

Talen Energy Corp  
Form S-1/A  
April 30, 2015  
Table of Contents

As filed with the Securities and Exchange Commission on April 30, 2015

Registration Nos. 333-199888 and 333-199888-01

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Amendment No. 4  
to  
FORM S-1  
REGISTRATION STATEMENT  
*UNDER*  
*THE SECURITIES ACT OF 1933*

|   |  |  |  |
|---|--|--|--|
| <b>Talen Energy Corporation</b>   | <b>Delaware</b>  | <b>4911</b>  | <b>47-1197305</b>  |
| <b>Talen Energy Holdings, Inc.</b><br>(Exact name of registrant<br>as specified in its charter) | <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization) | <b>4911</b><br>(Primary Standard<br>Industrial<br>Classification Code<br>Number) | <b>47-1180131</b><br>(I.R.S. Employer<br>Identification No.) |

**Two North Ninth Street  
Allentown, Pennsylvania 18101  
(610) 774-5151**

**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

**Paul A. Farr  
Executive Vice President  
835 W. Hamilton Street  
Allentown, Pennsylvania 18101  
(610) 774-5151**

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

*With copies to:*

**Andrew R. Keller, Esq.  
Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
(212) 455-2000**

**E. Ramey Layne, Esq.  
Vinson & Elkins LLP  
1001 Fannin Street, Suite 2500  
Houston, Texas 77002  
(713) 758-2222**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable following the effective date of this Registration Statement and the date on which all other conditions to the combination of the businesses of PPL Energy Supply, LLC and RJS Generation Holdings LLC to form Talen Energy Corporation pursuant to the Transaction Agreement described herein have been satisfied or waived.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

|                         |   |                           |   |
|-------------------------|---|---------------------------|---|
| Large accelerated filer | "   | Accelerated filer         | " |
| Non-accelerated filer   | x (Do not check if a smaller reporting company) | Smaller reporting company | " |

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED APRIL 30, 2015**

**PRELIMINARY PROSPECTUS**

**83,525,000 Shares**

**TALEN ENERGY CORPORATION**

**Common Stock**

This prospectus is being furnished in connection with the planned distribution by PPL Corporation ( PPL ) on a pro rata basis to its shareholders of all the shares of common stock of its wholly owned subsidiary Talen Energy Holdings, Inc. ( HoldCo ) outstanding prior to the Merger described below. HoldCo will own and operate PPL Energy Supply, LLC ( Energy Supply ) and, immediately prior to the Merger described below, will own 100% of the common stock of Talen Energy Corporation ( Talen Energy ). We refer to such planned distribution as the Distribution or spinoff. Immediately following the Distribution and at the Effective Time (as defined below), a wholly owned subsidiary of Talen Energy will be merged with and into HoldCo, with HoldCo continuing as the surviving company and as a wholly owned subsidiary of Talen Energy (the Merger ), and each share of HoldCo common stock distributed to PPL shareholders and outstanding immediately prior to the Effective Time will be automatically converted into one share of Talen Energy common stock. Substantially contemporaneous with the Merger, the competitive power generation business owned by RJS Generation Holdings LLC ( RJS Power ) and its subsidiaries (the RJS Power business ) will be contributed by its owners to Talen Energy through the contribution, directly or indirectly, of all of the equity interests of RJS Power, in exchange for shares of Talen Energy common stock (such contribution referred to herein as the Combination ).

Each share of PPL common stock outstanding as of 5:00 p.m. New York City time on May 20, 2015, the record date for the Distribution (the record date ), will entitle its holder to receive a number of shares of HoldCo common stock determined by a formula described in this prospectus. We expect the distribution ratio of the HoldCo common stock to be approximately 0.125 shares of HoldCo common stock per share of PPL common stock. Upon the immediate conversion of HoldCo common stock into Talen Energy common stock as described above, the PPL shareholders will receive their shares of Talen Energy common stock in book-entry form. As a result of the Combination, Raven Power Holdings LLC ( Raven ), C/R Energy Jade, LLC ( Jade ) and Sapphire Power Holdings LLC ( Sapphire ) or a special purpose entity wholly owned by Raven, Jade and Sapphire and controlled by Raven (the RJS SPE ) will receive in a

private placement transaction a number of shares of Talen Energy common stock that will result in PPL's shareholders owning 65% of Talen Energy's outstanding shares of common stock and Raven, Jade and Sapphire, collectively, or the RJS SPE, as applicable (the Contributors) owning the remaining 35% immediately following the Combination. We expect that the Distribution, the Merger and the Combination will be tax-free to PPL's shareholders for U.S. federal income tax purposes, except for gain or loss attributable to cash received in lieu of fractional shares of Talen Energy in the Merger. Immediately after the Distribution and the Combination, Talen Energy will be an independent, publicly traded company that will own and operate the combined businesses of Energy Supply and RJS Power. Except for the provision of certain transition services, PPL will have no continuing involvement in Talen Energy or its businesses.

Talen Energy has applied to list its common stock on the New York Stock Exchange (the NYSE) under the symbol TLN.

No action will be required of you to receive common stock of Talen Energy, which means that:

you will not be required to pay for HoldCo's common stock that you receive in the Distribution or our common stock you receive in the Merger;

you do not need to surrender or exchange any of your PPL common stock in order to receive Talen Energy common stock or take any other action in connection with the spinoff.

There is currently no trading market for our common stock. However, we expect that a limited market, commonly known as a "when-issued" trading market, for our common stock will develop on or shortly before the record date for the Distribution, and we expect regular way trading of our common stock will begin the first trading day after the completion of the Transactions.

**You should carefully consider the matters described under Risk Factors beginning on page 34 of this prospectus for a discussion of factors that should be considered by recipients of our common stock.**

**Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities.**

**The date of this prospectus is \_\_\_\_\_, \_\_\_\_.**

**Table of Contents**

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <u>Introduction</u>  | 1           |
| <u>Summary</u>   | 2           |
| <u>Questions and Answers About the Transactions</u>  | 27          |
| <u>Risk Factors</u>  | 34          |
| <u>Cautionary Statement Regarding Forward-Looking Statements</u>                             | 57          |
| <u>The Transactions</u>  | 59          |
| <u>The Separation Agreement and the Transaction Agreement</u>                                | 67          |
| <u>Dividend Policy</u>   | 95          |
| <u>Capitalization</u>  | 96          |
| <u>Unaudited Pro Forma Condensed Combined Financial Information</u>                          | 97          |
| <u>Selected Historical Consolidated Financial Data of Energy Supply</u>                      | 108         |
| <u>Selected Historical Combined Financial Data of RJS Power</u>                              | 109         |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 110         |
| <u>Business</u>  | 162         |
| <u>Management of Talen Energy Following the Transactions</u>                                 | 188         |
| <u>Executive Compensation</u>  | 195         |
| <u>Security Ownership of Certain Beneficial Owners and Management</u>                        | 205         |
| <u>Certain Relationships and Related Party Transactions</u>                                  | 207         |
| <u>Description of Capital Stock</u>  | 209         |
| <u>Shares Eligible for Future Sale</u>   | 214         |
| <u>Description of Material Indebtedness</u>  | 216         |
| <u>Legal Matters</u>   | 220         |
| <u>Experts</u>   | 220         |
| <u>Where You Can Find More Information</u>   | 221         |
| <u>Glossary</u>  | 222         |
| <u>Index to Financial Statements</u>   | F-1         |

**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.**

**This prospectus is being furnished solely to provide information to PPL shareholders who will receive shares of Talen Energy common stock in the Transactions. It is not to be construed as an inducement or encouragement to buy or sell any of our securities or any securities of PPL, Talen Energy, HoldCo, RJS Power or Energy Supply. This prospectus describes our business, our relationship with PPL, the Contributors and the Transactions, and provides other information to assist you in evaluating the benefits and risks of holding or disposing of our common stock that you will receive in the Transactions. You should be aware of certain risks relating to the Transactions, our business and ownership of our common stock, which are described under the heading Risk Factors.**

**Table of Contents**

**You should not assume that the information contained in this prospectus is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this prospectus may occur after that date, and we undertake no obligation to update the information, except in the normal course of discharging our public disclosure obligations.**

**Unless otherwise indicated or the context otherwise requires, we, us or our refers to Talen Energy Corporation and its subsidiaries after giving effect to the Transactions. Please see Glossary for the definitions of certain terms used in this prospectus.**



**Table of Contents**

**INTRODUCTION**

On June 9, 2014, PPL, HoldCo, Talen Energy, Energy Supply, Raven, Jade and Sapphire entered into a Separation Agreement (the "Separation Agreement") and, with Merger Sub, a Transaction Agreement (the "Transaction Agreement"), pursuant to which a newly formed entity, HoldCo, owning the Energy Supply business would be spun off to PPL's shareholders and combined with the RJS Power business to create Talen Energy, an independent publicly traded company, in a transaction intended to be generally tax-free to PPL and PPL's shareholders. See "The Transactions" Background of the Transactions.

On June 1, 2015, the expected date of the Distribution (the "Distribution Date"), each holder of PPL common stock as of the record date will be entitled to receive a number of shares of HoldCo common stock determined by a formula based on the number of shares of PPL common stock outstanding as of 5:00 p.m., New York City time on the record date. Each such record holder will be entitled to receive a number of shares of HoldCo common stock equal to the aggregate number of shares of HoldCo common stock multiplied by a fraction, the numerator of which is the number of shares of PPL common stock held by such record holder on the record date and the denominator of which is the total number of shares of PPL common stock outstanding on the record date. Based on the number of shares of PPL common stock outstanding as of March 31, 2015, we expect the distribution ratio to be approximately 0.125 shares of HoldCo common stock for each share of PPL common stock. The actual distribution ratio will be determined on May 20, 2015, the record date. PPL will have no continuing ownership interest in, control of or affiliation with Talen Energy following the Distribution. Immediately following the Distribution and at the Effective Time, a wholly owned subsidiary of Talen Energy will merge with and into HoldCo, with HoldCo continuing as the surviving company and as a wholly owned subsidiary of Talen Energy (the "Merger"), and each share of HoldCo common stock will be automatically converted into one share of common stock of Talen Energy. Substantially contemporaneous with the Merger, the RJS Power business will be contributed by its owners to Talen Energy through the contribution, directly or indirectly, of all of the equity interests of RJS Power in exchange for shares of Talen Energy common stock (such contribution referred to herein as the "Combination"), which will result in PPL shareholders owning 65% of Talen Energy's outstanding common stock and the Contributors owning the remaining 35% immediately following the Combination. Immediately following the Transactions, 128,500,000 shares of our common stock will be issued and outstanding, inclusive of the number of shares to be issued in a private placement transaction in connection with the Combination.

You will not be required to make any payment, surrender or exchange your PPL common stock or take any other action to receive your shares of Talen Energy common stock. In lieu of fractional shares of Talen Energy, shareholders will receive a cash payment. To that end, the distribution agent will sell whole shares that otherwise would have been distributed as fractional shares of Talen Energy in the open market at prevailing market prices and distribute the aggregate cash proceeds of the sales, net of brokerage fees and similar costs, pro rata to each PPL shareholder who would otherwise have been entitled to receive a fractional share of Talen Energy, as applicable, as a result of the Transactions.

We expect that the Distribution and the Merger will be tax-free to PPL's shareholders for U.S. federal income tax purposes, except for any gain or loss attributable to cash received in lieu of a fractional share of Talen Energy in the Transactions. Immediately after the Transactions, we will be an independent, publicly traded company that will own and operate the combined businesses of Energy Supply and RJS Power.

You may contact PPL with any questions.

PPL's contact information is:

PPL Corporation

Attn: Investor Relations

Two North Ninth Street

Allentown, PA 18101-1179

Tel: (610) 774-5151

## **Table of Contents**

### **SUMMARY**

*The following summary highlights information contained elsewhere in this prospectus relating to the Transactions. You should read this entire prospectus including the risk factors, management's discussion and analysis of financial condition and results of operations of Energy Supply and RJS Power, historical financial statements of Energy Supply and RJS Power, and our unaudited pro forma condensed combined financial information and the respective notes to the financial statements and pro forma financial information. Our pro forma condensed combined financial data adjust the historical financial data of Energy Supply and RJS Power to give effect to the Transactions and our anticipated post-Transactions capital structure.*

*Except as otherwise indicated or the context otherwise requires, the information included in this prospectus assumes the completion of the Transactions. Capitalized terms not otherwise defined in this prospectus have the meanings assigned to them under "Glossary" included elsewhere in this prospectus.*

### **Talen Energy**

Upon completion of the Transactions described in this prospectus, Talen Energy Corporation ( "Talen Energy," "Talen," or the "Company" ) will be one of the largest competitive energy and power generation companies in North America. Our primary business will be the production and sale of electricity, capacity and related products from our fleet of power plants totaling approximately 14,000 MW of generating capacity. We will own and operate a portfolio of generation assets principally located in PJM and ERCOT, which we consider to be two of the most attractive power markets in the United States. Within these markets, our portfolio is expected to benefit from technological and fuel diversity, enabling us to respond to changing market conditions and regulatory developments. We believe stockholder value creation is built on a foundation of excellence in operations and skillful commercial management of our generation fleet with a strong focus on cash returns. We intend to pursue a strategy that embraces these core concepts, optimizes Talen Energy's operations and supports value-enhancing growth.

### **Our Operations**

Our generation fleet is diverse in terms of fuel, technology, dispatch characteristics and location. A majority of our generation revenue is expected to come from our efficient low-cost baseload and intermediate generation facilities. We also expect to capture additional value by selling power during periods of peak demand from our quick-start peaking facilities. We plan to further enhance margins by selling capacity within the PJM markets, both in the three-year forward PJM base residual auction and through bilateral agreements with power purchasers, as well as by providing ancillary services to support transmission system reliability.

We believe our assets are strategically positioned in what we view as the two most attractive power markets in the United States, each of which is characterized by strong and improving fundamentals and a regulatory framework supportive of competitive generators. Our generation facilities will be predominantly located in PJM, an RTO, and ERCOT, an ISO, which are regional organizations formed, in part, to provide reliable wholesale power marketplaces. PJM is the largest wholesale energy market in the United States and ERCOT is the oldest ISO in the country. PJM is characterized by improving fundamentals due to limited import capacity, significant anticipated capacity retirements, an improving demand outlook and a forward capacity market that provides future cash flow visibility for generation asset owners. Specific efforts are being undertaken by PJM to support and potentially increase capacity prices for existing generation to ensure the availability of adequate resources. ERCOT is an attractive wholesale electricity market with historically above-average demand growth, tight reserve margins, increasing price caps and an increasing reliance on flexible and quickly-dispatchable natural gas-fired assets. Additionally, the ERCOT sub region in which we operate, ERCOT-South, has historically experienced premium energy pricing relative to the average price for the

broader ISO. We consider PJM and ERCOT to be two of the most well-developed power markets in the United States, providing significant price transparency, market liquidity and support to competitive generators, including recent proposed reforms that we believe will enhance the value of our portfolio.

**Table of Contents**

The competitive dispatch costs and operating flexibility of our generation fleet position us favorably to generate attractive cash margins in a wide variety of market conditions. In an effort to support our operations and stabilize future cash flows, we will enter into forward physical and financial transactions to hedge energy, capacity and related products and to hedge fuel and fuel transportation. We will sell the output of our generation facilities to a diverse group of wholesale customers, including RTOs and ISOs, utilities, cooperatives, municipalities, power marketers, and financial counterparties. We will also sell the output of our generation facilities to commercial, industrial and residential retail customers.

The following map illustrates the locations of our generation facilities as of December 31, 2014:

The charts below illustrate the composition and diversity of our portfolio by market and fuel type as of December 31, 2014:

The charts above do not reflect the sale or other disposition of approximately 1,300 MW of generation capacity that is required to obtain regulatory approval for the Transactions. As a result, our generation portfolio will not include all of the plants that currently comprise the Energy Supply business and the RJS Power business. See The Separation Agreement and The Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans.

## Table of Contents

### **Our Competitive Strengths**

We believe that we will be well-positioned to execute our business strategy and create superior value for our stakeholders based on the following competitive strengths:

***Well-positioned in attractive, liquid and transparent energy markets.*** We believe that the composition and locations of our facilities will give us a strategic advantage and offer attractive upside opportunities. The majority of our facilities will be located in PJM and ERCOT, which are among the most liquid, well-developed power markets in the United States, each with attractive fundamentals.

We believe the PJM market presents attractive value opportunities, driven by a substantial number of announced power plant retirements, limited import capacity and an improving demand outlook. Our PJM assets are highly diverse both in terms of fuel (coal, natural gas/oil dual fuel, nuclear, natural gas, oil and hydro and other renewables) and dispatch (baseload, intermediate/load following and peaking), which provides us with operational flexibility and enables our portfolio to provide reliable generation under a variety of market conditions. A key attribute of PJM is its base residual auction, a long-term capacity market in which power customers pay for capacity three years in advance. These known capacity revenues are expected to be an important component of our gross margins. Additionally, we expect that recently proposed market reforms may provide additional revenue opportunities for us in PJM in future capacity auctions. See [Our Key Markets PJM](#) for information on the recently proposed market reforms in PJM.

We believe the ERCOT market also presents attractive value opportunities, driven by robust demand growth and limited import capacity, which we expect will result in a lower reserve margin. Our generation assets in ERCOT consist of flexible, natural gas-fired units that have the ability to start up quickly and respond to load variability, which positions them well to produce significant margin from ancillary products offered in this market in addition to physical energy sales. All of our ERCOT capacity is located in the ERCOT South Zone, which has historically experienced premium pricing due to favorable supply and demand fundamentals and strong demand driven by growth related to Eagle Ford shale development, the midstream energy sector and petrochemical industry expansion. The ERCOT regulatory framework has addressed resource adequacy concerns through rule changes that have increased generator compensation and pricing floors for ancillary products and increased the state-wide offer cap. ERCOT reserve margins are forecasted to continue to compress due to growing demand and limited announced new-build projects, further tightening the supply/demand balance across ERCOT and creating conditions that may generate increased price volatility and higher energy prices until additional resources are added.

***Robust cash flow generation potential.*** We expect to be able to generate substantial free cash flow, which we define as cash from operations less maintenance capital expenditures. A number of factors are expected to contribute to our strong cash flow profile: our focus on lean operations, relatively low financial leverage, efficient baseload units with low dispatch costs, significant ancillary revenue potential of the Texas facilities, significant synergies resulting from successful execution of our transition plans with PPL and Riverstone, and a well-maintained fleet requiring modest maintenance and environmental expenditures. The stability of our cash flows is further supported by forward capacity sales in PJM through May 2018. We believe this cash flow potential provides a competitive advantage by making us more resilient during price fluctuations in the commodity cycles, less reliant on external sources of capital to finance operations and a company better situated to pursue both organic and acquisition-driven growth opportunities.

***Strong balance sheet, poised for growth.*** We believe that our expected financial leverage will provide multiple competitive advantages. First, our strong balance sheet and credit profile are expected to enhance our ability to pursue both organic and acquisition-driven growth by offering favorable access to capital markets and maximum financial flexibility. We also believe a strong balance sheet will position us well to manage through periods of commodity price volatility which may require collateral posting and credit support that could challenge a more levered competitive

power company. We believe we will be able to use our strong balance

## **Table of Contents**

sheet to grow through acquisitions, taking an opportunistic approach when others in the sector may face financial stresses during those periods. Finally, our low level of financial leverage will allow us to absorb a greater degree of operating cash flow volatility, which will allow our margin hedging program to have a shorter-term focus. We believe this will reduce hedging transaction volume and expenses, liquidity needs and hedge book complexity, which we believe will result in lower operating costs and greater financial transparency.

***Competitive scale.*** As one of the largest competitive power generating companies in North America, with approximately 14,000 MW of operating capacity, we expect to benefit from the multiple competitive advantages attendant to a large scale portfolio. We will have a scale presence in our key markets, allowing us to operate integrated portfolios within each of PJM and ERCOT and offering us beneficial dispatch and operational synergies. We expect those benefits will include improved leverage of our fixed costs, enhanced procurement opportunities and diversity of cash flows. These advantages combined with a strong balance sheet and significant liquidity, enable us to operate with more financial flexibility and, as such, should enable us to utilize our competitive scale to grow and further expand our already-robust generation platform.

***Significant historical environmental control investments.*** We believe our assets are substantially compliant with current environmental regulations and are well-positioned relative to the current trend of tightening environmental legislation and regulations. Because of significant prior investments and the composition of our fleet, we expect that future environmental compliance-driven capital expenditures will be a relatively modest \$155 million dollars through 2019, representing less than 10% of total capital expenditures for the same period.

***Proven, experienced management team.*** Our management team has significant experience and expertise operating power generating facilities, marketing electricity and ancillary services and managing the risks of a competitive power generation business. We have a strong track record of value creation through the execution of strategic initiatives and exceptional asset management, which positions us optimally to enhance and expand the Talen Energy platform. We strongly believe that the proven leadership team at Talen Energy will successfully execute our business strategy and deliver superior operating and financial performance.

## **Our Business Strategy**

Our business strategy is to maximize value to our customers and stockholders with particular emphasis on:

***Excellence in operations.*** We believe that value is built on a foundation of operational excellence. Safety is a core value of ours and is critical to maintaining a platform for strong, reliable plant performance. We inherit robust safety programs from our predecessor companies which have demonstrated dedication to sustaining safe cultures by achieving VPP Star status at a majority of our facilities.

We also believe value is a function of disciplined investment and continuous improvement in operating efficiency. We intend to make prudent investments to enable our plants to run at the most profitable times while ensuring safe, reliable operations. Additionally, we plan to continue our commitment to asset optimization and reducing operating costs. We believe that persistent focus on process improvement and innovative cost management is a key component to success.

***Focus on cash returns.*** We will run our business with a focus on producing strong cash flows in order to sustain our operations and fund growth opportunities. Capital allocation decisions will be made on a cash return basis, as we believe this discipline is necessary to drive consistent long-term value creation for our stockholders. We believe that our proven management team, reliable, low-cost operating structure and strong commercial management of our plants will enable us to invest in and grow the existing platform while enhancing overall cash flows and achieving attractive



returns on investment.

**Table of Contents**

**Active hedging and commercial management.** Hedging the fuel and output of our plants will be primarily focused on providing margin and cash flow visibility on a one-year forward basis. We intend to execute hedging and marketing strategies for the output of our facilities in both the wholesale and retail energy markets. We also intend to execute asset-based portfolio strategies to monetize inherent market volatility. We believe our hedging and commercial management strategy, in combination with a strong balance sheet, will provide a long-term advantage through cycles of higher and lower commodity prices. Finally, our lower level of financial leverage will allow us to absorb a greater degree of operating cash flow volatility, which will further allow our margin hedging program to have a shorter-term focus. We believe this will reduce hedging transaction volume and expenses, liquidity needs and hedge book complexity, which we further believe will result in lower operating costs and greater financial flexibility.

**Growth posture.** We believe scale in the competitive power generation sector is an element of value creation. We expect to be able to leverage our management and operational systems to integrate additional assets and activities with relatively modest incremental cost. We intend to grow value through development and acquisitions that are complementary to our competitive strengths, with a focus on developed competitive markets that offer liquidity and price transparency. Additionally, as Talen Energy grows, our goal is to maintain a multi-fuel and multi-dispatch profile, as we believe this type of diversity is inherently valuable and provides an added measure of risk mitigation. We believe that our strong balance sheet and cash flow generation, combined with our current presence in attractive markets and our experienced, disciplined management team, will position Talen Energy favorably in its pursuit of value-enhancing growth opportunities.

### **Our Management Team**

In selecting our management team, sourced largely from PPL, we have focused on individuals that have strong and proven track records of delivering stockholder value in executive capacities covering operations, strategy and financing. Our President and Chief Executive Officer, Paul Farr, has over 20 years of power and utilities experience having spent more than seven years as Chief Financial Officer of PPL prior to being named President of Energy Supply at the announcement of the Transactions. Mr. Farr also has extensive operations experience, having served as Chief Operating Officer of PPL Global, LLC for over three years, which included responsibility for all of PPL's international utilities operations in Latin America and the United Kingdom, as well as global corporate strategy. Mr. Farr was also integral to the establishment of PPL's competitive power generation business in Montana from 1999 to 2001. Jeremy McGuire, our Senior Vice President and Chief Financial Officer, served as Vice President Strategic Development of PPL Strategic Development, LLC since 2008. Prior to joining PPL, Mr. McGuire was an investment banker for 13 years, ten of which were focused on competitive power companies and utilities. Mr. Farr and Mr. McGuire were instrumental in PPL's acquisition and financing of \$14 billion in utility businesses in Kentucky and the United Kingdom, which nearly doubled PPL's asset base, increased annual revenues by 70 percent and helped grow market capitalization by 40 percent between 2009 and 2011.

Our executive team includes other key members that bring significant experience and expertise operating, marketing and managing risks of a competitive power generation business. Joe Hopf, our Senior Vice President and Chief Commercial Officer, has more than 30 years of experience in the electricity business serving in various roles in power plant operations, trading and risk management. Most recently, Mr. Hopf led PPL's fossil and hydro generating operations with nearly 8,000 MWs of generating capacity. Tim Rausch, our Senior Vice President and Chief Nuclear Officer, served as PPL Generation's Senior Vice President and Chief Nuclear Officer since 2009. Mr. Rausch came to PPL after 25 years of experience in virtually all disciplines of the nuclear power industry. Jim Schinski, our Senior Vice President and Chief Administrative Officer, joined PPL Services in 2009 as Vice President-Chief Information Officer. Prior to joining PPL, Mr. Schinski served as Chief Information Officer and Vice President of Human Resources for the Midwest Independent System Operator since 2004, where he was responsible for design, development, implementation and operation of technology systems for one of the country's



**Table of Contents**

largest electricity markets. We believe our leadership team positions Talen Energy to meet our objectives of delivering superior operating and financial performance through committed execution of Talen Energy's business strategy.

**Our Key Markets**

The substantial majority of our generation capacity is located in either PJM or ERCOT. We consider these regions to be among the most well-developed, transparent and liquid energy markets in the United States.

***PJM***

PJM is an RTO that coordinates the movement of wholesale electricity in all or parts of thirteen states and the District of Columbia. It is the largest competitive wholesale electricity market in the United States, dispatching more than 180,000 MW to more than 60 million people. The current mix of generating capacity within PJM is largely coal-dominated, with a significant number of nuclear and natural gas power plants rounding out the dispatch curve. As is the case in many markets in the United States, generating capacity within PJM is transitioning from a coal-dominated generation base to a mix that incorporates larger amounts of natural gas and renewable units, driven in large part by current and impending EPA regulations. The following map illustrates PJM by regions.

PJM benefits from a combination of stable demand growth, liquid trading hubs, limited energy import capacity and a wide range of available market products. Generation owners in PJM may earn energy, capacity and ancillary revenues. The PJM energy market consists of day-ahead and real-time markets. The day-ahead

**Table of Contents**

market is a forward market in which hourly prices are calculated for the next operating day based on offers, bids and bilateral obligations. The real-time market is a spot market in which energy is continuously bought and sold based on actual grid operating conditions.

The PJM capacity market, known as the Reliability Pricing Model ( RPM ), is intended to ensure that resources are available when needed to keep the power grid operating reliably for customers. Under the RPM, PJM conducts a series of auctions. Most capacity is procured in the base residual auctions each May for the sale of generating capacity three years in advance of the delivery year. In these auctions, prices are set based on available capacity and other factors such as transmission constraints. The capacity market construct provides generation owners the opportunity for some revenue visibility on a multi-year basis.

Recent developments have the potential to be supportive of future revenue opportunities for generation owners in PJM, including:

PJM's proposal to add an enhanced Capacity Performance product to the capacity market structure to permit additional compensation for generation owners/operators to make the necessary investments to maintain system reliability in exchange for stronger performance requirements. The intent of the Capacity Performance product is to improve operational availability during periods of peak power system demand, such as extreme weather. Specifically, PJM's stated objectives of this product include fuel security through dependable fuel sources, high availability of generation resources and operational diversity. If approved by the FERC, Capacity Performance is expected to benefit generation owners like Talen Energy that will own assets supplied by firm fuel commitments and have demonstrated reliability during peak load and extreme weather conditions;

PJM's recent changes to the Variable Resource Requirement ( VRR ) curve. The VRR curve is a downward-sloping demand curve used by PJM to model sufficient capacity resources for PJM and set capacity prices. The VRR curve supports PJM's objective of attracting and retaining adequate capacity resources to ensure grid reliability, providing an indication of incremental reliability and economic value of capacity at different planning reserve levels. PJM's recent changes include a shift in the VRR curve, which signifies an increase in demand and therefore price, offering potential upside to future capacity prices for PJM generators;

Recent developments that increase uncertainty associated with demand response's ability to participate in future capacity auctions, offering potential upside to future capacity prices for PJM generators; and

Potential rule changes affecting price formation including offer cap changes which may lead to higher energy market prices.

**Table of Contents**

***ERCOT***

ERCOT is an ISO that manages the flow of electricity from approximately 75,000 MW of installed capacity to 24 million Texas customers, representing 90% of the state's electric load and covering approximately 75% of its geography. ERCOT is an attractive wholesale electricity market with historically above-average demand growth, tight reserve margins, increasing price caps and an increasing reliance on flexible and quickly-dispatchable natural gas-fired assets. ERCOT was established in September 1996 and, as such, is the oldest ISO in the United States. The following map illustrates ERCOT by regions.

As an energy-only market, ERCOT's market design is different from other competitive electricity markets in the United States. Other markets, including PJM, maintain a minimum reserve margin through regulated planning, resource adequacy requirements and/or capacity markets. In contrast, ERCOT's resource adequacy is predominately dependent on free market processes and energy market price signals. All electricity prices are subject to a system-wide offer cap, which was \$5,000/MWh in 2013. This offer cap increased to \$7,000/MWh in 2014 and is set to increase to \$9,000/MWh in June 2015, providing a higher maximum marginal price. The system-wide offer cap has been reached on a number of occasions since 2011.

Transactions in ERCOT take place in two key markets: the day-ahead market and the real-time market. The day-ahead market is a voluntary forward energy market conducted the day before each operating day in which generators and purchasers of power may bid for one or more hours of energy supply or consumption. The day-ahead market also allows ERCOT and generators and purchasers of power to buy and sell ancillary services. The real-time market is a spot market in which energy may be sold in five-minute intervals.

**Table of Contents**

Generation facilities in the region include efficient combined cycle natural gas-fired facilities, a large wind fleet and a mixture of environmentally compliant and older, non-compliant coal-fired assets. The combination of these assets has historically led to lower marginal cost of production during most periods, compared to other markets. However, the region has limited excess capacity to meet high demand days and the marginal facilities have high operating costs. Therefore, the marginal price of supply rapidly increases during periods of high demand. As a result, many generators benefit from these sporadic periods of scarcity pricing in which power prices increase significantly.

The Texas population and gross state product is currently expanding at well above the national average rate, spurred in part from significant growth in oil and gas development and associated petrochemical industry growth. In December 2014, ERCOT released its latest reserve margin projections, which showed ERCOT's reserve margin dipping below the current target reserve margin of 13.75% in 2019. The table below illustrates ERCOT's forecasted reserve margin for 2015 through 2019.

|                                | 2015  | 2016  | 2017  | 2018  | 2019  |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Reserve Margin Forecast</b> | 15.7% | 17.1% | 18.1% | 16.5% | 13.6% |

In addition to energy, ancillary services, such as non-spinning reserves, responsive reserves and regulation up/down, offer another potential revenue stream for market participants in order to maintain system reliability, which is impacted by the high concentration of wind capacity in ERCOT. These ancillary services provide network support from quick-start generation capacity that is able to reach full load operation in exceptionally short periods of time in order to help manage the impact of wind variability on the electricity grid. Such ancillary services have received increased compensation and exhibited higher offer floors in part because ERCOT has one of the highest concentrations of wind capacity in the United States, with over 12,500 MW of installed capacity.

**Table of Contents**

**Market Opportunity**

The market for competitive power generation assets has been very robust over the past five years, and we expect a continuation of this trend, providing further opportunities to enhance our competitive scale. From 2010 to 2014, roughly 344 GW of competitive power generation capacity has been sold, with approximately 121 GW and 36 GW in PJM and ERCOT, respectively. The diverse nature of these transactions, encompassing both conventional (predominantly natural gas and coal) and renewable (predominantly wind and solar) generating facilities, aligns with our goal of maintaining a multi-fuel and multi-dispatch profile. The table below illustrates the volume of transactions in dollars and GWs from 2010 through 2014.

We believe that there will continue to be significant acquisition opportunities for competitive power generation assets in the United States, enabling us to grow our fleet and enhance shareholder value. Approximately 81 GW of operating capacity are owned by companies that operate both regulated utilities and competitive power generation assets, while approximately 40 GW are owned by private equity funds. Given the trend of separating competitive power generation assets from regulated utility assets, and the typically defined target holding period of private equity funds, we expected that a significant number of assets will come to market over the next several years.



**Table of Contents**

**Transaction Rationale**

We believe that the creation of Talen Energy through the separation of Energy Supply from PPL's rate-regulated utility business and concurrent combination with RJS Power will maximize value for both PPL shareholders as well as Talen Energy stockholders. The separation will give rise to a number of significant benefits by allowing each company to pursue its own business strategy without requiring compromise relative to the other. Separating PPL into two independent companies, with one focused on rate-regulated utility operations and the other focused on competitive energy and power generation, recognizes the significant opportunities each of the two businesses have going forward as well as the different risks inherent in each. The two businesses have significantly different capital investment priorities, obligations and opportunities. They also have significantly different risk profiles and costs of capital. Each company will be able to attract investors and source capital based on its own risk profile and return prospects. This will translate into a better alignment of PPL's and Talen Energy's management teams with the direct interests of their respective shareholders because the factors that drive shareholder value for a competitive power generation company are often different, and at times at odds with, factors that drive shareholder value for a rate-regulated utility. In addition, the separation will also allow Talen Energy to compensate employees in the competitive power generation business with its own equity, which will result in equity compensation that is more in line with the financial results of such employees' direct work product. Further, PPL determined that shareholder value could be enhanced by simultaneously combining Energy Supply with another competitive power generation company, thereby increasing the scale and diversity of the generating fleet and enhancing the ability to realize cost synergies and margin benefits through initiatives and programs currently being developed by management, as well as creating a larger, stronger platform from which to pursue additional organic and acquisition-related growth opportunities.

**The Companies**

***Energy Supply***

Energy Supply is primarily engaged in the competitive power generation and marketing of electricity, generating capacity, ancillary services and related commodities primarily on a wholesale basis from its fleet of power plants located in Pennsylvania and Montana, totaling approximately 9,896 MW of electricity generation capacity as of December 31, 2014. Energy Supply's principal subsidiaries are PPL EnergyPlus, LLC (PPL EnergyPlus), its marketing and trading subsidiary, and PPL Generation, LLC (PPL Generation), the subsidiaries of which own and operate its generating facilities in Pennsylvania and Montana.

PPL Generation owns and operates, through its subsidiaries, a diverse portfolio of competitive domestic power generating facilities. Its power generating facilities are fueled by coal, uranium, natural gas, oil and water. Approximately 93% and 7% of the net generating capacity of PPL Generation is located in PJM and WECC, respectively. PPL EnergyPlus sells electricity produced by PPL Generation's facilities, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, financial transmission rights, coal, natural gas, oil, uranium, emission allowances, renewable energy credits and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern United States. PPL EnergyPlus focuses on entering into energy and energy-related physical and financial contracts to hedge the variability of expected cash flows associated with PPL Generation's facilities and its marketing activities, as well as for trading purposes.

