Economic and Market Conditions

Unregulated gross energy margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development. As a result of these factors, PPL Energy Supply has experienced a shift in the dispatching of its competitive generation from coal-fired to combined-cycle gas-fired generation as illustrated in the following table:

	Average Utilization Factors (a)	
	2009 - 2011	2012
Pennsylvania coal plants	90%	63%
Montana coal plants	83%	50%
Combined-cycle gas plants	64%	96%

(a) All periods reflect the six months ending June 30.

This reduction in coal-fired generation output has resulted in a surplus of coal inventory at certain of PPL Energy Supply's Pennsylvania coal plants. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of $12 million during the six months ended June 30, 2012 to reduce its 2012 contracted coal deliveries. Because coal purchases may also exceed expected fuel needs for 2013, PPL Energy Supply continues to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply, including, but not limited to, contract modifications to reduce 2013 coal deliveries.

In addition, current economic and commodity market conditions indicate a lower value of unhedged future energy margins (primarily in 2014 and forward years) compared to the hedged energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies.