PPL Completes Securitization of Electricity Delivery Business with Sale of $800 Million of Bonds

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PPL Electric Utilities Thursday (8/16) sold $800 million of senior secured bonds to a group of underwriters led by Morgan Stanley, effectively completing a previously announced strategic initiative that PPL Corporation (NYSE: PPL) terms securitization of PPL Electric Utilities, its regulated Pennsylvania delivery subsidiary.

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The offering consists of two tranches of senior bonds, with $300 million of six-year bonds due Aug. 1, 2007, and $500 million of eight-year bonds due Aug. 3, 2009. The coupon on the six-year series was set at 5-7/8 percent, and the coupon on the eight-year series was set at 6-1/4 percent.

The bonds have been rated "A3" by Moody's Investors Service, "A-" by Standard and Poor's Rating Group and "A-" by Fitch.

"Upon closing the bond sale next week, we will have completed a first-of- its-kind securitization of an electric transmission-and-distribution business," said John R. Biggar, PPL's executive vice president and chief financial officer. "We believe this structure has broad applicability within the energy industry as a means to provide lower, more stable energy prices to customers and higher returns to energy company shareowners."

For PPL Corporation's shareowners, the value of this initiative was enhanced when PPL EnergyPlus won the competitive bid in June to provide the energy to PPL Electric Utilities under the long-term supply contract through 2009. PPL EnergyPlus is the energy marketing and trading affiliate of PPL Corporation. PPL Electric Utilities solicited bids and subsequently entered into a long-term supply contract with PPL EnergyPlus that meets all of the utility's energy supply obligations through 2009 for Pennsylvania customers who do not select an alternate energy supplier.

"The fact that PPL EnergyPlus was the successful bidder for this supply contract has allowed us to substantially reduce PPL Corporation's overall exposure to fluctuating wholesale prices in the generation sector while locking in favorable margins based on market rates at the time the contract was executed," added Biggar.

Under the terms of the energy supply contract, PPL EnergyPlus will receive an up-front payment of $90 million and also will receive revenues for energy delivered to PPL Electric Utilities that are expected to exceed $40 per megawatt-hour, around the clock in 2002. These prices will increase over the life of the contract to approximately $50 per megawatt-hour by 2009. "The revenue stream from this contract provides PPL EnergyPlus with attractive margins on a substantial portion of available supply, while also providing an effective hedge against volatility in the wholesale energy spot markets," said Biggar.

Taken collectively, the steps in PPL's strategic initiative protect the customers of PPL Electric Utilities from volatile energy prices and facilitate a significant increase in leverage at PPL Electric Utilities without a deterioration in its credit quality. PPL's shareowners also benefit from this initiative because it makes low-cost capital available to the higher-growth, unregulated side of PPL's business.

Biggar explained that, while the deregulation of the generation side of the energy industry should provide customers long-term benefits by lowering the cost of generation, it also brings with it volatility in energy prices. When energy transmission-and-distribution companies are exposed to this price volatility, he noted, customers face price uncertainty, and the companies may face severe business risk.

"We studied this situation carefully and realized that we could significantly reduce the business risk of PPL Electric Utilities through a series of steps designed to insulate it from the business risks related to our unregulated generation business," Biggar said.

Additional structural steps in the strategic initiative will be completed prior to the closing of PPL Electric Utilities' debt issuance next week, which will further serve to insulate its customers from the business risks of PPL Corporation and its other affiliates.

PPL Electric Utilities will make the $90 million up-front payment for the long-term energy supply contract using proceeds from the sale of the bonds. The remaining proceeds from the sale of the bonds will be used by PPL Electric Utilities for general corporate purposes, including the repurchase of about $360 million of its common stock from its parent company, PPL Corporation.

PPL Corporation, headquartered in Allentown, Pa., generates electricity at power plants in Pennsylvania, Maine and Montana; markets wholesale or retail energy in 42 U.S. states and Canada; and delivers energy to nearly 6 million customers in Pennsylvania, the United Kingdom and Latin America.

Certain statements contained in this news release, including statements with respect to future earnings, energy prices, supply, sales, margins and deliveries, revenues, operating and financing costs, strategic initiatives, subsidiary performance, business risk, growth, project development, and generating capacity, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corp. believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, these statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. 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 Corp. 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 countries where PPL Corp. 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 Corp. and its subsidiaries. Any such forward-looking statements should be considered in light of such factors and in conjunction with PPL Corp.'s Form 10-K and other reports on file with the Securities and Exchange Commission.

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PRN Photo Desk, 888-776-6555 or 212-782-2840

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Contact: George Biechler, for news media, +1-610-774-5997, or Tim
Paukovits, for financial community, +1-610-774-4124, both of PPL, or fax,
+1-610-774-5281

Website: http://www.pplweb.com/