***RJS Power***

RJS Power is engaged in the competitive power generation and marketing of electricity, generating capacity and ancillary services on a wholesale basis from its fleet of power generating facilities located in five states totaling

approximately 5,331 MW of electricity generation capacity as of December 31, 2014. RJS Power owns and operates a diverse portfolio of power generating facilities of various technology types and operating

**Table of Contents**

characteristics fueled by coal, natural gas and oil. RJS Power focuses on managing the dispatch of its assets to maximize physical energy margin and engaging in prudent risk mitigation through contracted forward capacity sales and physical and financial hedges. Approximately 63% and 35% of the net generating capacity of RJS Power's facilities is located in PJM and ERCOT, respectively.

**Our Fleet**

| Asset                      | Location       | Fuel Type                | Ownership | Owned Capacity (MW) (1) | Commercial Operation Date | Region/ISO |
|----------------------------|----------------|--------------------------|-----------|-------------------------|---------------------------|------------|
| <b>Energy Supply (1)</b>   |                |                          |           |                         |                           |            |
| Montour                    | PA             | Coal                     | 100%      | 1,504                   | 1972 1973                 | PJM        |
| Brunner Island             | PA             | Coal                     | 100%      | 1,411                   | 1961 1969                 | PJM        |
| Keystone                   | PA             | Coal                     | 12%       | 211                     | 1967 1968                 | PJM        |
| Conemaugh                  | PA             | Coal                     | 16%       | 278                     | 1970 1971                 | PJM        |
| Martins Creek 3 & 4        | PA             | Natural Gas / Oil        | 100%      | 1,700                   | 1975 1977                 | PJM        |
| Ironwood                   | PA             | Natural Gas              | 100%      | 660                     | 2001                      | PJM        |
| Lower Mt. Bethel           | PA             | Natural Gas              | 100%      | 538                     | 2004                      | PJM        |
| Peakers                    | PA             | Natural Gas / Oil        | 100%      | 354                     | 1967 1973                 | PJM        |
| Susquehanna                | PA             | Nuclear                  | 90%       | 2,245                   | 1983 1985                 | PJM        |
| Eastern Hydro (2)          | PA             | Hydro                    | 100%      | 293                     | 1910 1926                 | PJM        |
| Colstrip 1 & 2             | MT             | Coal                     | 50%       | 307                     | 1975 1976                 | WECC       |
| Colstrip 3                 | MT             | Coal                     | 30%       | 222                     | 1984                      | WECC       |
| Corette (3)                | MT             | Coal                     | 100%      | 148                     | 1968                      | WECC       |
| Renewables (4)             | NH, NJ, PA, VT | Renewables               | 100%      | 25                      | Various                   | Various    |
| <b>Total Energy Supply</b> |                |                          |           | <b>9,896</b>            |                           |            |
| <b>RJS Power (1)(5)</b>    |                |                          |           |                         |                           |            |
| Brandon Shores             | MD             | Coal                     | 100%      | 1,273                   | 1984 1991                 | PJM        |
| H.A. Wagner                | MD             | Coal / Natural Gas / Oil | 100%      | 976                     | 1956 1972                 | PJM        |
| C.P. Crane                 | MD             | Coal                     | 100%      | 399                     | 1961 1967                 | PJM        |
| Bayonne                    | NJ             | Natural Gas / Oil        | 100%      | 174                     | 1988                      | PJM        |
| Camden                     | NJ             | Natural Gas / Oil        | 100%      | 151                     | 1993                      | PJM        |
| Dartmouth                  | MA             | Natural Gas / Oil        | 100%      | 89                      | 1996                      | ISO-NE     |
| Elmwood Park               | NJ             | Natural Gas / Oil        | 100%      | 73                      | 1989                      | PJM        |
| Newark Bay                 | NJ             | Natural Gas / Oil        | 100%      | 129                     | 1993                      | PJM        |
| Pedricktown (6)            | NJ             | Natural Gas / Oil        | 100%      | 132                     | 1992                      | PJM        |
| York                       | PA             | Natural Gas              | 100%      | 52                      | 1989                      | PJM        |
| Laredo 4                   | TX             | Natural Gas              | 100%      | 98                      | 2008                      | ERCOT      |
| Laredo 5                   | TX             | Natural Gas              | 100%      | 98                      | 2008                      | ERCOT      |
| Nueces Bay 7               | TX             | Natural Gas              | 100%      | 678                     | 2010                      | ERCOT      |
| Barney Davis 1             | TX             | Natural Gas              | 100%      | 335                     | 1974                      | ERCOT      |
| Barney Davis 2             | TX             | Natural Gas              | 100%      | 674                     | 2010                      | ERCOT      |
| <b>Total RJS Power</b>     |                |                          |           | <b>5,331</b>            |                           |            |

**Total Talen Energy** **15,227**

- (1) Does not reflect the sale or other disposition of approximately 1,300 MW of generating capacity that is required to obtain regulatory approval for the Transactions. See The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans.
- (2) Includes Holtwood and Wallenpaupack.

**Table of Contents**

- (3) Operations were suspended and the Corette plant was retired in March 2015.
- (4) Energy Supply is presently considering divesting its renewables plants. See Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply Overview Financial and Operational Developments Mechanical Contracting Subsidiaries and Renewables Plants.
- (5) Total net generating capacities are based on average summer and winter capacity.
- (6) Pedricktown capacity includes capacity dedicated to serving landlord load (which has historically averaged 9 MW).

**Risk Factors**

We face numerous risks related to, among other things, our business operations, our strategies, general economic conditions, competitive dynamics of the industry, our level of indebtedness, the legal and regulatory environment in which we operate, and our status as an independent public company following the Transactions. These risks are set forth in detail under the heading Risk Factors. If any of these risks should materialize, they could have a material adverse effect on our business, financial condition, results of operations or cash flows. We encourage you to review these risk factors carefully. Furthermore, this prospectus contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those under the headings Risk Factors and Cautionary Statement Regarding Forward-Looking Statements. Risks related to our business include, among others:

our operating and financial performance and prospects;

our access to financial and capital markets to issue debt or enter into new credit facilities;

investor perceptions of us and the industry and markets in which we operate;

future sales of equity or equity-related securities;

many of our facilities operate, wholly or partially, without power sale agreements;

our financial performance can be impacted by changing natural gas prices and unpredictable price movements in the wholesale power markets and other markets that are beyond our control;

changes in earnings estimates or buy/sell recommendations by analysts;

general financial, domestic, economic and other market conditions;

costs, results of operations, financial conditions and cash flows could be adversely impacted by disruption of fuel supplies;

trading operations and the use of hedging agreements could result in financial losses that negatively impact results of operations;

the accounting for hedging activities may increase volatility in the Company's quarterly and annual financial results;

maintenance, expansion and refurbishment of power generation facilities involve significant risks that could result in unplanned power outages or reduced output and could have a material adverse effect on our results of operations, cash flow and financial conditions;

increased stringency of environmental regulations and requirements and other environmentally related issues could increase our costs significantly;

insufficient liquidity to hedge markets effectively; and

competition in wholesale power markets and issues related to the oversupply of power generation capacity in certain regional markets in which we operate may have a material adverse effect on our operations.

**Table of Contents**

**Summary of the Transactions**

We provide below a summary of the Transactions. See [The Transactions](#) for a more detailed description.

***The Distribution and the Merger***

|  |   |
|--|---|
| Distributing Company                       | PPL Corporation, a Pennsylvania corporation. After the Distribution, PPL will not own any shares of Talen Energy common stock.  |
| Distributed Company                        | Talen Energy Corporation, a Delaware corporation. After the Distribution and Merger, Talen Energy will be an independent, publicly traded company.  |
| Record Date                                | Record ownership will be determined as of 5:00 p.m., New York City time, on May 20, 2015.   |
| Distribution Date                          | The Distribution Date is expected to be on or about June 1, 2015.   |
| Distribution Ratio                         | Each share of PPL common stock outstanding as of the record date will entitle its holder to receive a number of shares of HoldCo common stock determined by a formula based on the number of PPL shares of common stock outstanding at 5:00 p.m. New York City time, on the record date. Each such record holder will be entitled to receive a number of shares of HoldCo common stock equal to the aggregate number of shares of HoldCo common stock multiplied by a fraction, the numerator of which is the number of shares of PPL common stock held by such record holder on the record date and the denominator of which is the total number of shares of PPL common stock outstanding on the record date. Based on the number of shares of PPL common stock outstanding as of March 31, 2015, we expect the distribution ratio to be approximately 0.125 shares of HoldCo common stock for each share of PPL common stock. Promptly after the record date, we will issue a press release disclosing the actual distribution ratio. As a result of the Merger, each such share of HoldCo common stock will be converted into one share of Talen Energy common stock. The shareholders of PPL as of the record date and their transferees will own 65%, and the Contributors, collectively, will own 35%, of the shares of Talen Energy common stock immediately following the Combination. |
| Securities to be distributed and delivered | All of the 83,525,000 shares of common stock of HoldCo outstanding immediately prior to the Merger will be distributed pro rata to PPL  |

shareholders who hold PPL common stock as of the record date and will be automatically converted into shares of Talen Energy common stock at the Effective Time and delivered to PPL shareholders. The number of Talen Energy shares that PPL will ultimately deliver to its shareholders will be reduced to the extent that cash payments are to be made in lieu of fractional shares, as described below.



**Table of Contents**

The Distribution

On the Distribution Date, PPL will cause the distribution agent to distribute the shares of HoldCo common stock to the transfer agent for the accounts of the PPL shareholders as of the record date, which shares (other than shares held by Talen Energy, Merger Sub, HoldCo or any HoldCo subsidiary, which shares will be cancelled and retired) will be, immediately prior to the effective time of the Merger, automatically converted into the right to receive shares of Talen Energy common stock on a one-for-one basis. It is expected that it will take the distribution agent up to three business days to electronically issue Talen Energy shares to PPL shareholders or their respective bank or brokerage firm on behalf of PPL shareholders by way of direct registration in book-entry form. PPL shareholders will not be required to make any payment, surrender or exchange PPL common stock or take any other action to receive their Talen Energy common stock.

No fractional shares

Holders of PPL common stock will not receive any fractional shares of Talen Energy common stock. In lieu of fractional shares of Talen Energy, PPL shareholders will receive a cash payment. Fractional shares of Talen Energy common stock that would otherwise be allocable to any record holders of PPL common stock will be aggregated and, following the Merger, sold by the distribution agent as whole shares of Talen Energy in the open market at prevailing market prices (or otherwise as reasonably directed by PPL, in consultation with the Contributors). The exchange agent will make available the net proceeds of this sale, after deducting any required withholding taxes and brokerage charges, commissions and transfer taxes, on a pro rata basis, without interest, to each PPL shareholder who would otherwise have been entitled to receive a fractional share of Talen Energy in the Distribution and the Merger. See The Transactions Structure of the Distribution, the Merger and the Combination Treatment of Fractional Shares. The receipt of cash in lieu of fractional shares generally will be taxable to the recipient shareholders that are subject to U.S. federal income tax as described in The Transactions Material U.S. Federal Income Tax Consequences of the Transactions.

Tax consequences of the Distribution, Merger and Combination to PPL shareholders

PPL expects to receive an opinion from Simpson Thacher to the effect that the contribution by PPL of 100% of the outstanding equity securities of Energy Supply to HoldCo (the HoldCo Contribution ) together with the Distribution will qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code, that the Merger will qualify as a reorganization pursuant to Section 368(a) of the Code, and that the Merger and Combination together will qualify as a transaction described in Section 351 of the Code. Such opinions will rely on certain facts and assumptions, and certain representations and undertakings, provided by us, PPL and the Contributors regarding the past and future conduct of our respective

businesses and other matters.

**Table of Contents**

Assuming that the HoldCo Contribution and the Distribution together qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code, no gain or loss will be recognized by PPL shareholders for U.S. federal income tax purposes upon the deemed receipt of HoldCo common stock pursuant to the Distribution. Assuming that the Merger qualifies as a reorganization pursuant to Section 368(a) of the Code and that the Merger and Combination together will qualify as a transaction described in Section 351 of the Code, HoldCo stockholders will not recognize any gain or loss for U.S. federal income tax purposes as a result of the Merger and Combination, except for any gain or loss attributable to cash received in lieu of a fractional share of Talen Energy. See [The Transactions](#) [Material U.S. Federal Income Tax Consequences of the Transactions](#) and [Risk Factors](#) [Risks Relating to the Transactions](#) If the Distribution does not qualify as a tax-free distribution under the Code and/or the Merger does not qualify as a reorganization under the Code, including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareholders may be required to pay substantial U.S. federal income taxes.

Each PPL shareholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the Transactions to that shareholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.

**Relationship with PPL and TPM after the Transactions**

PPL will have no continuing ownership interest in, control of or affiliation with Talen Energy following the Distribution. Talen Energy has entered into the Separation Agreement, the Transaction Agreement and the Employee Matters Agreement and, shortly before the Distribution, Talen Energy expects to enter into other agreements with PPL and the Contributors related to the Transactions. These agreements will govern the relationship between Talen Energy and PPL subsequent to the completion of the Distribution and provide for the allocation between Talen Energy and PPL of various assets, liabilities and obligations (including employee benefits and tax-related assets and liabilities). The Separation Agreement, in particular, provides for the settlement or extinguishment of certain obligations between Talen Energy and PPL. Energy Supply will enter into Transition Services Agreements with PPL and TPM, pursuant to which the parties thereto will provide certain services to the other parties thereto and their respective subsidiaries on a transitional basis. We describe these and related arrangements in greater detail under [The Separation Agreement](#) and [the Transaction Agreement](#) [Ancillary Agreements](#) and describe some of the risks of these arrangements under [Risk Factors](#) [Risks Relating to the Transactions](#).



**Table of Contents**

|  |  |
|--|--|
| Distribution Agent<br><i>The Combination</i> | Wells Fargo Bank, National Association   |
| Structure of the Combination                 | The Contributors will contribute, directly or indirectly, all of the outstanding equity interests of RJS Power to Talen Energy.  |
| Consideration for the Combination            | In consideration of the Combination, we will issue additional shares of our common stock to the Contributors in an aggregate amount which will result in PPL shareholders owning 65% of Talen Energy's outstanding common stock and the Contributors owning the remaining 35% immediately following the Combination. Talen Energy's stockholders immediately prior to the Combination will not receive any consideration in the Combination, and Talen Energy will remain the parent company for the combined company.   |
| Approval of the Combination                  | No vote by PPL shareholders is required or is being sought in connection with the Combination. Each of PPL, HoldCo, Talen Energy and Energy Supply and RJS has already approved the Combination.   |
| Termination of the Transaction Agreement     | The Transaction Agreement may be terminated at any time prior to the Closing Date by mutual consent of PPL and the Contributors. The Transaction Agreement may also be terminated on the occurrence of certain events, including if the Closing Transactions have not been consummated on or prior to June 30, 2015, if the consummation of any component of the Transactions would be illegal or otherwise prohibited under applicable law, order or other action by any governmental authority or if either party has breached or failed to perform any of its respective representations, warranties, covenants or other agreements contained in the Transaction Agreement. Each of the foregoing termination events are described in greater detail under The Separation Agreement and the Transaction Agreement The Transaction Agreement Termination of the Transaction Agreement. |
| Transaction Expense Adjustments              | Generally, all fees and expenses incurred in connection with the Transactions are to be paid by the party incurring such fees or expenses; however, any costs incurred by PPL, Energy Supply, Talen Energy, HoldCo or Merger Sub or any of their subsidiaries in connection with the Separation Transactions and the Distribution, other than certain shared expenses, are to be paid by PPL. Certain expenses incurred in connection with the Transactions are to be paid by Talen Energy if the Closing Transactions are consummated, or 65% by PPL and 35% by the Contributors if the Closing Transactions are not consummated. All fees  |

and expenses of financial, legal, accounting and other professional advisors retained by each of the parties will be paid by the party incurring such fees and expenses, unless such expenses are considered Shared Expenses pursuant to

**Table of Contents**

the Transaction Agreement. See The Separation Agreement and the Transaction Agreement The Transaction Agreement Transaction Expense Adjustments.

Tax consequences to PPL shareholders PPL shareholders are not expected to recognize any gain or loss for U.S. federal income tax purposes as a result of the Merger and Combination, except for any gain or loss attributable to cash received in lieu of a fractional share of Talen Energy. See The Transactions Material U.S. Federal Income Tax Consequences of the Transactions.

Each PPL shareholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the Combination to that shareholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.

Accounting Treatment of the Combination Energy Supply will be the accounting acquirer in the Combination. Accordingly, Energy Supply will apply acquisition accounting to the assets acquired and liabilities assumed of RJS Power upon consummation of the Combination. See The Transactions Accounting Treatment and Considerations.

***The Transactions***

Primary purpose of the Transactions The primary purpose of the Transactions is to separate the Energy Supply business from PPL and combine the Energy Supply business with the RJS Power business in order to realize the full value of the Energy Supply business in both the short- and long-term. See The Transactions PPL's Reasons for the Transactions.

Conditions to the Transactions The Transactions are subject to a number of important conditions. Under the terms of the Separation Agreement and the Transaction Agreement, the consummation of the Transactions are conditioned upon, among other things, (i) the Separation Transactions having occurred in accordance with the Separation Agreement, (ii) the SEC declaring effective the registration statement of which this prospectus forms a part and no actual or threatened stop order of the SEC suspending effectiveness of the registration statement being in effect prior to the Separation; (iii) the Talen Energy common stock being authorized for listing on the NYSE; (iv) certain regulatory approvals being obtained, including approval by the NRC and the FERC, Hart-Scott-Rodino clearance and certain approvals by the PUC (as more fully described in The Separation Agreement and the Transaction Agreement Transaction Agreement Regulatory Approvals and Efforts to Close ), and (v) there

being, after giving effect to the financings described in The Separation Agreement and Transaction Agreement The Transaction Agreement Financing and Debt Payoff and the posting of any credit support and other



**Table of Contents**

financial commitments required to be provided by RJS Power, Talen Energy, Merger Sub, HoldCo, Energy Supply and/or their respective subsidiaries in connection with, or as a condition to, regulatory approvals required in connection with the Transactions, at least \$1.0 billion of undrawn capacity under a revolving credit facility or similar facility available to Talen Energy and its subsidiaries (for purposes of which any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding shall not be considered as drawn against such facility). For a more detailed description of the Distribution conditions see The Separation Agreement and the Transaction Agreement The Separation Agreement Conditions to the Separation and The Separation Agreement and the Transaction Agreement The Transaction Agreement Conditions to Consummation of the Closing Transactions.

No approval by the PPL shareholders or the Contributors is required in connection with the Transactions.

Trading market and symbol

We intend to apply to list our common stock on the NYSE under the ticker symbol TLN. We anticipate that, on or shortly before the record date for the Distribution, trading of Talen Energy common stock will begin on a when-issued basis and will continue up to and including the Distribution Date. See The Transactions Listing and Trading of Our Common Stock.

Dividend Policy

We do not currently expect to declare or pay dividends on our common stock. See Dividend Policy.

New Energy Supply Revolving Credit Facility

In connection with the Transactions, Energy Supply will enter into a senior secured revolving facility that will provide for revolving loans in an aggregate principal amount of up to \$1.85 billion. See The Transactions New Energy Supply Revolving Credit Facility and Description of Material Indebtedness.

**Table of Contents**

The following chart illustrates our simplified organizational structure following the Transactions.

**Market and Industry Data**

Certain market, industry, regulatory, competitive position and other similar data included in this prospectus were obtained from Energy Supply's and RJS Power's own research, from surveys, studies or reports conducted by third parties or from government, industry or general publications or websites (including surveys and forecasts). Some data is also based on good faith estimates by management, which are derived from their review of internal surveys or studies, as well as the independent sources described above. Statements regarding industry, regulatory, competitive position or other similar data presented in this prospectus involve risks and uncertainties and are subject to change based on various factors, including those discussed under the headings **Cautionary Statement Regarding Forward-Looking Statements** and **Risk Factors**.

\* \* \* \* \*

Talen Energy Corporation is a Delaware corporation. Prior to the Transactions, our principal executive offices are located at Two North Ninth Street, Allentown, Pennsylvania, 18101, and our telephone number at that address is (610) 774-5151. Following the Transactions, our principal executive offices will be located in 835 W. Hamilton Street, Allentown, Pennsylvania 18101. Our website will be [www.talenenergy.com](http://www.talenenergy.com). Information on, and which can be accessed through, our website is not incorporated in this prospectus.

**Table of Contents****SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA OF ENERGY SUPPLY**

The following table sets forth summary historical consolidated financial data of Energy Supply as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014. The summary historical consolidated financial data of Energy Supply as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014 have been derived from, and should be read together with, the audited consolidated financial statements of Energy Supply and the accompanying notes contained elsewhere in this prospectus. The summary historical consolidated financial data presented below include certain assets and liabilities of Energy Supply relating to facilities that may be sold as part of Talen Energy's mitigation plan discussed elsewhere in this prospectus. As a result, the summary historical consolidated financial data of Energy Supply set forth below may not necessarily be indicative of the Energy Supply business that will be operated by Talen Energy in future periods. The summary historical consolidated financial data set forth below are not necessarily indicative of the results of future operations.

The summary historical consolidated financial data should be read in conjunction with Risk Factors, Selected Historical Consolidated Financial Data of Energy Supply, Unaudited Pro Forma Condensed Combined Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply and the consolidated financial statements of Energy Supply and accompanying notes, all of which are included elsewhere in this prospectus.

| (dollars in millions)  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2012</b>                    | <b>2013</b> | <b>2014</b> |
| <b>Statement of Operations Data:</b>   |                                |             |             |
| Operating revenues   | \$ 5,346                       | \$ 4,514    | \$ 3,736    |
| Operating income (loss)  | 804                            | (293)       | 397         |
| Income (loss) from continuing operations after income taxes attributable to member | 428                            | (262)       | 187         |
| Net income (loss) attributable to member   | 474                            | (230)       | 410         |
| <b>Balance Sheet Data (at period end):</b>   |                                |             |             |
| Cash and cash equivalents  |                                | \$ 239      | \$ 352      |
| Total assets   |                                | 11,074      | 10,760      |
| Total liabilities  |                                | 6,276       | 6,853       |
| Long-term debt, including current portion  |                                | 2,525       | 2,218       |
| Member's equity  |                                | 4,798       | 3,907       |
| <b>Statement of Cash Flows Data:</b>   |                                |             |             |
| Cash provided by (used in):  |                                |             |             |
| Operating activities   | \$ 784                         | \$ 410      | \$ 462      |
| Investing activities   | (469)                          | (631)       | 497         |
| Financing activities   | (281)                          | 47          | (846)       |

**Table of Contents****SUMMARY HISTORICAL CONSOLIDATED AND COMBINED FINANCIAL DATA OF RJS POWER**

The following table sets forth summary historical consolidated and combined financial data of RJS Power as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014. The summary historical consolidated and combined financial data of RJS Power as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014 have been derived from, and should be read together with, the audited consolidated and combined financial statements of RJS Power and the accompanying notes contained elsewhere in this prospectus. The summary historical consolidated and combined financial data presented below include certain assets and liabilities of RJS Power relating to facilities that may be sold as part of Talen Energy's mitigation plan discussed elsewhere in this prospectus. As a result, the summary historical consolidated and combined financial data of RJS Power set forth below may not necessarily be indicative of the RJS Power business that will be operated by Talen Energy in future periods. The summary historical consolidated and combined financial data set forth below are not necessarily indicative of the results of future operations.

The summary historical consolidated and combined financial data should be read in conjunction with Risk Factors, Selected Historical Consolidated and Combined Financial Data of RJS Power, Management's Discussion and Analysis of Financial Condition and Results of Operations RJS Power, Unaudited Pro Forma Condensed Combined Financial Information and the consolidated and combined financial statements of RJS Power and accompanying notes, all of which are included elsewhere in this prospectus.

| (dollars in millions)                                       | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2012</b>                    | <b>2013</b> | <b>2014</b> |
| <b>Statement of Operations Data:</b>                        |                                |             |             |
| Operating revenues  | \$ 453                         | \$ 979      | \$ 1,045    |
| Operating income (loss)                                     | 82                             | 67          | 55          |
| Income (loss) from continuing operations after income taxes | 33                             | (27)        | (55)        |
| Net income (loss)   | 33                             | (27)        | (55)        |
| <b>Balance Sheet Data (at period end):</b>                  |                                |             |             |
| Cash and cash equivalents                                   |                                | \$ 141      | \$ 30       |
| Total assets  |                                | 1,981       | 1,798       |
| Total liabilities   |                                | 1,376       | 1,549       |
| Long-term debt  |                                | 1,204       | 1,275       |
| Members' interests  |                                | 605         | 249         |
| <b>Statement of Cash Flows Data:</b>                        |                                |             |             |
| Net cash provided by (used in):                             |                                |             |             |
| Operating activities  | \$ 14                          | \$ 169      | \$ 183      |
| Investing activities  | (397)                          | (33)        | 11          |
| Financing activities  | 384                            | (13)        | (305)       |

**Table of Contents****SUMMARY UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA**

The following sets forth summary unaudited pro forma condensed combined financial data which combines the consolidated financial information of Energy Supply and the combined financial information of RJS Power as of and for the year ended December 31, 2014 after giving effect to the spinoff of HoldCo and the Combination with RJS Power as if they were completed on January 1, 2014. The summary unaudited pro forma condensed combined balance sheet data gives effect to the spinoff and the Combination as if they were completed on December 31, 2014. The summary unaudited pro forma condensed combined financial data are derived from the unaudited pro forma condensed combined financial information that is included elsewhere in this prospectus. The summary unaudited pro forma condensed combined financial data are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of the combined company would have been had the Transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

This information is only a summary and should be read in conjunction with Risk Factors, Selected Historical Consolidated Financial Data of Energy Supply, Selected Historical Consolidated and Combined Financial Data of RJS Power, Unaudited Pro Forma Condensed Combined Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply and Management's Discussion and Analysis of Financial Condition and Results of Operations RJS Power, which are included elsewhere in this prospectus.

| (dollars in millions)   | <b>Year Ended<br/>December 31, 2014</b> |
|---|---|
| <b>Statement of Operations Data:</b>  |   |
| Operating revenues  | \$ 4,274                                |
| Operating income  | 409                                     |
| Income from continuing operations after income taxes attributable to stockholders | \$ 139                                  |
| <b>Balance Sheet Data (at period end):</b>  |   |
| Cash and cash equivalents   | \$ 903                                  |
| Total assets  | 13,906                                  |
| Total liabilities   | 8,527                                   |
| Long-term debt, including current portion   | 3,419                                   |
| Stockholders' equity  | 5,379                                   |
| <b>Other Financial Data:</b>  |   |
| Pro forma Adjusted EBITDA (1)   | \$ 915                                  |

- (1) In addition to evaluating the financial condition and results of operations in accordance with GAAP, management also reviews and evaluates certain alternative financial measures not prepared in accordance with GAAP. Non-GAAP measures do not have definitions under GAAP and may be defined differently by, and not be comparable to, similarly titled measures used by other companies. As a result, management considers and evaluates non-GAAP measures in connection with a review of the most directly comparable measure calculated in accordance with GAAP. Management cautions investors not to place undue reliance on such non-GAAP measures, but also to consider them with the most directly comparable GAAP measure. EBITDA and Adjusted

EBITDA have limitations as analytical tools and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP.

In this prospectus, the pro forma financial information prepared in accordance with GAAP has been supplemented with pro forma EBITDA and pro forma Adjusted EBITDA because we believe that pro forma EBITDA and pro forma Adjusted EBITDA provide useful information to investors, lenders and rating agencies since these groups have historically used EBITDA-related measures in our industry, along with other measures, to estimate the value of companies, to make investment decisions and to evaluate a company s

**Table of Contents**

ability to meet its debt service requirements. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other companies because not all companies calculate EBITDA and Adjusted EBITDA in the same manner. EBITDA and Adjusted EBITDA are not measurements of financial performance under GAAP. EBITDA is defined as income (loss) from continuing operations after income taxes attributable to stockholders adjusted for depreciation, amortization and accretion, interest expense and income taxes. Adjusted EBITDA is defined as EBITDA as further adjusted for certain items, such as unrealized loss (gain) on derivative contracts, non-cash equity-based compensation, certain financing and transaction costs and other items not indicative of ongoing operating performance. Pro forma EBITDA and pro forma Adjusted EBITDA reflect EBITDA and Adjusted EBITDA, respectively, after giving effect to the Transactions.

A reconciliation of pro forma EBITDA and pro forma Adjusted EBITDA to pro forma income (loss) from continuing operations after income taxes attributable to stockholders determined in accordance with GAAP is provided below (See Unaudited Pro Forma Condensed Combined Financial Statements for information on the Pro Forma Adjustments and Pro Forma Condensed Combined amounts):

|  | <b>Year Ended December 31, 2014</b> |               |                    |                     |
|--|-------------------------------------|---------------|--------------------|---------------------|
|  | <b>Historical</b>                   |               | <b>Pro</b>         | <b>Pro</b>          |
|  | <b>Energy</b>                       | <b>RJS</b>    | <b>Forma</b>       | <b>Forma</b>        |
|  | <b>Supply</b>                       | <b>Power</b>  | <b>Adjustments</b> | <b>Condensed</b>    |
|  |                                     |               |                    | <b>Combined (a)</b> |
| (dollars in millions)  |                                     |               |                    |                     |
| Income (loss) from continuing operations after income taxes attributable to stockholders | \$ 187                              | \$ (55)       | \$ 7               | \$ 139              |
| Interest expense (b)   | 124                                 | 110           | (15)               | 219                 |
| Income taxes   | 116                                 |               | (33)               | 83                  |
| Depreciation and amortization (c)  | 329                                 | 90            | (53)               | 366                 |
| <b>EBITDA</b>  | <b>\$ 756</b>                       | <b>\$ 145</b> | <b>\$ (94)</b>     | <b>\$ 807</b>       |
| Unrealized loss (gain) on derivative contracts (d)                                       | (17)                                | 64            |                    | 47                  |
| Raven Acquisition adjustments (e)  |                                     | 20            |                    | 20                  |
| Non-cash compensation expense (f)  | 33                                  | 15            |                    | 48                  |
| Separation benefits (g)  | 33                                  |               |                    | 33                  |
| Mechanical contracting and engineering subsidiary revenue adjustment (h)                 | (17)                                |               |                    | (17)                |
| Gain from NDT fund   | (26)                                |               |                    | (26)                |
| Other  | 1                                   | 2             |                    | 3                   |
| <b>Adjusted EBITDA</b>   | <b>\$ 763</b>                       | <b>\$ 246</b> | <b>\$ (94)</b>     | <b>\$ 915</b>       |

- (a) Reflects the impact of divesting one of the asset portfolios required to achieve FERC regulatory approval. See The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans for information on such divestitures.
- (b) RJS Power includes a \$36 million charge for the write-off of unamortized debt discount and deferred financing costs, on RJS Power's then outstanding debt, in connection with the issuance of the 2019 Senior Notes.
- (c)

Energy Supply includes \$32 million of ARO accretion that is recognized in Other operation and maintenance on the Pro Forma Condensed Combined Statement of Income included under Unaudited Pro Forma Condensed Combined Financial Information.

- (d) Represents non-cash change in the fair value of derivative instruments that have been included in Energy Supply's and RJS Power's earnings.
- (e) Comprised of two adjustments resulting from the Raven Acquisition in 2012. RJS Power has adjusted EBITDA as reported for pension related payments of \$3 million made to legacy CPSG employees, as such payments will no longer be a recurring expense for RJS Power after December 31, 2014. RJS



**Table of Contents**

Power has also adjusted its EBITDA as reported to reflect a capacity make whole payment of \$17 million from CPSG. Under the Purchase and Sale Agreement between CPSG and Raven Power Holdings LLC, CPSG agreed to capacity make-whole payments for uncleared capacity in the 2014/2015 PJM Capacity year. The right to receive the capacity make-whole payment from CPSG was recorded as a receivable on RJS Power's balance sheet under the purchase accounting rules. Payments received under this agreement are not reflected as revenue in RJS Power financial statements. RJS Power makes an adjustment to EBITDA to eliminate the effect of adjustments resulting from the application of purchase accounting to this payment stream.

- (f) For Energy Supply, reflects the portion of PPL's non-cash stock-based compensation cost allocable to Energy Supply. For RJS Power, reflects non-cash compensation expense related to agreements directly with the owners of RJS Power and the contracted asset manager, TPM, which allows TPM to participate in the profits of RJS Power if certain cash generation and distribution targets are met. Although the amounts paid under these agreements are not paid directly by RJS Power, RJS Power recognizes amounts paid under these agreements as non-cash compensation expense included in general and administrative expenses on its consolidated and combined statement of operations.
- (g) In June, 2014, Energy Supply's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, estimated bargaining unit one-time voluntary retirement benefits were recorded. In addition, in 2014, Energy Supply recorded separation benefits related to the anticipated spinoff transaction.
- (h) In 2014, Energy Supply recorded \$17 million to Energy-related businesses' revenues on the Statement of Income to correct an error related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

---

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS**

*The following are some of the questions that Talen Energy stockholders and PPL shareholders may have regarding the Transactions and brief answers to those questions. For more detailed information about the matters discussed in these questions and answers, see *The Transactions* and *The Separation Agreement and the Transaction Agreement* which are included elsewhere in this prospectus. These questions and answers, as well as the summary in this prospectus, are not meant to be a substitute for the information contained in the remainder of this prospectus, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this prospectus. Shareholders are urged to read this prospectus in its entirety. You should pay special attention to the *Risk Factors* and *Cautionary Statement Regarding Forward-Looking Statements* which are included elsewhere in this prospectus.*

**Q:** *What are the Transactions?*

**A:** The Transactions are a series of transactions that will ultimately result in the separation of the Energy Supply business from PPL and the combination of that business with the RJS Power business to form Talen Energy. The Distribution is the final step in the separation of Energy Supply from PPL, which will be a pro rata distribution of all the then outstanding shares of common stock of HoldCo, which will own Energy Supply and Talen Energy, by PPL to holders of PPL common stock as of the record date. PPL will have no continuing ownership interest in, control of or affiliation with Talen Energy following the Distribution. Under the terms of the Transaction Agreement, immediately following the Distribution, a subsidiary of Talen Energy will merge with and into HoldCo, with HoldCo continuing as the surviving corporation and a wholly owned subsidiary of Talen Energy, and the shares of HoldCo common stock will be automatically converted into a like number of shares of Talen Energy common stock. Immediately following the Distribution and Merger, the RJS Power business will be contributed by the Contributors to Talen Energy in exchange for a number of shares of Talen Energy common stock in a private placement transaction that will result in PPL's shareholders owning 65%, and the Contributors collectively owning the remaining 35%, of the Talen Energy common stock immediately following the Combination.

**Q:** *What is Talen Energy?*

**A:** Talen Energy is a wholly owned indirect subsidiary of PPL incorporated under the laws of Delaware. Following the Transactions, Talen Energy will be an independent, publicly traded company operating the combined Energy Supply and RJS Power businesses.

**Q:** *What is the reason for the Transactions?*

**A:** PPL determined that the Transactions would be in the best interests of PPL and its shareholders because the Transactions would provide a number of key benefits, including primarily: (1) the creation of one of the nation's largest independent power producers with approximately 14,000 megawatts of diversified capacity focused primarily in PJM and ERCOT; (2) the expectation that the combined company will be environmentally

well-positioned and have a highly diversified fleet, robust cash flow generation capability and conservative capitalization providing a platform for future growth; (3) the creation of significant shareholder value by providing the PPL utility operations and Talen Energy competitive power generation operations the ability to make operating and capital decisions as separate businesses, the significant synergy potential from cost savings plus additional benefits from improved asset commercialization across Talen Energy's generation fleet and the tax-free transaction structure; (4) the ability to use Talen Energy's equity as compensation for employees in the competitive power generation business, which will result in equity compensation that is more in line with the financial results of such employees' direct work product; and (5) the expectation that PPL and Energy Supply will have compelling growth prospects as stand-alone companies and that the financial markets will ascribe valuations that more appropriately recognize the inherent strengths of each company. See The Transactions PPL's Reasons for the Transactions.

