, the shareowners:

(1) Elected all eight nominees for the office of director. The vote for all nominees was 103,204,705. The votes for individual nominees were as follows:

	Number of Votes
for	
John R. Biggar	103,204,705
Michael E. Bray	103,204,705
Paul T. Champagne	103,204,705
Lawrence E. De Simone	103,204,705
Robert J. Grey	103,204,705
William F. Hecht	103,204,705
Frank A. Long	103,204,705
James H. Miller	103,204,705

The vote to withhold authority for all nominees was 0.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10(a) - PPL Energy Supply $600 million 364-Day Credit Agreement

10(b) - PPL Energy Supply $500 Million 3-Year Credit Agreement

10(c) - PPL Electric $400 million 364-Day Credit Agreement

10(d) - PPL Montana $150 million 364-Day Credit Agreement

12(a), 12(b) and 12(c) - Computation of Ratio of Earnings to Fixed Charges

(b) Reports on Form 8-K

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Report dated April 20, 2001

Item 5. Other Events

Press release dated April 20, 2001 regarding PPL EnergyPlus' offer to provide Montana Power with 500 MW of energy for five years beginning July 1, 2002.

Press release dated April 23, 2001 regarding PPL's announcement to develop a 540 MW power plant near Chicago, Illinois and to increase the capacity at its Susquehanna nuclear plant in Pennsylvania by 100 MW.

Press release dated April 24, 2001 regarding PPL's first quarter 2001 earnings and revised earnings forecast for 2001 and 2002, PPL's structural separation of PPL Electric and PPL's announcement to maintain its current dividend level.

Report dated May 9, 2001

Item 5. Other Events

Information regarding PPL's offering of $575 million of the Corporation's Premium Equity Participating Security Units ("PEPS").

Item 7. Exhibits

Exhibits filed with reference to Registration Statement on Form S-3 of PPL, Registration Statement on Form S-3 of PPL Capital Funding and Registration Statement Form S-3 of PPL Capital Funding Trust I.

Report dated June 20, 2001

Item 5. Other Events

Press release dated June 20, 2001 regarding PPL Electric's announcement of its supply contract with PPL EnergyPlus.

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SIGNATURES

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. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Electric Utilities Corporation
(Registrant)

Date: August 10, 2001

/s/ John R. Biggar

John R. Biggar
Executive Vice President and
Chief Financial Officer
(PPL Corporation)
(principal financial officer)

/s/ Joseph J. McCabe

Joseph J. McCabe
Vice President and Controller
(PPL Electric Utilities Corporation)
(principal accounting officer)

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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.

PPL Montana, LLC
(Registrant)

Date: August 10, 2001 */s/ Paul A. Farr*

Paul A. Farr
Vice President, Chief Financial Officer and Assistant Secretary (principal financial and accounting officer)

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CREDIT AND REIMBURSEMENT AGREEMENT

dated as of

April 25, 2001

among

PPL Montana, LLC,
as Borrower,

THE CHASE MANHATTAN BANK,
as Administrative Agent,

JP MORGAN, A DIVISION OF CHASE SECURITIES INC.,
as Lead Arranger and Book Runner,

THE BANK OF NOVA SCOTIA,
as Syndication Agent,

THE INDUSTRIAL BANK OF JAPAN, LIMITED,
as Documentation Agent

and

THE LENDERS PARTY HERETO

$150,000,000

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CREDIT AND REIMBURSEMENT AGREEMENT, dated as of April 25, 2001 (this "Agreement"), among PPL MONTANA, LLC, a Delaware limited liability company, as the borrower (the "Borrower"), THE CHASE MANHATTAN BANK, as administrative agent (in such capacity, the "Administrative Agent"), JP Morgan, a division of Chase Securities Inc., as lead arranger and book runner (in such capacity, the "Lead Arranger"), The Bank of Nova Scotia, as syndication agent (in such capacity, the "Syndication Agent"), THE INDUSTRIAL BANK OF JAPAN, LIMITED, as documentation agent (in such capacity, the "Documentation Agent") and the financial institutions from time to time party hereto (in such capacity, the "Lenders").

The parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR," when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Additional Subsidiary" means any Subsidiary that becomes an Additional Subsidiary in accordance with the requirements of Section 6.12.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means The Chase Manhattan Bank, in its capacity as administrative agent for the Lenders hereunder and includes each of its successors and assigns.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1%, and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

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"Applicable Percentage" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment.

"Applicable Rate" means, at any date, the applicable rate per annum determined in accordance with the following pricing grid:

Status	Level I	Level II	Level III	Level IV	Level V
Facility Fee Rate	0.175%	0.20%	0.25%	0.375%	0.625%
Applicable Rate-Eurodollar Loans	0.825%	0.925%	1.00%	1.875%	2.125%
Applicable Rate-ABR Loans	0.00%	0.125%	0.25%	1.25%	1.75%
Participation Fee Rate for Letters of Credit	0.825%	0.925%	1.00%	1.875%	2.125%

For purposes of this definition, the following terms have, subject to the proviso below, the following meanings:

"Level I Status" exists at any date if, at such date, the Relevant Debt is rated both BBB+ or higher by S&P and Baa1 or higher by Moody's.

"Level II Status" exists at any date if, at such date (i) the Relevant Debt is rated both BBB or higher by S&P and Baa2 or higher by Moody's and (ii) Level I Status does not exist.

"Level III Status" exists at any date if, at such date (i) the Relevant Debt is rated both BBB- or higher by S&P and Baa3 or higher by Moody's and
(ii) neither Level I Status nor Level II Status exists.

"Level IV Status" exists at any date if, at such date (i) the Relevant Debt is rated both BB+ or higher by S&P and Ba1 or higher by Moody's and (ii) none of Level I Status, Level II Status and Level III Status exists.

"Level V Status" exists at any date if, at such date, (i) the Relevant Debt is not rated both BB+ or higher by S&P and Ba1 or higher by Moody's and
(ii) none of Level I Status, Level II Status, Level III Status and Level IV Status exists.

"Status" refers to the determination which of Level I Status, Level II Status, Level III Status, Level IV Status or Level V Status exists at any date.

"Relevant Debt" refers to the Lease Debt or, if the Borrower's senior unsecured long-term debt is then rated by S&P and Moody's, such debt;

provided, however, that: (a) if the ratings assigned to the Relevant Debt by S&P and Moody's are "split" (e.g., a rating of "BBB+" from S&P and a rating of "Baa2" from Moody's), the lower of the S&P and Moody's ratings shall apply unless (1) the rating assigned to the Relevant Debt by Fitch IBCA, Inc. is equivalent to the higher of the S&P and Moody's ratings and (2) the S&P and Moody's ratings do not vary by more than one level, in which case the higher of the S&P

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and Moody's ratings shall apply; and (b) if Moody's or S&P has not assigned a rating to the Relevant Debt, for purposes of this definition Level II Status shall be deemed to exist, provided that if (i) the Relevant Debt is subsequently assigned ratings by S&P and Moody's, (ii) the Relevant Debt has not been previously assigned a rating by Moody's or S&P and (iii) as a result of such ratings, Level III Status, Level IV Status or Level V Status exists, such Level III Status, Level IV Status or Level V Status, as the case may be, shall be deemed to have existed at all times prior to the actual assignment of such rating for purposes of calculating the facility fees payable under Section 2.09(a).

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Asset Sale" means (i) any sale, transfer or other disposition (including pursuant to a sale and leaseback transaction) of any property or asset of the Borrower or any Core Subsidiary, in one transaction or in a series of related transactions, (ii) the issuance and sale of any Equity Interest by any Core Subsidiary to any Person other than the Borrower or a Core Subsidiary, or (iii) any designation of a Core Subsidiary as an Additional Subsidiary (the dollar amount of the Asset Sale made upon such designation to be determined as the fair market value of all Investments made in such Core Subsidiary by the Borrower or any of its Core Subsidiaries).

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Availability Period" means the period from and including the Closing Date to but excluding the earlier of (a) the Maturity Date and (b) the date of termination of the Commitments.

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means PPL Montana, LLC, a Delaware limited liability company.

"Borrowing" means Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

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"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Expenditures" means, for any period with respect to any Person, (a) the capital expenditures of such Person that are (or would be) set forth in a consolidated statement of cash flows of such Person for such period prepared in accordance with GAAP and (b) Capital Lease Obligations incurred by such Person during such period.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Cash Equivalents" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than $500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 60 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above; and

(e) other prudent short-term Investments which are made in the ordinary course of business and consented to in writing by the Administrative Agent (such consent not to be unreasonably withheld).

"Cash Flow Available for Fixed Charges" for any period means, without duplication, (a) Consolidated EBITDA (excluding all Additional Subsidiaries) for such period,

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minus (b) the portion of such Consolidated EBITDA that is attributable to cash extraordinary gains or other cash nonrecurring revenue or credit items included in Consolidated EBITDA (other than to the extent such cash extraordinary gains or other cash nonrecurring revenue or credit items are offset by cash extraordinary losses), minus (c) for each Core Subsidiary having an equity holder other than the Borrower or any of its Core Subsidiaries, the amount described in the foregoing clause (a) attributable to the Equity Interests owned by such holder plus (d) Consolidated EBITDA (including the proceeds from any asset sales) of Additional Subsidiaries for such period to the extent such amount is distributed to the Borrower or its Core Subsidiaries from such Additional Subsidiaries during such period, minus (e) Capital Expenditures made by the Borrower and its Core Subsidiaries during such period other than capital expenditures financed (i) with Indebtedness referred to in Section 6.01(a) or
(ii) with Indebtedness incurred pursuant to Section 6.01(b)(v).

"Cash Flow to Fixed Charges Ratio" means, for any period, the ratio of
(a) Cash Flow Available for Fixed Charges for such period to (b) Fixed Charges for such period.

"Change in Control" means the consummation of any transaction or series of related transactions (including any merger or consolidation) the result of which is that any person (as such term is defined in Rule 13(d)(3) under the Exchange Act), (other than (a) PPL Corporation or any of its successors into which PPL Corporation has consolidated or merged, (b) any person (as defined above) who comes to be a beneficial owner (as defined below) directly or indirectly of more than 50% of the voting power of or economic interest in PPL Corporation or (c) any of PPL Corporation's direct or indirect wholly-owned Subsidiaries), becomes the "beneficial owner" (as such term is defined in Rule 13(d)(3) under the Exchange Act, except that a person (as defined above) shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition), directly or indirectly, of more than 50% of the voting power of or economic interests in the Borrower.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.12(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Closing Date" means the date on which the conditions specified in
Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Colstrip Facility" means the 2,276 (gross) MW coal-fired electric generating facility.

"Colstrip Project Transmission Agreement" means the Colstrip Project Transmission Agreement, dated as of May 6, 1981, as amended as of February 14, 1990,

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December 30, 1996 and July 13, 1998, by and among MPC, Puget (successor to Puget Sound Power & Light Company), Portland, PacifiCorp (successor to Pacific Power & Light Company) and Avista Corporation (successor to the Washington Water Power Company).

"Colstrip Site" means the town of Colstrip, Rosebud County, Montana.

"Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Loans and to acquire participations in Letters of Credit hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.06 or 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders' Commitments is $150,000,000.

"Common Facilities" means all facilities, improvements, fixtures, and equipment constructed or installed for common use by Units 1, 2, 3 and 4 of the Colstrip Facility.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) consolidated interest expense for such period, (ii) consolidated income tax expense for such period,
(iii) all amounts attributable to depreciation and amortization for such period,
(iv) lease expense for such period attributable to the Facility Leases (as defined in each Participation Agreement), (v) non-cash charges representing allocations from Affiliates and (vi) any extraordinary non-cash charges or other non-cash nonrecurring charge items for such period, and minus (b) without duplication and to the extent included in determining such Consolidated Net Income, any extraordinary non-cash gains or other non-cash nonrecurring revenue or credit items for such period, all determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Income" means, for any period, the net income or loss of the Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income of any Person (other than a Core Subsidiary) in which the Borrower or a Core Subsidiary or any director holding qualifying shares in compliance with applicable law owns an Equity Interest, except to the extent of the amount of dividends or other distributions actually paid to the Borrower or any of its Subsidiaries during such period, and (b) the income or loss of any Person accrued prior to the date it becomes a Core Subsidiary or is merged into or consolidated with the Borrower or any Core Subsidiary or the date that such Person's assets are acquired by the Borrower or any Core Subsidiary.

"Consolidated Tangible Net Assets" means, at any date of determination, (a) the total net assets of the Borrower and its Core Subsidiaries determined in accordance with GAAP, excluding (i) goodwill, organizational expenses, research and product development expenses, trademarks, tradenames, copyrights, patents, patent applications, licenses and rights in any thereof, and other similar intangibles, (ii) all deferred charges or unamortized debt discount and expenses, (iii) all reserves carried and not deducted from assets, (iv) securities which are not

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readily marketable, (v) cash held in sinking or other analogous funds established for the purpose of redemption, retirement or prepayment of capital stock or other Equity Interests or Indebtedness, (vi) any write-up in the book value of any assets resulting from a revaluation thereof subsequent to the Closing Date and (vii) any items not included in clauses (i) through (vi) above which are treated as intangibles in conformity with GAAP, plus (b) the aggregate purchase price paid by the Owner Lessors for the Leased Assets, plus (c) the aggregate net book value of all asset sales or dispositions made by the Borrower or any of its Core Subsidiaries since the Closing Date to the extent that the proceeds thereof or other consideration received therefor are not invested in any Permitted Business of the Borrower or any of its Core Subsidiaries and are not retained by the Borrower or any of its Core Subsidiaries.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Core Subsidiary" means any Subsidiary that is not an Additional Subsidiary.

"Credit Event Date" means the Closing Date and each other date on which any Borrowing is made or any Letter of Credit is issued, amended, renewed or extended.

"Debt to Capital Ratio" means, with respect to the Borrower and its Core Subsidiaries, the ratio, as of the end of the most recent fiscal quarter of the Borrower for which internal financial statements are available, of (a) the aggregate principal amount of Indebtedness of such Persons then outstanding, determined on a consolidated basis in accordance with GAAP to (b) Total Capitalization.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06 (as in effect on the Closing Date and as thereafter amended with the prior written consent of the Required Lenders).

"Documentation Agent" means The Industrial Bank of Japan, Limited, in its capacity as documentation agent.

"dollars" or "$" refers to lawful money of the United States of America.

"EnergyPlus Marketing Agreement" means an the Brokering and Contract Management Agreement, dated as of December 17, 1999, between the Borrower and PPL EnergyPlus Co., LLC, a Pennsylvania limited liability company, relating to the marketing of power from the Montana Assets.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions or notices issued, promulgated or entered into by any Governmental Authority with jurisdiction over the Borrower, any of its Subsidiaries, any of the

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Montana Assets or the Facility Site, relating in any way to the environment (including damages to natural resources), the management, release or threatened release of any Hazardous Material or to health and safety matters, including any permits, authorizations, filings, notices or other approvals issued, filed or made thereunder.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law,
(b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials,
(d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under
Section 414 of the Code.

"ERISA Event" means (a) any "reportable event," as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in
Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303 of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan;
(e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Multiemployer Plan or the termination of any Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice concerning the determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar," when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article **VII.**

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"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder or under any other Loan Document, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located and, in each case, any Governmental Authority thereof or therein, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction or Governmental Authority described in clause (a) above and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.16(b), excluding, however, requests caused by any Lender defaulting in its obligation to fund Loans hereunder), any withholding tax that (i) is in effect and would apply to amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to any withholding tax pursuant to Section 2.14(a), or
(ii) is attributable to such Foreign Lender's failure to comply with Section
2.14(e).

"Exempt Wholesale Generator" means an "exempt wholesale generator," as

such term is defined in 15 U.S.C. (S) 79z-5a(a-1).

"Existing Credit Agreement" means the Credit Agreement, dated as of November 16, 1999, among the Borrower, The Chase Manhattan Bank, as administrative agent, and the lenders from time to time party thereto.

"Exposure" means, with respect to any Lender at any time, the outstanding principal amount of such Lender's Loans and its LC Exposure at such time.

"Facility Site" means the undivided interest in that portion of the Colstrip Site on which the Leased Assets are located.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"FERC" means the Federal Energy Regulatory Commission.

"Financial Officer" means a financial officer of the Borrower.

"Fixed Charges" means, with respect to the Borrower and its Core Subsidiaries for any period, the sum, without duplication, of (a) the aggregate amount of interest expense with

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respect to Indebtedness of such Persons for such period, including (i) the net payments under interest rate Hedging Agreements (with payments to the Borrower and any of its Core Subsidiaries to be subtracted and payments by the Borrower and any of its Core Subsidiaries to be added), (ii) all capitalized interest and
(iii) the interest portion of any deferred payment obligation, plus (b) the aggregate amount of all mandatory scheduled payments (whether designated as payments or prepayments) and sinking fund payments with respect to principal of any Indebtedness of such Persons, plus (c) the aggregate amount of all payments due under the Lease Documents, in each case, scheduled to be paid by such Person during such period; provided that the amounts referred to in clauses (a) and (b) shall not include amounts owed in respect of any intercompany Indebtedness among the Borrower and its Core Subsidiaries.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation with jurisdiction over the Borrower, any of its Subsidiaries, any of the Montana Assets or the Facility Site, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect,
(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

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"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement, including any annuity agreement purchased with the proceeds of, or converted from, any other Hedging Agreement.

"Indebtedness" of any Person means:

(a) all indebtedness of such Person for borrowed money,

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments,

(c) all obligations of such Person to pay the deferred purchase price of property or services,

(d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement upon the occurrence of an event of default are limited to repossession or sale of such property),

(e) all Lease Obligations of such Person,

(f) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities,

(g) all unconditional obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any capital stock or other Equity Interests of such Person or any warrants, rights or options to acquire such capital stock or other Equity Interests,

(h) all Indebtedness of any other Person of the type referred to in clauses (a) through (g) which is Guaranteed by such Person or for which such Person shall otherwise (including pursuant to any keepwell, makewell or similar arrangement) become directly or indirectly liable, and

(i) all third party Indebtedness of the type referred to in clauses
(a) through (g) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien or security interest on property (including accounts and contract rights) owned by the Person whose Indebtedness is being measured, even though such Person has not assumed or become liable for the payment of such third party Indebtedness, the amount of such obligation being deemed to be the lesser of the value of such property or the amount of the obligation so secured.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Insurance Consultant" means AON Risk Services or any other Person from time to time appointed by the Administrative Agent to act as insurance consultant for purposes of this Agreement.

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"Interconnection Agreement" means the Generation Interconnection Agreement, dated as of December 17. 1999, between the Borrower and MPC.

"Interest Election Request" means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.04.

"Interest Payment Date" means (a) with respect to any ABR Loan, the last day of each March, June, September and December, and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means, with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Investments" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions, purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"Issuing Bank" means The Chase Manhattan Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.02(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

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"Lead Arranger" means JP Morgan, a division of Chase Securities Inc., in its capacity as lead arranger.

"Lease Debt" means Indebtedness incurred by any Owner Lessor and its subsidiaries, if any, under the Lease Documents.

"Lease Documents" means, collectively, the Pass Through Trust Agreement, the Certificates, each Participation Agreement, and each Bill of Sale, Facility Lease, Site Lease and Sublease, Assignment and Reassignment of Project Agreements, Omnibus Voting Rights Agreement, Lease Indenture, Lessor Note, LLC Agreement, OP Parent Guaranty and any Qualifying Letter of Credit, in each case, as defined in the applicable Participation Agreement.

"Lease Event of Default" means an "event of default" under and as defined in a Lease.

"Lease Obligations" means without duplication, (a) indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes, and (b) with respect to non-capital leases, (i) the principal amount of non-recourse indebtedness of the lessor in such a lease, or (ii) if such amount is indeterminable, then the present value, determined using a discount rate equal to the incremental borrowing rate (as defined in Statement of Financial Accounting Standards No. 13) of the lessee under a lease, of rent obligations under such lease.

"Lease Transactions" means the transactions contemplated by the Lease Documents.

"Leased Assets" means, collectively, the assets leased by the Borrower pursuant to the Lease Documents.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement substantially in the form of Exhibit C hereto.

"Letter of Credit Request" means a request by the Borrower for a Letter of Credit in accordance with Section 2.02.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Telerate Page 3750 (or on any successor or substitute for such Page providing rate quotations comparable to those currently provided on such Page, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of

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$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" means this Agreement, the Subsidiary Guarantee Agreement, the Parent Letter Agreement and each promissory note delivered pursuant to this Agreement.

"Loan Parties" means PPL Corporation, the Borrower and its Core Subsidiaries.

"Loan" means any loan made by the Lenders to the Borrower pursuant to this Agreement.

"Material Adverse Effect" means any event, development or circumstance that has had or could reasonably be expected to have a material adverse effect on (a) the business, assets, revenue, results of operations, condition (financial or otherwise) or prospects of the Borrower and its Core Subsidiaries taken as a whole (including any such effect resulting from an event, development or circumstance affecting one or more Additional Subsidiaries), (b) the ability of any Loan Party to perform its obligations under the Loan Documents to which it is a party or (c) the validity or enforceability of any of the Loan Documents or the rights and remedies of the Administrative Agent and the Lenders thereunder.

"Material Agreements" means, collectively, the Existing Credit Agreement, the Wholesale Transition Service Agreements, the Interconnection Agreement, the Operating Agreements, the Reciprocal Sharing Agreement, the Colstrip Project Transmission Agreement (to the extent assigned to the Borrower or a Core Subsidiary), the EnergyPlus Marketing Agreement and the Lease Documents.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit), including the Lease Debt and Indebtedness under the Existing Credit Agreement, or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding $10,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements), the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Maturity Date" means the day which is 364 days following the Closing Date.

"Montana Assets" means, collectively, the assets acquired by the Borrower from MPC pursuant to the Asset Purchase Agreement, dated as of October 31, 1998, between PPL

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Global and MPC on December 17, 1999 (including any expansions related thereto) or any other generating or transmission assets located in North America acquired by PPL Montana or any Core Subsidiary.

