PPL Corporation to Implement First Securitization of U.S. Electricity Delivery Company

PRNewswire

- More Than Doubles PPL's Generating Capacity Available for Wholesale Markets

- Lowers Company's Cost of Capital Through Increased Leverage
- Contributes to Significantly Increased Earnings Forecast
- Eliminates Energy Price Risk for Pennsylvania Delivery Customers

ALLENTOWN, Pa., April 24 /PRNewswire Interactive News Release/ -- PPL Corporation (NYSE: PPL) Tuesday (4/24) announced a unique strategic initiative that more than doubles the company's generating capacity available for wholesale electricity markets, while lowering its cost of capital and eliminating the risk of higher energy costs for PPL Electric Utilities' customers for the rest of this decade.

(Photo: http://www.newscom.com/cgi-bin/prnh/19981015/PHTH025)

"As a result of this initiative, PPL's energy supply business will have an earnings growth profile consistent with a full unregulated, independent generating company," said William F. Hecht, PPL chairman, president and chief executive officer.

Hecht said an electric delivery business securitization plan -- the first of its kind in the United States -- will provide PPL shareowners with immediate benefits by growing the earnings potential from its unregulated generation operations. The plan also will allow PPL to retain valuable advantages related to operating both energy supply and energy delivery businesses.

"PPL now will have about 10,000 megawatts of electricity available to sell in the high-margin wholesale markets, a 150 percent increase over what we have available today," said Hecht. "Additionally, this plan provides an effective way to fund our high-growth, high-return energy supply business.

"Importantly, this securitization plan also protects our Pennsylvania delivery customers from the potential for the kind of energy supply price increases that recently have been experienced in other parts of the U.S.," said Hecht.

"This unique plan, which provides benefit for PPL Electric Utilities customers as well as for the shareowners of PPL Corporation, is one more example of the innovation that Pennsylvania's deregulation success has spawned," Hecht said. "Clearly, the results show that Pennsylvania's approach to deregulation should serve as an example for the nation."

Earnings forecasts increased

On Tuesday afternoon (4/24), the company also reported record first- quarter earnings of $1.52 per diluted share, an increase of 54 percent over the same period last year. (See accompanying news release for more details on earnings.)

As the result of the securitization plan, the company's record earnings performance in the first quarter of this year and continued strength in the wholesale energy markets, Hecht said PPL has significantly increased its earnings forecasts for 2001 and 2002.

Using conservative assumptions about future business conditions, PPL now forecasts earnings in excess of $4.00 per share for 2001 and $4.55 to $4.65 per share for 2002. Earnings per share of $4.00 in 2001 would represent an increase of about 22 percent over 2000's adjusted, diluted earnings of $3.28 per share. Earnings per share of $4.55 to $4.65 in 2002 would represent an increase of about 15 percent over earnings now forecast for 2001.

Hecht said the financing savings alone from the securitization process are expected to add about 2 cents to earnings per share this year and about 10 cents per share in 2002 and subsequent years, increases that are reflected in the new earnings forecast that the company issued Tuesday.

"We are confident that our strong asset base, combined with our proven operating, marketing and development capabilities, will lead to additional growth in earnings through the middle of this decade," said Hecht. "For that period, we expect a compound annual earnings per share growth rate of 12 to 15 percent, based on our 2000 adjusted earnings."

Securitization of transmission/distribution business

The securitization of the company's Pennsylvania electric transmission and distribution business is being made possible by a series of steps that substantially reduce the business risk of PPL Electric Utilities.

The first step in the process will be to structurally separate PPL Electric Utilities from PPL Corporation and PPL Corporation's other affiliated companies. This will allow an increase in leverage at PPL Electric Utilities without adversely impacting credit ratings.

Hecht said the company has received preliminary confirmations from Moody's and Standard & Poor's that their existing investment-grade credit ratings for all of PPL's companies will be maintained as this securitization is implemented.