**Table of Contents**

Q: *Why did PPL decide not to separate the Energy Supply business in a stand-alone spinoff transaction and instead engage in the Transactions with RJS?*

A: PPL decided to pursue the Transactions with RJS rather than a stand-alone spinoff transaction involving the Energy Supply business because it determined that the expected value to PPL and its shareholders from pursuing the Transactions was greater than the value to PPL and its shareholders of a stand-alone spinoff or split-off of the Energy Supply business.

The principal countervailing factors considered by PPL in its deliberations concerning the Transactions were:

that the Transactions necessarily involved another party and therefore presented execution risks that would not be present in a single party transaction like a spinoff or split-off; and

the possibility that the anticipated benefits of the Transactions might not be realized.

See The Transactions PPL's Reasons for the Transactions for more information.

Q: *What will I receive in the Transactions?*

A: Each share of PPL common stock outstanding as of the record date will entitle its holder to receive a number of shares of HoldCo common stock, as determined by a formula based on the number of shares of PPL common stock outstanding at 5:00 p.m., New York City time, on the record date. Each such record holder will be entitled to receive a number of shares of HoldCo common stock equal to the aggregate number of shares of HoldCo common stock multiplied by a fraction, the numerator of which is the number of shares of PPL common stock held by such record holder on the record date and the denominator of which is the total number of shares of PPL common stock outstanding on the record date. Based on the number of shares of PPL common stock outstanding as of March 31, 2015, we expect the distribution ratio to be approximately 0.125 shares of HoldCo common stock for each share of PPL common stock. As a result of the Merger immediately following the Distribution, each such share of HoldCo common stock will be automatically converted into one share of Talen Energy common stock prior to its delivery to PPL's shareholders. Based on the number of shares of PPL common stock outstanding as of March 31, 2015, we expect the distribution ratio to be approximately 0.125 Talen Energy shares for each share of PPL common stock. Although the number of shares of PPL common stock outstanding may increase or decrease prior to the record date and as a result this distribution ratio may change, it will nonetheless result in PPL shareholders owning 65%, and the Contributors collectively owning 35%, of the common stock of Talen Energy immediately following the Combination. PPL shareholders will not receive any new shares of common stock of Talen Energy in the Combination and will continue to hold the Talen Energy shares they received in the Distribution.

No certificates or scrip representing fractional shares of Talen Energy common stock will be issued pursuant to the Merger. Fractional shares of Talen Energy common stock that would otherwise be allocable to any record holders of PPL common stock will be aggregated, and no record holder of PPL common stock will receive cash equal to or greater than the value of one full share of Talen Energy common stock. Following the Merger, an exchange agent will sell the aggregated whole shares of Talen Energy common stock in the open market or otherwise as reasonably directed by PPL, in consultation with the Contributors. The exchange agent will make available the net proceeds of

this sale, after deducting any required withholding taxes and brokerage charges, commissions and transfer taxes, on a pro rata basis, without interest, as soon as practicable to the record holders of PPL common stock.

Q: *What PPL shareholder approvals are required?*

A: None. PPL, as the sole stockholder of HoldCo, and Talen Energy, as sole stockholder of Merger Sub, must approve the Merger. PPL shareholders are not required to take any action to approve the Transactions. After the Merger, Talen Energy will mail to the holders of PPL common stock who are entitled to receive shares of Talen Energy common stock book-entry statements evidencing their ownership of Talen Energy common

**Table of Contents**

stock, cash payments in lieu of fractional shares of Talen Energy (if any) and related tax information, and other information regarding their receipt of Talen Energy common stock.

No PPL shareholders will be required to pay any cash or other consideration for shares of Talen Energy common stock received in the Distribution, or to surrender or exchange PPL shares in order to receive shares of Talen Energy common stock and they should not return their PPL stock certificates. The Transactions will have no effect on the number of shares of PPL common stock owned by PPL shareholders or the number of shares of PPL common stock outstanding. No vote by PPL shareholders is required or sought in connection with the Distribution, the Merger or the Combination, and PPL shareholders will have no appraisal rights in connection with the Transactions.

*Q: Are there any conditions to the consummation of the Transactions?*

*A:* Yes, the consummation of the Transactions is subject to the satisfaction or waiver (to the extent permitted by applicable law) of a number of conditions, including among other things, that (i) the SEC declare effective this registration statement and no stop order of the SEC suspending effectiveness of this registration statement be in effect prior to the Separation Transactions; (ii) the Talen Energy common stock be authorized for listing on the NYSE; (iii) certain regulatory approvals be obtained, including approval by the NRC and the FERC, Hart-Scott-Rodino clearance and certain approvals by the PUC, and (iv) there be, after giving effect to the financings contemplated in connection with the Closing Transactions and the posting of any credit support and other financial commitments required to be provided by RJS Power, Talen Energy, Merger Sub, HoldCo, Energy Supply and/or their respective subsidiaries in connection with, or as a condition to, regulatory approvals required in connection with the Separation Transactions and the Closing Transactions, at least \$1.00 billion of undrawn capacity under a revolving credit facility or similar facility available to Talen Energy and its subsidiaries (for purposes of which any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding shall not be considered as drawn against such facility). This prospectus describes these conditions in more detail in *The Separation Agreement and the Transaction Agreement* *The Separation Agreement Conditions to the Separation* and *The Separation Agreement and the Transaction Agreement Conditions to Consummation of the Closing Transactions*. No approval by the Contributors is required in connection with the Distribution, the Merger or the Combination.

*Q: How will PPL distribute Talen Energy shares of common stock?*

*A:* Holders of PPL common stock as of the record date will receive shares of Talen Energy common stock in book-entry form. See *The Transactions Structure of the Distribution, the Merger and the Combination How You Will Receive Talen Energy Common Stock*.

*Q: What is the record date for the Distribution?*

*A:* Record ownership will be determined as of 5:00 p.m., New York City time, on May 20, 2015, which we refer to as the record date.

Q: *When will the Transactions occur?*

A: The date of the Distribution is expected to be on or about June 1, 2015, which we refer to as the Distribution Date. The Merger and the Combination will occur immediately thereafter. We expect that it will take the distribution agent, acting on behalf of PPL, up to three business days after the Distribution Date to fully distribute our common stock to PPL shareholders.

Q: *What will happen to the listing of my PPL common stock?*

A: Nothing. PPL common stock will continue to be traded on the NYSE under the symbol PPL.

**Table of Contents**

*Q: Will the spinoff affect the trading of my PPL common stock?*

A: Until the market has fully analyzed the value of PPL without the Energy Supply business, the price of PPL common stock may fluctuate. In addition, it is anticipated that shortly before the record date and through the Distribution Date, there will be two markets in PPL common stock: a regular way market and an ex-distribution market. PPL common stock that will trade on the regular way market will trade with an entitlement to the Talen Energy common stock distributed pursuant to the Distribution and Merger. Stock that trades on the ex-distribution market will trade without an entitlement to the Talen Energy common stock distributed pursuant to the Distribution and Merger. See *The Transactions Listing and Trading of Our Common Stock*.

*Q: What if I want to sell my PPL common stock or my Talen Energy common stock?*

A: You should consult with your financial advisors, such as your stockbroker, bank or tax advisor. Neither PPL nor Talen Energy makes any recommendations as to the purchase, retention or sale of PPL common stock or the Talen Energy common stock to be distributed in the Distribution and Merger.

If you decide to sell any stock before the Distribution, you should make sure your stockbroker, bank or other nominee understands whether you want to sell your PPL common stock or the Talen Energy common stock you will receive in the Distribution and Merger or both. If you sell your PPL common stock in the regular way market up to and including the Distribution Date, you will be selling your right to receive Talen Energy common stock in the Distribution and Merger. However, if you own PPL common stock as of 5:00 p.m., New York City time, on the record date and sell those shares in the ex-distribution market up to and including the Distribution Date, you will still receive the Talen Energy common stock that you would be entitled to receive in respect of the PPL common stock you owned as of 5:00 p.m., New York City time, on the record date. See *The Transactions Listing and Trading of Our Common Stock*.

*Q: How will fractional shares be treated in the Transactions?*

A: Holders of PPL common stock will not receive fractional shares of Talen Energy common stock in connection with the Transactions. Instead, the distribution agent will sell whole shares that otherwise would have been distributed as fractional shares of Talen Energy in the open market at prevailing market prices and distribute the aggregate cash proceeds of the sales, net of brokerage fees and similar costs, pro rata to each PPL shareholder who would otherwise have been entitled to receive a fractional share of Talen Energy common stock in the Transactions. The receipt of cash in lieu of fractional shares will generally be taxable to the recipient shareholder. See *The Transactions Structure of the Distribution, the Merger and the Combination Treatment of Fractional Shares*.

*Q: Who will serve on the board of directors of the combined company?*

A: Pursuant to the terms of the Transaction Agreement and the Stockholders Agreement, immediately prior to the completion of the Transactions, Talen Energy's board of directors will consist of the following individuals: Ralph



C. Alexander, Frederick M. Bernthal, Edward J. Casey, Jr., Philip G. Cox, Stuart E. Graham, Louise K. Goeser, Michael B. Hoffman and Paul A. Farr, who will be our President and Chief Executive Officer. Following the completion of the Transactions, the majority of Talen Energy's directors will be independent, as determined in accordance with the criteria for independence required by the NYSE. See Management of Talen Energy Following the Transactions Directors.

Q: *Who will manage the business of the combined company following the Combination?*

A: Following the Combination, the business of the combined company will be managed by Paul A. Farr, presently President of Energy Supply and Executive Vice President of Talen Energy, who will be the President and Chief Executive Officer of the combined company and will no longer be employed by PPL. The senior management of the combined company will also include Jeremy R. McGuire, Senior Vice President and Chief Financial Officer, Clarence J. Hopf, Jr., Senior Vice President and Chief Commercial Officer, Timothy S. Rausch, Senior Vice President and Chief Nuclear Officer, James E. Schinski, Senior

**Table of Contents**

Vice President and Chief Administrative Officer, Paul M. Breme, Vice President, General Counsel and Corporate Secretary, and J. Matt Simmons, Jr., Vice President and Chief Accounting and Risk Officer. See Management of Talen Energy Following the Transactions Executive Officers.

*Q: What will be the indebtedness of the combined company following completion of the Transactions?*

*A:* In connection with the Transactions, Energy Supply will acquire all of RJS Power's assets and liabilities and will enter into a new revolving credit facility. Assuming the closing of the Transactions as of December 31, 2014, the combined company would have had approximately \$4,107 million in total indebtedness on a pro forma basis immediately following the Combination (including \$688 million of short-term indebtedness). See Unaudited Pro Forma Condensed Combined Financial Information and Capitalization.

*Q: How will the rights of shareholders of PPL change after the Transactions?*

*A:* Following the Transactions, PPL shareholders will continue to own all of their shares of PPL common stock. Their rights as PPL shareholders will not change, except that their shares of PPL common stock will represent an interest in PPL that no longer includes the ownership and operation of the Energy Supply business. PPL shareholders will also separately own stock of Talen Energy, which will include the combined Energy Supply and RJS Power businesses.

*Q: Will there be any payments by Talen Energy to PPL in connection with the Distribution?*

*A:* No, there will not be any payments made by Talen Energy to PPL in connection with the Distribution other than the adjustment of shared expenses and payments in connection with certain commercial arrangements with PPL described below.

*Q: Will there be post-closing adjustments in connection with the Distribution?*

*A:* Yes, pursuant to the Transaction Agreement, after the Combination, the parties will determine the actual amount of certain shared expenses and, if such actual amounts differ from the estimated amounts, a corresponding payment will be made to the applicable party. See The Separation Agreement and the Transaction Agreement The Transaction Agreement Transaction Expense Adjustments.

*Q: What is the current relationship between Talen Energy and both PPL and RJS?*

*A:* Talen Energy is currently a wholly owned indirect subsidiary of PPL and was incorporated as a Delaware corporation in order to effect the separation of the Energy Supply business from PPL. Other than in connection with the Transactions, there is currently no relationship between Talen Energy and RJS. After the Transactions,

Talen Energy or its subsidiaries will be a party to certain commercial arrangements with PPL and the Contributors and/or their affiliates, which arrangements are described under The Separation Agreement and the Transaction Agreement Ancillary Agreements Transition Services Agreements.

*Q: What are the U.S. federal income tax consequences to me of the Distribution, Merger and Combination?*

*A:* PPL expects to receive an opinion from Simpson Thacher to the effect that the HoldCo Contribution together with the Distribution, will qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code, that the Merger will qualify as a reorganization pursuant to Section 368(a) of the Code, and that the Merger and Combination together will qualify as a transaction described in Section 351 of the Code. Such opinion will rely on certain facts and assumptions, and certain representations and undertakings, provided by us, PPL and the Contributors regarding the past and future conduct of our business and other matters.

Assuming that the HoldCo Contribution and the Distribution together qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code, for U.S. federal income tax purposes no gain or loss will be recognized by PPL shareholders upon the deemed

---

**Table of Contents**

receipt of HoldCo common stock pursuant to the Distribution. Assuming that the Merger qualifies as a reorganization pursuant to Section 368(a) of the Code and that the Merger and Combination together will qualify as a transaction described in Section 351 of the Code, deemed HoldCo stockholders will not recognize any gain or loss for U.S. federal income tax purposes as a result of the Merger and Combination, except for any gain or loss attributable to cash received in lieu of a fractional share of Talen Energy. See *The Transactions Material U.S. Federal Income Tax Consequences of the Transactions* and *Risk Factors Risks Relating to the Transactions*. If the Distribution does not qualify as a tax-free distribution under the Code and/or the Merger does not qualify as a reorganization under the Code, including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareholders may be required to pay substantial U.S. federal income taxes.

Each PPL shareholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the Distribution, Merger and Combination to that shareholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.

*Q: How will I determine the tax basis I will have in the Talen Energy shares of common stock I receive in the Merger?*

A: Generally, for U.S. federal income tax purposes, your aggregate basis in the shares of common stock you hold in PPL and the new shares of HoldCo common stock deemed to be received in the Distribution will equal the aggregate basis of PPL common stock held by you immediately before the Distribution. This aggregate basis will be allocated among your PPL common stock and the HoldCo common stock you receive in the Distribution, in proportion to the relative fair market value of each immediately following the Distribution. In general, your aggregate basis in shares of Talen Energy common stock you receive in the Merger (including any fractional shares in Talen Energy for which cash is received) will equal your basis in the HoldCo common stock you receive in the Distribution. See *The Transactions Material U.S. Federal Income Tax Consequences of the Transactions* for more information.

*Q: Does Talen Energy intend to pay cash dividends?*

A: No, we do not currently expect to declare or pay dividends on our common stock. See *Dividend Policy*.

*Q: How will Talen Energy shares trade?*

A: Currently, there is no public market for Talen Energy common stock. We have applied to list our common stock on the NYSE under the symbol TLN.

We anticipate that trading of Talen Energy common stock will commence on a when-issued basis on or shortly prior to the record date and before the Distribution Date. When-issued trading in the context of a spinoff refers to a sale or purchase of securities effected on or before the Distribution Date and made conditionally because the securities of the spun off entity have not yet been distributed. When-issued trades generally settle within four trading days of the Distribution Date. On the first trading day following the Distribution Date, any when-issued trading in respect of Talen Energy common stock will end and regular-way trading will begin. Regular-way trading refers to trading after

the security has been distributed and typically involves a trade that settles on the third full trading day following the date of the sale transactions. See [The Transactions Listing and Trading of Our Common Stock](#).

Q: *Do I have appraisal rights?*

A: No. Holders of PPL common stock are not entitled to appraisal rights in connection with the Transactions.

Q: *Who will be the transfer agent for Talen Energy shares?*

A: Wells Fargo Bank, National Association will be the transfer agent for Talen Energy shares.

**Table of Contents**

Q: *Are there risks associated with owning Talen Energy common stock upon consummation of the Transactions?*

A: Our business is subject to both general and specific risks and uncertainties relating to the businesses of Energy Supply and RJS Power. Our business is also subject to risks relating to the Transactions. Accordingly, you should read carefully the information set forth in the section entitled Risk Factors.

Q: *Where can I get more information?*

A: If you have any questions relating to the mechanics of the Distribution, you should contact the distribution agent at:

Wells Fargo Bank, National Association

Attn: Shareowner Services

1110 Centre Pointe Curve, Suite 101

Mendota Heights, MN 55120-4100

Before the Transactions, if you have any questions relating to the Transactions, you should contact PPL at:

PPL Corporation

Attn: Investor Relations

Two North Ninth Street

Allentown, PA 18101-1179

Tel: (610) 774-5151

---

**Table of Contents****RISK FACTORS**

*You should carefully consider the following risk factors, together with information contained or incorporated by reference in this prospectus in evaluating Talen Energy and its common stock. The risks described below are the material risks, although not the only risks relating to the Transactions. If any of the following risks and uncertainties develop into actual events, these events could have a material adverse effect on Talen Energy's business, financial condition, results of operations or cash flows after the Transactions. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.*

**Risks Relating to the Transactions**

*The completion of the Distribution and Combination are contingent upon the satisfaction of a number of conditions and may present difficulties that could have an adverse effect on us.*

The proposed spinoff of the Energy Supply business and the subsequent Combination with the RJS Power business to form Talen Energy are complex transactions, subject to various conditions, and may be affected by unanticipated developments or changes in market conditions. Completion of the Distribution and Combination are contingent upon a number of factors, including that (i) PPL receives a favorable legal opinion of tax counsel as described below; (ii) the SEC declares effective this registration statement and no SEC stop order suspending effectiveness of this registration statement be in effect prior to the Separation Transactions; (iii) the Talen Energy common stock be authorized for listing on the New York Stock Exchange; (iv) certain regulatory approvals be obtained, including approval by the NRC and the FERC, Hart-Scott-Rodino clearance and certain approvals by the PUC and (v) there be, after giving effect to the financings contemplated in connection with the Closing Transactions and the posting of any credit support and other financial commitments required to be provided by RJS Power, Talen Energy, Merger Sub, HoldCo, Energy Supply and/or their respective subsidiaries in connection with, or as a condition to, regulatory approvals required in connection with the Separation Transactions and the Closing Transactions, at least \$1.00 billion of undrawn capacity under a revolving credit facility or similar facility available to Talen Energy and its subsidiaries (for purposes of which any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding shall not be considered as drawn against such facility). The Distribution and Combination may be terminated by mutual written consent of the parties or subject to certain other circumstances, including the failure to complete these transactions by June 30, 2015 or, if the required regulatory approvals have not been obtained at such time but the other conditions to the consummation of these transactions have been or are capable of being satisfied, December 31, 2015. For these and other reasons, the Distribution and Combination may not be completed on the terms or within the expected timeframe, if at all. Further, if the Distribution and Combination are completed, such transactions may not achieve the intended results.

*If the Distribution does not qualify as a tax-free distribution under the Code and/or the Merger does not qualify as a reorganization under the Code, including as a result of subsequent acquisitions of stock of PPL or Talen Energy, then PPL and/or its shareholders may be required to pay substantial U.S. federal income taxes.*

Among other requirements, the completion of the Transactions is conditioned upon PPL's receipt of a legal opinion of Simpson Thacher to the effect that, the HoldCo Contribution, together with the Distribution, will qualify as a reorganization pursuant to Section 368(a)(1)(D) and a tax-free distribution pursuant to Section 355 of the Code, that the Merger will qualify as a reorganization pursuant to Section 368(a) of the Code, and that the Merger and Combination together will qualify as a transaction described in Section 351 of the Code. Although receipt of such opinion of Simpson Thacher will satisfy a condition to completion of the Distribution and subsequent Merger, that legal opinion will not be binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the

Distribution and Merger that are different from the conclusions reached in such opinion. PPL is not aware of any facts or circumstances that would cause the factual statements or representations on which the legal opinion will be based to be materially different from the facts at the time of the Distribution. If, notwithstanding the receipt of such opinion, the IRS were to determine the Distribution to be



**Table of Contents**

taxable, PPL would, and its shareholders could, depending on their individual circumstances, recognize a tax liability that could be substantial. In addition, notwithstanding the receipt of such opinion, if the IRS were to determine the Merger to be taxable, PPL shareholders may, depending on their individual circumstances, recognize a tax liability that could be material.

In addition, the Distribution will be taxable to PPL pursuant to Section 355(e) of the Code if there is a 50% or greater change in ownership (by vote or value) of either PPL or Talen Energy, directly or indirectly, as part of a plan or series of related transactions that include the Distribution. Because PPL's shareholders will collectively own more than 50% of Talen Energy's common stock following the Distribution and subsequent Merger and Combination, the Merger and Combination alone will not cause the Distribution to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if acquisitions of stock of PPL before or after the Distribution, or of Talen Energy after the Merger and Combination, are considered to be part of a plan or series of related transactions that include the Distribution. PPL is not aware of any such plan or series of transactions that include the Distribution.

***We may not realize the anticipated synergies, cost savings and growth opportunities from the Combination.***

The benefits that we expect to achieve as a result of the Combination will depend, in part, on the ability of the combined company to realize anticipated growth opportunities, cost savings and other synergies. Our success in realizing these growth opportunities, cost savings and synergies, and the timing of this realization, depends on the successful integration of the Energy Supply and RJS Power businesses. Even if the combined company is able to integrate the Energy Supply and RJS Power businesses successfully, this integration may not result in the full realization of the growth opportunities, cost savings and other synergies that we currently expect from this integration, either within the anticipated time frame or at all. For example, the combined company may be unable to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of Energy Supply and RJS Power's businesses. Such expenses are difficult to estimate accurately.

***The integration of the Energy Supply business with the RJS Power business following the Transactions may present significant challenges.***

There are significant challenges inherent in the process of integrating the Energy Supply and RJS Power businesses. These difficulties include:

the challenge of carrying on the ongoing operations of each business as part of a combined company;

the challenge of integrating the business cultures of each business;

the challenge and cost of integrating the information technology ( IT ) systems of each business; and

the potential difficulty in retaining key employees of Energy Supply and RJS Power.

The process of integrating operations may require the combined company to incur substantial out-of-pocket costs. Members of our senior management may be required to devote considerable amounts of time and attention to this integration process, which will decrease the time they will have to manage the combined company. If senior management is not able effectively to manage the integration process, or if any significant business activities are

interrupted as a result of the integration process, the combined company could suffer.

We cannot assure you that the combined company will successfully or cost-effectively integrate the Energy Supply and RJS Power businesses. The failure to do so could have a material adverse effect on the combined company's financial condition and results of operations.

**Table of Contents**

***The combined company may not have access to equivalent benefits and services or financial strength and resources that historically have been provided by PPL and Riverstone, respectively.***

The Energy Supply business and the RJS Power business have been able to receive benefits and services from, and have been able to benefit from the financial strength of, PPL and Riverstone, respectively. After the Transactions, the combined company will no longer benefit from resources of PPL or Riverstone, other than pursuant to the Transition Services Agreements. If we are not able to replace the resources provided by PPL or Riverstone, are unable to replace them at the same or lower cost or are delayed in replacing the resources provided by PPL or Riverstone, our business, financial condition and results of operations may be negatively impacted.

***Energy Supply's and RJS Power's historical and pro forma combined financial data are not necessarily representative of the results the combined company would have achieved and may not be a reliable indicator of the combined company's future results.***

Energy Supply's and RJS Power's historical and pro forma financial data included in this prospectus may not reflect what Energy Supply's and RJS Power's results of operations, financial condition and cash flows would have been had they been a combined company during the periods presented, or what the combined company's results of operations, financial condition and cash flows will be in the future. Among other factors, this is because:

Prior to the Transactions, PPL operated the Energy Supply business as part of its broader corporate organization and PPL, or one of its affiliates, performed certain corporate functions for the Energy Supply business, including tax and treasury administration and certain governance functions, including internal audit and external reporting. Our historical financial statements and pro forma financial information reflect allocations of corporate expenses from PPL for these and similar functions and may not reflect the costs that Talen Energy, as a stand-alone public company, will incur for similar services in the future.

Prior to the Transactions, the assets owned by RJS Power and its subsidiaries were managed by TPM, which is an affiliate of RJS Power. The services provided by TPM include asset management, accounting, budgeting, human resources, commercial and risk management and legal. RJS Power's historical financial statements and pro forma financial information reflect the costs incurred by TPM to provide these services and other necessary functions required to operate the business and may not reflect the costs that Talen Energy, as a stand-alone public company, will incur for similar services in the future.

As discussed above, completion of the Transactions is subject to a number of conditions, including receipt of certain federal and state regulatory approvals, the receipt of which will require Talen Energy to dispose of certain assets, including the sale of approximately 1,300 MW of generating capacity to satisfy FERC's order approving the Transactions. See Risk Factors Risks Relating to the Transactions The completion of the Distribution and Combination are contingent upon the satisfaction of a number of conditions and may present difficulties that could have an adverse effect on us, The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans and Business Talen Energy.

Other significant changes may occur in our cost structure, management, financing and business operations as a result of operating as a combined company.

In addition, the pro forma financial data we have included in this prospectus are based in part upon a number of estimates and assumptions. These estimates and assumptions may prove not to be accurate and, accordingly, our pro forma financial data should not be assumed to be indicative of what our financial condition or results of operations actually would have been as a combined company and may not be a reliable indicator of what our financial condition or results of operations actually may be in the future.

---

**Table of Contents**

***Our accounting, management and financial reporting systems may not be adequately prepared to comply with public company reporting, disclosure controls and internal control over financial reporting requirements.***

Prior to the Transactions, the financial results of the Energy Supply business previously were included within the consolidated results of PPL, and neither Talen Energy nor RJS Power or its subsidiaries were subject to the reporting and other requirements of the Exchange Act. As a result of the Transactions, we will be directly subject to reporting and other obligations under the Exchange Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to the combined company's business and financial condition. Following the Combination, we will be responsible for ensuring that all aspects of the combined company's business comply with Section 404 of the Sarbanes-Oxley Act. Under the Sarbanes-Oxley Act, we will be required to maintain effective disclosure controls and procedures and internal control over financial reporting. In addition, our management will be required to assess the effectiveness of our internal control over financial reporting and we will be required to obtain a report by an independent registered public accounting firm addressing the effectiveness of our internal control over financial reporting on an annual basis, subject to applicable phase-in periods.

To comply with these requirements, the combined company may need to upgrade its systems, implement additional financial and management controls, reporting systems and procedures, and hire additional accounting, legal and finance staff. The combined company expects to incur additional annual expenses for the purpose of addressing these requirements, and those expenses may be significant. If the combined company is unable to upgrade its financial and management controls, reporting systems, IT systems and procedures in a timely and effective fashion, our ability to satisfy our financial reporting requirements and other rules that apply to reporting companies under the Exchange Act and the Sarbanes-Oxley Act could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on the combined company's business, financial condition and results of operations.

***We expect that the combined company will incur significant one-time costs associated with the Transactions that could affect the period-to-period operating results of the combined company following completion of the Transactions.***

We anticipate that the combined company will incur one-time charges as a result of costs associated with the Transactions, including approximately \$30 million to \$40 million of costs related to accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards for certain employees. We will not be able to quantify the exact amount of these charges or the period in which they will be incurred until after the Transactions are completed. Some of the factors affecting the costs associated with the Transactions include the timing of the completion of the Transactions, the resources required to integrate the Energy Supply and RJS Power businesses and the length of time during which transition services are provided to Energy Supply by PPL and TPM. The amount and timing of these charges could adversely affect the period-to-period operating results of Talen Energy, which could result in a reduction in the market price of shares of Talen Energy common stock. Moreover, delays in completing the integration may reduce or delay the synergies and other benefits expected from the Transactions and such reduction may be material.

***Our business, financial condition and results of operations may be adversely affected following the Combination if we, PPL and RJS Power are unable to obtain third-party consents for certain contracts.***

Certain contracts, including customer contracts, of the Energy Supply business and the RJS business, as well as certain contracts which are to be transferred or assigned to Talen Energy or its subsidiaries by PPL and its subsidiaries, contain provisions which require the consent of third parties to effect such transfers or assignments or the change in control with respect to the ownership of Energy Supply or RJS Power, as applicable. If we, PPL and RJS Power are unable to obtain these consents on commercially reasonable and satisfactory terms or at all, our ability to

obtain the benefit of such contracts in the future may be impaired. For example, the failure to obtain the consent of our or RJS Power's customers could result in lost sales and have an adverse effect on our results of operation, cash flows and financial condition.

**Table of Contents**

***The pendency of the Transactions could potentially adversely affect the business and operations of Energy Supply and RJS Power.***

In connection with the pending Transactions, some customers of each of Energy Supply and RJS Power may delay or defer decisions, may end their relationships with the relevant company or may reduce the amount of power purchased, which could negatively affect the revenues, earnings and cash flows of the Energy Supply business and the RJS Power business, regardless of whether the Transactions are completed. Similarly, it is possible that Energy Supply's and RJS Power's current and prospective employees could experience uncertainty about their future roles with us following the Transactions, which could materially adversely affect the ability of Energy Supply and RJS Power to attract and retain key personnel during the pendency and upon consummation of the Transactions.

***Our indebtedness, which would have been approximately \$4,107 million on a pro forma basis as of December 31, 2014 (including \$688 million of short-term indebtedness), could adversely affect our financial condition and impair our ability to operate our business.***

As of December 31, 2014, after giving effect to the Transactions, we would have had approximately \$4,107 million in total indebtedness. See Unaudited Pro Forma Condensed Combined Financial Information and Capitalization. Our indebtedness could have important consequences to our future financial condition, operating results and business, including the following:

requiring that a substantial portion of our cash flows from operations be dedicated to payments on our indebtedness instead of other purposes, including operations, capital expenditures and future business opportunities;

limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;

increasing our cost of borrowing; and

limiting our ability to adjust to changing market and economic conditions and limiting our ability to carry out capital spending that is important to our growth.

Although the agreements governing the New Revolving Facility will contain, and the indenture governing the RJS Power Holdings LLC senior notes does contain, restrictions on the incurrence of additional indebtedness, these restrictions will be subject to a number of qualifications and exceptions, and any additional indebtedness incurred in compliance with these restrictions could be substantial. If new indebtedness is added to our current indebtedness level, the related risks we will face could intensify. See Description of Material Indebtedness.

***Variable rate indebtedness subjects us to the risk of higher interest rates, which could cause our future debt service obligations to increase significantly.***

Our borrowings under the New Revolving Facility will be at variable rates of interest and will expose us to interest rate risk. If interest rates increase, our debt service obligations on such variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease.

***The agreements governing our indebtedness will contain restrictive covenants, which will restrict our operational flexibility.***

The agreements governing the New Revolving Facility will contain, and the indenture governing the RJS Power Holdings LLC senior notes does contain, restrictions and limitations, including financial and other restrictive covenants that will limit Talen Energy's subsidiaries' ability to:

incur additional indebtedness, or issue guaranties or certain preferred shares;

pay dividends, redeem stock or make other distributions;

repurchase, prepay or redeem subordinated indebtedness;



**Table of Contents**

make investments or acquisitions;

create liens;

make negative pledges;

consolidate or merge with another company;

sell or otherwise dispose of all or substantially all of our assets;

enter into certain transactions with affiliates; and

change the nature of our business.

The agreements governing the New Revolving Facility will also contain, and the indenture governing the RJS Power Holdings LLC senior notes does contain, other customary restrictions.

Our ability to borrow additional amounts under the New Revolving Facility and the indenture governing the RJS Power Holdings LLC senior notes will depend upon satisfaction of these covenants. Events beyond our control could affect our ability to meet these covenants. Our failure to comply with obligations under the agreements governing the New Revolving Facility and the indenture governing the RJS Power Holdings LLC senior notes may result in an event of default under those agreements. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our financial condition, operating results and business and could cause us to become bankrupt or insolvent. See Description of Material Indebtedness.

**Risks Related to Our Business**

*We face intense competition in the competitive power generation market, which may adversely affect our ability to operate profitably and generate positive cash flow.*

Our generation business is dependent on our ability to operate successfully in a competitive environment and is not assured of any rate of return on capital investments through a regulated rate structure. Competition is affected by electricity and fuel prices, new market entrants, construction by others of generating assets and transmission capacity, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. These competitive factors may negatively affect our ability to sell electricity and related products and services, as well as the prices that we receive for such products and services, which could adversely affect our results of operations and our ability to grow our business.

We sell our available energy and capacity into competitive wholesale markets through contracts of varying duration. Competition in the wholesale power markets occurs principally on the basis of the price of products and, to a lesser extent, reliability and availability. We believe that the commencement of commercial operation of new electricity

generating facilities in the regional markets where we own or control generation capacity and the evolution of demand side management resources will continue to increase competition in the wholesale electricity market in those regions, which could have an adverse effect on electricity and capacity prices.

We also face competition in the wholesale markets for generation capacity and ancillary services. We primarily compete with other electricity suppliers based on our ability to aggregate supplies at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities, ISOs and RTOs. We also compete against other energy marketers on the basis of relative financial condition and access to credit sources, and our competitors may have greater financial resources than we have.

Competitors in the wholesale power markets in which Talen Energy's businesses operate include regulated utilities, industrial companies, non-utility generators, competitive subsidiaries of regulated utilities and financial institutions.

**Table of Contents**

***We are exposed to operational, price and credit risks associated with selling and marketing products in the wholesale and retail electricity markets.***

We purchase and sell electricity in wholesale markets under market-based rates throughout the U.S. and also enter into short-term agreements to market available electricity and capacity from our generation assets with the expectation of profiting from market price fluctuations. If we are unable to deliver firm capacity and electricity under these agreements, we could be required to pay damages. These damages would generally be based on the difference between the market price to acquire replacement capacity or electricity and the contract price of any undelivered capacity or electricity. Depending on price volatility in the wholesale electricity markets, such damages could be significant. Extreme weather conditions, unplanned generation facility outages, environmental compliance costs, transmission disruptions, and other factors could affect our ability to meet our obligations, or cause significant increases in the market price of replacement capacity and electricity.

Our wholesale power agreements typically include provisions requiring us to post collateral for the benefit of our counterparties if the market price of energy varies from the contract prices in excess of certain pre-determined amounts. We currently believe that we have sufficient liquidity to fulfill our potential collateral obligations under these power contracts. However, our obligation to post collateral could exceed the amount of our facilities or our ability to increase our facilities could be limited by financial markets or other factors.

We also face credit risk that counterparties with whom we contract in both the wholesale and retail markets will default in their performance, in which case we may have to sell our electricity into a lower-priced market or make purchases in a higher-priced market than existed at the inception of the contract. Whenever feasible, we attempt to mitigate these risks using various means, including agreements that require our counterparties to post collateral for our benefit if the market price of energy varies from the contract price in excess of certain pre-determined amounts. However, there can be no assurance that we will avoid counterparty nonperformance risk, including bankruptcy, which could adversely impact our ability to meet our obligations to other parties, which could in turn subject us to claims for damages.

***Adverse changes in commodity prices and related costs may decrease our future energy margins, which could adversely affect our earnings and cash flows.***

Our energy margins, or the amount by which our revenues from the sale of power exceed our costs to supply power, are impacted by changes in market prices for electricity, fuel, fuel transportation, emission allowances, RECs, electricity capacity and related congestion charges and other costs. Unlike most commodities, the limited ability to store electricity requires that it must be consumed at the time of production. As a result, wholesale market prices for electricity may fluctuate substantially over relatively short time periods and can be unpredictable. Among the factors that influence such prices are:

demand for electricity;

supply of electricity available from current or new generation resources;

variable production costs, primarily fuel (and associated transportation costs) and emission allowance expense for the generation resources used to meet the demand for electricity;

transmission capacity and service into, or out of, markets served;

changes in the regulatory framework for wholesale power markets;

liquidity in the wholesale electricity market, as well as general creditworthiness of key participants in the market; and

weather and economic conditions affecting demand for or the price of electricity or the facilities necessary to deliver electricity.

**Table of Contents**

***Our risk management policy and programs relating to electricity and fuel prices, interest rates and counterparty credit and non-performance risks may not work as planned, and we may suffer economic losses despite such programs.***

We actively manage the market risk inherent in our generation and energy marketing activities, as well as our debt and counterparty credit positions. We have implemented procedures to monitor compliance with our risk management policy and programs, including independent validation of transaction and market prices, verification of risk and transaction limits, portfolio stress tests, sensitivity analyses and daily portfolio reporting of various risk management metrics. Nonetheless, our risk management programs may not work as planned. For example, actual electricity and fuel prices may be significantly different or more volatile than the historical trends and assumptions upon which we based our risk management calculations. Additionally, unforeseen market disruptions could decrease market depth and liquidity, negatively impacting our ability to enter into new transactions. We enter into financial contracts to hedge commodity basis risk, and as a result are exposed to the risk that the correlation between delivery points could change with actual physical delivery. Similarly, interest rates could change in significant ways that our risk management procedures were not designed to address. As a result, we cannot always predict the impact that our risk management decisions may have on us if actual events result in greater losses or costs than our risk models predict or greater volatility in our earnings and financial position.

We are also exposed to basis risk in our operations when our derivative contracts settle financially and we deliver physical electricity on different terms. For example, if we enter into an HRCO, we hedge our electricity production based on an agreed price for that electricity, but physical electricity must be delivered to delivery points in the market that we serve. We are exposed to basis risk between the hub price specified in the HRCO and the price that we receive for the sales of physical electricity. We attempt to hedge basis risk where possible, but hedging instruments are sometimes not economically feasible or available in the quantities that we require.

In addition, our trading, marketing and hedging activities are exposed to counterparty credit risk and market liquidity risk. We have adopted a credit risk management policy and program to evaluate counterparty credit risk. However, if counterparties fail to perform, we may be forced to enter into alternative arrangements at then-current market prices. In that event, our financial results could be adversely affected.

***We do not always hedge against risks associated with electricity and fuel price volatility.***

We attempt to mitigate risks associated with satisfying our contractual electricity sales obligations by either reserving generation capacity to deliver electricity or purchasing the necessary financial or physical products and services through competitive markets to satisfy our net firm sales contracts. We also routinely enter into contracts, such as fuel and electricity purchase and sale commitments, to hedge our exposure to fuel requirements and other electricity-related commodities. However, based on economic and other considerations, we may decide not to hedge the entire exposure of our operations from commodity price risk. To the extent we do not hedge against commodity price risk and applicable commodity prices change in ways that would be adverse to us, our results of operations and financial position may be adversely affected. To the extent we do hedge against commodity price risk, those hedges may not ultimately prove to be effective.

***The accounting for our hedging activities may increase the volatility in our quarterly and annual financial results.***

We engage in commodity-related marketing and price-risk management activities in order to physically and financially hedge our exposure to market risk with respect to electricity sales from our generation assets, fuel utilized by those assets and emission allowances.

We generally attempt to balance our fixed-price physical and financial purchases and sales commitments in terms of contract volumes and the timing of performance and delivery obligations through the use of financial and physical derivative contracts. These derivatives are recorded on the balance sheet at fair value with changes

## **Table of Contents**

in the fair value resulting from fluctuations in the underlying commodity prices immediately recognized in earnings, unless the derivative qualifies for cash flow hedge accounting treatment or the NPNS exception. Whether a derivative qualifies for cash flow hedge accounting treatment depends upon it meeting specific criteria used to determine if the cash flow hedge is and will remain appropriate for the term of the derivative. Specific criteria are also required in order to elect the NPNS exception, which permits qualifying hedges to be treated under the accrual accounting method. All economic hedges may not necessarily qualify for cash flow hedge accounting treatment or the NPNS exception, or Talen Energy may elect not to utilize cash flow hedge accounting or the NPNS exception. As a result, our quarterly and annual results are subject to significant fluctuations caused by changes in market prices.

### ***Adverse economic conditions could adversely affect our financial condition and results of operations.***

Adverse economic conditions and declines in wholesale energy prices, partially resulting from adverse economic conditions, have significantly impacted our earnings. The breadth and depth of these negative economic conditions had a wide-ranging impact on the U.S. business environment, including our businesses. In addition, adverse economic conditions also reduce the demand for energy commodities. This reduced demand continues to impact the key domestic wholesale energy markets we serve. The combination of lower demand for power and increased supply of natural gas has put downward price pressure on wholesale energy markets in general, further impacting our energy marketing results. In general, economic and commodity market conditions will continue to impact our unhedged future energy margins, liquidity, earnings growth and overall financial condition.

### ***Disruption in financial markets could adversely affect our financial condition and results of operations.***

Our businesses are heavily dependent on credit and access to capital, among other things, for financing capital expenditures and providing collateral to support hedging in our energy marketing business. Regulations under the Dodd-Frank Act in the United States and Basel III in Europe may impose costly additional requirements on our businesses and the businesses of others with whom we contract, such as banks or other counterparties, or simply result in increased costs to conduct our business or access sources of capital and liquidity upon which the conduct of our businesses is dependent.

### ***Increases in electricity prices and/or a weak economy, can lead to changes in legislative and regulatory policy including the promotion of energy efficiency, conservation and self-generation which may adversely impact our business.***

Energy consumption is significantly impacted by overall levels of economic activity and costs of energy supplies. Economic downturns or periods of high energy supply costs can lead to changes in or the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency and self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity demand, which could in turn adversely affect our business.

### ***We could be negatively affected by rising interest rates, downgrades to our credit ratings, adverse credit market conditions or other negative developments in our ability to access capital markets.***

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a capital-intensive business, we are sensitive to developments in interest rates, credit rating considerations, insurance, security or collateral requirements, market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit.





**Table of Contents**

***A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.***

Credit ratings assigned by Moody's and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. A ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund liquidity needs and access new long-term debt at acceptable interest rates.

***Future acquisition or divestiture activities may have adverse effects on our business.***

From time to time, we may seek to acquire additional assets or businesses. The acquisition of new assets or businesses is subject to substantial risks, including the failure to identify material problems during due diligence, the risk of over-paying for assets, the ability to retain customers and the inability to arrange financing for an acquisition as may be required or desired. Further, the integration and consolidation of acquired businesses requires substantial human, financial and other resources and, ultimately, such acquisitions may not be successfully integrated. There can be no assurances that any future acquired businesses will perform as expected or that the returns from such acquisitions will support the indebtedness incurred to acquire them or the capital expenditures needed to develop them.

In addition, we may from time to time choose to sell certain assets or businesses that are no longer core to our operations. In connection with such potential dispositions, we may indemnify or guarantee counterparties against certain liabilities, which may result in future costs or liabilities payable by us. In addition, we may incur additional costs as a result of disposing of certain assets or businesses, and we may experience write-downs of assets if the carrying value of the assets or business sold exceeds the price received.

***Changes in technology may negatively impact the value of our power plants.***

A basic premise of our generation business is that generating electricity at central power plants achieves economies of scale and produces electricity at relatively low prices. There are alternate technologies to supply electricity, most notably fuel cells, micro turbines, batteries, windmills and photovoltaic (solar) cells, the development of which has been expanded due to global climate change concerns. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternative generation to a level that is equal to or below that of certain central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage (the demand) by customers could decline, with a corresponding decline in revenues derived by generators. These alternative energy sources could result in a decline to the dispatch and capacity factors of our plants. As a result of all of these factors, the value of our generation facilities could be significantly reduced.

***We are subject to liability risks relating to our competitive power generation business operations.***

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

***Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.***

Operation of our power plants, information technology systems and other assets and conduct of other activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems

and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation

**Table of Contents**

of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us fully in the event losses occur.

***Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.***

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis if weather conditions such as heat waves, extreme cold, unseasonably mild weather or severe storms occur. The patterns of these fluctuations may change depending on the type and location of our facilities and the terms of our contracts to sell electricity.

***Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.***

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues and increase expenses, due to reduced usage and restoration costs.

***The full-requirements sales contracts that PPL EnergyPlus is awarded do not provide for specific levels of load and actual load significantly below or above our forecasts could adversely affect our energy margins.***

We generally hedge our full-requirements sales contracts with our own generation or energy purchases from third parties. If the actual load is significantly lower than the expected load, we may be required to resell power at a lower price than was contracted for to supply the load obligation, resulting in a financial loss. Alternatively, a significant increase in load could adversely affect our energy margins because we are required under the terms of full-requirements sales contracts to provide the energy necessary to fulfill increased demand at the contract price, which could be lower than the cost to procure additional energy on the open market. Therefore, any significant decrease or increase in load compared with our forecasts could have a material adverse effect on our results of operations and financial position.

***We may experience disruptions in our fuel supply, which could adversely affect our ability to operate our generation facilities.***

We purchase fuel and other products consumed during the production of electricity (such as coal, natural gas, oil, water, uranium, lime, limestone and other chemicals) from a number of suppliers. Delivery of these fuels to our facilities is dependent upon the continuing financial viability of contractual counterparties as well as the infrastructure (including rail lines, rail cars, barge facilities, roadways, riverways and natural gas pipelines) available to serve each generation facility. As a result, we are subject to the risks of disruptions or curtailments in the production of power at our generation facilities if fuel is unavailable at any price or if a counterparty fails to perform or if there is a disruption in the fuel delivery infrastructure. Disruption in the delivery of fuel, including disruptions as a result of weather, transportation difficulties, global demand and supply dynamics, labor relations, environmental regulations or the financial viability of our fuel suppliers, could adversely affect our ability to operate our facilities, which could result

in lower sales and/or higher costs and thereby adversely affect our results of operations.

**Table of Contents**

We have sold forward a portion of our power in order to lock in long-term prices that we deemed to be favorable at the time we entered into the forward sale contracts. In order to hedge our obligations under these forward power sales contracts, we have entered into long-term and short-term contracts for the purchase and delivery of fuel. Many of the forward power sales contracts do not allow us to pass through changes in fuel costs or discharge the power sale obligations in the case of a disruption in fuel supply due to force majeure events or the default of a fuel supplier or transporter. Disruptions in our fuel supplies may therefore require us to find alternative fuel sources at higher costs, to find other sources of power to deliver to counterparties at a higher cost, or to pay damages to counterparties for failure to deliver power as contracted. Any such event could have a material adverse effect on our financial performance.

We also buy significant quantities of fuel on a short-term or spot market basis. Prices for all of our fuels fluctuate, sometimes rising or falling significantly over a relatively short period of time. The price we can obtain for the sale of energy may not rise at the same rate, or may not rise at all, to match a rise in fuel or delivery costs. This may have a material adverse effect on our financial performance. Changes in market prices for coal, oil and natural gas may result from the following:

weather conditions;

seasonality;

demand for energy commodities and general economic conditions;

disruption or other constraints or inefficiencies of electricity, gas or coal transmission or transportation;

additional generating capacity;

availability and levels of storage and inventory for fuel stocks;

natural gas, crude oil, refined products and coal production levels;

changes in market liquidity;

federal, state and foreign governmental regulation and legislation; and

the creditworthiness and liquidity of fuel suppliers and/or transporters and their willingness to do business with us.

Our plant operating characteristics and equipment, particularly at our coal-fired plants, often dictate the specific fuel quality to be combusted. The availability and price of specific fuel qualities may vary due to supplier financial or

operational disruptions, transportation disruptions and force majeure. At times, coal of a specific quality may not be available at any price, or we may not be able to transport such coal to our facilities on a timely basis. In this case, we may not be able to run the coal facility even if it would be profitable. Operating a coal facility with different quality coal can lead to emission or operating problems. If we have sold forward the power from such a coal facility, we could be required to supply or purchase power from alternate sources, perhaps at a loss. This could have a material adverse impact on the financial results of specific plants and on our results of operations.

***Unforeseen changes in the price of coal and natural gas could cause us to hold excess coal inventories and incur contract termination costs.***

Extraordinarily low natural gas prices could cause natural gas to be the more cost-competitive fuel compared to coal for generating electricity. Because we enter into guaranteed supply contracts to provide for the amount of coal needed to operate our base load coal-fired generating facilities, we may experience periods where we hold excess amounts of coal if fuel pricing results in our reducing or idling coal-fired generating facilities in favor of operating available alternative natural gas-fired generating facilities. In addition, we may incur costs to terminate supply contracts for coal in excess of our generating requirements.

---

**Table of Contents**

***If the services provided by the transmission facilities that deliver the wholesale power from our generation facilities are inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. Furthermore, any change in the structure and operation of, or the various pricing limitations imposed by, the RTOs and ISOs that operate these transmission facilities may adversely affect the profitability of our generation facilities.***

We do not own or control the transmission facilities required to sell the wholesale power from our generation facilities. If the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. RTOs and ISOs provide transmission services, administer transparent and competitive power markets and maintain system reliability. Many of these RTOs and ISOs operate in the real-time and day ahead markets in which we sell energy. The RTOs and ISOs that oversee most of the wholesale power markets impose, and in the future may continue to impose, offer caps and other mechanisms to guard against the potential exercise of market power in these markets as well as price limitations. These types of price limitations and other regulatory mechanisms may adversely affect the profitability of our generation facilities that sell energy and capacity into the wholesale power markets. Problems or delays that may arise in the formation and operation of maturing RTOs and similar market structures, or changes in geographic scope, rules or market operations of existing RTOs, may also affect our ability to sell, the prices we receive or the cost to transmit power produced by our generating facilities. Rules governing the various regional power markets may also change from time to time, which could affect our costs or revenues. Additionally, if the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. Furthermore, the rates for transmission capacity from these facilities are set by others and thus are subject to changes, some of which could be significant. As a result, our financial condition, results of operations and cash flows may be materially adversely affected.

The FERC has issued regulations that require wholesale electricity transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that transmission capacity will not be available in the amounts we require. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets or whether ISOs and RTOs in applicable markets will efficiently operate transmission networks and provide related services.

***Because our generation facilities are part of interconnected regional grids, we face the risk of blackout due to a disruption on a neighboring interconnected system.***

Major electric power blackouts are possible and have occurred, which could disrupt electrical service for extended periods of time. If a blackout were to occur, the impact could result in interruptions to our operations, increased costs to replace existing contractual obligations, the possibility of regulatory investigations and potential operational risks to our facilities. Additionally, in response to a blackout, there could be changes or developments in applicable regulations or market structures that could have longer-term impact on our business and results of operations.

***The operation of our businesses is subject to cyber-based security and integrity risk.***

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our generation plants, including the Susquehanna nuclear plant, and of our energy and fuel trading businesses are reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by

unintentional events. As a result, operations could be interrupted, property could



**Table of Contents**

be damaged and sensitive customer information could be lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to our reputation. In addition, we may experience increased capital and operating costs to implement increased security for our cyber systems and plants.

***Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.***

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods and other climatic events, could disrupt our operations and cause us to incur significant costs in preparing for or responding to these effects. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Climate change could also affect the availability of a secure and economical supply of water in some locations, which is essential for the continued operation of our generation plants.

GHG regulation could increase the cost of electricity, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas both generally and specific to certain industries and consumers accustomed to previously lower cost power could reduce demand for the power we generate and market. Also, demand for our energy-related services could be similarly reduced by consumers' preferences or market factors favoring energy efficiency, low-carbon power sources or reduced electricity usage.

***We are required to obtain, and to comply with, government permits and approvals.***

We are required to obtain, and to comply with, numerous permits, approvals, licenses and certificates from federal, state and local governmental agencies. The process of obtaining and renewing necessary permits can be lengthy and complex and can sometimes result in the establishment of permit conditions that make the project or activity for which the permit was sought unprofitable or otherwise unattractive. In addition, such permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals, or failure to comply with applicable laws or regulations, may result in the delay or temporary suspension of our operations and electricity sales or the curtailment of our power delivery and may subject us to penalties and other sanctions. Although various regulators routinely renew existing licenses, renewal could be denied or jeopardized by various factors, including failure to provide adequate financial assurance for closure; failure to comply with environmental, health and safety laws and regulations or permit conditions; local community, political or other opposition; and executive, legislative or regulatory action.

Our cost or inability to obtain and comply with the permits and approvals required for our operations could have a material adverse effect on our operations and cash flows. In addition, new environmental legislation or regulations, if enacted, or changed interpretations of existing laws may elicit claims that historical routine modification activities at our facilities violated applicable laws and regulations. In addition to the possible imposition of fines in such cases, we may be required to undertake significant capital investments in pollution control technology and obtain additional operating permits or approvals, which could have an adverse impact on our business, results of operations, cash flows and financial condition.

***We are subject to risks associated with federal and state tax laws and regulations.***

Changes in tax law as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to

taxing authorities. These tax obligations include income, property, gross receipts and franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax

**Table of Contents**

credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict whether such tax legislation or regulation will be introduced or enacted or the effect of any such changes on our businesses. If enacted, any changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

***Despite federal and state deregulation initiatives, our generation business is still subject to extensive regulation, which may increase our costs, reduce our revenues, or prevent or delay operation of our facilities.***

Our generation subsidiaries sell electricity into the wholesale market. Generally, our generation subsidiaries and our marketing subsidiaries are subject to regulation by the FERC. The FERC has authorized us to sell generation from our facilities and power from our marketing subsidiaries at market-based prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose cost of service rates if it determines that the market is not competitive, that we possess market power or that we are not charging just and reasonable rates. Any reduction by the FERC in the rates we may receive or any unfavorable regulation of our business by state regulators could materially adversely affect our results of operations. In addition, pursuant to PJM's capacity performance proposal, we may be subject, under certain circumstances, to economic penalties, which could be material. See Business Our Key Markets PJM.

In addition, the acquisition, construction, ownership and operation of electricity generation facilities require numerous permits, approvals, licenses and certificates from federal, state and local governmental agencies. We may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approval or fail to comply with any applicable law or regulation, the operation of our assets and our sales of electricity could be prevented or delayed or become subject to additional costs.

***The availability and cost of emission allowances could negatively impact our costs of operations.***

We are required to maintain, through either allocations or purchases, sufficient emission allowances for sulfur dioxide, nitrogen oxide and carbon dioxide to support our operations in the ordinary course of operating our power generation facilities. These allowances are used to meet the obligations imposed on us by various applicable environmental laws. If our operational needs require more than our allocated allowances, we may be forced to purchase such allowances on the open market, which could be costly. If we are unable to maintain sufficient emission allowances to match our operational needs, we may have to curtail our operations so as not to exceed our available emission allowances, or install costly new emission controls. As we use the emission allowances that we have purchased on the open market, costs associated with such purchases will be recognized as operating expense. If such allowances are available for purchase, but only at significantly higher prices, the purchase of such allowances could materially increase our costs of operations in the affected markets.

***Our costs to comply with existing and new environmental and related worker health and safety laws are expected to continue to be significant, and we plan to incur significant capital expenditures for pollution control improvements that could adversely affect our profitability and liquidity or cause the continued operation of certain generation facilities to be uneconomic.***

Our business is subject to extensive federal, state and local statutes, rules and regulations relating to environmental protection and worker health and safety. Numerous governmental authorities, such as the EPA and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly response actions. These laws and regulations may impose numerous obligations that are applicable to our operations, including the acquisition of permits to conduct regulated activities,

the incurrence of capital or operating expenditures to limit or prevent releases of hazardous materials from our operations, the imposition of specific standards addressing worker protection, and the imposition of substantial liabilities and remedial obligations for pollution or contamination resulting from our operations. To comply with existing and future environmental requirements and as a result of voluntary pollution control measures we may take, we have spent and expect to spend substantial amounts in the future on

**Table of Contents**

environmental control and compliance. Failure to comply with these laws, regulations and permits may result in joint and several, strict liability for administrative, civil and/or criminal penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or preventing some or all of our operations. Private parties may also have the right to pursue legal actions to enforce compliance, as well as to seek damages for non-compliance, with environmental laws, regulations and permits or for personal injury or property damage.

Our operations also pose risks of environmental liability due to leakage, migration, releases or spills of hazardous substances to surface or subsurface soils, surface water or groundwater. Certain environmental laws impose strict as well as joint and several liability (that could result in an entity paying more than its fair share) for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us or facilities of third parties that received waste generated by our operations regardless of whether such contamination resulted from the conduct of others or from our own actions that were in compliance with all applicable laws at the time those actions were taken. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations.

The trend of more expansive and stringent environmental legislation and regulations applied to the power generation industry could continue, resulting in increased costs of doing business and consequently affecting profitability. Many states and environmental groups have challenged certain federal laws and regulations relating to air emissions, water discharge and intake requirements, and management of CCRs as not being sufficiently strict. As a result, state and federal regulations have been proposed or adopted that would impose more stringent restrictions, which could require us to significantly increase capital and operating expenditures for additional environmental controls. Furthermore, the EPA's cooling water intake rulemaking under Section 316(b) of the federal Clean Water Act and the EPA's imposition of Prevention of Significant Deterioration (PSD) construction permit requirements for GHG emissions could adversely affect our operations and restrict or delay our ability to obtain permits. At some of our older generating facilities it may be uneconomic for us to install necessary controls to comply with new or proposed regulations, which could cause us to retire those units.

In addition, while there has not been significant activity in recent years in the form of federal legislation to reduce GHG emissions, a number of state and regional GHG cap and trade programs have emerged. Also, additional federal regulations pertaining to GHG emissions reductions and increased use of low carbon technologies are anticipated in the coming years under President Obama's Climate Action Plan. Although it is not possible at this time to predict how future GHG emissions legislation or regulations would impact our business, any such future requirements could result in increased costs to address GHG emissions associated with our operations.

We may not be able to obtain or maintain all environmental regulatory approvals necessary for our planned capital projects which are necessary to our business. If there is a delay in obtaining any required environmental regulatory approval or if we fail to obtain, maintain or comply with any such approval, operations at our affected facilities could be halted, reduced or subjected to additional costs. See [Business The Companies Environmental Matters](#) for information concerning the more significant environmental laws and regulations applicable to our operations.

***We are subject to certain risks associated with nuclear generation, including the risk that our Susquehanna nuclear plant could become subject to increased security or safety requirements that would increase capital and operating expenditures, uncertainties regarding spent nuclear fuel, and uncertainties associated with decommissioning our plant at the end of its licensed life.***

Nuclear generation accounted for about 32% of Energy Supply's 2014 competitive power generation output. The risks of nuclear generation generally include:

the potential harmful effects on the environment and human health from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;

**Table of Contents**

limitations on the amounts and types of insurance commercially available to cover losses and liabilities that might arise in connection with nuclear operations; and

uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The licenses for our two nuclear units expire in 2042 and 2044. The NRC has broad authority under federal law to impose licensing requirements, including security, safety and employee-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, revised security or safety requirements promulgated by the NRC, particularly in response to the 2011 incident in Fukushima, Japan, could necessitate substantial capital or operating expenditures at our Susquehanna nuclear plant. There also remains substantial uncertainty regarding the temporary storage and permanent disposal of spent nuclear fuel, which could result in substantial additional costs to us that cannot be predicted. In addition, although we have no reason to anticipate a serious nuclear incident at our Susquehanna nuclear plant, if an incident did occur, any resulting operational loss, damages and injuries could have a material adverse effect on our results of operations, cash flows and financial condition.

***We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.***

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in Business The Companies Energy Supply Legal Proceedings and Business The Companies RJS Power Legal Proceedings. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

***We plan to optimize our competitive power generation operations, which involves a number of uncertainties and may not achieve the desired financial results.***

We plan to optimize our competitive power generation operations. We plan to do this through the construction of new power plants or modification of existing power plants, and the potential closure of certain existing plants and acquisition of plants that may become available for sale. These types of projects involve numerous risks. Any planned power plant modifications could result in cost overruns, reduced plant efficiency and higher operating and other costs. With respect to the construction of new plants or modification of existing plants, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. The success of both a new or acquired project would likely be contingent, among other things, upon obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project. Furthermore, we might be unable to operate any new or modified plants as efficiently as projected, which could result in higher than projected operating and other costs and reduced earnings.

***Cash flows of Talen Energy, Energy Supply and RJS Power and the ability to meet their obligations with respect to indebtedness and under guarantees largely depends on the financial performance of their subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.***

Talen Energy, Energy Supply and RJS Power are each holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of such holding companies are held by



---

**Table of Contents**

such subsidiaries. Accordingly, their cash flows and ability to meet debt and guaranty obligations are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans or advances or repayment of loans and advances. The subsidiaries are separate and distinct legal entities and have no obligation to pay dividends or distributions to their parents or to make funds available for such a payment. The ability of such holding companies' subsidiaries to pay dividends or distributions in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements.

Because Talen Energy, Energy Supply and RJS Power are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, Talen Energy, Energy Supply and RJS Power and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, Talen Energy's, Energy Supply's and RJS Power's rights and the rights of their creditors, including rights of any debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. See Description of Material Indebtedness.

***Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.***

We continually focus on limiting and reducing our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. We provide a similar level of benefits to our management employees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

***The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on our business, financial position and results of operations.***

Our operations depend on the continued efforts of our employees. Retaining key employees and maintaining the ability to attract new employees are important to both our operational and financial performance. We cannot guarantee that any member of our management or any one of our key employees will continue to serve in any capacity for any particular period of time. Certain events, such as an aging workforce, mismatch of skill set or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges related to such a change include a lack of resources, losses to our knowledge base and the lengthy time required to

develop new workers' skills. In any such case, costs, including costs for contractors to replace employees, productivity costs and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to

## **Table of Contents**

new employees, or changes in the availability and cost of contract labor may adversely affect our ability to manage and operate our business. If we are unable to successfully attract and retain an appropriately qualified workforce, our financial position or results of operations could be negatively affected.

***War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.***

War, terrorist attacks and unrest have caused and may continue to cause instability in the world's financial and commercial markets and have contributed to high levels of volatility in prices for oil and gas. Instability and unrest in the Middle East, Afghanistan, Ukraine and Iraq, as well as threats of war or other armed conflict elsewhere, may cause further disruption to financial and commercial markets and contribute to even higher levels of volatility in prices for oil and gas. In addition, unrest in the Middle East, Afghanistan, Ukraine and Iraq could lead to acts of terrorism in the United States or elsewhere, and acts of terrorism could be directed against companies such as ours. Armed conflicts and terrorism and their effects on us or our markets may significantly affect our business and results of operations in the future. In addition, we may incur increased costs for security, including additional physical plant security and security personnel or additional capability following a terrorist incident.

## **Risks Relating to Our Common Stock**

***There is currently no public market for our common stock and we cannot be certain that an active trading market will develop or be sustained after the Transactions, and following the Transactions our stock price may fluctuate significantly.***

There is currently no public market for our common stock, and there can be no assurance that an active trading market for our common stock will develop as a result of the Transactions or be sustained in the future. The lack of an active market may make it more difficult for you to sell our common stock and could lead to the price of our common stock being depressed or more volatile. We cannot predict the prices at which our common stock may trade after the Transactions. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

the possibility that our business profile and market capitalization may not fit the investment objectives of some PPL shareholders and, as a result, these shareholders may sell our shares after the Transactions are completed;

actual or anticipated fluctuations in our operating results due to factors related to our business;

success or failure of our strategy;

our quarterly or annual earnings, or those of other companies in our industry;

continued industry-wide decrease in demand for electricity;

our ability to obtain third-party financing as needed;

announcements by us or our competitors of significant acquisitions or dispositions;

the inability to issue equity securities or convertible debt securities during the two year period following the date of the Distribution without jeopardizing the intended tax consequences of the Transactions;

restrictions on our ability to pay dividends under our revolving credit facility;

changes in accounting standards, policies, guidance, interpretations or principles;

the failure of securities analysts to cover our common stock after the Transactions;

changes in earnings estimates by securities analysts or the combined company's ability to meet those estimates;

**Table of Contents**

the operating and stock price performance of other comparable companies;

investor perception of us;

natural or environmental disasters that investors believe may affect our businesses;

overall market fluctuations;

results from any material litigation or government investigation;

changes in laws and regulations affecting us or any of the principal products sold by us; and

general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock. Until an orderly market develops, the trading prices for our common stock may fluctuate significantly.

***After the completion of the Transactions, sales of our common stock may negatively affect its market price.***

The sales of significant amounts of our common stock or any perception in the market that this will occur may result in the lowering of the market price of our common stock. Immediately following the Transactions, 128,500,000 shares of our common stock will be issued and outstanding, inclusive of the number of shares to be issued in a private placement transaction in connection with the Combination.

Of the outstanding shares, the 83,525,000 shares delivered to the PPL shareholders who hold PPL common stock as of the record date will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations described in *Shares Eligible for Future Sale*. Such shares may be sold immediately in the public market. It is likely that some PPL shareholders, including some large shareholders, may sell such common stock for various reasons such as if our business profile or market capitalization following the Transactions does not fit their investment objectives. In particular, PPL is a member of the S&P 500 Index, while Talen Energy will not initially be and may not be in the future. Accordingly, certain PPL shareholders may elect or be required to sell our shares following the Transactions due to investment guidelines or other reasons.

The remaining outstanding 44,975,000 shares of common stock to be issued in a private placement transaction to the Contributors in connection with the Combination will be subject to certain restrictions on resale under the Securities Act. In addition, pursuant to the Stockholders Agreement, the Contributors will, subject to certain exceptions, be restricted from transferring, directly or indirectly, the shares of our common stock held by them for a period starting on the date of this prospectus and continuing for 180 days after the closing date of the Transactions. We may, in our discretion and without notice, release all or any portion of the shares of common stock subject to these 180-day lock-ups. See *Shares Eligible for Future Sale* for a description of these lock-up arrangements.

Upon the expiration of the lock-up described above, any sale of the shares issued to the Contributors in the public market will be subject to volume, manner of sale and other limitations under Rule 144. We expect that the Contributors will be considered affiliates 180 days after the Transactions based on their expected share ownership (consisting of 44,975,000 shares), as well as their board nomination rights. However, commencing 180 days following the Transactions, the Contributors will have the right, subject to certain exceptions and conditions, to require us to register their shares of common stock under the Securities Act, and they will have the right to participate in future registrations of securities by us. Registration of any of these outstanding shares of common stock would result in such shares becoming freely tradable without compliance with Rule 144 upon effectiveness of the registration statement. See Shares Eligible For Future Sale.

## **Table of Contents**

As restrictions on resale end or if the Contributors exercise their registration rights, the market price of our shares of common stock could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of our shares of common stock or other securities.

We intend to file one or more registration statements on Form S-8 under the Securities Act to register shares of our common stock or securities convertible into or exchangeable for shares of our common stock issued pursuant to our new stock incentive plan and directors deferred compensation plan. Any such Form S-8 registration statements will automatically become effective upon filing. Accordingly, shares registered under such registration statements will be available for sale in the open market. We expect that the initial registration statements on Form S-8 will cover 6,205,000 shares of our common stock.

***If securities or industry analysts do not publish research or publish unfavorable research about Talen Energy, our stock price and trading volume could decline.***

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us and our business. There is not now and may never be research coverage of our company by securities and industry analysts. If there is no such coverage, the trading price for our stock would likely be negatively affected. In the event we obtain securities or industry analyst coverage, if one or more of these analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would also likely decline. If one or more of these analysts ceases coverage of our company or fails regularly to publish reports about us, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

***The Contributors may exert significant influence over matters requiring stockholder approval in respect of the combined company. Ownership of our common stock will be highly concentrated after the Transactions and could prevent you and other stockholders from influencing significant corporate decisions.***

Following the completion of the Transactions, the Contributors, each of which is indirectly controlled by Riverstone Holdings, collectively will beneficially own 35% of the outstanding shares of our common stock. As a result, the Contributors will collectively exercise significant influence over all matters requiring stockholder approval for the foreseeable future, including approval of significant corporate transactions, which may reduce the market price of our common stock. The interests of the Contributors may conflict with the interests of our other stockholders. The Contributors may have an interest in having Talen Energy pursue acquisitions, divestitures and other transactions that, in their judgment, could enhance their investment in Talen Energy, even though such transactions might involve risks to you. In addition, Riverstone Holdings and its affiliates engage in a broad spectrum of activities, including investments in the power generation industry. In the ordinary course of their business activities, Riverstone Holdings and its affiliates may engage in activities where their interests conflict with our interests or those of our stockholders.

***Anti-takeover provisions in our amended and restated certificate of incorporation and amended and restated bylaws could discourage, delay or prevent a change of control of our company and may affect the trading price of our common stock.***

Our amended and restated certificate of incorporation and amended and restated bylaws will include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated bylaws will collectively:

authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;

require the affirmative vote of at least 66  $\frac{2}{3}$ % of the voting power of the stock outstanding and entitled to vote thereon to remove directors;



**Table of Contents**

provide that vacancies on our board of directors, including vacancies resulting from an enlargement of our board of directors, may be filled only by a majority vote of directors then in office or by a sole remaining director, though, pursuant to the Stockholders Agreement, the Contributors will be entitled to designate any replacement of a director originally designated by the Contributors;

prohibit the calling of special meetings of stockholders unless called by the chairman of the board, if there be one, or by resolution of the board;

prohibit stockholder action by written consent, unless it is unanimous;

establish advance notice requirements for nominations of candidates for election as directors or to bring other business before an annual meeting of our stockholders; and

require the affirmative vote of at least 66  $\frac{2}{3}$ % of the voting power of the stock outstanding and entitled to vote thereon to adopt, amend or repeal any provision of our amended and restated certificate of incorporation or our amended and restated bylaws.

These provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our amended and restated certificate of incorporation and amended and restated bylaws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

***Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.***

Our amended and restated certificate of incorporation will provide that, with certain limited exceptions, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said Court of Chancery having subject matter jurisdiction, in certain cases, and having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock is deemed to have notice of and consented to the foregoing provisions. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings,

we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

***We do not intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.***

We do not intend to declare and pay dividends on our common stock. We currently intend to invest our future earnings, if any, to fund our growth, to develop our business, for working capital needs and for general

**Table of Contents**

corporate purposes. Therefore, you are not likely to receive any dividends on your common stock and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have received their shares in the Distribution. In addition, our operations are conducted almost entirely through our subsidiaries. As such, to the extent that we determine in the future to pay dividends on our common stock, none of our subsidiaries will be obligated to make funds available to us for the payment of dividends. Further, agreements governing our revolving credit facility may restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us. In addition, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Statements contained in this prospectus concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are forward-looking statements within the meaning of the federal securities laws. Although we believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in such forward-looking statements. In addition to the specific factors discussed in Risk Factors, Unaudited Pro Forma Condensed Combined Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply and Management's Discussion and Analysis of Financial Condition and Results of Operations RJS Power, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

delays in or additional costs related to the completion of the Transactions;

divestitures that may be required by regulators in order to achieve regulatory approval for the Transactions;

our ability to successfully integrate the businesses of Energy Supply and RJS Power and achieve anticipated synergies, cost savings and growth opportunities;

fuel supply cost and availability;

weather conditions affecting generation, customer energy use and operating costs and revenues;

operation, availability and operating costs of existing generation facilities;

the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;

expansion of alternative sources of electricity generation;

laws or regulations to reduce emissions of greenhouse gases or the physical effects of climate change;

collective labor bargaining negotiations;

the outcome of litigation against Talen Energy and its subsidiaries;

potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;

the commitments and liabilities of Talen Energy and its subsidiaries;

volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;

competition in retail and wholesale power and natural gas markets;

liquidity of wholesale power markets;

defaults by counterparties under energy, fuel or other power product contracts;

market prices of commodity inputs for ongoing capital expenditures;

capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;

volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;

interest rates and their effect on pension, retiree medical and nuclear decommissioning liabilities and interest payable on certain debt securities;

**Table of Contents**

changes in the price of coal and natural gas;

volatility in or the impact of other changes in financial or commodity markets and economic conditions;

the effectiveness of our risk management techniques, including hedging;

the effect on our operations and ability to comply with new statutory and regulatory requirements related to derivative financial transactions;

our ability to attract and retain qualified employees;

new accounting requirements or new interpretations or applications of existing requirements;

changes in securities and credit ratings;

current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;

legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;

changes in political, regulatory or economic conditions in states, regions or countries where Talen Energy or its subsidiaries conduct business;

receipt of necessary governmental permits, approvals and rate relief;

new state, federal or foreign legislation or regulatory developments;

the impact of any state, federal or foreign investigations applicable to Talen Energy and its subsidiaries and the energy industry;

the effect of any business or industry restructuring;

development of new projects, markets and technologies;

performance of new ventures; and

business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions.

Any of the foregoing events or factors, or other events or factors, could cause actual results, including financial performance, to vary materially from the forward-looking statements included in this prospectus. You should consider these important factors, as well as the risk factors set forth in this prospectus, in evaluating any statement made in this prospectus. See Risk Factors. For the foregoing reasons, you are cautioned against relying on any forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and Talen Energy does not undertake any obligation to update or revise these forward-looking statements, except as required by law.

---

**Table of Contents**

**THE TRANSACTIONS**

**Background of the Transactions**

PPL, Energy Supply, Talen Energy, HoldCo, Merger Sub and RJS have agreed to separate Energy Supply from PPL by distributing 100% of the common stock of HoldCo (which will wholly own Energy Supply at such time) to PPL shareholders, and thereafter to combine the businesses of Energy Supply and RJS Power. Immediately after consummation of the Transactions, on a fully diluted basis, 65% of Talen Energy's common stock will be held by PPL shareholders and 35% of Talen Energy's common stock will be held by the Contributors, in the aggregate. After the Transactions, Talen Energy will be an independent, publicly traded company that operates the Energy Supply and RJS Power businesses.

The Transactions were structured as a Reverse Morris Trust ( RMT ) transaction. A RMT transaction is a spinoff structure in which, as part of a plan, a transaction partner, here the RJS Power business, combines with the spun off subsidiary, here the Energy Supply business, in a tax-free transaction. To ensure that a RMT transaction remains tax free to the distributing parent and the distributing parent's shareholders, the transaction must meet several criteria, including that immediately following the transaction, historic shareholders of the distributing parent must own more than 50% of the stock by vote and value of the combined company.

The discussions with respect to the Transactions were initiated when PPL approached Riverstone Holdings and its affiliates about a possible transaction. Beginning with management presentations on February 13 through 14, 2014, and continuing up to the execution of the definitive agreements, representatives of PPL engaged in a comprehensive due diligence review of the RJS Power business, and representatives of the Contributors conducted a similar review of the Energy Supply business. On March 12, 2014, PPL received a final proposal letter from Riverstone Holdings, and on March 15, 2014, PPL entered into an exclusivity agreement with Riverstone regarding a proposed combination of the Energy Supply business and the RJS Power business. The parties negotiated the transaction after entering into the exclusivity agreement and entered into definitive agreements with respect to the Transactions on June 9, 2014.

**PPL's Reasons for the Transactions**

PPL's board of directors and management frequently review PPL's portfolio of assets to evaluate its current structure and composition, to determine whether changes might be advisable, and to look for attractive ways to add value for PPL's shareholders. PPL believes that the separation of the Energy Supply business and subsequent combination with the RJS Power business is the best way to realize the full value of the Energy Supply business in both the short- and long-term and provides each of Energy Supply and PPL with certain opportunities and benefits.

PPL's board of directors believes that the Transactions will accomplish a number of important business objectives and benefits as they relate to Talen Energy:

the creation of one of the nation's largest independent power producers with approximately 14,000 megawatts of diversified generation capacity located primarily in PJM and ERCOT;

the expectation that the combined company will be environmentally well positioned and will have a highly diversified fleet, robust cash flow generation capability and conservative capitalization providing a platform for future growth;



the creation of significant shareholder value by providing the PPL utility operations and Talen Energy competitive power operations the ability to make operating and capital decisions as separate businesses, the significant synergy potential from cost savings plus additional benefits from improved asset commercialization across Talen Energy's generation fleet and the tax-free transaction structure;

the ability to use Talen Energy's equity as compensation for employees in the competitive power generation business, which will result in equity compensation that is more in line with the financial results of such employees' direct work product; and

## **Table of Contents**

the expectation that, PPL and Talen Energy will have compelling growth prospects as stand-alone companies and that the financial markets will ascribe valuations that more appropriately recognize the inherent strengths of each company.

In reaching its decision to approve the Transactions, the PPL board of directors consulted with PPL's management and financial and legal advisors and considered a wide variety of factors, including:

the reports of PPL's senior management, financial and legal advisors regarding their due diligence review of RJS Power and its business;

with input from PPL's legal and financial advisors, the structure and terms of the Transaction Agreement, the Separation Agreement and the Employee Matters Agreement, which are summarized in this prospectus;

the likelihood of consummation of the Transactions and the time period necessary to close the Transactions;

the availability of other transactions and structures;

the nature of the Transactions, which would generally be tax-free to PPL and PPL's shareholders; and

the potential value to PPL shareholders of the 65% of Talen Energy common stock that they will own after the consummation of the Transactions.

The PPL board of directors also considered the potential risks and countervailing factors associated with the Transactions, including that the anticipated benefits of the Transactions might not be realized. For additional information, see the section titled "Risk Factors."

The foregoing description of the information and factors discussed by the PPL board of directors is not meant to be exhaustive but includes the material factors and information considered by it. The PPL board of directors did not quantify or attach any particular weight to the various factors that it considered in reaching its determination that the terms of the Transactions are advisable and fair to, and in the best interests of, the PPL shareholders. Rather, the PPL board of directors viewed its position as being based on the totality of the information presented to and considered by it.

### **Structure of the Distribution, the Merger and the Combination**

Below is a step-by-step list describing the sequence of material events relating to the Distribution, the Merger and the Combination. Each of these events is discussed in more detail elsewhere in this prospectus. We anticipate that the following steps will occur on the Distribution Date in the following order:

*Step 1* PPL Energy Funding, which is a direct subsidiary of PPL and the direct parent of Energy Supply, will distribute 100% of the outstanding equity securities of Energy Supply to PPL, following which Energy Supply will be a wholly owned, direct subsidiary of PPL.

*Step 2* PPL will contribute 100% of the outstanding equity securities of Energy Supply to HoldCo, resulting in Energy Supply becoming a wholly owned, direct subsidiary of HoldCo.

*Step 3* PPL will distribute 100% of the HoldCo common stock pro rata to its shareholders who are shareholders as of the record date for the Distribution.

*Step 4* Merger Sub will merge with and into HoldCo, with HoldCo surviving as a wholly owned, direct subsidiary of Talen Energy and HoldCo common stock will be converted into common stock of Talen Energy on a one-for-one basis and delivered to PPL shareholders of record on the record date.

---

## **Table of Contents**

*Step 5* The Contributors will contribute, directly or indirectly, all of the outstanding equity interests of RJS Power to Talen Energy in the Combination. In consideration of the foregoing contribution, we will issue additional shares of our common stock to the Contributors in an aggregate amount that will equal 35% of our total outstanding common stock following the Combination.

*Step 6* Talen Energy will contribute, directly or indirectly, the equity interests of RJS Power to its direct subsidiary, HoldCo and HoldCo, in turn, either will contribute such equity interests to its direct subsidiary, Energy Supply, or will cause RJS Power to be merged with and into Energy Supply, with Energy Supply as the surviving entity in the merger.

### ***How You Will Receive Talen Energy Common Stock***

All of the 83,525,000 shares of common stock of HoldCo outstanding immediately prior to the Merger will be distributed pro rata to PPL shareholders who hold PPL common stock as of the record date and will be converted into shares of Talen Energy common stock at the Effective Time and delivered to PPL shareholders. The number of Talen Energy shares that PPL will ultimately deliver to its shareholders will be reduced to the extent that cash payments are to be made in lieu of fractional shares, as described below.

### ***Treatment of Fractional Shares***

No certificates or scrip representing fractional shares of Talen Energy common stock will be issued pursuant to the Merger. Fractional shares of Talen Energy common stock that would otherwise be allocable to any record holders of PPL common stock will be aggregated, and no record holder of PPL common stock will receive cash equal to or greater than the value of one full share of Talen Energy common stock. Following the Merger, an exchange agent will sell the aggregated whole shares of Talen Energy common stock in the open market or otherwise as reasonably directed by PPL, in consultation with the Contributors. The exchange agent will make available the net proceeds of this sale, after deducting any required withholding taxes and brokerage charges, commissions and transfer taxes, on a pro rata basis, without interest, as soon as practicable to the record holders of PPL common stock.

### ***New Energy Supply Revolving Credit Facility***

Concurrently with, and subject to, the consummation of the Transactions, we intend to enter into a credit agreement with Citibank, N.A., as administrative agent, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc., BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, Bank of Tokyo-Mitsubishi UFJ Ltd. and RBC Capital Markets, as joint lead arrangers and joint bookrunners, and the other agents and lenders from time to time party thereto, which will provide for a revolving loan facility consisting of a \$1.850 billion revolving credit facility maturing in five years from the Closing Date (the *New Revolving Facility* ). Prior to or concurrently therewith, Energy Supply will terminate existing credit facilities with aggregate commitments of approximately \$3.0 billion and repay any borrowings thereunder, and RJS Power will terminate its existing \$150 million revolving credit facility and repay any borrowings thereunder. As of February 28, 2015, \$680 million of borrowings were outstanding under the existing Energy Supply credit facilities and \$50 million of borrowings were outstanding under the existing RJS Power revolving credit facility.

### ***Material U.S. Federal Income Tax Consequences of the Transactions***

The following describes the material U.S. federal income tax consequences of the Transactions to PPL and the PPL shareholders and, except as otherwise noted herein, represents the opinion of Simpson Thacher. This discussion is based on the Code, U.S. Treasury regulations promulgated or proposed thereunder and administrative and judicial

interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This summary does not address all of the

**Table of Contents**

U.S. federal income tax consequences of the Transactions. In particular, it may not address U.S. federal income tax considerations applicable to the PPL shareholders subject to special treatment under U.S. federal income tax law, such as financial institutions, dealers in securities, traders in securities who elect to apply a mark-to-market method of accounting, insurance companies, tax-exempt entities, partnerships and other pass-through entities, shareholders who hold their shares as part of a hedge, straddle, conversion or constructive sale transaction, shareholders who are subject to the alternative minimum tax and shareholders who acquired their shares upon the exercise of employee stock options or otherwise as compensation. In addition, this summary is limited to shareholders that hold their PPL and HoldCo common stock as a capital asset. This summary does not address the U.S. federal income tax considerations applicable to the Contributors or any of their direct or indirect owners. Finally, this discussion does not address the effects of the Medicare contribution tax on net investment income, any U.S. state or local or non-U.S. tax considerations, or any U.S. federal estate, gift or alternative minimum tax considerations.

This summary is limited to PPL shareholders that are United States holders. A United States holder is a beneficial owner of PPL common stock that, for U.S. federal income tax purposes, is (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (y) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds stock of PPL or HoldCo, the U.S. federal income tax considerations relating to such investment will depend in part upon the status and activities of such partnership and the particular partner. Any such partnership should consult its own tax advisor regarding the U.S. federal income tax considerations applicable to it and its partners of the Transactions.

**PPL SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE DISTRIBUTION, MERGER, AND COMBINATION TO THEM, INCLUDING THE EFFECTS OF UNITED STATES FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.**

***The Distribution***

PPL's obligation to complete the Distribution is conditioned upon PPL's receipt of an opinion of Simpson Thacher, to the effect that (A) PPL's election to treat Energy Supply as a corporation for U.S. federal income tax purposes (the Energy Supply Election), together with the distribution by PPL Energy Funding, which is a direct subsidiary of PPL and the direct parent of Energy Supply, of the outstanding equity securities of Energy Supply to PPL (the Internal Distribution), will qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code, (B) the HoldCo Contribution, together with the Distribution, will qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code and (C) the Merger and the Combination will not cause Section 355(e) of the Code to apply to the Distribution or the Internal Distribution (the Distribution Opinion). The Distribution Opinion will be based on, among other things, certain representations and assumptions as to factual matters made by certain parties to the Transactions, including factual representations concerning Section 355(e) of Code, as discussed below. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the Distribution Opinion. The Distribution Opinion will represent Simpson Thacher's legal judgment, will not be binding on the IRS or the courts, and the IRS or the courts may not agree with the conclusions reached in the Distribution Opinion. In addition, the Distribution Opinion will be based on current law, and cannot be relied upon if current law changes with retroactive effect.



---

**Table of Contents**

Based upon, among other things, certain representations and assumptions as to factual matters made by certain of the parties to the Transactions, including factual representations concerning Section 355(e) of the Code, as discussed below, all of which must continue to be true and accurate in all material respects as of the effective time of the Distribution, and subject to the qualifications and limitations set forth above, it is the opinion of Simpson Thacher that each of the Energy Supply Election together with the Internal Distribution and the HoldCo Contribution together with the Distribution will qualify as a reorganization pursuant to Section 368(a)(1)(D) of the Code and a tax-free distribution pursuant to Section 355 of the Code. Based on the foregoing, the material U.S. federal income tax consequences of the Distribution to PPL shareholders and PPL will be as follows:

no gain or loss will be recognized by, and no amount will be included in the income of, PPL shareholders upon their deemed receipt of HoldCo common stock in the Distribution;

the basis of PPL common stock immediately before the Distribution will be allocated among the PPL common stock and HoldCo common stock deemed to be received in the Distribution, in proportion to relative fair market values at the time of the Distribution;

the holding period of HoldCo common stock deemed to be received in the Distribution by each PPL shareholder will include the period during which the shareholder held the PPL common stock on which the Distribution is made, provided that the PPL common stock is held as a capital asset on the date of the Distribution; and

no gain or loss (other than an immaterial amount of gain) will be recognized by PPL upon the Distribution. PPL shareholders that have acquired different blocks of PPL common stock at different times or at different prices should consult their tax advisors regarding the allocation of their aggregate adjusted basis among, and their holding period of, the HoldCo common stock distributed with respect to such blocks of PPL common stock.

If the Distribution does not qualify as tax-free distribution pursuant to Section 355 of the Code, then each PPL shareholder who is deemed to receive HoldCo common stock would be treated as receiving a taxable dividend in an amount equal to the fair market value of HoldCo common stock deemed to be received, to the extent of such PPL shareholder's ratable share of PPL's earnings and profits. In such case, each PPL shareholder would have a basis in HoldCo common stock deemed to be received equal to its fair market value.

In addition, if the Distribution does not qualify as a tax-free distribution pursuant to Section 355 of the Code, PPL would have taxable gain equal to the excess of the value of the assets transferred to HoldCo plus the value of any liabilities assumed by HoldCo over PPL's tax basis for those assets. Even if the Distribution otherwise qualifies as a tax-free distribution pursuant to Section 355 of the Code, the Distribution will be taxable to PPL pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership (by vote or by value) of either PPL or HoldCo, directly or indirectly, as part of a plan or series of related transactions that include the Distribution. Because the PPL shareholders will collectively own more than 50% of Talen Energy's common stock following the Merger and Combination, the Merger and Combination alone will not cause the Distribution to be taxable to PPL under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if other acquisitions of stock of PPL before or after the Merger and Combination, or of Talen Energy after the Merger and Combination, are considered to be part of a plan or series of related transactions that include the Distribution. In connection with the request of the



Distribution Opinion, PPL intends to represent that the Distribution is not part of any such plan or series of related transactions. If Section 355(e) of the Code applies, then PPL may recognize a substantial amount of taxable gain. Even if Section 355(e) of the Code causes the Distribution to be taxable to PPL, the Distribution will nevertheless remain tax-free to the PPL shareholders so long as the other requirements of Section 355 of the Code are satisfied.

Under the Separation Agreement, in certain circumstances and subject to certain limitations, Energy Supply is required to indemnify PPL for certain taxes that may be imposed on the Distribution, including taxes that arise as a result of actions or failures to act by Talen Energy, Energy Supply and HoldCo, as a result of changes in ownership of the stock of Talen Energy after the Merger and Combination or as a result of acquisition of PPL s

## **Table of Contents**

common stock by Talen Energy or certain related persons. See The Separation Agreement and the Transaction Agreements The Separation Agreement. In addition, HoldCo may be required to make payments to PPL in respect of certain tax benefits that are realized by Talen Energy as a result of the Distribution being taxable. In some cases however, PPL could recognize gain on the Distribution without being entitled to an indemnification payment under the Separation Agreement.

U.S. Treasury regulations require each PPL shareholder that owns at least 5% of the total outstanding stock of PPL and receives stock in the Distribution to attach to its U.S. federal income tax return for the year in which the Distribution occurs a statement containing certain information relating to the tax-free nature of the Distribution.

### ***The Merger and Combination***

The Contributors and PPL's obligations to complete the Merger and Combination are conditioned on receipt by PPL of the Distribution Opinion and an opinion of Simpson Thacher to the effect that the Merger will qualify as a reorganization under Section 368(a) of the Code and to the effect that the Merger and Combination will together qualify as a transaction described in Section 351 of the Code (the Simpson Thacher Merger and Combination Opinion). The Contributors' obligation to complete the Combination is conditioned on receipt of a similar opinion from the Contributors' counsel, Vinson & Elkins L.L.P.

The Simpson Thacher Merger and Combination Opinion will be based on, among other things, certain representations and assumptions as to factual matters made by certain of the parties to the Transactions. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the Simpson Thacher Merger and Combination Opinion. The Simpson Thacher Merger and Combination Opinion will represent respective counsel's legal judgment, and is not binding on the IRS or the courts, and the IRS or the courts may not agree with the conclusions reached in the opinions. In addition, the Simpson Thacher Merger and Combination Opinion will be based on current law, and cannot be relied upon if current law changes with retroactive effect.

Based upon, among other things, certain representations and assumptions as to factual matters made by certain of the parties to the Transactions, all of which must continue to be true and accurate in all material respects as of the effective time of the Merger and Combination, and subject to the qualifications and limitations set forth above, it is the opinion of Simpson Thacher that the Merger will qualify as a reorganization under Section 368(a) of the Code and that the Merger and Combination together will qualify as a transaction described in Section 351 of the Code. Based on the foregoing, the material U.S. federal income tax consequences of the Merger to HoldCo stockholders will be as follows:

no gain or loss will be recognized by, and no amount will be included in the income of, HoldCo stockholders upon their receipt of Talen Energy common stock in the Merger (except with respect to cash received in lieu of fractional shares of Talen Energy common stock, as described below);

the basis of Talen Energy common stock received by a HoldCo stockholder in the Merger (including fractional shares of Talen Energy common stock for which cash is received) will equal the basis of the HoldCo stock exchanged, with basis allocated to any fractional shares in proportion to their fair market value relative to the fair market value of all Talen Energy common stock received by such HoldCo stockholder;

the holding period of Talen Energy common stock received in the Merger by each HoldCo stockholder (including fractional shares of Talen Energy common stock for which cash is received) will include the period during which the stockholder held the HoldCo common stock exchanged, provided that the HoldCo common stock is held as a capital asset on the date of the Merger; and

any cash received in lieu of fractional share interests in Talen Energy common stock will give rise to taxable gain or loss equal to the difference between the amount of cash received and the tax basis allocable to the fractional share interests, determined as described above, and such gain will be capital

## **Table of Contents**

gain or capital loss (the deductibility of which is subject to limitation) if the HoldCo common stock exchanged in the Merger is held as a capital asset on the date of the Merger and will be long-term capital gain or loss if the United States holder's holding period for such fractional share interest, determined as described above, is greater than one year.

If the Merger does not qualify as a reorganization under Section 368(a) of the Code or if the Merger and Combination together do not qualify as a transaction described in Section 351 of the Code, the HoldCo stockholders would be considered to have made a taxable sale of HoldCo stock to Talen Energy in exchange for Talen Energy common stock and would generally be required to recognize taxable gain to the extent that the fair market value of Talen Energy common stock received, including fractional shares of Talen Energy common stock for which cash is received, exceeds the adjusted basis in the HoldCo stock exchanged or loss to the extent that the basis of the HoldCo stock exchanged exceeds the fair market value of the Talen Energy common stock received, including fractional shares of Talen Energy common stock for which cash is received. Each HoldCo stockholder would have a basis in Talen Energy common stock received equal to its fair market value.

## ***Information Reporting and Backup Withholding***

Holders of HoldCo stock who receive Talen Energy common stock in the Merger must retain, and, in the event the holder holds at least 1% (by vote or value) of the total outstanding shares of HoldCo immediately prior to the Merger must attach to their U.S. federal income tax return for the year in which the Merger occurs a detailed statement setting forth, the information listed in Treasury Regulation § 1.368-3(b). Such information includes the holder's tax basis in its shares of HoldCo stock and a description and statement of the fair market value of the Talen Energy common stock received in exchange therefor. Talen Energy and/or PPL will provide the appropriate information to such stockholders upon request.

## **Accounting Treatment and Considerations**

The Financial Accounting Standards Board Accounting Standards Codification section 805, Business Combinations, requires the use of the acquisition method of accounting for business combinations. In applying the acquisition method, it is necessary to identify both the accounting acquiree and the accounting acquirer. In a business combination effected through an exchange of equity interests, such as the Combination, the entity that issues the interests (Talen Energy in this case) is generally the acquiring entity. In identifying the acquiring entity in a combination effected through an exchange of equity interests, however, all pertinent facts and circumstances must be considered, including the following:

*If a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer. In this case, as Talen Energy has no significant pre-combination activities other than to issue shares to the shareholders of the combining companies, either Energy Supply or RJS Power would be identified as the accounting acquirer.*

*The relative voting interests of Talen Energy after the Transactions. In this case, PPL shareholders will receive 65% of the equity ownership and associated voting rights in Talen Energy after the Transactions, while the Contributors will receive 35%.*

*The composition of the governing body of Talen Energy after the Transactions.* Upon the completion of the Transactions, the board of directors of Talen Energy will be comprised of eight members, five of whom will be designated by PPL, and three of whom are designated by the Contributors, as set forth in the Stockholders Agreement. The Chairman of the board of directors will be Stuart E. Graham, who currently serves on the board of directors of PPL, and the Chief Executive Officer of Talen Energy will be Paul A. Farr, who currently serves as President of Energy Supply.

*The composition of the senior management of Talen Energy after the Transactions.* The management team that will lead Talen Energy will be largely sourced from PPL.

---

## **Table of Contents**

*The relative size of the entities combining to form Talen Energy (measured in, for example, assets, revenues, or earnings).* In this case, Energy Supply is significantly larger than RJS Power in all respects.

Talen Energy's management has determined that Energy Supply will be the accounting acquirer in the Transactions based on the facts and circumstances outlined above and the detailed analysis of the relevant GAAP guidance. Consequently, Energy Supply will apply acquisition accounting to the assets acquired and liabilities assumed of the RJS Power business upon consummation of the Transactions.

## **Listing and Trading of Our Common Stock**

There is currently no market for our common stock. However, a when-issued market in our common stock may develop prior to the Distribution. See *Trading Prior to the Distribution Date* below for an explanation of a when-issued market. We have applied to list our common stock on the NYSE under the symbol TLN. We will announce our when-issued trading symbol when and if it becomes available. Following the Transactions, PPL's common stock will continue to trade on the NYSE under the symbol PPL.

Neither we nor PPL can assure you as to the trading price of PPL common stock or Talen Energy common stock after the Transactions, or as to whether the combined trading prices of Talen Energy common stock and PPL common stock after the Transactions will be less than, equal to or greater than the trading prices of PPL common stock prior to the Transactions. The trading price of Talen Energy's common stock may fluctuate significantly following the Transactions. See *Risk Factors Risks Relating to Our Common Stock* There is currently no public market for our common stock and we cannot be certain that an active trading market will develop or be sustained after the Transactions, and following the Transactions our stock price may fluctuate significantly.

### ***Trading Prior to the Distribution Date***

It is anticipated that shortly before the record date and through the Distribution Date, there will be a when-issued market in our common stock. We will announce our when-issued trading symbol when and if it becomes available. When-issued trading refers to a sale or purchase of securities made conditionally because the security has been authorized but not yet issued. The when-issued trading market will be a market for Talen Energy common stock that will be distributed to holders of PPL common stock on the Distribution Date. If you own shares of PPL common stock as of 5:00 p.m., New York City time on the record date, you will be entitled to Talen Energy common stock distributed pursuant to the Distribution and Merger. You may trade this entitlement to Talen Energy common stock, without the shares of PPL common stock you own, on the when-issued market. On the first trading day following the Distribution Date, we expect when-issued trading with respect to Talen Energy common stock will end and regular-way trading will begin. When-issued trading is expected to begin two days before the record date and when-issued trades are expected to settle within four days following the Distribution Date.

It is also anticipated that shortly before the record date and through the Distribution Date, there will be two markets in PPL common stock: a regular-way market and an ex-distribution market. PPL common stock that trades on the regular-way market will trade with an entitlement to Talen Energy common stock distributed pursuant to the Distribution and Merger. Shares that trade on the ex-distribution market will trade without an entitlement to Talen Energy common stock distributed pursuant to the Distribution and Merger. Therefore, if you sell shares of PPL common stock in the regular-way market up to and including the Distribution Date, you will be selling your right to receive Talen Energy common stock in the Distribution and Merger. However, if you own shares of PPL common stock as of 5:00 p.m., New York City time, on the record date and sell those shares on the ex-distribution market up to and including the Distribution Date, you will still receive the Talen Energy common stock that you would otherwise be entitled to receive pursuant to your ownership of shares of PPL common stock. Ex-distribution trading is expected to begin two days before the record date and ex-distribution trades are expected to settle within four days following

the Distribution Date.

---

**Table of Contents**

**THE SEPARATION AGREEMENT AND THE TRANSACTION AGREEMENT**

**The Separation Agreement**

The following is a summary of selected material provisions of the Separation Agreement. This summary is qualified in its entirety by the Separation Agreement, dated as of June 9, 2014. The Separation Agreement is incorporated by reference in its entirety and is filed as an exhibit to the registration statement of which this prospectus forms a part. The rights and obligations of the parties are governed by the express terms and conditions of the Separation Agreement and not by this summary or any other information included in this prospectus. Recipients of this prospectus are urged to read the Separation Agreement in its entirety. The Separation Agreement has been included to provide recipients of this prospectus with information regarding its terms. It is not intended to provide any other factual information about PPL, Energy Supply, Talen Energy, HoldCo or Merger Sub. Information about PPL, Energy Supply, Talen Energy, HoldCo and Merger Sub can be found elsewhere in this prospectus.

***The Separation Transactions***

Under the Separation Agreement, PPL and Energy Supply will cause certain internal restructuring transactions to occur, including the following:

Energy Supply and the Energy Supply subsidiaries will convey certain excluded assets and liabilities to PPL or one or more of PPL's other subsidiaries, as more particularly described in The Separation Agreement The Separation ;

PPL will make the Energy Supply Election;

PPL Energy Funding will make the Internal Distribution, following which Energy Supply will be a wholly owned, direct subsidiary of PPL;

PPL and certain of its subsidiaries will convey to Energy Supply or one or more Energy Supply subsidiaries the Energy Supply assets, as more particularly described in The Separation Agreement The Separation ;

PPL will make the HoldCo Contribution, resulting in Energy Supply becoming a wholly owned, direct subsidiary of HoldCo;

HoldCo will assume the Energy Supply liabilities, as more particularly described in The Separation Agreement The Separation ; and

Certain intercompany agreements and accounts will be terminated, as more particularly described in The Separation Agreement Termination of Intercompany Agreements and Accounts.

***Timing of the Transactions Contemplated by the Separation Agreement***



The internal restructuring will occur before the Distribution, which will occur immediately before the Merger and the Combination. See The Transaction Agreement.

### ***The Separation***

#### *Transfer of Assets*

Subject to the terms and conditions of the Separation Agreement, PPL and certain of its subsidiaries will convey to Energy Supply or one or more Energy Supply subsidiaries, all of PPL's and its applicable subsidiaries' right, title and interest in the Energy Supply assets (to the extent not already held by Energy Supply), which includes (i) all assets of PPL and/or its subsidiaries (other than HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries) used or held for use primarily in, or that primarily arise or are produced from, the

**Table of Contents**

operation or conduct of the Energy Supply business, other than specified excluded assets, (ii) all assets of Energy Supply and/or any of its subsidiaries other than certain specified excluded assets and those that are used or held for use primarily in, or that primarily arise or are produced from, the operation or conduct of PPL's other businesses as conducted immediately prior to the separation time consistent with past practice, and (iii) the following, with certain exceptions:

real property and leasehold interests in real property used or held for use primarily in the Energy Supply business, and all the buildings, structures, improvements and fixtures thereon and all easements and rights of way pertaining thereto or accruing to the benefit thereof and all other appurtenances and real property rights pertaining thereto;

tangible and intangible personal property and interests used or held for use primarily in, or that primarily arise from, the operation or conduct of the Energy Supply business;

permits (including pending applications) and all rights under any contract with any governmental authority that are used or held for use primarily in the Energy Supply business;

past, present and future rights to causes of action, lawsuits, judgments, claims (including insurance claims), rights, refunds, credits, rights of recovery, rights of set-off (or any share thereof), counterclaims or demands to the extent related to the Energy Supply business or any Energy Supply asset or liability;

intellectual property primarily used in the Energy Supply business as of the separation time;

warranties to the extent relating to the Energy Supply assets or the Energy Supply business;

any contract that is primarily used by the Energy Supply business and all interests, rights, claims and benefits pursuant to, and associated with such contracts;

certain business records related to the Energy Supply assets or liabilities or the Energy Supply business;

accounts receivable, notes receivable or other amounts receivable to the extent arising out of the operation or conduct of the Energy Supply business;

cash and cash equivalents to the extent arising out of the operation or conduct of the Energy Supply business (subject to distributions permitted pursuant to the Transaction Agreement and the settlement of intercompany accounts pursuant to the Separation Agreement);

certain rights to contracts pursuant to which the counterparty provides products, services or intellectual property to both the Energy Supply business and PPL's other businesses;

all ownership interests in Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries;

the rights of Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries under the Separation Agreement, the Transaction Agreement or any ancillary agreement;

goodwill of the Energy Supply business;

the right to enforce confidentiality provisions related to confidential information of the Energy Supply business;

certain assets specified in the disclosure schedules to the Separation Agreement; and

any and all assets that are expressly contemplated by the Separation Agreement, the Transaction Agreement or any ancillary agreement as assets to be retained by or conveyed to Energy Supply, Talen Energy, HoldCo, Merger Sub or any of their subsidiaries.

The Separation Agreement also identifies certain excluded assets that will not be transferred to Energy Supply or its subsidiaries as part of the separation, including (i) all assets of PPL and/or its subsidiaries (other than HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries) other than those used or held for

**Table of Contents**

use primarily in, or that primarily arise or are produced from, the operation or conduct of the Energy Supply business, (ii) all assets of Energy Supply and/or any of its subsidiaries that are used or held for use primarily in, or that primarily arise or are produced from, the operation or conduct of PPL's other businesses as conducted immediately prior to the separation time consistent with past practice, and (iii) the following:

PPL names and marks;

certain contracts specified in the disclosure schedules to the Separation Agreement;

records relating to the negotiation and consummation of the Transactions;

cash and cash equivalents to the extent arising out of the operation or conduct of the business of PPL and/or any of its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries);

certain rights to contracts pursuant to which the counterparty provides products, services or intellectual property to both the Energy Supply business and PPL's other businesses;

the right to enforce confidentiality provisions related to confidential information of PPL and its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries);

the rights of PPL and its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries) under the Separation Agreement, the Transaction Agreement or any ancillary agreement; and

all ownership interests in PPL and its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries).

For purposes of the Separation Agreement and the Transaction Agreement, "Energy Supply business" means the following:

the ownership and/or operation of electric generating facilities and related assets owned, leased or otherwise held or operated by Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries;

the ownership and operation of specified assets by PPL and its subsidiaries prior to the transfer by PPL Electric Utilities Corporation of such assets and related liabilities to certain subsidiaries of Energy Supply on July 1, 2000;

the ownership and/or operation of PPL Interstate Energy Company, Pennsylvania Mines Corporation, and Realty Company of Pennsylvania and their respective assets and businesses;

the marketing, trading, purchase and sale of electricity, natural gas, petroleum and other commodities in wholesale and retail transactions by PPL EnergyPlus, LLC, PPL Treasure State, LLC and PPL EnergyPlus Retail, LLC, and related hedging transactions;

the mechanical contracting business of PPL Energy Services Holdings, LLC and certain of its subsidiaries; and

the ownership and operation of PPL Land Holdings, LLC; in each case, excluding certain specified assets and liabilities.

The Separation Agreement contemplates that the proceeds of the sale of the Montana hydroelectric facilities and related assets to NorthWestern, which was completed in November 2014, net of the expected amount owed by PPL Montana under the guarantee to NorthWestern related to the outstanding option to purchase, hold and operate the Kerr Dam project, are to be retained by PPL.

#### *Assumption of Liabilities*

In connection with the Separation Transactions, HoldCo will assume, perform, discharge and fulfill when due and, to the extent applicable, comply with certain liabilities of the Energy Supply business described below

**Table of Contents**

and certain other liabilities described in the schedules to the Separation Agreement. The Energy Supply liabilities to be assumed by HoldCo include (i) all liabilities of PPL and/or its subsidiaries (other than HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries) to the extent arising out of, relating to or produced from the operation or conduct of the Energy Supply assets or primarily arising out of, relating to or produced from the operation or conduct of the Energy Supply business, (ii) all liabilities of Energy Supply and/or its subsidiaries except to the extent arising out of, related to or produced from the operation or conduct of PPL's other businesses and other certain specified excluded liabilities and (iii) the following, with certain exceptions:

all liabilities that are expressly contemplated to be assumed by Energy Supply, Talen Energy, HoldCo, Merger Sub or any of their subsidiaries pursuant to the Separation Agreement, the Transaction Agreement or any ancillary agreement;

certain liabilities under contracts pursuant to which the counterparty provides products, services or intellectual property to both the Energy Supply business and PPL's other businesses;

any liability of Energy Supply, Talen Energy, HoldCo, Merger Sub or any of their subsidiaries with respect to assets that were owned prior to June 9, 2014 by a subsidiary of Energy Supply but that, as of the Distribution, are no longer owned by such subsidiary of Energy Supply; and

certain liabilities specified in the disclosure schedules to the Separation Agreement.

The Separation Agreement and the disclosure schedules thereto also identify specific liabilities that will not be assumed by HoldCo as part of the separation, including the following liabilities:

any liability of PPL and/or any of its affiliates to the extent arising out of or related to any excluded asset or any other asset of PPL and/or any of its affiliates that is not an Energy Supply asset or certain other specified assets;

any liability of PPL and/or its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries) arising from the making or performance of the Separation Agreement, the Transaction Agreement or any ancillary agreement;

certain liabilities under contracts pursuant to which the counterparty provides products, services or intellectual property to both the Energy Supply business and PPL's other businesses;

any liability of PPL or its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries) in connection with the termination of intercompany contracts or services; and

all liabilities that are expressly contemplated by the Separation Agreement, the Transaction Agreement or any ancillary agreement as liabilities to be retained or assumed by PPL or its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries), and all liabilities of such parties under those agreements.

***Sufficiency of Assets***

To the extent the failure of an asset to be an Energy Supply asset results in the material inaccuracy of the representation in the Transaction Agreement regarding the Energy Supply assets being sufficient to operate the Energy Supply business (referred to as a missing asset), Talen Energy may reasonably request on or prior to the eighteen-month anniversary of the Closing Date that PPL:

pay over to Talen Energy any payments received by PPL or its subsidiaries (other than Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries) directly generated by the missing asset following the date of the Distribution, but only to the extent the missing asset relates to the Energy Supply business; and

either (i) transfer the missing asset to Talen Energy or (ii) provide Talen Energy use of the missing asset or a reasonably comparable replacement. Talen Energy or one of its subsidiaries will pay for such use of the missing asset at a cost substantially equivalent to the historical cost allocated to the Energy

---

**Table of Contents**

Supply business for its use of the missing asset in order that Talen Energy will, consistent with past practice, receive the benefits and bear the economic burdens of the missing asset as closely as possible to historical practice. The selection of the above-described remedies will be in PPL's discretion, subject to Talen Energy's consent, not to be unreasonably withheld, delayed or conditioned.