"Moody's" means Moody's Investors Service, Inc.

"MPC" means The Montana Power Company, a Montana corporation.

"Multiemplover Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Proceeds" means, (i) the cash proceeds received in respect of such event including any cash received in respect of any non-cash proceeds, but only as and when received, net of (ii) the sum of (A) all reasonable fees and out-of-pocket expenses paid by the Borrower and its Subsidiaries to third parties (other than Affiliates) in connection with such event, (B) in the case of an Asset Sale, the amount of all payments required to be made by the Borrower and its Subsidiaries as a result of such event to repay Indebtedness secured by the asset or assets disposed of in such Asset Sale or otherwise subject to mandatory prepayment as a result of such Asset Sale, and (C) the amount of all taxes paid (or reasonably estimated to be payable) by the Borrower and its Subsidiaries, and the amount of any reserves established by the Borrower and its Subsidiaries to fund contingent liabilities reasonably estimated to be payable, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by the chief financial officer of the Borrower).

"Non-Recourse Indebtedness" means Indebtedness:

(a) as to which neither the Borrower nor any of its Core Subsidiaries
(i) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (ii) is directly or indirectly liable as a guarantor or otherwise, or (iii) is the lender;

(b) which, if in default, would not permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Borrower or any of its Core Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity (including the right of such holders to take enforcement action against an Additional Subsidiary); and

(c) as to which the lenders have been notified in writing that they will not have any recourse to the Equity Interests or assets (other than the Equity Interests of any Person other than a Core Subsidiary) of the Borrower or any of its Core Subsidiaries.

"Operating Agreements" means, collectively:

(i) the Agreement for the Operation and Maintenance of Colstrip Steam Electric Generating Plant, dated as of July 30, 1971, between the Borrower (successor to MPC) and Puget (successor to Puget Sound Power & Light Company);

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(ii) the Construction and Ownership Agreement, dated as of July 30, 1971, between the Borrower (successor to MPC) and Puget (successor to Puget Sound Power & Light Company);

(iii) the Ownership and Operation Agreement--Colstrip Units 3 and 4, dated as of May 6, 1981, as amended October 11, 1991 and July 13, 1998, among the Borrower (successor to MPC), MPC, Puget (successor to Puget Sound Power & Light Company and Puget Colstrip Construction Company), Avista Corporation (successor to The Washington Water Power Company), Portland and PacifiCorp (successor to Pacific Power & Light Company); and

(iv) the Common Facilities Agreement--Colstrip Units 1, 2, 3 and 4, dated as of May 6, 1981, as amended January 21, 1992, among the Borrower (successor to MPC), MPC, Puget (successor to Puget Sound Power & Light Company and Puget Colstrip Construction Company), Avista Corporation (successor to The Washington Water Power Company), Portland and PacifiCorp (successor to Pacific Power & Light Company).

"Other Taxes" means any and all present or future recording, stamp, documentary, excise, transfer, sales, property or similar taxes, charges or levies arising from any payment made under this Agreement or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"Owner Lessors" means each "Owner Lessor," as defined in each Participation Agreement.

"Owner Lessor Liens" means each "Owner Lessor Lien," as defined in each Participation Agreement.

"Owner Participants" means each "Owner Participant," as defined in each Participation Agreement.

"Owner Participant Liens" means each "Owner Participant Lien," as defined in each Participation Agreement.

"Parent Letter Agreement" means the letter agreement dated as of the Closing Date, among PPL Corporation, the Administrative Agent and the Borrower.

"Participation Agreements" shall mean:

(i) the Participation Agreement (BA1/2), dated as of July 13, 2000, among the Borrower, Montana OL3 LLC, as Owner Lessor, Wilmington Trust Company, in its individual capacity and as Lessor Manager, Montana OP3 LLC, as Owner Participant, and The Chase Manhattan Bank, as Lease Indenture Trustee and as Pass Through Trustee,

(ii) the Participation Agreement (BA3), dated as of July 13, 2000, among the Borrower, Montana OL4 LLC, as Owner Lessor, Wilmington Trust Company, in its individual capacity and as Lessor Manager, Montana OP4 LLC, as Owner Participant, and The Chase Manhattan Bank, as Lease Indenture Trustee and as Pass Through Trustee,

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(iii) the Participation Agreement (NC1/2), dated as of July 13, 2000, among the Borrower, Montana OL1 LLC, as Owner Lessor, Wilmington Trust Company, in its individual capacity and as Lessor Manager, Montana OP1 LLC, as Owner Participant, and The Chase Manhattan Bank, as Lease Indenture Trustee and as Pass Through Trustee, and

(iv) the Participation Agreement (NC3), dated as of July 13, 2000, among the Borrower, Montana OL1 LLC, as Owner Lessor, Wilmington Trust Company, in its individual capacity and as Lessor Manager, Montana OP1 LLC, as Owner Participant, and The Chase Manhattan Bank, as Lease Indenture Trustee and as Pass Through Trustee.

"Pass-through Trust Agreement" shall mean the Pass Through Trust Agreement, dated as of July 13, 2000, between the Borrower and The Chase Manhattan Bank, as the Pass Through Trustee.

"Pbgc" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Business" means:

(a) the generation, transmission, distribution, marketing and sale of power from the Montana Assets;

(b) activities related to the ownership and operation of the Rosebud Coal Mine or other coal assets in North America for the supply of fuel to the Montana Assets;

(c) all activities related or incidental to those set forth in clauses
(a) and (b); and

(d) any other activity related to non-nuclear generation, transmission, distribution, marketing and sale of power in North America, so long as Moody's and S&P confirm that the then-existing ratings assigned to the Pass-Through Certificates will not fall below investment grade as a result of the Borrower's and/or its Subsidiaries' participation in such activities.

"Permitted Investment" means:

(a) any Investment in the Borrower or in a Core Subsidiary;

(b) any Investment in Cash Equivalents;

(c) any Investment by the Borrower or any Core Subsidiary in a Person, if as a result of such Investment, (i) such Person becomes a Core Subsidiary or
(ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Borrower or a wholly-owned Core Subsidiary;

(d) any acquisition of assets solely in exchange for the issuance of Equity Interests of the Borrower;

(e) any obligations incurred under a Hedging Agreement;

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(f) other Investments in any Person (including any Additional Subsidiary) having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value) that, together with all other Investments made pursuant to this clause
(f) since the Closing Date, is equal to or less than $10,000,000; and

(g) any Investment made from the proceeds of capital contributions to, or the issuance and sale of Equity Interests in, the Borrower not constituting Indebtedness.

"Permitted Liens" means:

(a) Liens listed on Schedule 6.02 hereto;

(b) Liens granted by the Borrower to any wholly-owned Core Subsidiary or by a wholly-owned Core Subsidiary to the Borrower or any other wholly-owned Core Subsidiary;

(c) any Lien arising by reason of any judgment, decree or order of any court so long as such Lien is being contested in good faith and is appropriately bonded or reserved against, and any appropriate legal proceedings that may have been duly initiated for the review of such judgment, decree or order have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(d) Liens arising by reason of taxes, duties or other governmental charges that are not yet delinquent or are being contested in good faith;

(e) Liens arising by reason of security for payment of worker's compensation or other insurance;

(f) Liens arising by operation of law in favor of carriers, warehousemen, landlords, mechanics, materialmen, laborers or employees for sums that are not yet delinquent or are being contested in good faith;

(g) Liens in favor of suppliers incurred in the ordinary course of business for sums that are not yet delinquent or are being contested in good faith;

(h) Liens arising by reason of easements, rights-of-way, zoning and similar covenants and restrictions or similar encumbrances or title defects that do not interfere with the ordinary course of business of the Borrower or any of its Core Subsidiaries;

(i) Liens arising by operation of law pursuant to any license issued by the FERC required for the Borrower's operation of hydroelectric generation facilities;

(j) Liens to secure Indebtedness incurred pursuant to Section
6.01(b)(iv), provided that such Liens do not cover assets which are, as a whole, more valuable than the then current value of the assets covered by Liens securing the Indebtedness being so refinanced;

(k) the interests of the Borrower, the Owner Participants, the Owner Lessors and the Lease Indenture Trustees under the Lease Documents;

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(l) Owner Lessor Liens and Owner Participant Liens;

(m) the reversionary interests of (i) the Borrower in the Facility Site and (ii) the Owner Lessors in the Leased Assets;

(n) Liens to secure Indebtedness permitted to be incurred pursuant to Section 6.01 (other than Indebtedness incurred pursuant to Section 6.01(b)(vi)), provided that such Liens shall not secure Indebtedness in an amount in excess of $25,000,000;

(o) operating agreements or such other similar arrangements with respect to the Common Facilities used by or useful to the Borrower or its Core Subsidiaries which could not reasonably be expected to result in a material adverse effect on (i) the business, assets, revenues, results of operations, financial condition or prospects of the Borrower and its Core Subsidiaries, taken as a whole, (ii) the ability of the Borrower or its Core Subsidiaries to perform their respective obligations under the Loan Documents or (iii) the validity or enforceability of Loan Documents or the rights and remedies of the Lenders thereunder;

(p) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(q) the interest of the lessor under a lease constituting a Capital Lease Obligation and a purchase money security interest in property acquired with the proceeds of purchase money Indebtedness permitted under Section 6.01;

(r) Liens arising by virtue of any statutory provisions relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or the funds maintained with a creditor depositary institution; and

(s) Liens created or purported to be created pursuant to the Subsidiary Guarantee Agreement.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PPL Corporation" means PPL Corporation, a Pennsylvania corporation; provided that if (a) any person (as such term is defined in Rule 13(d)(3) under the Exchange Act) becomes a beneficial owner (as such term is defined in Rule 13(d)(3) under the Exchange Act, except that a person (as defined above) shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition), directly or indirectly, of more than 50% of the voting power of or economic interest in PPL Corporation or (b) any event that is

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not described in the definition of "Change of Control" occurs, pursuant to which PPL Corporation merges into or consolidates with another entity and PPL Corporation is not the surviving entity, then immediately after such event, in the case of clause (a), "PPL Corporation" shall refer to the person so acquiring more than 50% of the voting power of or economic interest in PPL Corporation or, in the case of clause (b), "PPL Corporation" shall mean such surviving entity.

"PPL Global" means PPL Global, LLC, a Delaware limited liability company.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by The Chase Manhattan Bank as its prime rate in effect at its principal office in New York City. Each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Pro Rata Share" means, for any Lender, the Commitment of such Lender divided by the aggregate of the Commitments of all Lenders.

"PUHCA" means the Public Utility Holding Company Act of 1935 and all rules and regulations adopted thereunder.

"Reciprocal Sharing Agreement" means the Colstrip Units 3 and 4 Generating Project Reciprocal Sharing Agreement, dated as of December 17, 1999, between the Borrower and MPC.

"Register" has the meaning set forth in Section 9.04.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders having Exposures and unused Commitments representing more than 50% of the sum of the total Exposures and unused Commitments at such time.