The second step in the process, scheduled to be completed in early June, calls for PPL Electric Utilities to solicit bids to contract with energy suppliers to meet all of its electricity needs from 2002 through the end of 2009. PPL Electric Utilities currently has a full requirements supply agreement with PPL EnergyPlus that expires at the end of 2001. Under the Pennsylvania Customer Choice Act, PPL Electric Utilities is required, through 2009, to provide electricity at preset prices to its delivery customers who do not select an alternate supplier.

Hecht said the securitization would help to ensure that energy supply prices paid by PPL Electric Utilities' customers do not exceed the price caps established by the company's agreement with the Pennsylvania Public Utility Commission in 1998.

"PPL Electric Utilities does not plan to seek recovery from its customers for any energy supply costs that exceed the price caps established by the PUC," said Hecht. "Any payments that PPL Electric Utilities must make to energy suppliers that are above this level would be financed through the issuance of senior secured debt by PPL Electric Utilities." The delivery customers of PPL Electric Utilities will benefit over the longer term because lower financing costs will reduce the amount of any rate relief that might otherwise be required over the next 10 to 15 years, Hecht said.

"As a result of this initiative, PPL Electric Utilities and its customers should be fully insulated from increases in energy prices for nearly all of this decade," said Hecht. "Of course, customers will always have the option of changing suppliers. That option would be particularly valuable if energy prices fall."

PPL's wholesale market capacity increases by 6,000 megawatts

Hecht said PPL EnergyPlus will bid on the new PPL Electric Utilities supply contract at market-competitive rates.

To the extent that PPL EnergyPlus is a successful bidder, it will have locked up an eight-year contract to sell a portion of its available energy at market-competitive wholesale prices. To the extent that PPL EnergyPlus is not a successful bidder for PPL Electric Utilities supply, it will have additional energy to be sold in the attractive wholesale markets.

"Regardless of the results of PPL EnergyPlus' bid on the PPL Electric Utilities supply contract, this transaction will result in an additional 6,000 megawatts of our Pennsylvania-based generation being sold in the wholesale market," said Hecht.

Several aspects of this financial restructuring must be reviewed and approved by the Pennsylvania Public Utility Commission. PPL plans to request such approvals later this week.

"This securitization is a significant milestone in PPL Corporation's effort to fully realize the value of its excellent generating assets and capabilities. This strategic initiative not only expands our capabilities in the wholesale generation market, but also it provides us with low-cost funds for our generation expansion projects that will come into service over the next two years," said Hecht.

Hecht added that PPL's Energy Marketing Center, with trading operations in both the eastern and western United States, continues its superior performance in marketing the company's generation.

"Our conservative estimates show that our wholesale marketing operations directly contributed more than $60 million to net income in 2000 over and above the earnings of our generating assets, improving our returns by more than 300 basis points," said Hecht. "Our remarkable increase in earnings and our confidence in the future are fueled by the day-to-day successful marketing of our well-run generating assets."

Hecht also announced that PPL Corporation plans to issue $400 million of premium equity participating security units (PEPS(SM) Units) in early May. The proceeds will be used to provide additional funding for domestic generation assets currently under development and to reduce short-term debt. The earnings impact of this financing has been incorporated into the company's updated earnings forecasts. The company's current business plan does not necessitate issuing any additional common stock through 2003.

Dividend policy

This restructuring is yet another confirmation of the transformation of PPL to a successful growth-oriented energy company, Hecht said. One element of that transformation is a more growth-oriented dividend policy. "Given our stated objective of pursuing long-term growth for our shareowners by reinvesting in the business, we have decided that we will maintain the annual dividend rate at $1.06 per share for the foreseeable future," said Hecht. "Clearly, our reinvestment of earnings in the business has resulted in far greater returns to our shareowners -- through increases in the stock price -- than would have resulted from increased cash dividends."

PPL was advised on this transaction by Morgan Stanley.

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

Certain statements contained in this news release, including statements with respect to future earnings, dividends, energy prices, supply, sales, margins and deliveries, costs, strategic initiatives, subsidiary performance, growth, project development, and generating capacity and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation 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 Corporation 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 Corporation 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 Corporation and its subsidiaries. Any such forward-looking statements should be considered in light of such factors and in conjunction with PPL Corporation's Form 10-K and other reports on file with the Securities and Exchange Commission.