***Third Party Consents***

Promptly after the signing of the Separation Agreement and for a period of twenty-four months following the date of the Distribution, PPL will use reasonable best efforts to transfer or reissue all permits and contracts and to obtain all consents and governmental approvals required to consummate the Separation Transactions.

***Deferred Assets; Subsequent Transfers***

To the extent the transfer of any Energy Supply assets or liabilities or excluded assets or liabilities requires any consents or governmental approvals which have not been obtained on or prior to the date of the Distribution, the party retaining such asset or liability will hold it in trust for the benefit or for the account of the party entitled to or obligated to assume the asset or liability until it is transferred (such assets or liabilities referred to as deferred assets or liabilities). At closing, the parties will enter into arrangements to provide the party entitled to or obligated to assume such deferred asset or liability with the benefits and the obligations thereof (in each case, as closely as possible to that which would be applicable if the consent or governmental approval had been obtained and the deferred asset or liability had been transferred). If and when the applicable consent or governmental approval is obtained, the transfer will be promptly effected in accordance with the Separation Agreement.

***Termination of Intercompany Agreements and Accounts***

Subject to specified exceptions, PPL and HoldCo will terminate all contracts between PPL and its subsidiaries (excluding Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries), on the one hand, and Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries, on the other hand (except any contract to which any third person is a party, the Transaction Agreement, the Separation Agreement and the ancillary agreements). Subject to specified exceptions, all accounts between PPL and its subsidiaries (excluding Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries), on the one hand, and Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries on the other hand, likewise will be satisfied and/or settled in full or otherwise cancelled and terminated or extinguished.

***Shared Contracts***

PPL and Energy Supply will use their reasonable best efforts to separate certain contracts to which the counterparty provides products, services or intellectual property to both the Energy Supply business and PPL's other businesses into separate contracts so that from and after the Distribution, (i) Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries will have the sole benefit and liabilities with respect to each such contract to the extent related to the Energy Supply business and (ii) PPL and its subsidiaries will have the sole benefit and liabilities with respect to each such contract to the extent not related to the Energy Supply business. If any shared contract is not separated prior to the date of the Distribution, then the applicable portion of the contract will be treated as a deferred asset or liability. See The Separation Agreement Deferred Assets; Subsequent Transfers. The obligations to use reasonable best efforts to separate any shared contract will terminate on the date that is twenty-four months following the date of the Distribution. No party will (or will permit any of its affiliates to) amend, renew, extend or otherwise modify any shared contract without the consent, not to be unreasonably withheld, delayed or conditioned, of the other parties to the extent such amendment, renewal, extension or modification would adversely affect such other party (or any of its affiliates) in any material respect. PPL will bear all third-party fees and out-of-pocket expenses that may be reasonably



required in connection with obtaining the separation of any shared contract.

---

**Table of Contents**

***Tax Matters***

Pursuant to the Separation Agreement, Energy Supply will indemnify PPL and certain affiliates for a variety of taxes, including (i) certain post-Distribution taxes attributable to the Energy Supply business and Talen Energy and (ii) income taxes imposed on PPL attributable to a failure of the Transactions to qualify for tax-free treatment as a result of, among other items, a post-Distribution breach of certain covenants (including those described below), and any post-Distribution acquisitions of Energy Supply, HoldCo or Talen Energy common stock. PPL will indemnify Talen Energy and certain affiliates for a variety of taxes, including (i) certain pre-Distribution taxes attributable to the Energy Supply business, (ii) PPL's consolidated U.S. federal income taxes and (iii) income taxes imposed on Talen Energy attributable to a failure of the Transactions to qualify for tax-free treatment as a result of, among other items, a post-Distribution breach of certain covenants (including those described below), and any post-Distribution acquisitions of PPL common stock.

Pursuant to the Separation Agreement, (1) PPL and certain of its affiliates have agreed to refrain from taking any action that is inconsistent with the facts presented and representations made by PPL in connection with its request of the Distribution Opinion and Simpson Thacher Merger and Combination Opinion regarding the tax-free treatment of the Transactions and (2) Talen Energy and certain of its affiliates have agreed to refrain from taking any action that would cause the Transactions to fail to qualify for such tax-free treatment or to fail to take any action if such failure to act would cause the Transactions to not qualify for such tax-free treatment. In addition, for two years after the Distribution, PPL and Talen Energy and certain of their respective affiliates generally may not:

take any action, or fail or omit to take any action where the taking or the failure or omission to take such action could cause one or more persons to acquire a 50% or greater interest in PPL or Talen Energy or certain of their respective affiliates;

cease, or permit the cessation of, the active conduct of a business that was conducted immediately prior to the Distribution, or sell or otherwise transfer certain assets held at the time of the Distribution;

dissolve, liquidate, take any action that is a liquidation for federal income tax purposes, merge or consolidate with any other person (other than pursuant to the Merger); or

redeem or otherwise repurchase (directly or indirectly) any Talen Energy or PPL common stock (other than pursuant to certain open market purchases).

Nevertheless, Talen Energy or PPL is permitted to take any of the actions described above if it obtains an IRS private letter ruling or an opinion of counsel to the effect that the action will not affect the tax-free status of the Transactions.

PPL, HoldCo, Energy Supply and certain of their respective subsidiaries shall make protective elections under Section 336(e) of the Code with respect to the Distribution. If the Distribution is taxable and PPL is responsible for any taxes resulting from the Distribution pursuant to the Separation Agreement, HoldCo would be required to make periodic payments to PPL equal to the tax savings arising from a step up in the tax basis of HoldCo's assets as a result of the Distribution being taxable and the election under Section 336(e) of the Code becoming effective.

***Resignations***

At or prior to the Distribution, PPL will cause each employee and director of PPL and its subsidiaries who will not be employed by Energy Supply, Talen Energy, HoldCo, Merger Sub or their subsidiaries after the date of the Distribution to be removed or resign, effective not later than the date of the Distribution, from all boards of directors or similar governing bodies, and from all positions as officers, of Energy Supply, Talen Energy, HoldCo, Merger Sub or their subsidiaries. At or prior to the Distribution, PPL will also cause each employee and director of Energy Supply, Talen Energy, HoldCo, Merger Sub or their subsidiaries who will not be employed by PPL or its subsidiaries after the date of the Distribution to be removed or resign, effective not later than the date of the Distribution, from all boards of directors or similar governing bodies, and from all positions as officers, of PPL or its subsidiaries.

## **Table of Contents**

### ***Insurance***

Effective as of the date of the Distribution, Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries will no longer be insured parties under PPL insurance policies. Talen Energy, however, will have the right to access (i) occurrence-based coverage for claims asserted after the date of the Distribution but arising out of an occurrence prior to such date and (ii) claims-based coverage for claims asserted prior to the date of the Distribution. PPL will use reasonable best efforts to acquire in the name of Talen Energy or the applicable subsidiary insurance coverage with respect to the Energy Supply business for claims made by Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries on or after the date of the Distribution with respect to incidents occurring prior to such date, on substantially the same terms as the previous PPL insurance policy. The obligations of PPL and its subsidiaries set forth in this section will terminate on the two-year anniversary of the date of the Distribution.

### ***Directors and Officers Indemnification; Liability Insurance***

PPL will, for a period of at least six years after the closing, indemnify and hold harmless, and provide advancement of expenses, to the maximum extent permitted under applicable law, to all past and present directors, managers or officers of Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries (other than the subsidiaries that comprise the RJS Power business that are contributed by the Contributors to Talen Energy in the Combination), and each individual who prior to the closing becomes a director, manager or officer of any of the foregoing entities, in respect of acts or omissions occurring at or prior to the closing, including for acts or omissions occurring in connection with any of the Transactions.

PPL will maintain in effect for each of the indemnified persons referred to above, for a period of at least six years after the closing, policies of directors and officers liability insurance of at least the same coverage and containing terms and conditions which are, in the aggregate, no less advantageous to the insured, as the policies of insurance maintained by PPL or any of its subsidiaries at the time of the separation for its or their former directors and officers, with respect to claims arising from acts or omissions that occurred at or prior to the closing, including for acts or omissions occurring in connection with any of the Transactions.

### ***Conditions to the Separation***

The obligations of the parties to effect the Separation Transactions pursuant to the Separation Agreement are subject to each of the conditions to such party's obligations to effect the closing of the Closing Transactions contemplated by the Transaction Agreement, as described in The Transaction Agreement Conditions to Consummation of the Closing Transactions, having been satisfied or waived (other than certain enumerated conditions and conditions that, by their nature, are to be satisfied between the separation time and closing or contemporaneously with closing).

### ***Additional Covenants***

Each of PPL and Energy Supply have undertaken specified covenants in the Separation Agreement restricting the conduct of their respective businesses and committing them to take specified actions. You are urged to read carefully the sections of the Separation Agreement entitled Confidentiality; Access to Information and Additional Agreements. The more significant of these covenants include:

confidentiality and access to information agreements with respect to and access by each party to confidential information (including making witnesses available) in the possession of the other party;

the use of PPL and Energy Supply trademarks after the closing, and other agreements related to intellectual property;

the removal of tangible Energy Supply assets located at any facilities of PPL or any of PPL's subsidiaries (excluding Energy Supply and its subsidiaries), and the removal of tangible excluded assets located at any facilities of Energy Supply or any of its subsidiaries; and

certain real estate matters.

**Table of Contents**

***Mutual Releases; Indemnification***

*Release of Pre-Distribution Date Claims*

Subject to specified exceptions, PPL, on the one hand, and each of the Contributors, HoldCo, Talen Energy and Energy Supply, on the other hand, will release each other and their respective subsidiaries, officers, managers and directors, and their respective successors and assigns, from any and all liabilities and any and all rights, claims and causes of action, whether arising under any contract or by operation of law or otherwise, including in connection with the Separation Transactions, the Transactions and all other activities to implement the Separation Transactions and/or the Transactions:

existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur at or before the closing; or

arising from any conditions existing or alleged to have existed at or before the closing.

The mutual release is subject to specified exceptions set forth in the Separation Agreement and the disclosure schedules thereto, including with respect to:

any liability that is retained, assumed or satisfied by Energy Supply or PPL or their respective subsidiaries under the Separation Agreement, or any other obligation of any of them under, the Separation Agreement, the Transaction Agreement or any ancillary agreement;

the indemnification obligations in the Separation Agreement;

any liability, the release of which would result in the release of any person other than those described above; and

any indemnification to which a director, officer, manager, employee or agent of PPL, Energy Supply, Talen Energy, HoldCo, Merger Sub or any of their subsidiaries, who was a director, officer, manager, employee or agent of such entity before the separation, is entitled, if such individual is or was entitled to a right of indemnification pursuant to such party's organizational documents, any corporate policy of PPL or its subsidiaries or any contract.

*Indemnification*

Except as otherwise provided in the Separation Agreement, Energy Supply will indemnify PPL, its subsidiaries and all persons who are or have been directors, partners, managers, members, managing members, officers, agents or employees of PPL or its subsidiaries (except Energy Supply, Talen Energy, HoldCo, Merger Sub and their respective subsidiaries), together with their respective heirs, executors, administrators, successors and assigns, against all losses, liabilities, damages, penalties, judgments, awards, assessments, fines, penalties, obligations, deficiencies, amounts paid in settlement, taxes, costs and expenses (including reasonable attorneys' fees and expenses) relating to any of the

following, whether arising before or after the closing:

any Energy Supply liabilities;

any liability arising from, related to, or in connection with the financings described in this prospectus, subject to or except as otherwise provided in the Transaction Agreement;

any breach by Energy Supply, Talen Energy, HoldCo, Merger Sub or their subsidiaries of any obligations to be performed subsequent to the closing pursuant to the Separation Agreement, the Transaction Agreement or the ancillary agreements; and

any breach or inaccuracy of any representation or warranty of the Contributors set forth in the Transaction Agreement that survives the closing under the Transaction Agreement, which includes representations and warranties regarding (i) information to be supplied in connection with this prospectus or other documents required to be filed with the SEC or any other governmental authority, (ii) sufficiency of assets and (iii) broker's or finder's fees.

## **Table of Contents**

Except as otherwise provided in the Separation Agreement, PPL has agreed to indemnify Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries, RJS and their subsidiaries and all persons who are or have been directors, partners, managers, members, managing members, officers, agents or employees of such entities, together with their respective heirs, executors, administrators, successors and assigns, from and against all losses, liabilities, damages, penalties, judgments, awards, assessments, fines, penalties, obligations, deficiencies, amounts paid in settlement, taxes, costs and expenses (including reasonable attorneys' fees and expenses) relating to any of the following, whether arising before or after the closing:

any excluded liabilities;

any breach by PPL or any of its subsidiaries (excluding Energy Supply, Talen Energy, HoldCo, Merger Sub and their subsidiaries) of any obligations to be performed subsequent to the closing pursuant to the Separation Agreement, the Transaction Agreement or the ancillary agreements; and

any breach or inaccuracy of any representation and warranty of PPL, Energy Supply, Talen Energy, HoldCo, Merger Sub or their subsidiaries (excluding the Contributors and their subsidiaries) set forth in the Transaction Agreement that survives the closing under the Transaction Agreement, which includes representations and warranties regarding (i) information to be supplied in connection with this prospectus or other documents required to be filed with the SEC or any other governmental authority, (ii) sufficiency of assets and (iii) broker's or finder's fees.

The indemnification provisions set forth above and in the Separation Agreement will not apply to indemnification claims relating to taxes, which are covered separately in the Separation Agreement. See The Separation Agreement Tax Matters.

### ***Termination***

Any time before the closing, the Separation Agreement will terminate without further action upon termination of the Transaction Agreement. If terminated, no party will have any liability to the other party, except as provided in the Transaction Agreement.

### **The Transaction Agreement**

The following is a summary of selected material provisions of the Transaction Agreement. This summary is qualified in its entirety by the Transaction Agreement. The Transaction Agreement is incorporated by reference in its entirety and is filed as an exhibit to the registration statement of which this prospectus forms a part. The rights and obligations of the parties are governed by the express terms and conditions of the Transaction Agreement and not by this summary or any other information included in this prospectus. Recipients of this prospectus are urged to read the Transaction Agreement in its entirety.

The Transaction Agreement has been included to provide recipients of this prospectus with information regarding its terms. The Transaction Agreement contains representations and warranties that the parties made to each other only as of specific dates and have been qualified by certain information disclosed to the other parties to the Transaction Agreement that is not reflected in the Transaction Agreement. In addition, certain of these representations and warranties were intended as a way of allocating risks among the parties if the statements contained therein prove to be



incorrect, rather than establishing matters as actual statements of facts. Information as of the date of this prospectus about our business and ownership of our common stock to assist you in evaluating the benefits and risks of holding or disposing of our common stock that you will receive in the Transactions can be found elsewhere in this prospectus.

***The Distribution***

Under the Transaction Agreement, immediately prior to the effective time of the Merger, PPL will distribute, on a pro rata basis, all of the outstanding shares of HoldCo common stock to record holders of PPL

## **Table of Contents**

common stock as of the close of business on the record date. Each such record holder will be entitled to receive a number of shares of HoldCo common stock equal to the aggregate number of shares of HoldCo common stock multiplied by a fraction, the numerator of which is the number of shares of PPL common stock held by such record holder on the record date and the denominator of which is the total number of shares of PPL common stock outstanding on the record date.

### ***The Merger***

Under the Transaction Agreement and in accordance with the DGCL, immediately following the Distribution and at the effective time of the Merger, Merger Sub will merge with and into HoldCo. As a result of the Merger, the separate corporate existence of Merger Sub will cease and HoldCo will continue as the surviving corporation, will become a wholly owned direct subsidiary of Talen Energy and will succeed to and assume all the property, rights, powers, privileges and franchises, and be subject to all of the debts, liabilities and duties of Merger Sub in accordance with the DGCL and upon the terms set forth in the Transaction Agreement. The certificate of incorporation and bylaws of HoldCo, as in effect immediately prior to the effective time of the Merger, will be the certificate of incorporation and bylaws of the combined company from and after the effective time of the Merger until amended in accordance with applicable law and such certificate of incorporation. Cash in lieu of fractional shares will be distributed as described in The Transactions Structure of the Distribution, the Merger and the Combination Treatment of Fractional Shares.

As of the effective time of the Merger, each share of HoldCo common stock issued and outstanding following the Distribution and immediately prior to the effective time of the Merger (other than shares owned or held by Talen Energy, Merger Sub, HoldCo or any HoldCo subsidiary, which shares will be cancelled and retired) will be automatically converted into the right to receive one share of Talen Energy common stock, with the result that, immediately following the effective time of the Merger, the record holders of PPL common stock as of the close of business on the record date will own all of the outstanding shares of Talen Energy common stock.

### ***The Combination***

The Contributors will contribute the RJS Power business to Talen Energy as set forth below. In consideration thereof, Talen Energy will issue additional shares of Talen Energy common stock to the Contributors in an aggregate amount that will equal 35% of the total outstanding common stock of Talen Energy, taking into account the issuance of such shares following the Combination.

Under the terms of the Transaction Agreement, and substantially contemporaneous with the Merger, the Contributors will contribute, directly or indirectly, all of the outstanding equity interests of RJS Power to Talen Energy, free and clear of any security interest other than certain security interests in connection with the financings described in this prospectus or otherwise specified in the disclosure letter to the Transaction Agreement. Additionally, the Transaction Agreement provides the parties will cooperate in good faith to identify a method for the contribution to Talen Energy of all of the outstanding members interests in Raven Power BargeCo LLC, a Delaware limited liability company ( BargeCo ). In the event the parties are unable to identify such a method prior to the Closing Date, RJS Power and/or its subsidiaries, as applicable, will enter into one or more agreements (or amendments to existing agreements) with BargeCo for coal transportation and related services, which will provide for a term that extends for not less than two years after the closing and otherwise be in form and substance reasonably satisfactory to the parties. Such agreements (or amendments to existing agreements) will not result in either increased liability or increased benefits to BargeCo compared to the agreements between BargeCo and RJS Power and/or its subsidiaries in effect on June 9, 2014. If, at any time following the Closing Date, an affiliate of the Contributors that, directly or indirectly, owns the members interests in BargeCo sells such members interests in BargeCo to a third party or BargeCo sells its barges to a third party, then the Contributors shall cause the proceeds of any such sale to promptly be paid to Talen Energy.



**Table of Contents**

***Transaction Expense Adjustments***

Generally, all fees and expenses incurred in connection with the Transactions are to be paid by the party incurring such fees or expenses; however, any costs incurred by PPL, Energy Supply, Talen Energy, HoldCo or Merger Sub or any of their subsidiaries in connection with the Separation Transactions and the Distribution, other than certain shared expenses, are to be paid by PPL. Certain expenses incurred in connection with the Transactions are to be paid by Talen Energy if the Closing Transactions are consummated, or 65% by PPL and 35% by RJS if the Closing Transactions are not consummated. All fees and expenses of financial, legal, accounting and other professional advisors retained by each of the parties will be paid by the party incurring such fees and expenses; unless such expenses are considered Shared Expenses pursuant to the Transaction Agreement.

The Transaction Agreement provides that no later than five business days prior to the Closing Date, each of the parties will use their reasonable best efforts to deliver to the other final invoices and/or releases for certain transaction expenses and costs incurred by such party or any of its affiliates prior to or at the closing of the Transactions. At closing, Talen Energy will pay or reimburse PPL and/or RJS, as applicable, for these expenses. See The Transaction Agreement Transaction Expense Adjustments. Not later than sixty days following the Closing Date, each of PPL and RJS will cause to be prepared and delivered to Talen Energy and each other a statement setting forth such party's good faith calculation of specified shared expenses paid by such party or any of its affiliates. Talen Energy will promptly pay or reimburse PPL and/or RJS, as applicable, for such expenses not previously paid by Talen Energy or its subsidiaries at the closing of the Transactions.

***Conditions to Consummation of the Closing Transactions***

The obligations of each party to consummate the Closing Transactions are subject to the satisfaction or waiver of closing conditions that are contained in the Transaction Agreement, including:

the absence of any temporary restraining order or preliminary or permanent injunction or other order by any governmental authority restraining or preventing the consummation of any of the Transactions;

the Separation Transactions having occurred in accordance with the Separation Agreement;

the Talen Energy common stock to be issued in the Closing Transactions having been authorized for listing on the NYSE, subject to official notice of issuance;

the receipt of certain consents, approvals and authorizations by governmental authorities, as described in The Transaction Agreement Regulatory Approvals and Efforts to Close, (including the expiration or termination of any waiting periods with respect thereto (and any extensions thereof) applicable to the Transactions), and such approvals having become final;

the effectiveness of the registration statement of which this prospectus forms a part, and the absence of any actual or initiated or threatened stop order in connection therewith;

## Edgar Filing: Talen Energy Corp - Form S-1/A

all other necessary permits or filings under state securities or blue sky laws, the Securities Act and the Exchange Act relating to the issuance and trading of the Talen Energy common stock to be issued pursuant to the Closing Transactions having been obtained and effective, and the expiration of any applicable notice periods required by applicable stock exchange rules or the foregoing securities laws;

the receipt by the boards of directors of PPL and Talen Energy of a solvency opinion with respect to PPL and Talen Energy, in form and substance reasonably satisfactory to PPL and the Contributors, from a nationally recognized solvency valuation firm;

PPL's receipt of (i) the Simpson Thacher Merger and Combination Opinion and (ii) the Distribution Opinion;

the effectiveness of the amended and restated certificates of incorporation and bylaws of Talen Energy and HoldCo, the Stockholders Agreement and the Transition Services Agreements; and

**Table of Contents**

after giving effect to the financings described in The Transaction Agreement Financing and Debt Payoff on the Closing Date and the posting or grant of any credit support and other financial commitment required to be provided by RJS Power, Talen Energy, Merger Sub, HoldCo, Energy Supply and/or their respective subsidiaries in connection with, or as a condition to, the required regulatory approvals required in connection with the Separation Transactions and the Closing Transactions, there being at least \$1.00 billion of undrawn capacity under a revolving credit facility or similar facility available to Talen Energy and its subsidiaries (for purposes of which any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding shall not be considered as drawn against such facility).

In addition, the Contributors obligations to consummate the Closing Transactions are subject to the satisfaction or waiver of the following conditions:

the covenants and agreements being performed by Talen Energy, Merger Sub, HoldCo, PPL, Energy Supply and their applicable subsidiaries in all material respects as of or prior to the closing of the Transactions (other than certain covenants and agreements which must be performed in all respects);

the representations and warranties of Talen Energy, Merger Sub, HoldCo, PPL and Energy Supply being true and correct in all respects, both at and as of June 9, 2014 and at and as of the Closing Date (except to the extent such representations and warranties were expressly made as of an earlier date, in which case as of such earlier date), except where the failure to be true and correct (without giving effect to materiality or material adverse effect limitations) has not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect (other than certain representations and warranties which must be true and correct in all respects);

the absence of a material adverse effect or any event, change, effect, development, state of facts, circumstance, condition or occurrence that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect from June 9, 2014 through the Closing Date;

the receipt by the Contributors of an opinion of Vinson & Elkins L.L.P. as to certain tax matters;

the replacement or modification of specified interconnection agreements at or prior to the closing of the Separation Transactions; and

the delivery by Talen Energy, Merger Sub, HoldCo, PPL, Energy Supply and their applicable subsidiaries of duly executed counterparts of the Separation Agreement and each document, instrument or agreement to be delivered pursuant thereto, the Employee Matters Agreement, the Stockholders Agreement and the Transition Services Agreements.

Furthermore, PPL, Talen Energy, Merger Sub, HoldCo and Energy Supply s obligations to consummate the Closing Transactions are subject to the satisfaction or waiver of the following conditions:

the covenants and agreements being performed by the Contributors in all material respects as of or prior to the closing of the Transactions (other than certain covenants and agreements which must be performed in all respects);

the representations and warranties of the Contributors being true and correct in all respects, both at and as of June 9, 2014 and at and as of the Closing Date (except to the extent such representations and warranties were expressly made as of an earlier date, in which case as of such earlier date), except where the failure to be true and correct (without giving effect to materiality or material adverse effect limitations) has not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect (other than certain representations and warranties which must be true and correct in all respects);

the absence of a material adverse effect or any event, change, effect, development, state of facts, circumstance, condition or occurrence that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect from June 9, 2014 through the Closing Date;

## **Table of Contents**

the delivery by the Contributors of duly executed counterparts of the Separation Agreement and each document, instrument or agreement to be delivered pursuant thereto, the Employee Matters Agreement, the Stockholders Agreement and the Transition Services Agreements; and

the release of PPL and its affiliates (other than Energy Supply and its subsidiaries) from liability under specified guarantees.

PPL and the Contributors may waive, at their sole discretion, any of the conditions to their respective obligations to complete the Closing Transactions.

### ***Regulatory Approvals and Efforts to Close***

To complete the Transactions, there are filings, notices and waiting periods required in order for the parties to obtain required authorizations, approvals and/or consents from a number of federal and state public utilities, antitrust and other regulatory authorities. The filings the parties have made are described below and the parties are not otherwise currently aware of any material governmental filings, authorizations, approvals or consents that are required prior to the parties' consummation of the Transactions.

#### ***FERC***

The Transactions are conditioned on obtaining all approvals necessary under Section 203 of the Federal Power Act ( FPA ) for the disposition of or change in control over FERC jurisdictional facilities and the merger or consolidation of FERC jurisdictional facilities with another entity. On July 15, 2014, PPL and RJS Power filed a joint application with the FERC seeking all necessary approvals under Section 203 of the FPA. On December 18, 2014, the FERC issued an order conditionally approving the Transactions under Section 203 of the FPA, subject to satisfaction of certain market power mitigation measures. On January 27, 2015, PPL and RJS Power filed a statement with the FERC agreeing to these mitigation measures, as described under Mitigation Plans.

#### ***Public Utility Commission***

On July 30, 2014, affiliates of PPL submitted the following applications for approval of the Transactions to the PUC: (i) the change in control with respect to PPL Interstate Energy Company, the owner of a natural gas pipeline, (ii) the transfer of certain property interests between PPL Electric and subsidiaries of Energy Supply, and (iii) any modification or amendment of associated affiliated interest agreements. On March 11, 2015, the PUC approved the applications described above.

#### ***HSR Act***

The Combination is subject to the requirements of the HSR Act, and the rules and regulations promulgated thereunder, which provide that certain acquisition transactions may not be completed until required information has been furnished to the DOJ and the FTC, and until certain waiting periods have been terminated or have expired. On April 23, 2015, we were notified that the DOJ has closed its review of the Combination without taking any action. This notification does not preclude the DOJ or the FTC from challenging the Transactions on antitrust grounds or from seeking preliminarily or permanently to enjoin the Transactions. None of the parties believe that the Transactions will violate federal antitrust laws, but there can be no guarantee that the DOJ or the FTC will not take a different position. If the Combination is not completed within twelve (12) months after the expiration of the applicable waiting period under the HSR Act, new information will be required to be submitted to the DOJ and the FTC, and a new HSR Act waiting period will have to expire or be earlier terminated before the Transactions could be completed.





**Table of Contents**

*NRC*

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended, and 10 CFR 50.80, PPL Susquehanna submitted a license transfer application ( LTA ) on July 11, 2014 seeking the consent of the NRC to various indirect transfers of control of NRC nuclear facility licenses currently held by PPL Susquehanna in connection with the Transactions. The LTA also seeks NRC approval pursuant to 10 CFR 50.92 of conforming license amendments to the extent necessary to conform the licenses to reflect the proposed transfers. On April 10, 2015, the NRC issued an order approving the LTA.

*FCC*

The Transactions are also conditioned on receiving pre-approvals of license transfers by the Federal Communications Commission (the FCC ). The subsidiaries of PPL and RJS Power that currently hold FCC licenses utilized in the Energy Supply business and the RJS Power business, as applicable, have sought and received FCC approval for the license transfers in connection with the Transactions.

*New Jersey Industrial Site Recovery Act*

In addition, the consummation of the Transactions is conditioned upon compliance with the New Jersey Industrial Site Recovery Act.

*Efforts to Close*

Subject to the terms of the Separation Agreement and the other transaction-related agreements, the Transaction Agreement generally provides that the parties will use, and will cause their respective subsidiaries to use, their reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws to carry out the intent and purposes of the Transaction Agreement and to consummate the Transactions. The parties will:

reasonably cooperate and use reasonable best efforts to seek the cooperation of any third parties whose cooperation may be necessary or desirable;

file, execute and deliver any applications, notices, registrations, filings, reports, petitions, certificates, agreement, instruments and other documents required to be filed with any governmental authority necessary or advisable to consummate the Transactions and give all notices (if any) required to be made or given in connection with the Transactions;

use reasonable best efforts to obtain each required approval, consent, ratification, permission and waiver of authorization from governmental authorities or other persons;

use reasonable best efforts not to take any action that could reasonably be expected to (i) materially delay the obtaining of, or materially increase the risk of not obtaining, any necessary authorization, consent, order, declaration or approval of any governmental authority or the expiration or termination of any applicable

waiting period, (ii) materially increase the risk of any governmental authority entering an order prohibiting the consummation of the Transactions, (iii) materially increase the risk of not being able to remove any such order on appeal or otherwise, (iv) materially delay or prevent the consummation of the Transactions or (v) materially and adversely increase the conditions that are likely to be imposed by any governmental authority in connection with obtaining its approval for the Transactions;

use reasonable best efforts to lift any restraint, injunction or other legal bar to the Transactions; and

subject to certain limitations, enter into and perform one or more agreements to hold separate and divest or license such businesses, products and assets of any of the foregoing, and take all such other actions as may be necessary to obtain the agreement or consent of any governmental authority to the Transactions.

## **Table of Contents**

No party may settle any action or enter into any consent or order with any governmental authority without the consent of the other parties, provided that such consent will not be required if (i) the effect of such settlement, consent or order would not reasonably be expected to have a material adverse effect on the combined businesses of Energy Supply and RJS Power and (ii) but for such settlement or entry into such consent or order, the Outside Date (as defined below) would have occurred without such regulatory approval having been obtained.

Notwithstanding the foregoing, reasonable best efforts will not require PPL, the Contributors or any of their subsidiaries to take any action that would have a material adverse effect on the combined businesses of Energy Supply and RJS Power. In addition, except as set forth in the disclosure letter to the Transaction Agreement, the above-described provisions will not require any party to cause any affiliate (other than a subsidiary of such party) to take any action or omit to take any action.

In addition, the Transaction Agreement provides that the parties will, and will cause their subsidiaries to (i) execute and deliver officer's certificates as may be reasonably requested by counsel for purposes of rendering opinions with respect to the tax treatment of the Closing Transactions and (ii) use their reasonable best efforts to obtain the opinions of counsel and the solvency opinion which are conditions to the consummation of the Closing Transactions.

The Transaction Agreement provides that in the event that the NRC, in connection with the approval for indirect transfer of control of the operating license for the Susquehanna Steam Electric Station, determines that, as a condition to such approval, additional assets or standby guarantees or similar financial commitments are required to establish the financial qualifications of HoldCo, Talen Energy, Energy Supply or their subsidiaries, Talen Energy will bear such obligation and PPL will not be responsible for any such obligation.

### *Mitigation Plans*

Pursuant to the FERC Order, we are required to sell or otherwise dispose of approximately 1,300 MW of generating capacity (based on summer ratings) within one year of the completion of the Transactions. We proposed to the FERC two alternative divestiture packages: (1) our Bayonne, Camden, Newark Bay, Pedricktown, Elmwood Park, York and Ironwood plants or (2) our C.P. Crane, Bayonne, Camden, Newark Bay, Pedricktown, Elmwood Park, York, Holtwood and Wallenpaupack plants. Pursuant to the FERC Order, we have agreed to dispose of the assets in one of the divestiture packages described above and agree to cost-based price controls on electricity sold into certain markets by the generating facilities in the other divestiture package that are not sold. Prior to completing the divestitures required by the FERC Order, we are required to relinquish day-to-day control over the sales of electricity by the subject plants in both proposed packages to an independent energy manager. Management will continue to assess options for dispositions in compliance with the FERC Order and does not expect to dispose of any generating facilities prior to completion of the Transactions. The package chosen and the price and timing of such dispositions will depend on a number of factors, including market conditions and the offers received. As a result, Talen Energy's generation portfolio will not include all of the plants that currently comprise the Energy Supply business and the RJS Power business.

### *Representations and Warranties*

The Transaction Agreement contains substantially reciprocal customary representations and warranties that PPL, HoldCo, Talen Energy, Merger Sub and the Contributors made to each other as of specific dates.

The representations and warranties by each of PPL, HoldCo, Talen Energy, Merger Sub and the Contributors in the Transaction Agreement relate to, among other things:

due organization, good standing and corporate power;

each party's respective subsidiaries;

authority to enter into the Transaction Agreement (and other transaction-related agreements) and no conflicts with or violations of governance documents, other obligations or laws;

**Table of Contents**

statutory and regulatory approvals and other third party consents;

capitalization;

financial statements and absence of undisclosed liabilities;

absence of certain changes or events;

compliance with SEC requirements of the information supplied for this prospectus (and any other applicable requirements of the information supplied to other governmental authorities);

litigation and similar actions;

compliance with applicable laws and ownership of certain permits;

existence and enforceability of material contracts;

employees and employee benefits matters;

labor matters;

title to and sufficiency of assets necessary to operate each of the parties' respective businesses;

environmental matters;

tax matters;

regulatory status;

intellectual property matters;

insurance;

real property;

trading and derivative products; and

payment of fees to brokers or finders in connection with the Transactions.

In addition, PPL, HoldCo, Talen Energy and Merger Sub made representations and warranties that relate to SEC filings and NRC status.

Many of the representations and warranties contained in the Transaction Agreement are subject to a material adverse effect standard and do not survive the closing, except for the representations and warranties related to (i) information supplied in this prospectus or to any other governmental authority, (ii) sufficiency of assets and (iii) the payment of fees to brokers or finders in connection with the Transactions, (which survive for eighteen months after the closing of the Transactions).

Under the Transaction Agreement, material adverse effect, when used in connection with the Energy Supply business and the RJS Power business, means any event, change, effect, development, state of facts, circumstance, condition or occurrence, individually or in the aggregate, that has, or would reasonably be expected to have, a material adverse effect on the business, financial condition or results of operations of the relevant party and its subsidiaries, taken as a whole or the ability of such party to consummate the Closing Transactions. However, any event, change, effect, development, state of facts, circumstance, condition or occurrence (i) generally affecting the economy or the financial, securities or commodities markets in the United States or in the geographies, or the industry or industries in which such party operates or (ii) resulting from or arising out of the following will not be included in the definition of a material adverse effect (but only, as to clause (i) above or the first, third, fourth and fifth bullet points below, to the extent such party is not and is not reasonably expected to be disproportionately affected thereby relative to other participants in the industries in which such party operates):

any changes, events or developments in the international, national, regional, state or local wholesale or retail markets for electricity, capacity or fuel or related products, including changes in customer usage patterns;

**Table of Contents**

the announcement or the existence of, or compliance with the Transaction Agreement, the Separation Agreement or any ancillary agreement or the consummation of the Transactions;

any adoption, implementation, promulgation, repeal, modification, reinterpretation or proposal of any law (including any environmental law) after June 9, 2014;

any changes in GAAP or accounting standards or regulatory accounting requirements applicable to such party, or interpretations thereof after June 9, 2014;

any weather-related or other force majeure event or outbreak of hostilities or escalation thereof or acts of war or terrorism occurring after June 9, 2014;

any failure to meet any internal or public projections, forecasts or estimates of revenues, earnings, cash flow or cash position or budgets (it being understood that the facts, events or circumstances giving rise to or contributing to such failure may be deemed to constitute, and may be taken into account in determining whether there has been or would reasonably be expected to be, a material adverse effect);

any reduction in the credit rating of such party or its subsidiaries (it being understood that the facts, events or circumstances giving rise to or contributing to such change in credit rating may be deemed to constitute, and may be taken into account in determining whether there has been or would reasonably be expected to be, a material adverse effect); and

seasonal fluctuations in the business of such party.