"Restricted Investment" means any Investment other than a Permitted Investment.

"Restricted Payment" means:

(a) the declaration or payment of any dividend or the making any other payment or distribution on account of the Borrower's or any of its Core Subsidiaries' Equity Interests (including any payment in connection with any merger or consolidation involving the Borrower or any of its Core Subsidiaries) or to the direct or indirect holders of the Borrower's or any of its Core Subsidiaries' Equity Interests in their capacity as such (provided that the payment of dividends or distributions payable in Equity Interests of the Borrower or dividends or distributions to the Borrower or its Core Subsidiaries shall not be deemed to be Restricted Payments);

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(b) the purchase, redemption or other acquisition or retirement for value (including in connection with any merger or consolidation involving the Borrower) of any Equity Interests in the Borrower or any of its Core Subsidiaries to the extent that such payment is received by a Person other than the Borrower or a Core Subsidiary;

(c) the making of any payment on or with respect to, or the purchase, redemption, defeasance or other acquisition or retirement for value of any Subordinated Indebtedness of the Borrower;

(d) the making of any Restricted Investment; or

(e) the designation of a Core Subsidiary as an Additional Subsidiary (the Restricted Payment made upon such a designation to be determined as the fair market value of the Investments made in such Core Subsidiary by the Borrower or any of its Core Subsidiaries).

"Rosebud Coal Mine" means a large surface coal mining operation owned and operated by Western Energy Company located in Rosebud County in southeastern Montana.

"Significant Lease Default" with respect to any Lease, has the meaning given to such term in such Lease.

"S&P" means Standard & Poor's Ratings Group.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over $100,000 with maturities approximately equal to three months, and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subordinated Indebtedness" means Indebtedness that:

(a) is expressly subordinated to the Borrower's payment obligations under this Agreement on terms substantially similar to the subordination terms attached as Schedule 1.01 to this Agreement,

(b) with respect to Subordinated Indebtedness issued to Affiliates of the Borrower, is not required, in any contingency, to be redeemed or repurchased, and

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(c) with respect to Indebtedness issued to Persons that are not Affiliates of the Borrower, is otherwise satisfactory to the Required Lenders.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of the Borrower.

"Subsidiary Guarantee Agreement" means an agreement substantially in the form of Exhibit B hereto to be executed by each of the Core Subsidiaries in favor of the Lenders.

"Syndication Agent" means The Bank of Nova Scotia, in its capacity as syndication agent.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Three-Month Secondary CD Rate" means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

"Total Capitalization" means, on any date of determination, with respect to the Borrower and its Core Subsidiaries, the sum, without duplication, of (a) total common stock equity or analogous ownership interests of such Person, (b) preferred stock and preferred securities of such Person, (c) additional paid in capital or analogous interests of such Person, (d) retained earnings of such person and (e) the aggregate principal amount of Indebtedness of such Persons determined on a consolidated basis in accordance with GAAP then outstanding.

"Transactions" means the execution, delivery and performance by each Loan Party of the Loan Documents to which it is to be a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

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"Type," when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"Wholesale Transition Service Agreements" means, collectively, (i) the Colstrip Unit 3 Wholesale Transition Service Agreement, dated as of December 17, 1999, between the Borrower and MPC, and (ii) the Non-Colstrip Unit 3 Wholesale Transition Service Agreement, dated as of December 17, 1999, between the Borrower and MPC.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Type (e.g., a "Eurodollar Loan"). Borrowings also may be classified and referred to by Type (e.g., a "Eurodollar Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein equality herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein),
(b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the Closing Date in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

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ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, (i) the Issuing Bank agrees to issue Letters of Credit in accordance with Section 2.02, (ii) each Lender agrees to acquire participations in such Letters of Credit in accordance with Section 2.02(d) and (iii) each Lender agrees to make Loans to the Borrower in accordance with Section 2.02(e), in each case, from time to time during the Availability Period in an aggregate stated amount or principal amount that will not result in any Lender's Exposure exceeding such Lender's Commitment. Except upon the Maturity Date, the termination of the Commitments as provided herein or the reduction of the Commitments pursuant to Section 2.06, the aggregate Commitment of the Lenders shall not be reduced upon payment of any LC Disbursement or upon the repayment or prepayments of any Loan.

SECTION 2.02. Letters of Credit

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a written Letter of Credit Request substantially in the form of Exhibit D signed by the Borrower requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any Letter of Credit Request. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension the total Exposures shall not exceed the total Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the date that is five Business Days prior to the Maturity Date.

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(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on:

(i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or

(ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt;

provided that, if such LC Disbursement is not less than $1,000,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such reimbursement obligation be financed with an ABR Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to pay such reimbursement obligation shall be discharged and replaced by the resulting ABR Borrowing. If the Borrower fails to pay any portion of a reimbursement obligation when any such payment is due and no Borrowing is made in satisfaction of any such reimbursement obligation (as a result of the Borrower's failure to request a Borrowing, the Borrower's failure to satisfy the conditions to such Borrowing contain in Section 4.02 or otherwise), then the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.05 with respect to Loans made by such Lender (and Section 2.05 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts

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so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein,

(ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect,

(iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or

(iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder.

Neither the Administrative Agent, nor the Lenders, the Issuing Bank or any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents

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presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.10(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.09(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit

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shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. The Borrower also shall deposit cash collateral pursuant to this paragraph as and to the extent required by
Section 2.08(b). Each such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made in Permitted Investments by the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated, be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) plus any interest earned from the investment of such amount shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived. If the Borrower is required to provide an amount of cash collateral hereunder pursuant to Section 2.08(b), such amount (to the extent not applied as aforesaid) plus any interest earned from the investment of such amount shall be returned to the Borrower as and to the extent that, after giving effect to such return, the Borrower would remain in compliance with Section 2.08(b) and no Default shall have occurred and be continuing.

SECTION 2.03. Loans and Borrowings

(a) Each initial Loan shall be an ABR Borrowing made in accordance with the procedures set forth in Section 2.02(e). To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request substantially in the form of Exhibit E and signed by the Borrower. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section 2.04. Each Loan shall be made as part of a Borrowing consisting of Loans of the same Type made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.11, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance with Section 2.04. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

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SECTION 2.04. Interest Election Requests

(a) The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such request by telephone (1) in the case of the continuation of or conversion to a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (2) in the case of the continuation of or conversion to an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed conversion or continuation. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request substantially in the form of Exhibit F and signed by the Borrower. Each telephonic and written Interest Election Request shall specify the following information:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period."

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(c) Promptly following receipt of an Interest Election Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(d) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $1,000,000 and not less than $5,000,000. At the time of any conversion to an ABR Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $1,000,000 and not less than $5,000,000. Borrowings of more than one Type may be outstanding at the same

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time; provided that there shall not at any time be more than a total of ten Eurodollar Borrowings outstanding.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

(f) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.05. Funding of Borrowings

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will remit ABR Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.02(e) to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at
(i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate then applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.06. Termination and Reduction of Commitments

(a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

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(b) The Borrower may at any time terminate, or from time to time reduce, in whole or in part, the Commitments; provided that (i) each partial reduction of the Commitments shall be in an amount that is an integral multiple of $1,000,000 and not less than $5,000,000, and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.08, the Exposure would exceed the total Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least five Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

SECTION 2.07. Repayment of Loans; Evidence of Debt

(a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph
(b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such

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Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.08. Prepayment of Loans

(a) The Borrower shall have the right at any time and from time to time to prepay any Loan in whole or in part, subject to the requirements of this Section.

(b) In the event and on each occasion that the Exposure exceeds the total Commitments, (1) the Borrower shall prepay Loans in an aggregate amount equal to such excess or, (2) if no such Loans are outstanding, deposit cash collateral in an amount equal to (A) such excess LC Exposure plus (B) an amount to cover the facility fee in respect of such excess LC Exposure of the Lenders, in an account with the Administrative Agent pursuant to Section 2.02(j).

(c) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment and (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; provided that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section
2.06, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.06. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.03, except as necessary to apply fully the required amount of a mandatory prepayment. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.10.

SECTION 2.09. Fees

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee, which shall accrue at the Applicable Rate on the daily amount of each Commitment of such Lender (whether used or unused) during the period from and including the Closing Date to but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Exposure after its Commitment terminates, then such facility fee shall continue to accrue on the daily amount of such Lender's Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Exposure. Accrued facility fees shall be payable in arrears on the last day of

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March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the Closing Date; provided that any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). If a Status is applied retroactively in accordance with clause (b) of the proviso to the last paragraph in the definition of Applicable Rate, the Borrower shall pay to the Administrative Agent for the account of each Lender, within ten (10) Business Days of the day on which the ratings are subsequently assigned by Moody's and S&P as referred to in such clause (b), the additional amount of facility fees due to such Lender as a result of such retroactive application.

(b) The Borrower agrees to pay:

(i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the Applicable Rate on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the first date on which such Lender has any LC Exposure to but excluding the date on which such Lender ceases to have any LC Exposure, and

(ii) to the Issuing Bank a letter of credit fee as separately agreed between the Borrower and the Issuing Bank, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder.

Participation fees accrued through and including the last day of March, June, September and December of each year shall be payable on such last day, commencing on the first such date to occur after the Closing Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.10. Interest.

(a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest in the case of a Eurodollar Loan, at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

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(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Revolving Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan; provided that:

(i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand,

(ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment,

(iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion, and

(iv) all accrued interest shall be payable upon termination of the Commitments.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.11. Alternate Rate of Interest. If prior to the commencement of any Interest Period for Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent

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notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing for such Interest Period shall be ineffective.

SECTION 2.12. Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth in reasonable detail the amount or amounts (and the calculation thereof) necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

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(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.13. Break Funding Payments. In the event of:

(a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default),

(b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto,

(c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto other than as a result of an event described in Section 2.11(a) hereof (regardless of whether such notice may be revoked under Section 2.08(c) and is revoked in accordance therewith), or

(d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.16,

then, in any such event, the Borrower shall compensate each Lender for its loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of:

(i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over

(ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market.

A certificate of any Lender setting forth in reasonable detail the amount or amounts (and the calculation thereof) that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay

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such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.14. Taxes

(a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then:

(i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14(a)) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made;

(ii) the Borrower shall make such deductions; and

(iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.14(c)) and any penalties, interest and reasonable expenses (other than penalties, interest and expenses resulting from the gross negligence or willful misconduct of the Administrative Agent, such Lender or the Issuing Bank, as the case may be) arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver

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to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

(f) The Issuing Bank and each Lender that grants a participation shall:

(i) withhold or deduct from each payment to the holder of such participation any Taxes required to be withheld or deducted from such payment by such Issuing Bank or Lender and not withheld or deducted therefrom by the Borrower or the Administrative Agent;

(ii) pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law; and

(iii) indemnify the Borrower and the Administrative Agent for any losses, costs and expenses that they may incur as a result of any failure to so withhold or deduct and pay such taxes.

SECTION 2.15. Payments Generally; Pro Rata Treatment; Sharing of **Set-offs.**

(a) The Borrower shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.12,
2.13 or 2.14, or otherwise) prior to the time expressly required hereunder or under such other Loan Document for such payment (or, if no such time is expressly required, prior to 12:00 noon, New York City time), on the date when due, in immediately available funds, without set-off, recoupment or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to

Sections 2.12, 2.13, 2.14 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest on the principal portion of such payment shall be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied:

(i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and

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(ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off, recoupment or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans, and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans, and participations in LC Disbursements; provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and

(ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply).

The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off, recoupment and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

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(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.02(d) or (e), 2.05(b), 2.15(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.16. Mitigation Obligations; Replacement of Lenders

(a) If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or Affiliates, if, in the reasonable judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or 2.14, as the case may be, in the future and (ii) would not subject such Lender to any material unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in

Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that:

(i) the Borrower shall have received the prior written consent of the Administrative Agent and the Issuing Bank, which consent shall not unreasonably be withheld;

(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts); and

(iii) in the case of any such assignment resulting from a claim for compensation under Section 2.12 or payments required to be made pursuant to Section 2.14, such assignment will result in a material reduction in such compensation or payments.

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A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III

Representations and Warranties

The Borrower represents and warrants to the Lenders that, as of each Credit Event Date:

SECTION 3.01. Organization; Powers. Each of the Borrower and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3. 02. Authorization; Enforceability. The Transactions to be consummated by each Loan Party on or prior to such Credit Event Date are within such Loan Party's corporate or other powers and have been duly authorized by such Loan Party by all necessary corporate or other action. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document to which any Loan Party is to be a party, when executed and delivered by such Loan Party, will constitute, a legal, valid and binding obligation of the Borrower or such Loan Party (as the case may be), enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions occurring on or prior to such Credit Event Date:

(a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except (x) such as have been obtained or made and are in full force and effect, and (y) consents required to be obtained by the Lenders to make Loans hereunder or by the Issuing Bank to issue Letters of Credit hereunder;

(b) will not violate (x) any applicable law or regulation or any order or license of any Governmental Authority applicable to the Borrower or any of its Subsidiaries or (y) the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries;

(c) will not violate or result in a default under any indenture, agreement or other instrument governing or relating to any Indebtedness binding upon the Borrower or any of its Subsidiaries or any of such Person's assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, or any material breach of any other material agreement binding on any of the Borrower or any of its Subsidiaries; and

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(d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries (other than Permitted Liens).

SECTION 3.04. Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Administrative Agent its consolidated balance sheet as of December 31, 2000. Such consolidated balance sheet (i) has been prepared in good faith based on assumptions believed by the Borrower to be reasonable, (ii) is based on the best information available to the Borrower after due inquiry, (iii) accurately reflects all adjustments necessary to give effect to the Transactions and (iv) presents fairly, in all material respects, the financial position of the Borrower and its consolidated Subsidiaries as of December 31, 2000.

(b) Except as disclosed in the consolidated balance sheet referred to above and except for the Disclosed Matters, after giving effect to the Transactions occurring on or prior to such Credit Event Date, neither the Borrower nor any of its Subsidiaries has, as of such Credit Event Date, any material contingent liabilities, unusual long-term commitments or unrealized losses.

(c) Since December 31, 2000, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Subsidiaries, taken as a whole. To the best knowledge of the Borrower, after due inquiry, since December 31, 2000, there has been no material adverse change in the business, assets, financial condition or operations of PPL Corporation and its subsidiaries, taken as a whole, which materially and adversely affects the ability of the Borrower to perform any of its obligations hereunder.

SECTION 3.05. Properties.

(a) The Borrower and its Subsidiaries have obtained good title to, valid leasehold interests in or other rights to all real and personal property, including all easements, licenses, crossing rights and other appurtenant rights necessary to own (or lease) and operate the Montana Assets and perform their respective obligations under the Loan Documents and the Material Agreements, subject to minor defects in title that do not materially interfere with their ability to conduct their respective businesses as currently conducted or to utilize such properties for their intended purposes, except if the failure to have such title, leasehold interests or other rights could not reasonably be expected to result in a Material Adverse Effect.

(b) Each of the Borrower and each of its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property used by it and material to its business, and, to the best knowledge of such Person after due inquiry, the use thereof by such Person does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Schedule 3.05 sets forth the address of each item of real property that is owned or leased by the Borrower or any of its Subsidiaries.

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SECTION 3.06. Litigation and Environmental Matters.

(a) Except for Disclosed Matters, there are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect or (ii) that involve any of the Loan Documents or the Transactions occurring on or prior to such Credit Event Date.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any reasonably valid basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. Each of the Borrower and each of its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08. Investment and Holding Company Status. Neither the Borrower nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09. Taxes. Each of the Borrower and each of its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) any Taxes that are being contested in good faith by appropriate proceedings and for which such Person has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements, if any, reflecting such amounts, exceed by

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more than $10,000,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $10,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which the Borrower or any of its Subsidiaries is subject, and all other factual matters pertaining to the assets, affairs or property of the Borrower and its Subsidiaries known to any of them, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No reports, financial statements, certificates or other information furnished by or on behalf of the Borrower or any of its Subsidiaries to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished), taken as a whole, contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12. Subsidiaries. Schedule 3.12 sets forth the name of, and the ownership interest of the Borrower in, each subsidiary of the Borrower and indicates whether such Subsidiary is a Core Subsidiary or an Additional Subsidiary.

SECTION 3.13. Insurance. Schedule 3.13 sets forth a description of all insurance to be maintained by or on behalf of the Borrower and its Subsidiaries with respect to the Montana Assets. The Borrower shall maintain, at a minimum, the level of insurance set forth on Schedule 3.13 unless such coverage is not commercially available, in which case the Borrower shall maintain a level of insurance that is (a) the maximum prudent amount of coverage that is commercially available as evidenced by a letter (in form and substance satisfactory to the Administrative Agent) to that effect from the Insurance Consultant or another third party recognized as an insurance expert and acceptable to the Administrative Agent and (b) substantially conforming with the insurance requirements set forth on Schedule 3.13. In respect of any such insurance maintained, all premiums therefor then due and payable have been paid. The Borrower believes that the insurance described on Schedule 3.13 is appropriate.

SECTION 3.14. Labor Matters. Except for any such event or circumstance that could not reasonably be expected to result in a Material Adverse Effect (a) there are no strikes, lockouts or slowdowns against the Borrower or any of its Subsidiaries pending or, to the knowledge of the Borrower, threatened; (b) the hours worked by and payments made to employees of the Borrower and its Subsidiaries have not in any material respect been in violation of the Fair Labor Standards Act or any other applicable federal, state, local or foreign law dealing with such matters; (c) all payments due from the Borrower or any of its Subsidiaries, or for which any claim may be made to the Borrower or any of its Subsidiaries, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of such Person; and (d) the consummation of the Transactions will not

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give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Borrower or any of its Subsidiaries is bound.

SECTION 3.15. Solvency. Immediately after the consummation of the Transactions to occur on such Credit Event Date and immediately following the making of each Loan made on such Credit Event Date, if any, and after giving effect to the application of the proceeds of such Loans and the issuance of any Letter of Credit:

(a) the fair value of the assets of each of the Borrower and each of its Subsidiaries, at a fair valuation, will exceed such Person's debts and liabilities, subordinated, contingent or otherwise;

(b) the present fair saleable value of the property of each of the Borrower and each of its Subsidiaries will be greater than the amount that will be required to pay the probable liability of such Person's debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured;

(c) each of the Borrower and each of its Subsidiaries will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and

(d) each of the Borrower and each of its Subsidiaries will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following such Credit Event Date.

SECTION 3.16. Federal Reserve Regulations.

(a) Neither the Borrower nor any of its Core Subsidiares is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation T, U or X of the Board).

(b) No part of the proceeds of the Loans will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose which entails a violation of the provisions of the regulations of the Board, including Regulation T, U or X thereof.

SECTION 3.17. No Burdensome Restrictions. No applicable governmental approval, order or license or applicable law or regulation has, or could reasonably be expected to have, in light of all facts and circumstances of which Borrower has actual knowledge, a material adverse effect on (a) the ability of the Borrower or any of its Subsidiaries to perform its obligations under the Loan Documents to which it is a party or (b) the validity or enforceability of any of the Loan Documents or the rights and remedies of the Administrative Agent and the Lenders thereunder.

SECTION 3.18. Energy Regulation. Each of the Borrower and its Core Subsidiaries is exempt from regulation under PUHCA as an Exempt Wholesale Generator and is exempt from state laws and regulations respecting the rates or the financial or organizational

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regulation of electric utilities. Each of the Borrower and its Core Subsidiaries have taken all actions and received all approvals and orders necessary under the Federal Power Act in order to consummate the Transactions occurring on or prior to such Credit Event Date. None of the Administrative Agent, the Lenders or any of their Affiliates will, solely as a result of the Transactions occurring on or prior to such Credit Event Date, be subject to, or not exempt from, regulation under the Federal Power Act or PUHCA or under state laws and regulations respecting the rates or the financial or organizational regulation of electric utilities.

SECTION 3.19. Letters of Credit. Each of the Borrower and its Core Subsidiaries acknowledges that it is not obligated under any agreement, document or instrument to provide any letter of credit, the stated amount of which could materially increase other than (i) fixed price forward contracts that require physical delivery of a commodity or (ii) derivative financial instruments entered into to manage risks associated with energy price fluctuations that require a letter of credit (or financial assurances that can be provided in the form of a letter of credit).

ARTICLE IV

Conditions

SECTION 4.01. Closing Date. The obligations of the Lenders to make initial Loans and of the Issuing Bank to issue initial Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) Credit and Reimbursement Agreement. The Administrative Agent shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) PPL Corporation Commitment. The Administrative Agent shall have received the Parent Letter Agreement duly executed by all of the parties thereto.

(c) Legal Opinions. The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Closing Date) of (i) David Kinnard, General Counsel of the Borrower, (ii) Orrick, Herrington & Sutcliffe LLP, counsel for the Borrower, and
(iii) Michael A. McGrall, General Counsel to PPL Corporation, in the case of each such opinion required by this clause (d), covering such other matters relating to the Loan Parties, the Loan Documents or the Transactions as the Required Lenders shall reasonably request. The Borrower hereby requests the applicable counsel to deliver such opinions and reliance letters.

(d) Corporate Matters. The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and each of its Subsidiaries, the authorization of the Transactions and any other legal matters relating to the

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Borrower and its Subsidiaries, the Loan Documents or such Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(e) Compliance Certificate. The Administrative Agent shall have received a certificate, dated the Closing Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(f) No Defaults Under Material Agreements. The Administrative Agent shall have received a certificate, dated the Closing Date and signed by the President, a Vice President or a Financial Officer of the Borrower, stating that no event of default, or event or condition that, upon notice, lapse or time or both would, unless cured or waived, become an event of default, has occurred and is continuing under any of the Material Agreements.

(g) Fees and Expenses. The Administrative Agent shall have received all fees and other amounts due and payable any of the Lenders or the Administrative Agent on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses (including fees, charges and disbursements of counsel) required to be reimbursed or paid by the Borrower or its Core Subsidiaries hereunder or under any other Loan Document.