Questions and Answers on Strategic Initiative

What is securitization?

Securitization is a financing somewhat like a home equity loan. In this case, PPL Electric Utilities will issue bonds to investors and those bonds will be secured by a lien on the assets of PPL Electric Utilities.

Why would bond buyers find PPL Electric Utilities bonds attractive?

Potential investors are expected to view these bonds as attractive and secure investments because PPL Electric Utilities is a low-risk, regulated electricity delivery business with consistent and stable revenue. In addition, PPL Corporation will completely protect that earnings stream from the business activities of PPL's unregulated subsidiaries, which generally are viewed as being more risky than the regulated electricity business. The bonds will be rated as investment grade by the three major rating agencies.

How will PPL Electric Utilities use this money?

Primarily, PPL Electric Utilities will use the funds to buy electricity, using a long-term contract, for its delivery customers who have not chosen an alternate electricity supplier. PPL Electric Utilities also will use these funds to retire higher cost debt.

How is PPL Electric Utilities currently obtaining the energy it needs for supply to customers who do not choose an alternate supplier?

Currently, PPL Electric Utilities is purchasing from PPL EnergyPlus, another PPL Corporation subsidiary, the energy it needs to supply customers who do not choose an alternate supplier. This arrangement has reduced the amount of generation that PPL EnergyPlus has available to sell in the more profitable competitive wholesale markets.

Did PPL Corporation consider an IPO to fully separate its generation and delivery businesses?

PPL Corporation believes that this transaction is superior to an IPO, since it retains PPL Corporation's financial scale; redeploys capital from a low-growth, low-return business to a high-growth, high-return business; and provides the greatest flexibility for the future. By repositioning PPL Electric Utilities in this way, PPL Corporation will capture the optimistic future associated with wholesale energy markets. And, our common stock will be that of a generating company.

Might PPL do an IPO in the future?

This current transaction would not preclude a properly designed full separation sometime in the future.

Will PPL EnergyPlus bid on the supply needs of PPL Electric Utilities?
PPL EnergyPlus plans to bid on this contract, at market-based prices.

Would it be better for PPL Corporation's financial condition if PPL EnergyPlus were to win all or most of the bid for PPL Electric Utilities' supply needs?
Somewhat surprisingly, it doesn't matter much!

If PPL EnergyPlus is a successful bidder, it will have locked up an eight- year contract to sell a portion of its available energy at market-competitive wholesale prices. If PPL EnergyPlus is not a successful bidder, it will have additional energy to be sold in the attractive wholesale market.

Regardless of the results of this supply contract, PPL EnergyPlus will have an additional 6,000 megawatts of capacity to be sold in the wholesale markets.

What is the wholesale market?

Wholesale sales of electricity are sales to other utilities or energy marketers who don't use the electricity themselves, but sell it to other utilities, energy marketers or end-users.

Is this opportunity unique to PPL Corporation or could other electricity companies use this approach as well?

While each company's situation is different, there is no reason why other companies couldn't consider this sort of transaction. In fact, since it lowers costs, regulators may well encourage consideration of this structure.

How does this initiative affect PPL's Pennsylvania electric delivery customers?

This initiative further protects our Pennsylvania delivery customers from any problems that might be encountered by our unregulated businesses and it ensures that those who do not shop for an alternative supplier will have adequate electricity supplies -_ at capped prices -_ through 2009.

NOTE: This news release is part of a package of materials being released by PPL Corporation Tuesday (4/24). The company also is issuing a report on first-quarter earnings and additional information regarding the strategic initiative that is the subject of this release. All material is available at PPL's news media Web site, pplnewsroom.com. This announcement, first-quarter earnings and the company's overall strategic direction will be the subject of an analyst meeting and conference call at 8 a.m. Wednesday. A Webcast of the call is available at pplweb.com. Alternatively, a listen-only dial-in is available at 913-981-5591.

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