***Conduct of Business***

Until the earlier of the closing and termination of the Transaction Agreement, subject to certain exceptions and items disclosed in the schedules to the Transaction Agreement, each of PPL, Energy Supply, HoldCo, Talen Energy and Merger Sub, with respect to the Energy Supply business, and each of the Contributors, with respect to the RJS Power business, are required to use commercially reasonable efforts to (i) carry on its respective business in the ordinary course consistent with past practice and in accordance with prudent operating practice and (ii) maintain in effect and comply with all existing material permits in all material respects and to comply in all material respects with applicable laws. In addition, until the earlier of the closing and termination of the Transaction Agreement, each of PPL, Energy Supply, HoldCo, Talen Energy, Merger Sub and their subsidiaries and the Contributors agreed not to take any action, cause any action to be taken, fail to take any action or fail to cause any action to be taken, which would (i) cause the Merger to fail to qualify as a reorganization under Section 368(a) of the Code or the Merger and the Combination to fail to together qualify as a contribution of property described in Section 351 of the Code or (ii) prevent any Separation Transaction from qualifying for the intended tax-free treatment. Until the earlier of the closing and termination of the Transaction Agreement, other than pursuant to the Transaction Agreement, the Separation Agreement or any other transaction-related agreements, none of PPL, Energy Supply, HoldCo, Talen Energy, Merger Sub or the Contributors will enter into any proposed acquisition transaction or permit or acquiesce in any proposed acquisition transaction as a result of which (i) PPL, PPL Energy Funding, HoldCo, Talen Energy or Energy Supply would merge or consolidate with any other person or (ii) one or more persons (including persons acting in concert)



could acquire a 50% or greater interest in PPL, PPL Energy Funding, HoldCo, Talen Energy or Energy Supply for purposes of Section 355(d) or (e) of the Code.

Without the prior written consent of the other parties to the Transaction Agreement, subject to certain specified exceptions and thresholds, and items disclosed in the schedules to the Transaction Agreement, none of PPL, Energy Supply, HoldCo, Talen Energy or Merger Sub (with respect to the Energy Supply business only), or the Contributors (with respect to the RJS Power business only) may take any or all of the following actions or commit or agree to take any of the following actions:

declare or pay any dividends or other distribution in excess of previously agreed amounts, except as otherwise contemplated by the Transaction Agreement;

**Table of Contents**

repurchase, redeem or otherwise acquire any of its capital stock or enter into any agreement with respect to the voting of its capital stock or purchase any of its capital stock;

split, combine, reclassify, subdivide or take similar actions with respect to any of its capital stock or issue or authorize or propose the issuance of any of its capital stock or other securities in respect of, in lieu of or in substitution for such capital stock;

sell, pledge, dispose of, lease, license or otherwise transfer any assets (other than contracts and energy marketing and trading transactions);

enter into or engage in certain energy marketing and trading transactions;

acquire or agree to acquire (including by merger, consolidation or acquisition of stock or assets) any assets (including the capital stock of any person);

incur or guaranty any of the following types of indebtedness: (i) for borrowed money or issued in substitution for or exchange of indebtedness for borrowed money; (ii) for any indebtedness evidenced by notes, debentures, bonds or other similar instruments or debt securities or (iii) other than specified guarantees, in respect of (including contingent reimbursement obligations with respect to) letters of credit and bankers' acceptances;

adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization;

make a material change in its financial accounting policies or procedures or its methods of reporting revenue, expenses or other material items for financial accounting purposes, except as allowed by a change in GAAP, FERC, SEC (or, with respect to the Energy Supply business only, NRC) rules or policy or required by applicable law or as may be required in connection with the Transactions;

make, change or revoke any material tax election or method of accounting on which tax reporting is based, settle, compromise or abandon any material action relating to taxes, extend or waive the application of any statute of limitations regarding the assessment or collection of any material tax (other than any such extension with respect to periods for which PPL provides an indemnity under the Separation Agreement) or amend any material tax return;

fail to make capital expenditures if such failure would not be in accordance with prudent operating practice;

make certain employee arrangements described in The Transaction Agreement Employee Matters ;

amend or modify, in any material respect, renew or terminate, enter into, waive, release, assign or otherwise forego any material right or claim under any material contract, other than in the ordinary course of business with certain limitations, as expressly permitted by the Transaction Agreement or, with respect to the Energy Supply business only, as required by any collective bargaining agreement;

amend or modify (except for immaterial amendments or modifications), enter into, waive, release, assign or otherwise forego any material right or claim under any contract with certain affiliates, or otherwise make any loans, advances or other payments to, or enter into any other arrangement with certain affiliates, other than certain specified transactions and payments;

commence, waive, release or settle any action or agree to the entry of any order if such action or order would restrict the operation of such party's business in any material respect following the Closing Date;

fail to maintain insurance (including outage insurance) in such amounts and against such risks and losses as are customary for companies engaged in the power generation industry and consistent with past practice;

effect or permit a plant closing, mass layoff or similar event under the WARN Act;

**Table of Contents**

amend or otherwise change its organizational documents in any material respect; or

engage in any business other than the business conducted by such party as of June 9, 2014 and activities incidental thereto.

In addition, without the prior written consent of the Contributors, none of PPL, Energy Supply, HoldCo, Talen Energy or Merger Sub (with respect to the Energy Supply business only), may take any or all of the following actions or authorize, commit or agree to take any of the following actions:

amend, supplement or otherwise modify the Energy Supply trading guidelines or the Energy Supply credit policies, unless such modifications are more restrictive;

terminate, suspend or permit or grant any exception in respect of the Energy Supply trading guidelines or the Energy Supply credit policies, except as provided for in the Transaction Agreement;

prior to the Distribution, permit HoldCo, Talen Energy or Merger Sub to conduct any activities other than the negotiation and execution of the transaction-related agreements and the consummation of the Transactions;

enter into any guarantees that would need to be novated, assigned or replaced pursuant to the Transaction Agreement, other than in the ordinary course of business and not in excess of \$10 million in the aggregate; or

amend, supplement or otherwise modify the definitive documentation evidencing the sale of the Montana hydroelectric facilities and related assets to NorthWestern in a manner that could reasonably be expected to be materially adverse to Energy Supply, HoldCo, Talen Energy, Merger Sub or their subsidiaries.

Furthermore, the Contributors may not and may not permit any of their respective affiliates to transfer employment of any employee to the Contributors without PPL's consent. Additionally, HoldCo, Talen Energy, Merger Sub, Energy Supply, PPL or their respective subsidiaries may not and may not permit the transfer of the employment of any employee of PPL and each of its subsidiaries to HoldCo, Talen Energy, Merger Sub, Energy Supply or their subsidiaries other than as provided in the Employee Matters Agreement described below.

***Employee Matters***

Subject to certain exceptions and other than as required by law or certain collective bargaining agreements or permitted by the Transaction Agreement or any other transaction-related agreement, none of HoldCo, Talen Energy, Merger Sub, Energy Supply, PPL or their respective subsidiaries will:

adopt or materially amend any Energy Supply benefit plans (other than (1) amendments that, individually or in the aggregate, result in a net reduction of the benefit costs of HoldCo, Talen Energy, Merger Sub, Energy

Supply and their subsidiaries, (2) as required by the existing terms of any Energy Supply benefit plan in effect on the date of the Transaction Agreement or (3) in connection with the adoption or amendment of Energy Supply benefit plans (or other practices) that are necessary to comply with the Transaction Agreement or an ancillary agreement);

materially increase the salaries, wage rates, bonus opportunities, benefits or other compensation (including equity based compensation) of Energy Supply Employees (as defined in the Employee Matters Agreement), except (1) in the ordinary course of business, (2) as required to comply with applicable law, the existing terms of any Energy Supply benefit plan or collective bargaining agreement in effect or pending on the date of the Transaction Agreement, (3) in connection with the adoption or amendment of Energy Supply benefit plans (or other practices) that are necessary to comply with the Transaction Agreement or an ancillary agreement), (4) in connection with employment agreements or arrangements entered into with any Energy Supply Employees who are hired to replace employees who have voluntarily left their employment or been terminated as permitted

**Table of Contents**

by the Transaction Agreement or to fill open positions existing as of the date of the Transaction Agreement, or who are promoted after the date of the Transaction Agreement, in each case consistent with past practice, (5) severance arrangements with individual employees that include releases of claims, which such agreements (and releases) are consistent with past practice or (6) retention agreements or arrangements with individual Energy Supply Employees; or

transfer the employment of any employee of PPL and each of its subsidiaries to HoldCo, Talen Energy, Merger Sub, Energy Supply or their subsidiaries other than as provided in the Employee Matters Agreement.

***No Solicitation***

PPL, Energy Supply, Talen Energy, HoldCo, Merger Sub and the Contributors, and their subsidiaries and their respective officers, directors and employees will not, and will use their reasonable best efforts to cause their other representatives and their subsidiaries other representatives not to, directly or indirectly:

solicit, initiate, seek or knowingly encourage (including by way of furnishing information) or knowingly take any other action designed to facilitate any inquiries or the making, submission or announcement of any Takeover Proposal (as defined below);

furnish any nonpublic information regarding any of the parties or their subsidiaries to any person (other than the other parties and/or their representatives) in connection with or in response to a Takeover Proposal;

engage or participate in any discussions or negotiations with any person (other than the other parties and/or their representatives) with respect to any Takeover Proposal;

approve, endorse or recommend any Takeover Proposal; or

enter into any letter of intent, agreement in principle or other agreement providing for any Takeover Transaction (as defined below).

PPL, Energy Supply, Talen Energy, HoldCo, Merger Sub and the Contributors will give each other prompt notice (and in any event, within 48 hours) of receipt of any Takeover Proposal, or any inquiry, proposal, offer or request for information with respect to, or that could reasonably be expected to result in, a Takeover Proposal, and keep each other informed in reasonable detail, on a prompt basis (and in any event, within 48 hours) of the status and terms thereof, including any material developments or modifications to the terms thereof.

A **Takeover Proposal** means any bona fide offer, inquiry, proposal or indication of interest received from a third party relating to, or which is reasonably expected to lead to, any Takeover Transaction.

A **Takeover Transaction** means, with respect to each of Energy Supply, Talen Energy, HoldCo, Merger Sub, the Contributors and their respective subsidiaries:

other than in the ordinary course of business, any direct or indirect acquisition (whether by purchase, lease, exchange, transfer, merger or consolidation), in a single transaction or a series of related transactions, of any assets of such party that constitute or account for 10% or more of the consolidated assets, consolidated revenues or consolidated net income of (i) the Energy Supply business (other than any such transaction in respect of PPL common stock) or (ii) the Contributors and their subsidiaries, taken as a whole (other than any such transaction in respect of any direct or indirect equity interests in any of the funds managed or advised by, or general partners associated with, Riverstone Investment Group LLC or any of its affiliates);

any direct or indirect acquisition of any capital stock, tender offer, exchange offer or other similar transaction of or involving such party (other than, as applicable, any such transaction in respect of (i) PPL common stock or (ii) any direct or indirect equity interests in any of the funds managed or advised by, or general partners associated with, Riverstone Investment Group LLC or any of its affiliates);

## **Table of Contents**

any merger, consolidation, share exchange, recapitalization, spinoff, consolidation, other business combination or similar transaction (or series of related transactions) involving such party (other than, as applicable, any such transaction (i) of PPL or (ii) in respect of any direct or indirect equity interests in any of the funds managed or advised by, or general partners associated with, Riverstone Investment Group LLC or any of its affiliates);

the liquidation or dissolution (or the adoption of a plan of liquidation or dissolution) of such party; or

any other similar transaction (or series of related transactions) involving such party that would reasonably be expected to prevent or materially impair or delay the consummation of the Transactions.

### ***Tax Matters***

The Transaction Agreement includes certain covenants designed to ensure that the Energy Supply business (i) pays amounts to PPL equal to the portion of PPL's income tax expense that is attributable to the Energy Supply business during the period beginning on the date that the Transaction Agreement was signed and ending on the date of the Distribution and (ii) is compensated for any income tax benefit it confers to PPL during the same period. PPL's good faith judgment of the amount of such income tax expense and benefit will be final and binding under the Transaction Agreement, and subsequent redeterminations of PPL's income taxes, by the IRS or otherwise, will not result in the adjustment of any payments for tax expenses or benefits after the date of the Distribution.

### ***Financing and Debt Payoff***

PPL, Talen Energy, HoldCo and Energy Supply will use their reasonable best efforts to arrange and obtain one or more credit and/or letter of credit facilities and/or issue debt securities of Energy Supply to be available at or prior to the Closing Date (the Energy Supply Financing) to fund the refinancing of certain indebtedness of Energy Supply and the refinancing of certain indebtedness of the Contributors identified to PPL in writing no later than sixty (60) days prior to the Closing Date. Unless otherwise consented to by the Contributors, the terms and conditions of the Energy Supply Financing will be at then-prevailing market terms for similar indebtedness of companies of a size and with a credit rating or profile similar to the combined business of Energy Supply and RJS Power (following the Closing Transactions). We expect the entry into the New Revolving Facility in connection with the Transactions will satisfy this condition.

In addition, the Contributors agreed to use their reasonable best efforts to arrange and obtain at or prior to the closing of the Transactions (i) an offering of unsecured senior notes issued in a private placement under Rule 144A or Regulation S of the Securities Act in an amount not to exceed \$1,300 million (to include the terms set forth in the disclosure letter to the Transaction Agreement) and (ii) a working capital revolving credit facility in an initial principal amount not to exceed \$200 million (the RJS Financing). The issuance by RJS Power in July 2014 of \$1,250 million aggregate principal amount of senior notes due 2019 satisfied this condition.

### ***Other Covenants and Agreements***

The Transaction Agreement contains certain other covenants and agreements, including covenants (with certain exceptions specified in the Transaction Agreement) relating to:



termination of intercompany agreements and accounts with respect to the RJS Power business;

transfer of certain domain name registrations;

the making of public announcements or press releases with respect to the Transaction Agreement (and other transaction-related agreements) and the Transactions;

confidentiality and reasonable access with respect to certain information relating to the parties;

as of the closing, the approval of the listing on the NYSE of the Talen Energy common stock to be issued in connection with the Closing Transactions;

**Table of Contents**

cooperation among the parties relating to amendments to the Transaction Agreement (and other transaction-related agreements) necessary for delivery of the counsel opinions required for closing of the Transactions;

Talen Energy's post-closing commitments to maintenance of its headquarters in Pennsylvania;

cooperation of the parties in order to novate, assign or replace certain guarantees issued by PPL and its affiliates in support of the Energy Supply business;

commitments with respect to the operation of the Susquehanna Steam Electric Station between the signing of the Transaction Agreement and the closing of the Transactions;

the exemption under Rule 16b-3 under the Exchange Act of acquisitions or dispositions of HoldCo common stock or Talen Energy common stock resulting from the Closing Transactions by certain officers and directors;

the delivery of unaudited financial statements between the signing of the Transaction Agreement and the closing of the Transactions;

the development of a system of internal controls over financial reporting and integration of the financial reporting systems of Talen Energy and the RJS Power business; and

the negotiation of the amended and restated certificates of incorporation of Talen Energy and HoldCo, the amended and restated bylaws of Talen Energy and HoldCo, the Stockholders Agreement and the Transition Services Agreements.

***Amendment; Waiver***

The Transaction Agreement may not be amended except by an instrument in writing signed by each of the parties. Any provision of the Transaction Agreement may be waived, provided that any such waiver must be set forth in a writing executed by the waiving party.

***Termination of the Transaction Agreement***

The Transaction Agreement may be terminated at any time prior to the Closing Date by the mutual written consent of PPL and the Contributors. It may also be terminated by either PPL or the Contributors if:

the Closing Transactions have not been consummated on or prior to June 30, 2015 (the Outside Date); however, if all of the conditions to closing have been satisfied or are capable of being satisfied (other than the receipt of all consents, approvals and authorizations by governmental authorities), such date may be

extended by any party to December 31, 2015. No party may extend such date if the failure of the closing to occur by such date is due to the failure of such party to perform its obligations set forth in the Transaction Agreement, and no party may terminate the Transaction Agreement if the consent of such party over settlements, consents and orders with governmental authorities is no longer required pursuant to the Transaction Agreement and all other conditions to closing have been satisfied;

any applicable law has made the consummation of any component of the Transactions illegal or otherwise prohibited or an order or other action by any governmental authority permanently restraining, enjoining or otherwise prohibiting any component of the Transactions has become final and non-appealable, (unless such restriction or limitation has only an immaterial effect on the Transactions and does not impose criminal liability or penalties); however, no party may terminate pursuant to the above-described provision whose failure to perform any of its obligations set forth in the Transaction Agreement resulted in such order;

there has been a breach by the other party or a failure to perform any of its respective representations, warranties, covenants or other agreements contained in the Transaction Agreement, or any such representation and warranty has become untrue, which (i) would (if it occurred or was continuing as of

## **Table of Contents**

the Closing Date) result in a failure of a closing condition applicable to such party and (ii) cannot be or has not been cured within the earlier of (x) thirty days after receipt of written notice thereof and (y) one business day prior to the Outside Date; however, no party may terminate pursuant to this section at any time such party is in breach of the Transaction Agreement and such breach has prevented satisfaction of any condition to the obligations of the other party to consummate the closing of the Transactions or has not been cured.

### **Ancillary Agreements**

#### **Transition Services Agreements**

Energy Supply will enter into Transition Services Agreements with PPL and TPM pursuant to which a limited number of services will be provided on an interim basis in accordance with the Transaction Agreement for a period not to exceed 24 months following the Closing Date. The parties thereto will provide such services to the other parties thereto and their respective subsidiaries on a transitional basis as are mutually agreed by the parties in a manner substantially consistent with (and not more extensive in type and scope than) their provision of similar or comparable services prior to June 9, 2014. Pricing will be as reasonably agreed in accordance with cost allocation methodologies in effect on June 9, 2014, without subsidization of the providing party's operations or margin.

#### **Employee Matters Agreement**

The Contributors, PPL and Talen Energy have entered into the employee matters agreement, as it may be amended from time to time (the Employee Matters Agreement), that, among other things, allocates among PPL, Energy Supply and Talen Energy (and their respective affiliates) pre-separation assets and liabilities in respect of employees transferring to Talen Energy and certain former Energy Supply employees (including assets and liabilities in respect of employee benefit plans providing benefits to such employees and former employees) and establishes certain required treatment of continuing Talen Energy employees by Talen Energy after the Distribution Date, including applicable Energy Supply subsidiaries' maintenance or assumption of collective bargaining agreements covering employees represented by third party unions.

#### ***Identification of Transferring Employees***

Subject to any collective bargaining agreement requirements, the following employees will become employees of Energy Supply, referred to as Energy Supply Employees:

employees employed by HoldCo, Talen Energy, Merger Sub, Energy Supply or their subsidiaries as of the separation time (other than any employee that has been expressly identified as a retained employee in the Employee Matters Agreement); and

approximately 200 individuals, who are not employed by HoldCo, Talen Energy, Merger Sub, Energy Supply or their subsidiaries but provide direct or indirect services to such group, to be mutually agreed to by PPL and the Contributors 30 days prior to the Distribution Date, and who will become an Energy Supply Employee upon the Distribution Date.

With respect to employees not covered by a collective bargaining agreement, there is to be no solicitation or hiring by the Contributors of PPL employees, and no solicitation or hiring by PPL of Talen Energy employees, for 12 months following the Distribution Date.

***Allocation of Liabilities In General***

In general, Energy Supply will assume, as of the separation time, all liabilities with respect to the employment, service, termination of employment or termination of service of all Energy Supply Employees and former employees of the Energy Supply business as well as all liabilities under Energy Supply and Talen Energy

---

**Table of Contents**

benefit plans other than pre- Distribution Date liabilities that accrued under employee benefit plans that will be retained by PPL. PPL will retain all liabilities with respect to the employment, service, termination of employment or termination of service of all PPL employees and former employees other than Energy Supply Employees and former employees of the Energy Supply business. Additionally, PPL will retain liabilities in respect of Energy Supply Employees and former employees of the Energy Supply business that were earned under benefit plans that will be retained by PPL, other than with respect to certain pension plan and Coal Act Liabilities, as described below. PPL, Talen Energy and Energy Supply will cause applicable subsidiaries of Energy Supply to continue to maintain, assume and honor (even where otherwise inconsistent with the terms of the Employee Matters Agreement) all obligations under collective bargaining agreements to the extent they apply to Energy Supply Employees, as described below.

***Coal Act Liabilities***

Effective as of the separation time, Energy Supply will assume all liabilities under the Coal Industry Retiree Health Benefit Act of 1992 (the Coal Act Liabilities ) attributable to HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries, or any Energy Supply Employee or former employees of the Energy Supply business. PPL will retain all Coal Act Liabilities other than those attributable to HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries, or any Energy Supply Employee or former employees of the Energy Supply business.

***Collective Bargaining Agreements***

An applicable Energy Supply subsidiary or subsidiaries will assume or continue to maintain and honor any legal obligations with respect to union employees, including obligations regarding benefit arrangements and other matters contained in any applicable collective bargaining agreement. Prior to the separation time, PPL and any applicable Energy Supply subsidiaries that are parties to collective bargaining agreements will engage in any necessary effects bargaining and may amend any relevant collective bargaining agreements and benefit arrangements as the result of such bargaining. Any amendment materially adverse to Talen Energy or any Energy Supply subsidiary will be subject to the prior consent of the Contributors, which will not unreasonably withhold such consent. Except as necessary to comply with applicable law, Talen Energy or any applicable Energy Supply subsidiary will replicate, to the extent administratively practicable, any PPL benefit arrangement required to be provided under the terms of any collective bargaining agreements or, if not administratively practicable, will implement a substitute benefit arrangement in accordance with applicable law.

***Service Crediting***

Effective as of the Distribution Date, each Energy Supply Employee will be credited for all of such employee's service with PPL or its subsidiaries prior to the Distribution Date and each Raven, Jade and Sapphire employee will be credited for such employee's service with the Contributors (or predecessors to the extent recognized by the Contributors) when determining such employee's eligibility, vesting status, determination of level of benefits and, to the extent applicable, benefit accruals and benefit subsidies under any employee benefit arrangement of Talen Energy in which such employee is eligible to participate following the Distribution Date. For at least 24 months after the Distribution Date, Talen Energy will provide each non-union Energy Supply Employee and Raven, Jade and Sapphire employee with the following:

base salary and bonus opportunity that are no less favorable in aggregate value than those provided to such employee immediately prior to the Distribution Date (or, with respect to Raven, Jade and Sapphire employees, the Merger);

eligibility to participate in a severance benefit arrangement that provides potential severance benefits that are no less favorable in aggregate value than such severance benefits provided under the severance benefit arrangement, if any, in which such employee is eligible to participate immediately before the Distribution Date (or, with respect to Raven, Jade and Sapphire employees, the Merger); and

---

**Table of Contents**

other compensation and employee benefits that are substantially similar in the aggregate to those provided to such employee immediately prior to the Distribution Date (or, with respect to Raven, Jade and Sapphire employees, the Merger).

***Defined Benefit and Defined Contribution Benefit Plans***

Effective as of the Distribution Date, Talen Energy will assume, establish or maintain one or more qualified defined benefit pension plans under which Energy Supply Employees will participate, with terms that are substantially similar to the terms of PPL's defined benefit pension plan that such employees were participating in immediately prior to the Distribution Date. Talen Energy will assume all liabilities under the PPL defined benefit pension plans with respect to all Energy Supply Employees and former Energy Supply Employees (other than those who ceased employment with HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries prior to July 1, 2000). The PPL defined benefit pension plan will transfer a portion of its assets covering the Energy Supply Employees to the Talen Energy defined benefit pension plan based on actuarial assumptions agreed upon by the parties and designed to comply with applicable law. For 24 months following the Distribution Date, Talen Energy will be responsible for causing the Talen Energy defined benefit pension plan to have an adjusted funding attainment percentage of at least 90%. PPL Montana, LLC will remain as the plan sponsor of, and retain all liabilities for, the PPL Subsidiary Retirement Plan. All other members of the PPL controlled group will cease to be sponsors of the PPL Subsidiary Retirement Plan, as of the Distribution Date.

Talen Energy will establish or maintain one or more qualified defined contribution savings plans under which Energy Supply Employees will participate, with terms that are substantially similar to the terms of the PPL defined contribution savings plan in which such employees were participating immediately prior to the Distribution Date. Effective as of the Distribution Date, Talen Energy will cause its qualified defined contribution savings plan to accept eligible rollover distributions from Energy Supply Employees with respect to such Energy Supply Employees' account balances (including loans), if elected by any such Energy Supply Employee; provided, that any rollover into the Talen Energy defined contribution savings plan must consist of the full account balance (rather than a portion of the balance).

Talen Energy is not required to adopt an employee stock ownership plan. As of the Distribution Date, Energy Supply Employees will be treated as separated participants under PPL's employee stock ownership plan.

***Health and Welfare Benefit Plans (Including Post-Retirement Welfare Plan Benefits)***

Effective as of the separation time, Energy Supply Employees will no longer participate in PPL's health and welfare benefit plans. Talen Energy will adopt plans which will be substantially similar in the aggregate to PPL's health and welfare benefit plans in effect immediately prior to the Distribution Date. Talen Energy will use its best efforts to waive all pre-existing condition exclusions and actively-at-work requirements for each health and welfare plan in which such employee was participating immediately prior to the Distribution Date. Talen Energy will provide credit for expenses incurred by employees and their eligible dependents during the portion of the plan year prior to the Distribution Date for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to each such employee. Talen Energy will credit each Energy Supply Employee as of the Distribution Date with the amount of accrued but unused vacation time, paid time off and other time-off benefits as such Energy Supply Employee had immediately prior to the Distribution Date.

Talen Energy will establish and maintain for at least 24 months following the Distribution Date (i) post-retirement welfare plans under which Energy Supply Employees will participate effective as of the Distribution Date, with terms that are substantially similar to the terms under the PPL post-retirement welfare plan that such employees were participating in immediately prior to the Distribution Date and (ii) trusts that are substantially similar to PPL's trust



immediately prior to the Distribution Date. PPL will retain all liabilities under such post-retirement welfare plans with respect to all former employees who ceased employment with HoldCo, Talen Energy, Merger Sub, Energy Supply and their subsidiaries prior to the Distribution Date, including retirees of

## **Table of Contents**

PPL Montana, LLC. PPL will transfer a proportionate amount of assets into Talen Energy's trust representative of the pro-rata portion of the current Energy Supply Employees' accumulated post-retirement benefit obligations relative to the accumulated post-retirement benefit obligations of all of PPL employees (including the Energy Supply Employees) immediately prior to the Distribution Date.

### ***Nonqualified Deferred Compensation Plans***

Talen Energy will establish and maintain for at least 24 months following the Distribution Date a non-qualified deferred compensation plan under which Energy Supply Employees will participate, with terms that are substantially similar to the terms of the PPL Supplemental Compensation Pension Plan immediately prior to the Distribution Date. No liabilities relating to any non-qualified deferred compensation plan of PPL will transfer to Talen Energy and, to the extent that there are any assets that relate to any non-qualified deferred compensation plan of PPL, no such assets will transfer to Talen Energy.

PPL will retain responsibility for all liabilities and other obligations related to all current and former Energy Supply Employees who were participants in the PPL Supplemental Compensation Pension Plan immediately prior to the Distribution Date.

### ***Equity Incentive Awards***

Effective as of the Distribution Date, Talen Energy will establish and maintain a stock incentive plan with terms that are substantially similar to the current stock incentive plan of PPL, for the benefit of eligible employees, consultants and directors of Talen Energy and its subsidiaries. No individual equity awards will be granted under Talen Energy's stock incentive plan until after the Distribution Date, with all such awards at the discretion of the compensation committee of Talen Energy's board of directors.

### ***Annual Cash Bonus Arrangements***

PPL will retain liability for annual cash incentive bonuses to eligible Energy Supply Employees in respect of the calendar year in which the Distribution Date occurs. Unless an exemption for involuntary termination or retirement applies, PPL will pay (or Talen Energy will pay on behalf of PPL), at the same time that PPL pays its employees, annual cash incentive bonus that each Energy Supply Employee would have earned for the calendar year during which the Distribution Date occurs based on the actual level of performance of PPL, prorated for the portion of the year through the Distribution Date. Employees who voluntarily terminate employment before the bonus payment date will not receive any such award.

### ***Amendment; Waiver***

The Employee Matters Agreement may be amended only by a written instrument signed by each of the parties, and any right may be waived only in a written instrument signed by the party against whom the waiver is to be effective. No delay or failure by any party to the Employee Matters Agreement to exercise a right operates as a waiver thereof.

### ***BargeCo Agreements***

Effective as of the time of the Combination, Raven or one of its subsidiaries, as applicable, will enter into a new, or amend the existing, Marine Transportation Services Agreement (the "MTSA") with BargeCo, pursuant to which BargeCo, as carrier, will continue to provide coal transportation services to Raven's generation facilities. Transportation services will continue to be performed on a cost-reimbursable basis, without markup. The MTSA will

have a term that extends for not less than two years after the closing of the Transactions and otherwise be in form and substance reasonably satisfactory to the parties.

## **Table of Contents**

In addition, Raven or one of its subsidiaries will enter into a new, or amend the existing, Shoreside Services Agreement (the Shoreside Agreement ) with BargeCo, pursuant to which Raven or such subsidiary will continue to provide management, operational and maintenance services to BargeCo, which has no personnel of its own to perform such services. The Shoreside Agreement will have a term that extends for not less than two years after the closing of the Transactions and otherwise be in form and substance reasonably satisfactory to the parties. Additionally, if at any time following the Combination, an affiliate of the Contributors that, directly or indirectly, owns the members interests in BargeCo sells such members interests in BargeCo to a third party or BargeCo sells its barges to a third party, then the Contributors shall cause the proceeds of any such sale to promptly be paid to Talen Energy.

## **Stockholders Agreement**

Talen Energy will enter into a Stockholders Agreement with the Contributors containing provisions related to board designation rights, voting agreements, standstill restrictions, restrictions on transfers of common stock, registration rights, minority protections, conflicts of interest, corporate opportunities and confidentiality.

The Stockholders Agreement will provide that the board of directors will nominate for election two members designated by the Contributors until such time as the Contributors no longer own at least 25% of the common stock of Talen Energy outstanding at the completion of the Transactions, after which time the board of directors will nominate for election one member designated by the Contributors for so long as the Contributors beneficially own at least 10% of the common stock of Talen Energy outstanding at the completion of the Transactions. The Stockholders Agreement will also provide that the board of directors will nominate for election one independent member designated by the Contributors for so long as the Contributors own at least 10% of the common stock of Talen Energy outstanding at the completion of the Transactions. If a director designated by the Contributors pursuant to these rights is not elected by the stockholders, the Contributors will be entitled to designate another individual to become a member of the board of directors and the board of directors will take such action as is necessary to appoint such individual to become a member of the board of directors, including, if applicable, by increasing the size of the board of directors and appointing such individual to fill the newly created vacancy. Pursuant to the Stockholders Agreement, after the first date on which the Contributors no longer own at least 25% of the of the common stock of Talen Energy outstanding at the completion of the Transactions, the Contributors will cause one of the directors previously designated by them (other than the independent director) to resign from the board of directors. After the first date on which the Contributors no longer own at least 10% of the common stock of Talen Energy outstanding at the completion of the Transactions, the Contributors will cause the other non-independent director previously designated by them to resign from the board of directors, but the independent director previously designated by the Contributors shall continue to serve his or her term as a director, although the board of directors will not be required to re-nominate such independent director at the next election of directors.

The Stockholders Agreement will provide that, until six months after the date there is no director designated by the Contributors on the board of directors and the Contributors are no longer entitled to designate directors to be nominated by the board of directors for election, the Contributors will agree to cause each share of common stock beneficially owned by them to be voted in favor of all those persons nominated to serve as directors by the board of directors. The Stockholders Agreement will also contain a customary standstill agreement by the Contributors, which will prohibit them from, among other things, acquiring additional shares of our common stock, soliciting proxies to vote shares of our common stock and acting alone or in concert with others to seek to control or influence the policies of Talen Energy.

Pursuant to the Stockholders Agreement, for so long as the Contributors are entitled to designate directors to be nominated by the board of directors for election, the prior written consent of the Contributors shall be required for Talen Energy to take certain specified actions, including, among other things: (1) issuing shares of stock senior to the

common in an amount greater than \$100 million, (2) declaring non-pro rata dividends, (3) certain acquisitions or dispositions where the amount of consideration exceeds 20% of the market capitalization of Talen

**Table of Contents**

Energy or any merger or consolidation of Talen Energy unless, in each case, such acquisition, disposition or merger is unanimously approved by the board of directors (other than those directors designated by the Contributors (other than the independent director)), or (4) increase the size of the board.

Pursuant to the Stockholders Agreement, the Contributors will be provided with demand registration rights and customary piggyback registration rights. The Stockholders Agreement will provide that Talen Energy will pay certain expenses relating to such registrations and indemnify the registration rights holders against certain liabilities which may arise under the Securities Act. See Certain Relationships and Related Party Transactions Stockholders Agreement and Shares Eligible for Future Sales Registration Rights.

**Table of Contents**

**DIVIDEND POLICY**

We do not currently expect to declare or pay dividends on our common stock. Instead, we intend to retain earnings to finance the growth and development of our business and for working capital and general corporate purposes. Our ability to pay dividends to holders of our common stock is limited by our ability to obtain cash or other assets from our subsidiaries. Further, the credit agreement governing the New Revolving Facility will, and the indenture governing the RJS Power Holdings LLC senior notes does, restrict the ability of certain of our subsidiaries to pay dividends or otherwise transfer assets to us. Any payment of dividends will be at the discretion of our board of directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law, general business conditions and other factors that our board of directors may deem relevant.

**Table of Contents****CAPITALIZATION**

The following table sets forth the capitalization as of December 31, 2014 of:

Energy Supply and RJS Power, respectively, on an actual basis; and

Talen Energy on a pro forma combined basis to give effect to the Transactions as if they occurred on December 31, 2014.

You should read this table in conjunction with the sections of this prospectus entitled Selected Historical Consolidated Financial Data of Energy Supply, Selected Historical Consolidated and Combined Financial Data of RJS Power, Unaudited Pro Forma Condensed Combined Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operation Energy Supply, Management's Discussion and Analysis of Financial Condition and Results of Operation RJS Power, Description of Material Indebtedness and Energy Supply's consolidated financial statements and related notes and RJS Power's consolidated and combined financial statements and related notes included elsewhere in this prospectus.

|  | <b>December 31, 2014</b> |                  |                  |
|--|--------------------------|------------------|------------------|
|  | <b>Actual</b>            |                  |                  |
|  | <b>Energy Supply</b>     | <b>RJS Power</b> | <b>Pro Forma</b> |
|  | <b>(in millions)</b>     |                  |                  |
| Long-term debt, including current portion: |                          |                  |                  |
| Energy Supply                              | \$ 2,218                 |                  | \$ 2,169         |
| RJS Power                                  |                          | \$ 1,275         | 1,250            |
| Total long-term debt (1)                   | 2,218                    | 1,275            | 3,419            |
| Stockholders' equity (2)                   | 3,907                    | 249              | 5,379            |
| Total capitalization                       | \$ 6,125                 | \$ 1,524         | \$ 8,798         |

(1) Pro Forma amount reflects adjustments totaling \$74 million. See Unaudited Pro Forma Condensed Combined Financial Information for information on these adjustments.