(h) Lien Searches. The Administrative Agent shall have received the results of a search of the Uniform Commercial Code (or equivalent) filings made with respect to the Borrower and its Subsidiaries in the jurisdictions listed on Schedule 4.01(h) and copies of the financing statements (or similar documents) disclosed by such search and evidence reasonably satisfactory to the Lenders that the Liens indicated by such financing statements (or similar documents) are permitted by Section 6.02 or have been released pursuant to documentation satisfactory to the Lenders.

(i) Insurance. The Administrative Agent shall have received insurance certificates (or binders, if certificates are not then available) reasonably satisfactory to the Lenders evidencing that the insurance required by Section
5.07 is in effect.

(j) Power Marketing Plan. The Administrative Agent shall have received, and the Lenders shall be reasonably satisfied with the contents of, a written plan for the sales of power by the Borrower and its Subsidiaries through the Borrower's fiscal year ending December 2004.

(k) Governmental Approvals. All consents and approvals required to be obtained from any Governmental Authority or other Person in connection with the Transactions occurring contemplated hereby and the continuing operations of the Borrower and its Subsidiaries shall have been obtained and be in full force and effect, and all applicable waiting periods and appeal periods shall have expired, except as set forth on Schedule 4.01(k), in each case, without any action being taken or threatened by any competent authority which would restrain, prevent or otherwise impose adverse conditions on the Transactions or the continuing operations of the Borrower and its Subsidiaries, except, in the case of consents and approvals required to be obtained in connection with the continuing operations of the Borrower and its

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Subsidiaries, where the failure to obtain such consents and approvals could not reasonably be expected to result in a Material Adverse Effect.

(l) Capital Structure; Financial Statements. The Lenders shall be reasonably satisfied with the capital structure of the Borrower and its Subsidiaries. The Administrative Agent shall have received:

(i) a consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 2000, in form and substance reasonably satisfactory to the Administrative Agent and shall be consistent in all material respects with the forecasts and other information previously provided to the Lenders;

(ii) consolidated projected cash flow and income statements for the Borrower and its Subsidiaries for the three-year period following the Closing Date, in form and substance reasonably satisfactory to the Administrative Agent and shall be consistent in all material respects with the forecasts and other information previously provided to the Lenders; and

(iii) the most recent Form 10-K and most recent Form 10-Q of PPL Corporation and the Borrower filed with the Securities and Exchange Commission and any Form 8-K of PPL Corporation or the Borrower filed with the Securities and Exchange Commission simultaneously with or after the most recent Form 10-Q (or Form 10-K if more recent) of PPL Corporation or the Borrower, as applicable, filed with the Securities and Exchange Commission.

(m) Working Capital. The Lead Arranger shall be reasonably satisfied with the sufficiency of the projected internal cash generation of the Borrower and its Subsidiaries and the amounts available under the Commitments and the commitments under the Existing Credit Agreement to meet the ongoing working capital needs of the Borrower and its Subsidiaries during the remainder of the Availability Period.

(n) Service of Process. The Administrative Agent shall have received evidence in form and substance satisfactory to it that the Borrower has irrevocably designated, appointed and empowered CT Corporation System, with offices on the date hereof at 111 Eighth Avenue, New York, New York 10011, as its designee, appointee and agent to receive and accept for and on its behalf service of any and all legal process, summons, notices and documents which may be served in any legal action or proceeding against the Borrower with respect to this Agreement or any of the other Loan Documents brought in the Supreme Court of the State of New York sitting in New York County or of the United States District Court of the Southern District of New York, or any appellate court from any thereof.

(o) Amendment. The Existing Credit Agreement shall be amended to the satisfaction of the Lead Arranger to permit the incurrence of indebtedness hereunder.

The Administrative Agent shall notify the Borrower and the Lenders of the Closing Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to

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Section 9.02) at or prior to 5:00 p.m., New York City time, on the last day of the Availability Period (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to receipt of the request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) Representations and Warranties. The representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, except to the extent such representations and warranties are stated to have been made solely as of an earlier date, in which case such representations and warranties shall have been true and correct in all material respects on and as of such earlier date.

(b) No Defaults. At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and
(b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent (and, in the case of clauses (a), (b) and (c) of this Section 5.01, the Administrative Agent will furnish copies thereof to the Lenders):

(a) within 90 days after the end of each fiscal year of the Borrower, its audited consolidated balance sheet and related statements of operations, members' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by PricewaterhouseCoopers or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial

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condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 60 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of operations, members' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower:

(i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto,

(ii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.11 and

(iii) except in the case of the first set of financial statements delivered under this Section 5.01, stating whether any change in GAAP or in the application thereof has occurred since the date of the first set of financial statements delivered under this Section 5.01 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) at least 30 days prior to the commencement of each fiscal year of the Borrower, a detailed consolidated budget for such fiscal year (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of and for such fiscal year and setting forth the assumptions used for purposes of preparing such budget) and, promptly when available, any significant revisions of such budget;

(f) promptly after the Borrower's receipt thereof, a copy of any management letter or other similar communication received by the Borrower from its independent public accountants in relation to the Borrower's financial, accounting and other systems, management or accounts;

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(g) promptly following the Borrower's receipt of any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent (for itself or on behalf of any Lender) may reasonably request.

SECTION 5.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect; and

(d) any other development known to the Borrower that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Public Filings. The Borrower will use its reasonable best efforts to furnish to the Administrative Agent, within 15 days of the filing thereof with the Securities and Exchange Commission, each Form 10- K, Form 10-Q and Form 8-K of PPL Corporation and the Borrower filed with the Securities and Exchange Commission.

SECTION 5.04. Existence; Conduct of Business. The Borrower will, and will cause each of its Core Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.05. Payment of Obligations. The Borrower will, and will cause each of its Core Subsidiaries to, pay its Indebtedness and other obligations (including Tax liabilities) in excess of $10,000,000 before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Core Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, and (c) the failure to make payment could not reasonably be expected to result in a Material Adverse Effect.

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SECTION 5.06. Maintenance of Properties. The Borrower will, and will cause each of its Core Subsidiaries to, keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

SECTION 5.07. Insurance. The Borrower will, and will cause each of its Core Subsidiaries to, maintain, with financially sound and reputable insurance companies insurance in such amounts (with no greater risk retention) and against such risks as are customarily maintained by companies of established repute engaged in the same or similar businesses operating in the same or similar locations. The Borrower will furnish to the Administrative Agent, upon request (for itself or on behalf of any Lender), information in reasonable detail as to the insurance so maintained.

SECTION 5.08. Books and Records; Inspection and Audit Rights; Auditor. The Borrower will, and will cause each of its Core Subsidiaries to, keep proper books of record and account in which full, true and correct entries in all material respects are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested. The Borrower shall at all times retain a nationally recognized independent accounting firm.

SECTION 5.09. Compliance with Laws. The Borrower will, and will cause each of its Core Subsidiaries to, comply with (a) all laws (including Environmental Laws), rules, regulations and orders of any Governmental Authority applicable to it or its property, and (b) its material contractual obligations, except in each case where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.10. Use of Proceeds and Letters of Credit. The Letters of Credit shall be issued solely to satisfy the Borrower's or a Core Subsidiary's obligation to provide letters of credit required in the ordinary course of business, provided that letters of credit required to support the Borrower's or any of its Core Subsidiary's obligations in respect of Indebtedness shall not be deemed to be in ordinary course of business. The proceeds of the Loans shall be used solely to finance the Borrower's reimbursement obligations in respect of such Letters of Credit. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

SECTION 5.11. Additional Subsidiaries. If any additional Subsidiary is formed or acquired after the Closing Date, the Borrower will, within three Business Days after such Subsidiary is formed or acquired;

(a) notify the Administrative Agent thereof;

(b) if such Subsidiary is a Core Subsidiary, cause such Core Subsidiary to execute and become party to a Subsidiary Guarantee Agreement; and

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(c) deliver to the Administrative Agent the certificate of incorporation, by-laws or other organizational documents of such Subsidiary and any other documents regarding such Subsidiary as the Administrative Agent shall reasonably request.

SECTION 5.12. Energy Regulation. Each of the Borrower and its Core Subsidiaries shall (a) maintain its status as an Exempt Wholesale Generator, (b) have the benefit of an exemption from regulation under PUHCA that is not materially different from the exemption provided by Section 32 of PUHCA or (c) not be subject to regulation under PUHCA because PUHCA shall have been repealed.

SECTION 5.13. Further Assurances. The Borrower will, and will cause each of its Core Subsidiaries to, execute any and all further documents, agreements and instruments, and take all such further actions as are necessary to give effect to the transactions contemplated by the Loan Documents and to protect the rights of the Administrative Agent and the Lenders thereunder, or as are reasonably requested by the Administrative Agent or the Required Lenders.

SECTION 5.14. Power Marketing Plan. The Borrower shall update the power marketing plan delivered pursuant to Section 4.01(j) every three years and shall deliver such updated power marketing plan to the Administrative Agent.

SECTION 5.15. Ownership of Core Subsidiaries. The Borrower shall at all times own, directly or indirectly through a Core Subsidiary, more than 50% of the voting and economic interests in each Core Subsidiary.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness

(a) The Borrower will not, and will not permit any Core Subsidiary to, create, incur, assume or permit to exist any Indebtedness, unless, after giving effect to the incurrence of such Indebtedness (as if incurred and applied on the first day of any period for which the Cash Flow to Fixed Charges Ratio is calculated pursuant to the following clause (i) or (ii), as the case may be), the making of any Restricted Payments to be made in connection therewith, the receipt and application of the proceeds thereof and the consummation of any other transactions related thereto:

(i) the Cash Flow to Fixed Charges Ratio for the previous four fiscal quarters of the Borrower shall be equal to or greater than 2.5 to 1.0, and

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(ii) the projected Cash Flow to Fixed Charges Ratio (determined on a pro forma basis which is (A) consistent with the then applicable power marketing plan delivered pursuant to Section 4.01(j) or 5.14, as applicable or, (B) if no such power marketing plan is available, consistent with projections prepared by the Borrower in good faith based on assumptions consistent in all material respects with the relevant contracts and agreements, historical operations, and the Borrower's good faith projections of future revenues and projections of operating and maintenance expenses for the Borrower and its Core Subsidiaries in light of the then existing or reasonably expected regulatory and market environments in the markets in which its assets is or will be operated and upon the assumption that there will be no early redemption or prepayments of Indebtedness other than early redemptions or prepayments occurring concurrently with such incurrence of Indebtedness) for each year during the term in which such new Indebtedness is outstanding shall be equal to or greater than 2.5 to 1.0,

in each case as certified by a Financial Officer; provided, however, that no Indebtedness shall be incurred pursuant to this clause (a) if a Default shall have occurred and be continuing or would result from the incurrence of such Indebtedness.

(b) Notwithstanding the provisions of clause (a) of this Section 6.01, the Borrower and its Core Subsidiaries may incur the following Indebtedness at any time:

(i) the Indebtedness hereunder and any refinancing thereof;

(ii) the Lease Debt;

(iii) Indebtedness under the Existing Credit Agreement;

(iv) commercial paper issued by the Borrower which has been purchased based on the availability of all or a portion of the commitments then outstanding under the Existing Credit Agreement;

(v) Indebtedness up to an amount equal to, at any time outstanding, (A) $150,000,000 less (B) the then outstanding principal amount of the outstanding commitments under the Existing Credit Agreement incurred for the purpose of financing all or any part of the cost of the construction, installation, lease, development or improvement of any assets used or useful in a Permitted Business;

(vi) Subordinated Indebtedness (other than Subordinated Indebtedness issued to Affiliates of the Borrower) in an amount up to $25,000,000;

(vii) Subordinated Indebtedness issued to Affiliates of the Borrower in an amount up to $100,000,000;

(viii) Non-Recourse Indebtedness incurred by Additional Subsidiaries for the purpose of financing all or any part of the costs of construction, installation, lease, development or improvement of any assets used or useful in a Permitted Business, provided that if any such Indebtedness ceases to be Non-Recourse Indebtedness of an

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Additional Subsidiary, such event shall be deemed to constitute an incurrence of Indebtedness by a Core Subsidiary that was not permitted by this clause (viii); and

(ix) Indebtedness incurred in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness permitted to be incurred pursuant to Section 6.01(a), provided that (A) the principal amount of such new Indebtedness shall not exceed the principal amount of the Indebtedness so refinanced plus a reasonable premium in connection with the redemption or repurchase of such refinanced Indebtedness, (B) the final maturity date of such new Indebtedness shall not be earlier than the final maturity date of the Indebtedness so refinanced and (C) the average life of such new Indebtedness shall be equal to or greater than the average life of the Indebtedness so refinanced;

(c) provided, however, that no Indebtedness shall be incurred pursuant to clause (b) if a Default shall have occurred and be continuing or would result from the incurrence of such Indebtedness.

SECTION 6.02. Liens. The Borrower will not, and will not permit any Core Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof except Permitted Liens.

SECTION 6.03. Fundamental Changes.

(a) The Borrower will not and will not permit any Core Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Core Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation,
(ii) any Subsidiary may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary and, if any party to such merger is a Core Subsidiary, is a Core Subsidiary, and (iii) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and its Subsidiaries, taken as a whole, and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a wholly-owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by
Section 6.05.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than a Permitted Business.

SECTION 6.04. Asset Sales. The Borrower will not, and will not permit any of its Core Subsidiaries to, sell or otherwise dispose of any assets (including any issuance or sale by the Borrower or any of its Core Subsidiaries of Equity Interests in any of their respective Core Subsidiaries and any designation of a Core Subsidiary as an Additional Subsidiary), if the aggregate net book value of all such asset sales consummated since the Closing Date would exceed 15% of the Borrower's Consolidated Tangible Net Assets as of most recently ended fiscal

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quarter; provided that the following asset sales shall not be subject to such limitation and shall not be included in such calculation of net book value:

(i) dispositions of worn out, obsolete or surplus items of equipment which are not necessary in the conduct of the Borrower's or its Core Subsidiaries' businesses;

(ii) asset sales the proceeds of which are invested by the Borrower or any of its Core Subsidiaries in a Permitted Business or used by the Borrower or any of its Core Subsidiaries to repay other existing Indebtedness of the Borrower or any of its Core Subsidiaries;

(iii) transfers of assets among the Borrower and any of its wholly-owned Core Subsidiaries;

(iv) sales of inventory (including, but not limited to, fuel and coal), products or obsolete items and other similar dispositions and sales of power in the ordinary course of business;

(v) a transfer of ownership of the Kerr hydroelectric generating facility by the Borrower or any Core Subsidiary to the Confederated Salish and Kootenai Tribes or any successor in interest;

(vi) sales of assets required to be made pursuant to any change in law, regulation or any imposition by the FERC or any other Governmental Authority having or claiming jurisdiction over the Borrower, its Core Subsidiaries or the Montana Assets of any conditions or requirements;

(vii) an issuance of Equity Interests by a wholly-owned Core Subsidiary to the Borrower or to another wholly-owned Core Subsidiary;

(viii) a sale or liquidation of Cash Equivalents in the ordinary course of business;

(ix) a Restricted Payment that is made in cash or Cash Equivalents that is permitted under Section 6.05; and

(x) Permitted Investments other than those made in Additional Subsidiaries.

SECTION 6.05. Restricted Payments; Certain Payments of Indebtedness. The Borrower will not, and will not permit any of its Core Subsidiaries to, make any Restricted Payment, unless:

(a) such Restricted Payment is a payment of interest on Subordinated Indebtedness that (1) is due and payable and (2) when made is permitted to be made under the subordination terms contained in the instrument evidencing such Subordinated Indebtedness,

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(b) such Restricted Payment is a payment of principal of Subordinated Indebtedness that (1) is due and payable, (2) was counted as Fixed Charges at the time of the incurrence of such Subordinated Indebtedness pursuant to Section 6.01 and (3) when made is permitted to be made under the subordination terms contained in the instrument evidencing such Subordinated Indebtedness,

(c) at the time of and after giving effect to such Restricted Payment,

(i) no Default shall have occurred and be continuing or shall result from the making of such Restricted Payment,

(ii) the Cash Flow to Fixed Charges Ratio for the previous four fiscal quarters of the Borrower is equal to or greater than 1.7 to 1.0, and

(iii) The projected Cash Flow to Fixed Charges Ratio (determined on a pro forma basis which is (A) consistent with the then applicable power marketing plan delivered pursuant to Section 4.01(j) or 5.14, as applicable, or (B) if no such power marketing plan is available, consistent with projections prepared by the Borrower in good faith based on assumptions consistent in all material respects with the relevant contracts and agreements, historical operations, and the Borrower's good faith projections of future revenues and projections of operating and maintenance expenses for the Borrower and its Core Subsidiaries in light of the then existing or reasonably expected regulatory and market environments in the markets in which its assets is or will be operated and upon the assumption that there will be no early redemption or prepayments of Indebtedness other than early redemptions or prepayments occurring concurrently with such incurrence of Indebtedness) for each of the two following periods of four full fiscal quarters shall be equal to or greater than 1.7 to 1.0;

provided further that, so long as no Default or Event of Default shall have occurred and be continuing or shall result from the making of such Restricted Payment, this Section 6.05 shall not prohibit the redemption, repurchase, retirement, defeasance or other acquisition of any Subordinated Indebtedness of the Borrower or of any Equity Interests in the Borrower in exchange for, or out of the Net Proceeds of the substantially concurrent sale (other than to a Subsidiary) of, Equity Interests in the Borrower.

SECTION 6.06. Transactions with Affiliates. The Borrower will not, and will not permit any of its Core Subsidiaries to, sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any contract, agreement, understanding, loan, advance or guarantee with, to or for the benefit of, any Affiliate (other than transactions contemplated by any agreement entered into between the Borrower or any of its Core Subsidiaries and any of their respective Affiliates in effect on the Closing Date) unless such transaction or series of transactions is on terms that are no less favorable to the Borrower or such Core Subsidiary than would be available in a comparable transaction with an unrelated third party.

SECTION 6.07. Amendment of Material Documents. The Borrower will not, and will not permit any Core Subsidiary to, materially amend or modify any of its rights under its

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certificate of incorporation, by-laws or other organizational documents. The Borrower will not, and will not permit any Core Subsidiary to, enter into any material amendment, modification or assignment of, or waiver of rights under, any Material Agreement, in each case which is material to the Lenders as determined by the Required Lenders.

SECTION 6.08. Guarantees and Indemnities. The Borrower will not, and will not permit any of its Core Subsidiaries to, be or become liable under any Guarantee (other than a Guarantee permitted under Section 6.01) or any indemnity obligation (other than obligations incurred in the ordinary course of business or in connection with the Transactions).

SECTION 6.09. Fiscal Year. The Borrower will not, and will not permit any of its Core Subsidiaries to, change its fiscal year from that in effect on the Closing Date.

SECTION 6.10. Ownership of Core Subsidiaries. The Borrower will not, and will not permit any Core Subsidiary to, engage in any transaction which results in any Core Subsidiary ceasing to be a Subsidiary following the consummation of such transaction, unless (a) such transaction is permitted under
Section 6.04 and (b) the Borrower does not own, directly or indirectly, any of the Equity Interests of such Subsidiary following the consummation of such transaction.

SECTION 6.11. Debt to Capital Ratio. The Borrower will not permit the Debt to Capital Ratio to exceed 0.6 to 1.0.

SECTION 6.12. Additional Subsidiaries and Core Subsidiaries. The Borrower may designate any Subsidiary as an Additional Subsidiary if:

(a) such designation is in compliance with Section 6.05;

(b) after giving effect to such designation, such Subsidiary does not own, directly or indirectly, 50% or more of the Equity Interests in any Core Subsidiary;

(c) such Subsidiary has no Indebtedness other than Non- Recourse Indebtedness;

(d) such Subsidiary is not party to any agreement, contract, arrangement or understanding with the Borrower or any Core Subsidiary other than any such agreement, contract, arrangement or understanding the terms of which are no less favorable to the Borrower or such Core Subsidiary than the terms that the Borrower or such Core Subsidiary could obtain at the time from Persons who are not Affiliates of the Borrower or such Core Subsidiary;

(e) such Subsidiary is a Person with respect to which neither the Borrower nor any of its Core Subsidiaries has any direct or indirect obligation (i) to subscribe for additional Equity Interests (unless the amount of such subscription could be made as a Restricted Payment) or (ii) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(f) such Subsidiary has not Guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Borrower or any of its Core Subsidiaries.

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The Borrower may designate an Additional Subsidiary as a Core Subsidiary if (a) the Indebtedness of such Additional Subsidiary would have been permitted under
Section 6.01(a) if such designation had been made on the first day of the period referred to in Section 6.01(a)(i); and (b) no Default shall have occurred and be continuing or shall result from such designation. Any designation of a Core Subsidiary as an Additional Subsidiary, and any designation of an Additional Subsidiary as a Core Subsidiary, shall be evidenced by filing with the Administrative Agent a certified copy of the resolution of the board of directors of the Borrower giving effect to such designation and an officer's certificate of the Borrower certifying that such designation complies with the applicable requirements set forth in this Section 6.12. Any Core Subsidiary designated as an Additional Subsidiary in accordance with this Section 6.12 shall be released from its obligations under the Subsidiary Guarantee Agreement.

SECTION 6.13. Letters of Credit. The Borrower will not, and will not permit any Core Subsidiary to, enter into any agreement, document or instrument pursuant to which the Borrower or any Core Subsidiary is obligated to provide any letter of credit, the stated amount of which could materially increase other than (i) fixed price forward contracts that require physical delivery of a commodity or (ii) derivative financial instruments entered into to manage risks associated with energy price fluctuations that require a letter of credit (or other financial assurances that can be provided in the form of a letter of credit).

