Joseph J. McCabe
Vice President & Controller
Tel. 610.774.5646 Fax 610.774.4865
E-mail: ijmccabe@pplweb.com

PPL Corporation Two North Ninth Street Allentown, PA 18101-1179 Tel. 610.774.5151 http://www.pplweb.com/



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TA & I Director – File Reference No. 1082-300
Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
(e-mail: director@fasb.org)

Letter of Comment No: 72 File Reference: 1082-300 Date Received: |2/01/03

PPL Corporation (PPL) appreciates the opportunity to comment on the exposure draft of the proposed interpretation (the "proposed FIN"), Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46. PPL Corporation is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL generates electricity in power plants in the northeastern and western U.S.; markets wholesale or retail energy primarily in the northeastern and western portions of the U.S. and in Canada; delivers electricity to nearly five million customers in the U.S., U.K. and Latin America; and provides energy services for businesses in the mid-Atlantic and northeastern U.S.

We have reviewed the proposed FIN and would like to commend the Financial Accounting Standards Board (FASB) for taking a proactive role in attempting to clarify the application of certain provisions of FIN 46. As FIN 46 provides a new model for consolidation and is very complex, PPL agrees that clarification in applying certain provisions of FIN 46 is necessary. However, PPL disagrees with one of the proposed modifications and also believes that guidance is necessary related to applying the provisions of FIN 46 to wholly-owned financing trusts that have issued preferred securities to unrelated parties.

Additional Subordinated Financial Support

The first sentence of the proposed amendment to paragraph 5, subparagraph (a) states, "The total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders." PPL does not agree with the phrase "provided by any parties, including equity holders" and believes that the language "from other parties" that is used in the aforementioned paragraph of FIN 46 as issued is more consistent with the objective of FIN 46. PPL believes that any additional subordinated financial support provided by the equity holders should not be considered additional subordinated financial support for purposes of paragraph 5 if each equity holder provides additional support in the same or similar percentage as their ownership percentage. PPL believes that FIN 46 is intended to identify as variable interest entities (VIEs) arrangements where ownership risks and rewards are held by parties other than the equity investors. Additional subordinated financial support provided

by the equity holders does not result in other parties holding ownership risks and rewards. In fact, such support may actually reduce the risks and rewards of other parties. In structuring a joint venture, equity investors are often required to provide guarantees of the joint venture's debt. The proposed change to FIN 46 will often result in the joint ventures being identified as VIEs. This will not result in a change to the consolidation versus equity accounting conclusion, but it will result in additional disclosures beyond those normally required for equity investments.

Wholly-Owned Financing Trusts

PPL believes that the FASB should consider issuing guidance on applying FIN 46 to wholly-owned financing trusts that have issued preferred securities to unrelated parties. There seems to be confusion and different views as to when the corporate sponsor of the trust may not be the primary beneficiary and, therefore, would have to deconsolidate the trust from its financial statements. In our specific situation, we believe that PPL is the primary beneficiary of a wholly-owned financing trust that issued preferred securities because PPL has fully and unconditionally guaranteed all of the obligations of the trust under the trust preferred securities. Based on our participation in a survey conducted by the Edison Electric Institute industry forum, it appears that a number of other companies have not interpreted FIN 46 in the same manner, and they believe that the corporate sponsor is not the primary beneficiary. PPL does not believe that deconsolidation of these trusts was the intended result of FIN 46, and we do not believe it is in the best interest of investors.

PPL would like to thank you for the opportunity to provide our views and concerns on these issues related to the proposed FIN.

Sincerely,

Joseph J. McCabe