ARTICLE VII

Events of Default

If any of the following events ("Events Of Default") shall occur:

(a) the Borrower or any Core Subsidiary shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower or any Core Subsidiary shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of 5 Business Days;

(c) any representation or warranty made or deemed made by or on behalf of any Loan Party in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

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(d) the Borrower or any Core Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.04 (with respect to the existence of such Loan Party) or 5.10 or in Article VI;

(e) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (a), (b), (d) or (o) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Core Subsidiary shall fail to make any payment of principal or interest (regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable after the expiration of any applicable grace period;

(g) any event or condition which occurs and continues after the expiration of any applicable grace period that (i) results in any Material Indebtedness becoming due prior to its scheduled maturity or amortization or
(ii) enables or permits the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity or amortization;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of any Loan Party or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Loan Party or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) any Loan Party shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Loan Party or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) any Loan Party shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of $10,000,000 shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a

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judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) the Subsidiary Guarantee Agreement shall fail to be in full force and effect, enforceable against the parties thereto in accordance with its terms, or any party thereto shall be released from any of its obligations thereunder except as expressly permitted under Section 6.12 hereof;

(n) a Change in Control shall occur; or

(o) any default under Section 2 of the Parent Letter Agreement;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower (except as expressly provided above in this Section); and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Furthermore, upon the occurrence of any Event of Default, the Administrative Agent may direct the Borrower to pay (and the Borrower agrees that upon receipt of such notice by the Borrower, or upon the occurrence of an Event of Default under either clause (h) or (i) above they shall immediately pay) to the Administrative Agent additional cash, to be held by the Administrative Agent as cash collateral, for the benefit of the Lenders, as additional security for the LC Exposure in an amount equal to the outstanding LC Exposure in accordance with Section 2.02(j).

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ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The bank serving as Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that such Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by it serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable to the Lenders for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall not be deemed to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or

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by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable to the Lenders for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of each Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor to the Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the prior written consent of the Borrower (such consent not to be unreasonably withheld) unless a Default shall have occurred and be continuing, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as an Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be, without duplication, the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After an Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

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ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at 303 North Broadway, Suite 400, Billings, Montana 59101 Attention of General Counsel (Telecopy No. (406) 869-5149);

(b) if to the Administrative Agent, to The Chase Manhattan Bank, Loan and Agency Services Group, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Rob Bowen (Telecopy No. (212) 552-7777), with a copy to The Chase Manhattan Bank, 270 Park Avenue, 21/st/ Floor, New York, New York 10017, Attention of Jaimin Patel (Telecopy No. (212) 270- 2101);

(c) if to the Issuing Bank, to The Chase Manhattan Bank, as Issuing Bank, Standby Letter of Credit Department, 4 Chase MetroTech Center, 8/th/ Floor, Brooklyn, New York 11245, Attention of Roshdy Botros (Telecopy No. (718) 242-6501, Phone: (718) 2424-5045) with a copy to The Chase Manhattan Bank, 270 Park Avenue, 21/st/ Floor, New York, New York 10017, Attention of Jaimin Patel (Telecopy No. (212) 270-2101); and

(d) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments.

(a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a

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waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or, in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; provided that no such agreement shall:

(i) increase the Commitment of any Lender without the written consent of such Lender,

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby,

(iii) postpone the maturity of any Loan, or the required date of reimbursement of any LC Disbursement, or any date for the payment of any interest or fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,

(iv) change Section 2.15(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender,

(v) change any of the provisions of this Section or the percentage set forth in the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender, or

(vi) release any Core Subsidiary from its obligations under the Subsidiary Guarantee Agreement (other than as set forth in Section 6.12), or limit its liability in respect of such obligations, without the written consent of each Lender,

provided further that (A) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be. Notwithstanding the foregoing, any provision of this Agreement may be amended by an agreement in writing entered into by the Borrower, the Required Lenders, the Administrative Agent and the Issuing Bank if
(i) by the terms of such agreement the Commitment of each Lender not consenting to the amendment provided for therein shall terminate upon the effectiveness of such amendment and (ii) at the time such amendment becomes effective, each Lender not consenting thereto receives payment in full of the principal of and interest accrued on each Loan made by it and all other amounts owing to it or accrued for its account under this Agreement.

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SECTION 9.03. Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay:

(i) all reasonable out-of-pocket expenses incurred by the Administrative Agent, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated),

(ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and

(iii) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank, each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, whether or not suit is brought, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of any actual or prospective claim, litigation, investigation or proceeding relating to (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby,
(ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), or (iii) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that (i) such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction to have resulted from the gross negligence, bad faith or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the affected Administrative Agent or the Issuing Bank, as

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the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the affected Agent or the Issuing Bank in its capacity as such. For purposes hereof, a Lender's "pro rata share" shall be determined based upon its share of the sum of the total Committed Exposures and unused Commitments at the time.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 9.04. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more banks or other financial institutions all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that:

(i) except in the case of an assignment to a Lender or an Affiliate of a Lender, each of the Borrower, the Administrative Agent and the Issuing Bank must give their prior written consent to such assignment (which consent shall not be unreasonably withheld),

(ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent)

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shall not be less than $5,000,000, unless each of the Borrower and the Administrative Agent otherwise consent,

(iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement,

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500, and

(v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire;

and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (h) or
(i) of Article VII has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.13, 2.14 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph
(b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No

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assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.12, 2.13 and 2.14 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided that such Participant agrees to be subject to Section 2.15(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.12, 2.13 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.14(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the

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principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.12, 2.13, 2.14 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective on the Closing Date, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the due and owing obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations owing by such Lender or Affiliate may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of **Process.**

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each

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of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed:

(a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to

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whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential),

(b) to the extent requested by any regulatory authority,

(c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process,

(d) to any other party to this Agreement,

(e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder,

(f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement,

(g) with the consent of the Borrower or

(h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower.

For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the Closing Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

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SECTION 9.14. Nonliability of Documentation Agent. The Documentation Agent shall not have any fiduciary responsibilities to the Borrower. The Documentation Agent does not undertake any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower agrees that the Documentation Agent shall not have any liability to the Borrower (whether sounding in tort, contract, or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non- appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the Documentation Agent or a breach of the Loan Documents by the Documentation Agent. Nothing in this Section 9.14 shall affect the relationship between the Borrower and any Lender.

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PPL MONTANA, LLC,
as Borrower

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE CHASE MANHATTAN BANK,
as Lender and as Administrative Agent

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

JP MORGAN, A DIVISION OF CHASE SECURITIES INC.,
as Lead Arranger and Book Runner

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE BANK OF NOVA SCOTIA,

as Lender and as Syndication Agent

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE INDUSTRIAL BANK OF JAPAN, LIMITED,

as Lender and as Documentation Agent

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CREDIT SUISSE FIRST BOSTON,
as Lender

by _____
Name:
Title:

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PNC BANK, NATIONAL ASSOCIATION,
as Lender

by _____
Name:
Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

KBC BANK, N.V., as Lender

by _____ Name:

Title:

[additional signature pages to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

UNION BANK OF CALIFORNIA, N.A.,
as Lender

by _____
Name:
Title:

[additional signature page to follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Credit and Reimbursement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

MELLON BANK, N.A.,
as Lender

by _____
Name:
Title:

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Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	12 Months Ended June 30,	12 Months Ended December 31,			
	2001	2000	1999 (c)	1998 (c)	1997 (c)
Fixed charges, as defined:					
Interest on long-term debt	$ 340	$ 323	$ 233	$ 203	$ 196
Interest on short-term debt and other interest	63	64	47	33	26
Amortization of debt discount, expense and premium - net	6	5	4	2	2
Interest on capital lease obligations:					
Charged to expense		4	9	8	9
Capitalized			1	2	2
Estimated interest component of operating rentals	41	25	20	18	15
Total fixed charges	$ 450	$ 421	$ 314	$ 266	$ 250
Earnings, as defined:					
Net income (a)	$ 598	$ 491	$ 492	$ 379	$ 296
Preferred security dividend requirements	32	26	26	25	24
Less undistributed income of equity method investments	63	74	56	3	(25)
	567	443	462	401	345
Add (Deduct):					
Income taxes	316	294	174	259	238
Amortization of capitalized interest on capital leases		2	2	2	2
Total fixed charges as above (excluding capitalized interest on capitalized lease obligations)	450	421	313	264	248
Total earnings	$ 1,333	$ 1,160	$ 951	$ 926	$ 833
Ratio of earnings to fixed charges (b)	2.96	2.75	3.03	3.48	3.33

(a) 2001, 2000, 1999 and 1998 net income excluding extraordinary items.

(b) Based on earnings excluding nonrecurring items, the ratio of earnings to fixed charges are: June 2001, 2.89; 2000, 2.66; 1999, 2.80; 1998, 3.10; and 1997, 3.51.

(c) Ratio of earnings to fixed charges for years 1999 and prior were recalculated to give proper effect of undistributed earnings of equity method investments.

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Exhibit 12(b)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	12 Months Ended June 30,	12 Months Ended December 31,			
	2001 (d)	2000 (d)	1999 (c)	1998 (c)	1997 (c)
Fixed charges, as defined:					
Interest on long-term debt	$ 218	$ 223	$ 205	$ 188	$ 195
Interest on short-term debt and other interest	7	16	12	14	17
Amortization of debt discount, expense and premium - net	5	4	3	2	2
Interest on capital lease obligations:					
Charged to expense		4	9	8	9
Capitalized			1	2	2
Estimated interest component of operating rentals	8	14	19	18	15
Total fixed charges	$ 238	$ 261	$ 249	$ 232	$ 240
Earnings, as defined:					
Net income (a)	$ 105	$ 276	$ 481	$ 409	$ 348
Less undistributed income of equity method investment					
	105	276	481	409	348
Add (Deduct):					
Income taxes	62	171	151	273	248
Amortization of capitalized interest on capital leases		2	2	2	2
Total fixed charges as above (excluding capitalized interest on capitalized lease obligations)	238	261	248	230	238
Total earnings	$ 405	$ 710	$ 882	$ 914	$ 836
Ratio of earnings to fixed charges (b) (c)	1.70	2.72	3.54	3.94	3.48

(a) 2001, 2000, 1999 and 1998 net income excluding extraordinary items.

(b) Based on earnings excluding nonrecurring items, the ratio of earnings to fixed charges are: June 2001, 1.57; 2000, 2.56; 1999, 3.35; and 1998, 3.53.

(c) Ratio of earnings to fixed charges for years 1999 and prior were recalculated to give proper effect of undistributed earnings of equity method investments.

(d) Due to the corporate realignment on July 1, 2000, prior years are not comparable to 2001 and 2000.

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Exhibit 12(c)

PPL MONTANA, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	12 Months Ended	
	June 30, 2001	December 31, 2000
Fixed charges, as defined:		
Interest expense on credit facility	$ 1	$ 16
Amortization of financing costs	2	3
Amortization of wholesale energy commitments	7	7
Interest with rental expense	15	6
Total fixed charges	$ 25	$ 32
Earnings, as defined:		
Net income	181	88
Add (Deduct):		
Income taxes	118	58
Total fixed charges as above	25	32
Total earnings	$ 324	$ 178
Ratio of earnings to fixed charges	12.96	5.56

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