(2) Pro Forma amount reflects adjustments totaling \$1,223 million. See Unaudited Pro Forma Condensed Combined Financial Information for information on these adjustments.



---

**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

On June 9, 2014, PPL, HoldCo, Talen Energy, Energy Supply and the Contributors entered into the Separation Agreement and, with Merger Sub, the Transaction Agreement, pursuant to which a newly formed entity, HoldCo, owning the Energy Supply business would be spun off to PPL's shareholders and combined with the RJS Power business to create Talen Energy, an independent publicly traded company.

On the Distribution Date, each holder of PPL common stock as of the record date will be entitled to receive a number of shares of HoldCo common stock determined by a formula based on the number of shares of PPL common stock outstanding as of 5:00 p.m., New York City time on the record date. Each such record holder will be entitled to receive a number of shares of HoldCo common stock equal to the aggregate number of shares of HoldCo common stock multiplied by a fraction, the numerator of which is the number of shares of PPL common stock held by such record holder on the record date and the denominator of which is the total number of shares of PPL common stock outstanding on the record date. Based on the number of shares of PPL common stock outstanding as of March 31, 2015, we expect the distribution ratio to be approximately 0.125 shares of HoldCo common stock for each share of PPL common stock. Immediately following the Distribution and at the Effective Time, a wholly owned subsidiary of Talen Energy will merge with and into HoldCo, with HoldCo continuing as the surviving company, and each share of HoldCo common stock will be automatically converted into one share of common stock of Talen Energy. See "The Transactions Structure of the Distribution, the Merger and the Combination" for information on a list of the material events relating to the Distribution, the Merger and the Combination. Substantially contemporaneously with the Merger, the RJS Power business will be contributed by its owner to Talen Energy through the contribution, directly or indirectly, of all of the equity interests of RJS Power, in exchange for 44,975,000 shares of Talen Energy common stock issued in a private placement transaction. Following the Combination, PPL shareholders will own 65% of Talen Energy's outstanding common stock and affiliates of the Contributors will own the remaining 35%. PPL will have no continuing ownership interest in, control of or affiliation with Talen Energy following the Distribution and Combination, other than satisfying their obligations under a Transition Services Agreement between PPL and Energy Supply.

The Unaudited Pro Forma Condensed Combined Financial Information (the "pro forma financial information") has been derived from the historical consolidated financial statements of Energy Supply and the historical consolidated and combined financial statements of RJS Power (the "historical financial statements").

The Unaudited Pro Forma Condensed Combined Statements of Income (the "pro forma statements of income") for the year ended December 31, 2014 gives effect to the spinoff of HoldCo and the Combination with RJS Power as if they were completed on January 1, 2014. The Unaudited Pro Forma Condensed Combined Balance Sheet (the "pro forma balance sheet") as of December 31, 2014 gives effect to the spinoff and the Combination as if they were completed on December 31, 2014. The historical financial statements have been adjusted in the pro forma financial information to give effect to pro forma events that are: (i) directly attributable to the spinoff and Combination; (ii) factually supportable; and (iii) with respect to the statements of income, expected to have a continuing impact on results. The pro forma financial information: (a) replaces Energy Supply's and RJS Power's existing \$3.0 billion and \$150 million credit facilities, respectively, with a \$1.85 billion revolving credit facility; (b) adjusts the pro forma statement of income for the anticipated disposal of certain generating facilities to satisfy the FERC Order, and adjusts the pro forma balance sheet to reflect certain related assets and liabilities for these facilities as divested for cash at carrying value; (c) adjusts for certain assets and liabilities that either are being reallocated between PPL and Energy Supply or that are required to be settled as outlined in the Separation Agreement or the Transaction Agreement; (d) conforms certain RJS Power accounting policies with those of Energy Supply (at the time of the spinoff and Combination, Talen Energy will adopt the accounting policies of Energy Supply); and (e) reflects the issuance of Talen Energy common stock in connection with the Combination.

The pro forma financial information was prepared using the acquisition method of accounting, with Energy Supply considered the accounting acquirer of RJS Power. Under the acquisition method of accounting, the

**Table of Contents**

purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the acquisition date, with any excess purchase price allocated to goodwill. The pro forma purchase price allocation was based on an estimate of the fair market values of the tangible and intangible assets and liabilities of RJS Power and assumes an acquisition date of December 31, 2014. Energy Supply has considered multiple factors in arriving at the estimated fair values which were based on a preliminary and limited review of the assets and liabilities of RJS Power to be contributed. These estimates are subject to change pending consummation of the Combination and further review of the assets acquired and liabilities assumed. Generally accepted accounting principles in the United States require the purchase price allocation to be determined as of the date of the Combination, and also permit adjustments to the purchase price allocation for RJS Power during the measurement period, which may be up to one year from the date of the Combination. Therefore, the final fair value amounts recorded for the assets and liabilities of RJS Power as of the actual date of the Combination may differ materially from the information presented in the pro forma financial information. Additionally, the pro forma purchase price allocation in the pro forma financial information is based upon an estimated purchase price of approximately \$1.70 billion at December 31, 2014. The actual purchase price will be based on the fair value of the shares of Talen Energy common stock issued to effectuate the Combination which could be materially different than the estimated purchase price and could result in a materially different amount of goodwill being recorded.

Throughout the periods covered by the pro forma financial information, the operations of Energy Supply's business were conducted and accounted for as part of PPL. As a result, the Energy Supply historical financial statements reflect significant allocations of costs and expenses. All of the allocations and estimates in these historical financial statements are based on assumptions that the management of Energy Supply's business believes are reasonable. However, the Energy Supply historical financial statements do not necessarily represent the costs and expenses of Energy Supply's business had it been operated as a separate independent entity. The pro forma financial information does not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies or synergies expected to result from the spinoff and Combination.

Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial information.

The pro forma information has been presented for illustrative purposes only and is not necessarily indicative of the results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations or financial position of Talen Energy.

The following pro forma financial information should be read in conjunction with:

the accompanying notes to the pro forma financial information;

the audited consolidated financial statements of Energy Supply as of and for the year ended December 31, 2014, which are included elsewhere in this prospectus; and

the audited consolidated and combined financial statements of RJS Power as of and for the year ended December 31, 2014, which are included elsewhere in this prospectus.



**Table of Contents****Pro Forma Condensed Combined Balance Sheet***(Unaudited)**(Millions of dollars)*

|   | <b>December 31, 2014</b> |                  |   |  |
|---|--------------------------|------------------|---|--|
|   |                          |                  | <b>Pro<br/>Forma<br/>Adjustments<br/>(Note 2)</b> | <b>Pro Forma<br/>Combined<br/>Entity</b> |
|   | <b>Energy Supply</b>     | <b>RJS Power</b> |   |  |
| <b>Current Assets</b>                     |                          |                  |   |  |
| Cash and cash equivalents                 | \$ 352                   | \$ 30            | \$ 521(c)(g)(i)                                   | \$ 903                                   |
| Restricted cash and cash equivalents      | 176                      | 1                | (1)(c)  | 176                                      |
| Accounts receivable                       | 325                      | 34               | 33(f)   | 392                                      |
| Unbilled revenues                         | 218                      |                  |   | 218                                      |
| Fuel, materials and supplies              | 455                      | 193              | (93)(a)(c)  | 555                                      |
| Prepayments                               | 70                       | 13               | (60)(c)(f)  | 23                                       |
| Price risk management assets              | 1,079                    | 26               | 23(a)   | 1,128                                    |
| Other current assets                      | 26                       | 14               | 12(a)(b)(f)                                       | 52                                       |
| <b>Total Current Assets</b>               | <b>2,701</b>             | <b>311</b>       | <b>435</b>  | <b>3,447</b>                             |
| <b>Investments</b>                        |                          |                  |   |  |
| Nuclear plant decommissioning trust funds | 950                      |                  |   | 950                                      |
| Other investments                         | 30                       |                  |   | 30                                       |
| <b>Total Investments</b>                  | <b>980</b>               |                  |   | <b>980</b>                               |
| <b>Property, Plant and Equipment, net</b> |                          |                  |   |  |
| Property, plant and equipment             | 12,678                   | 1,740            | (689)   | 13,729                                   |
| Less accumulated depreciation             | 6,242                    | 329              | (388)   | 6,183                                    |
| Property, plant and equipment, net        | 6,436                    | 1,411            | (301)(b)(c)                                       | 7,546                                    |
| <b>Other Noncurrent Assets</b>            |                          |                  |   |  |
| Goodwill                                  | 72                       |                  | 1,244(b)  | 1,316                                    |
| Other intangibles                         | 257                      | 17               | 12(b)   | 286                                      |
| Price risk management assets              | 239                      | 3                |   | 242                                      |
| Other noncurrent assets                   | 75                       | 56               | (42)(b)(c)(g)                                     | 89                                       |
| <b>Total Other Noncurrent Assets</b>      | <b>643</b>               | <b>76</b>        | <b>1,214</b>                                      | <b>1,933</b>                             |
| <b>Total Assets</b>                       | <b>\$ 10,760</b>         | <b>\$ 1,798</b>  | <b>\$ 1,348</b>                                   | <b>\$ 13,906</b>                         |

*See accompanying Unaudited Notes to Pro Forma Condensed Combined Financial Information.*



**Table of Contents****Pro Forma Condensed Combined Balance Sheet***(Unaudited)**(Millions of dollars)*

|  | <b>December 31, 2014</b>             |                  |                          |  |
|--|--------------------------------------|------------------|--------------------------|--|
|  | <b>Pro<br/>Forma<br/>Adjustments</b> |                  |                          | <b>Pro Forma<br/>Combined<br/>Entity</b> |
|  | <b>Energy Supply</b>                 | <b>RJS Power</b> | <b>(Note 2)</b>          |  |
| <b>Liabilities and Equity</b>                                  |                                      |                  |                          |  |
| <b>Current Liabilities</b>                                     |                                      |                  |                          |  |
| Short-term debt  | \$ 630                               | \$ 8             | \$ 50(i)                 | \$ 688                                   |
| Long-term debt due within one year                             | 535                                  |                  | (4)(c)                   | 531                                      |
| Accounts payable   | 411                                  | 50               | 3(c)(f)                  | 464                                      |
| Taxes  | 28                                   |                  | 52(c)(f)                 | 80                                       |
| Interest   | 16                                   |                  |                          | 16                                       |
| Price risk management liabilities                              | 1,024                                | 43               | 23(a)                    | 1,090                                    |
| Other current liabilities                                      | 246                                  | 133              | (101)(a)(b)(c)(f)        | 278                                      |
| <b>Total Current Liabilities</b>                               | <b>2,890</b>                         | <b>234</b>       | <b>23</b>                | <b>3,147</b>                             |
| <b>Long-term Debt</b>  | <b>1,683</b>                         | <b>1,275</b>     | <b>(70)(c)(i)</b>        | <b>2,888</b>                             |
| <b>Deferred Credits and Other Noncurrent Liabilities</b>       |                                      |                  |                          |  |
| Deferred income taxes  | 1,250                                |                  | 174(b)(c)(f)             | 1,424                                    |
| Price risk management liabilities                              | 193                                  | 20               |                          | 213                                      |
| Asset retirement obligations                                   | 415                                  | 20               | (4)(c)                   | 431                                      |
| Other deferred credits and noncurrent liabilities              | 422                                  |                  | 2(b)(c)(f)               | 424                                      |
| <b>Total Deferred Credits and Other Noncurrent Liabilities</b> | <b>2,280</b>                         | <b>40</b>        | <b>172</b>               | <b>2,492</b>                             |
| <b>Stockholders Equity</b>                                     | <b>3,907</b>                         | <b>249</b>       | <b>1,223(b)(f)(g)(i)</b> | <b>5,379</b>                             |
| <b>Total Liabilities and Equity</b>                            | <b>\$ 10,760</b>                     | <b>\$ 1,798</b>  | <b>\$ 1,348</b>          | <b>\$ 13,906</b>                         |

*See accompanying Unaudited Notes to Pro Forma Condensed Combined Financial Information.*

**Table of Contents****Pro Forma Condensed Combined Statement of Income***(Unaudited)**(Millions of dollars, except share data)*

|   | <b>For the Year Ended December 31, 2014</b> |                      |   |  |
|---|---|----------------------|---|--|
|   | <b>Energy<br/>Supply</b>                    | <b>RJS<br/>Power</b> | <b>Pro<br/>Forma<br/>Adjustments<br/>(Note 2)</b> | <b>Pro<br/>Forma<br/>Combined<br/>Entity</b> |
| <b>Operating Revenues</b>   |   |                      |   |  |
| Unregulated wholesale energy  | \$ 1,892                                    | \$ 1,045             | \$ (507)(c)                                       | \$ 2,430                                     |
| Unregulated retail energy   | 1,243                                       |                      |   | 1,243  |
| Energy-related businesses   | 601   |                      |   | 601  |
| <b>Total Operating Revenues</b>   | <b>3,736</b>                                | <b>1,045</b>         | <b>(507)</b>                                      | <b>4,274</b>                                 |
| <b>Operating Expenses</b>   |   |                      |   |  |
| <b>Operation</b>  |   |                      |   |  |
| Fuel  | 1,196                                       | 577                  | (299)(c)  | 1,474  |
| Energy purchases  | 209   |                      |   | 209  |
| Other operation and maintenance   | 1,007                                       | 305                  | (115)(a)(c)(d)                                    | 1,197  |
| Depreciation  | 297   | 90                   | (53)(c)(d)  | 334  |
| Taxes, other than income  | 57  | 21                   |   | 78   |
| Energy-related businesses   | 573   |                      |   | 573  |
| <b>Total Operating Expenses</b>   | <b>3,339</b>                                | <b>993</b>           | <b>(467)</b>                                      | <b>3,865</b>                                 |
| <b>Operating Income (Loss)</b>  | <b>397</b>                                  | <b>52</b>            | <b>(40)</b>                                       | <b>409</b>                                   |
| Other Income (Expense) net  | 30  | 3                    | (1)(c)  | 32   |
| Interest Expense  | 124   | 110                  | (15)(c)(e)  | 219  |
| <b>Income (Loss) from Continuing Operations Before<br/>Income Taxes</b>                             |   |                      |   |  |
| <b>Income Taxes</b>   | <b>303</b>                                  | <b>(55)</b>          | <b>(26)</b>                                       | <b>222</b>                                   |
| Income Taxes  | 116   |                      | (33)(c)(h)  | 83   |
| <b>Income (Loss) from Continuing Operations After<br/>Income Taxes Attributable to Stockholders</b> |   |                      |   |  |
|   | <b>\$ 187</b>                               | <b>\$ (55)</b>       | <b>\$ 7</b>                                       | <b>\$ 139</b>                                |
| <b>Pro Forma Earnings Per Share:</b>  |   |                      |   |  |
| Income (Loss) from Continuing Operations After Income Taxes Available to Common Stockholders:       |   |                      |   |  |
| Basic and Diluted (1)   |   |                      |   | \$ 1.08                                      |
| <b>Pro forma Weighted-Average Shares Outstanding (in thousands):</b>                                |   |                      |   |  |
| Basic and Diluted (1)   |   |                      |   | 128,500                                      |



- (1) Pro forma basic and diluted earnings per share and pro forma weighted-average basic and diluted shares outstanding for the year ended December 31, 2014 reflect the estimated number of shares of common stock that may be outstanding upon completion of the spinoff of Energy Supply and Combination. Shares outstanding includes 83,525,000 shares of Talen Energy common stock that will be distributed to PPL shareholders in the Distribution and 44,975,000 shares of Talen Energy common stock to be issued to the Contributors in connection with the Combination. Basic and diluted earnings per share were calculated by dividing Income (Loss) from Continuing Operations After Income Taxes Attributable to Stockholders by the pro forma weighted-average shares outstanding.

*See accompanying Unaudited Notes to Pro Forma Condensed Combined Financial Information.*

---

**Table of Contents**

**Unaudited Notes to Pro Forma Condensed Combined Financial Information**

*(Millions of Dollars, except share data)*

**Note 1. Basis of Pro Forma Presentation**

The pro forma financial information has been derived from the historical consolidated financial statements of Energy Supply and the historical consolidated and combined financial statements of RJS Power.

The pro forma statements of income for the year ended December 31, 2014 give effect to the spinoff of HoldCo and Combination of the Energy Supply business with the RJS Power business as if they were completed on January 1, 2014. The Unaudited Pro Forma Condensed Combined Balance Sheet (pro forma balance sheet) as of December 31, 2014 gives effect to the spinoff and Combination as if they were completed on December 31, 2014.

The pro forma financial information was prepared using the acquisition method of accounting, with Energy Supply considered the accounting acquirer of RJS Power. Under the acquisition method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the acquisition date, with any excess purchase price allocated to goodwill. The pro forma purchase price allocation was based on an estimate of the fair values of the tangible and intangible assets and liabilities of RJS Power and assumes an acquisition date of December 31, 2014. Energy Supply has considered multiple factors in arriving at the estimated fair market values which were based on a preliminary and limited review of the assets and liabilities of RJS Power to be contributed. These estimates are subject to change pending consummation of the Combination and further review of the assets acquired and liabilities assumed. Generally accepted accounting principles in the United States require the purchase price allocation to be determined as of the date of the Combination, and also permit adjustments to the purchase price allocation for the RJS Power business during the measurement period, which may be up to one year from the date of the Combination. Therefore, the final fair value recorded for the assets and liabilities of RJS Power as of the actual date of the Combination may differ materially from the information presented in the pro forma financial information. Additionally, the pro forma purchase price allocation in the pro forma financial information is based upon an estimated purchase price of approximately \$1.70 billion at December 31, 2014. The actual purchase price will be based on the fair value of the shares of Talen Energy common stock issued to effectuate the Combination, which could be materially different than the estimated purchase price and could result in a materially different amount of goodwill being recorded.

The historical financial statements have been adjusted in the pro forma financial information to give effect to pro forma events that are: (i) directly attributable to the spinoff and Combination; (ii) factually supportable; and (iii) with respect to the statements of income, expected to have a continuing impact on results. The pro forma financial information replace Energy Supply's and RJS Power's existing \$3.0 billion and \$150 million credit facilities, respectively, with a \$1.85 billion revolving credit facility, which is fully committed and will be effective upon closing of the spinoff transaction; adjusts the pro forma statement of income for the anticipated disposal of certain generating facilities to satisfy the FERC Order, and adjusts the pro forma balance sheet to reflect certain related assets and liabilities for these facilities as divested for cash at carrying value; adjusts for certain assets and liabilities that either are being reallocated between PPL and Energy Supply or that are required to be settled as outlined in the Separation Agreement or the Transaction Agreement; conforms certain RJS Power accounting policies with those of Energy Supply (at the time of the spinoff and Combination, Talen Energy will adopt the accounting policies of Energy Supply); and reflects the issuance of Talen Energy common stock in connection with the Combination. The preliminary result of these adjustments, as well as other adjustments, is presented in Note 2. The pro forma financial information does not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies or synergies expected to result from the spinoff and Combination. Other items

that are not included in the pro forma financial information are presented in Note 3.

**Table of Contents**

Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial information.

For the purpose of measuring the estimated fair value of the assets acquired and liabilities assumed, accounting guidance for fair value measurements has been applied. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Certain items normally included in the statement of income have been excluded from the pro forma statements of income.

**Note 2. Purchase Price Allocation and Pro Forma Adjustments**

- (a) Adjustments to conform certain RJS Power accounting policies with those of Energy Supply for the balance sheet classification of emission allowances, financial instrument netting and the capitalization of overhauls.

|                                    | <b>Debit<br/>(Credit)</b> |
|------------------------------------|---------------------------|
| <b><u>Balance Sheet:</u></b>       |                           |
| Fuel, materials and supplies       | \$ (77)                   |
| Price risk management assets       | 23                        |
| Other current assets               | 5                         |
| Price risk management liabilities  | (23)                      |
| Other current liabilities          | 72                        |
| <b><u>Statement of Income:</u></b> |                           |
| Other operation and maintenance    | (33)                      |

- (b) The pro forma allocation of the purchase price of the RJS Power business to the fair value of assets acquired and liabilities assumed includes pro forma adjustments primarily related to the fair value of property, plant and equipment, intangible assets, contractual arrangements, and deferred income taxes based on an estimate of the fair values and assumes an acquisition date of December 31, 2014. Energy Supply arrived at the estimated fair values based on a preliminary and limited review of the assets and liabilities of RJS Power to be contributed and using assumptions for multiple factors that impact those values including various forecasted long-term energy, capacity and fuel commodity prices, discount rates and expected future cash flows. In addition the fair value measurements of the underlying assets and liabilities on RJS Power's balance sheet could change materially as these measurements ultimately must be applied to those assets and liabilities existing as of the actual date of the Combination. As such, these estimates are subject to change pending consummation of the Combination and further review by Energy Supply of the assets acquired and liabilities assumed and any changes in market conditions and the assumptions used when determining the final purchase price allocation as of the date of the Combination. Generally accepted accounting principles in the United States require the purchase price allocation to be determined as of the date of the Combination, and also permit adjustments to the purchase price allocation for the RJS Power business during the measurement period, which may be up to one year from the date of the Combination; therefore, the final fair value amounts recorded for the assets and liabilities of RJS Power as of the actual date of the Combination may differ materially from the information presented in the pro forma financial

information. Additionally, the preliminary purchase price allocation in the pro forma financial information is based upon an estimated purchase price of the RJS Power business of approximately \$1.70 billion at December 31, 2014. The final purchase price used for acquisition accounting purposes will be based on the fair value of the shares of Talen Energy common stock issued to effectuate the Combination, which could be materially different than

**Table of Contents**

the estimated purchase price and could result in a materially different amount of goodwill being recorded. The preliminary allocation of the purchase price, after first applying the adjustments from (a) above and (i) below within this Note 2, and the resulting goodwill and pro forma adjustments are as follows:

|   | <b>Purchase<br/>Price<br/>Allocation</b> | <b>Debit<br/>(Credit)<br/>Resulting<br/>Pro Forma<br/>Adjustments</b> |
|---|--|---|
| Current assets                                    | \$ 233                                   | \$ 1(1)   |
| Property, plant and equipment, net                | 1,908                                    | 497(2)  |
| Goodwill  | 1,244                                    | 1,244(3)  |
| Other intangibles                                 | 29                                       | 12(4)   |
| Price risk management assets                      | 3  |   |
| Other noncurrent assets                           | 26                                       | (30)(5)   |
| Current liabilities                               | (238)                                    | (3)(6)  |
| Long-term debt                                    | (1,250)                                  |   |
| Deferred income taxes                             | (216)                                    | (216)(7)  |
| Price risk management liabilities                 | (20)                                     |   |
| Asset retirement obligations                      | (20)                                     |   |
| Other deferred credits and noncurrent liabilities | (1)                                      | (1)(8)  |
| Equity purchase price of RJS Power                | \$ 1,698                                 | \$ (1,504)(9)   |

- (1) Represents a \$1 million debit to record a deferred tax asset. See (7) below for additional information regarding the blended statutory income tax rate and the treatment of income taxes in RJS Power's historical combined financial statements.
- (2) Reflects an adjustment to record the estimated fair value of RJS Power's property, plant and equipment. The remaining estimated useful lives of RJS Power's property, plant and equipment range between 3 - 35 years.
- (3) Reflects the preliminary estimate of the excess of the purchase price paid over the net fair value of the RJS Power assets acquired and liabilities assumed. A 10% increase or decrease in the estimated purchase price paid will increase or decrease goodwill by approximately \$170 million.
- (4) Reflects an adjustment, primarily to record the fair value of a RJS Power coal supply contract with an estimated life of 4 years.
- (5) Reflects an adjustment of \$30 million to remove unamortized deferred financing fees of RJS Power which will not be allocated a fair value in purchase accounting.
- (6) Reflects an adjustment, primarily to record the fair value of a RJS Power coal supply contract with an estimated life of one year or less.
- (7) Reflects deferred income tax liabilities recorded at a blended statutory income tax rate of 40.69%. The actual blended statutory income tax rate could be materially different than the estimated blended statutory income tax rate and could result in a materially different amount of income tax being recorded. The legal entities included in RJS Power's historical combined financial statements are primarily limited liability companies or partnerships and have previously elected to be treated as disregarded entities for federal tax purposes. As such, no provision for federal or state corporate income taxes was made in RJS Power's historical combined

financial statements.

- (8) Reflects an adjustment to record the estimated fair value of a RJS Power off-market contract liability attributable to the Combination. The amortization period is 17 years.

**Table of Contents**

(9) Stockholders' Equity, as a result of purchase accounting, was adjusted by the following:

- i. Adjustment to reflect the estimated purchase price for the RJS Power business. The actual purchase price will be based on the fair value of the shares of Talen Energy common stock issued to effectuate the Combination which could be materially different than the estimated purchase price. The estimated purchase price is calculated as follows:

|  |                 |
|--|-----------------|
| Business Enterprise Value (a)                              | \$ 2,691        |
| Less: Net Debt (a)   | 993             |
| <b>Estimated purchase price for the RJS Power business</b> | <b>\$ 1,698</b> |

(a) The Business Enterprise Value and Net Debt ascribed to the RJS Power business as estimated at December 31, 2014.

- ii. Elimination of RJS Power's equity of \$194 million. Includes the impact of the equity distribution described in (i) below within this Note 2.

(c) The pro forma statement of income includes adjustments for the anticipated disposal of generating facilities to satisfy the FERC Order, while the pro forma balance sheet reflects certain related assets and liabilities for these facilities as divested for cash at carrying value. These adjustments are based on certain assumptions related to: (1) which facilities and related assets and liabilities are anticipated to be divested to satisfy the FERC Order; and (2) the preliminary fair value of such assets and liabilities of RJS Power. Fair values were determined as described in (b) above within this Note 2. Final adjustments will be based on which generation facilities are actually divested, the related contractual terms and sales price, and timing of the divestitures. Therefore actual results could be materially different from the adjustments below. These adjustments are as follows:

|   | <b>Debit<br/>(Credit)</b> |
|---|---------------------------|
| <b>Balance Sheet:</b>                             |                           |
| Cash  | \$ 751                    |
| Current assets, other than cash                   | (18)                      |
| Property, plant and equipment, net                | (798)                     |
| Other noncurrent assets                           | (17)                      |
| Current liabilities                               | (40)                      |
| Long-term debt                                    | 45                        |
| Deferred income taxes                             | 60                        |
| Asset retirement obligations                      | 4                         |
| Other deferred credits and noncurrent liabilities | 13                        |
| <b>Statement of Income:</b>                       |                           |



Edgar Filing: Talen Energy Corp - Form S-1/A

|                             |       |
|-----------------------------|-------|
| Operating Revenues          | 507   |
| Operating Expenses          | (441) |
| Other income (expense), net | 1     |
| Interest Expense            | (21)  |
| Income Taxes                | (19)  |

The taxes payable related to the mitigation divestures are included in Current liabilities above.

- (d) The year ended December 31, 2014 reflects an \$8 million increase in depreciation as a result of changes in the value of property, plant and equipment, a \$1 million decrease in amortization expense as a result of changes in the value of intangible assets and a \$1 million decrease to depreciation to reclassify ARO accretion to other operation and maintenance (consistent with Energy Supply's presentation). See (b) above, within this Note 2 for information on the preliminary purchase price allocation.

**Table of Contents**

- (e) The year ended December 31, 2014 reflects an increase in interest expense of \$6 million, primarily driven by higher short-term borrowing costs under the terms of the new \$1.85 billion revolving credit facility, compared to historical interest expense related to outstanding commercial paper and letters of credit outstanding on Energy Supply s and RJS Power s existing \$3.0 billion and \$150 million credit facilities, respectively. Interest expense was calculated based upon committed terms of the new \$1.85 billion revolving credit facility for the historical outstanding borrowings and letters of credit using an estimated rate of 2.42%. See Description of Material Indebtedness for additional information on the revolving credit facility.
- (f) To adjust certain Energy Supply assets and liabilities associated with income taxes (to reflect settlement with a non-affiliate subsequent to the spinoff), pension and post-retirement benefit plans (to reflect separation of the plan obligations and allocation of plan assets as required by ERISA), other items as required, in accordance with the Separation Agreement or the Transaction Agreement and related deferred taxes. The following table presents the composition of these items:

|   | <b>Debit<br/>(Credit)</b> |
|---|---------------------------|
| Accounts receivable                               | \$ 33                     |
| Prepayments                                       | (59)                      |
| Other current assets                              | 6                         |
| Accounts payable                                  | (7)                       |
| Taxes   | 6                         |
| Other current liabilities                         | 22                        |
| Deferred income taxes                             | (18)                      |
| Other deferred credits and noncurrent liabilities | (14)                      |
| Stockholders' Equity                              | 31                        |

- (g) To reflect \$9 million for the payment of estimated fees, which will be deferred, for a new \$1.85 billion revolving credit facility, which will be effective upon closing of the spinoff transaction and will replace Energy Supply s and RJS Power s existing \$3.0 billion and \$150 million credit facilities, respectively. Unamortized deferred fees from the existing \$3.0 billion credit facility of \$4 million were written off to Stockholders' Equity and an additional \$5 million of fees were deferred in Other noncurrent assets.
- (h) Reflects the income tax effects of (1) the pro forma adjustments and (2) the Income (Loss) from Continuing Operations Before Income Taxes of RJS Power, which were calculated at a blended statutory income tax rate of 40.69%. See (b)(7) above, within this Note 2 for further discussion regarding the blended statutory income tax rate and the treatment of income taxes in RJS Power s historical combined financial statements.
- (i) Under the terms of the Transaction Agreement, RJS Power may distribute cash to its members under certain circumstances. It is expected that at or prior to the spinoff, RJS Power will distribute available cash up to the maximum amount allowable under the Transaction Agreement, which at December 31, 2014 was \$55 million. A pro forma adjustment has been made to reflect the distribution of that amount from equity, which included \$30 million of available cash and a drawdown on the RJS Power credit facility of \$25 million. In addition, it is expected that such drawdown, together with outstanding borrowings under the RJS Power credit facility of

\$25 million at December 31, 2014 will be replaced by borrowings of \$50 million under the new \$1.85 billion Energy Supply credit facility. Such borrowings are expected to be of a short-term nature and have been reclassified to Short-term debt on the Balance Sheet. Also, in accordance with the terms of the Transaction Agreement, a \$191 million cash distribution was made from Energy Supply to PPL during the first quarter of 2015 and a pro forma adjustment has been made to reflect such distribution.

**Table of Contents**

**Note 3. Items Excluded from the Unaudited Pro Forma Financial Information and Unusual Items**

The unaudited pro forma financial information does not reflect:

- (a) the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies or synergies expected to result from the spinoff and Combination.
- (b) the impact of divesting an alternative asset portfolio identified in the FERC Order. If such alternative asset portfolio were divested instead of the asset portfolio adjusted for within the pro forma financial information, pro forma operating revenues would have increased by approximately \$150 million, pro forma operating income would have increased approximately \$25 million, and pro forma cash would have decreased approximately \$45 million.

In addition, although Talen Energy expects to employ a growth strategy and proceeds from the anticipated FERC Order mitigation divestitures may be used for future acquisitions, for the purposes of the pro forma information, the proceeds from divestitures included have not been assumed to be invested in similar business operations and accordingly are reflected in cash on the pro forma balance sheet.

- (c) additional costs to be incurred and recognized at the spinoff date including accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards primarily for Energy Supply employees and for PPL employees who will become Energy Supply employees in connection with the transaction which are estimated to be in the range of \$30 million to \$40 million.

The unaudited pro forma financial information includes the following unusual items:

- (a) Other operation and maintenance on Energy Supply's Statement of Income includes charges of \$33 million (\$20 million after-tax) associated with separation benefits related to a bargaining unit voluntary program and the spinoff transaction.
- (b) Energy-related businesses on Energy Supply's Statement of Income includes an increase to revenues of \$17 million (\$10 million after-tax) to correct an error related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (c) Interest expense on RJS Power's Statement of Income includes losses on extinguishment of debt of \$36 million (\$21 million after-tax).

**Note 4. Reconciliation of Cash and Cash Equivalents Pro Forma Adjustments**

The following table presents a reconciliation of the cash and cash equivalents pro forma adjustments:

|   |            | <b>Debit<br/>(Credit)</b> |
|---|------------|---------------------------|
| Proceeds from anticipated disposal of generating facilities | Note 2 (c) | \$ 751                    |
| Payment of fees on new revolving credit facility            | Note 2 (g) | (9)                       |
| RJS Power distribution of available cash                    | Note 2 (i) | (30)                      |
| Energy Supply distribution                                  | Note 2 (i) | (191)                     |
| <b>Net cash and cash equivalents pro forma adjustments</b>  |            | <b>\$ 521</b>             |

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF ENERGY SUPPLY**

The following table sets forth selected historical consolidated financial data of Energy Supply as of December 31, 2010, 2011, 2012, 2013 and 2014 and for each of the years ended December 31, 2010, 2011, 2012, 2013 and 2014. The selected historical consolidated financial data of Energy Supply as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014 have been derived from, and should be read together with, the audited consolidated financial statements of Energy Supply and the accompanying notes contained elsewhere in this prospectus. The selected historical consolidated financial data of Energy Supply as of December 31, 2010, 2011 and 2012 and for each of the years ended December 31, 2010 and 2011 have been derived from the audited consolidated financial statements of Energy Supply not included in this prospectus. The selected historical consolidated financial data presented below include certain assets and liabilities of Energy Supply relating to facilities that may be sold as part of Talen Energy's mitigation plan discussed elsewhere in this prospectus. As a result, the selected historical consolidated financial data of Energy Supply set forth below may not necessarily be indicative of the Energy Supply business that will be operated by Talen Energy in future periods. The selected historical consolidated financial data set forth below are not necessarily indicative of the results of future operations.

The selected historical consolidated financial data should be read in conjunction with Risk Factors, Unaudited Pro Forma Condensed Combined Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply and the audited consolidated financial statements of Energy Supply and accompanying notes, all of which are included elsewhere in this prospectus.

| (dollars in millions)  | Year Ended December 31, |          |          |          |          |
|--|-------------------------|----------|----------|----------|----------|
|  | 2010                    | 2011     | 2012     | 2013     | 2014     |
| <b>Statement of Operations Data:</b>   |                         |          |          |          |          |
| Operating revenues   | \$ 4,977                | \$ 6,272 | \$ 5,346 | \$ 4,514 | \$ 3,736 |
| Operating income (loss)  | 1,021                   | 1,210    | 804      | (293)    | 397      |
| Income (loss) from continuing operations after income taxes attributable to member | 601                     | 672      | 428      | (262)    | 187      |
| Net income (loss) attributable to member   | 861                     | 768      | 474      | (230)    | 410      |
| <b>Balance Sheet Data (at period end):</b>   |                         |          |          |          |          |
| Cash and cash equivalents  | \$ 661                  | \$ 379   | \$ 413   | \$ 239   | \$ 352   |
| Total assets   | 16,796                  | 13,179   | 12,375   | 11,074   | 10,760   |
| Total liabilities  | 12,287                  | 9,142    | 8,527    | 6,276    | 6,853    |
| Long-term debt, including current portion  | 5,589                   | 3,024    | 3,272    | 2,525    | 2,218    |
| Member's equity  | 4,509                   | 4,037    | 3,848    | 4,798    | 3,907    |
| <b>Statement of Cash Flows Data:</b>   |                         |          |          |          |          |
| Cash provided by (used in):  |                         |          |          |          |          |
| Operating activities   | \$ 1,840                | \$ 776   | \$ 784   | \$ 410   | \$ 462   |
| Investing activities   | (825)                   | (668)    | (469)    | (631)    | 497      |
| Financing activities   | (612)                   | (390)    | (281)    | 47       | (846)    |

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED AND COMBINED FINANCIAL DATA OF RJS POWER**

The following table sets forth selected historical consolidated and combined financial data of RJS Power as of December 31, 2010, 2011, 2012, 2013 and 2014 and for each of the years ended December 31, 2010, 2011, 2012, 2013 and 2014. The selected historical consolidated and combined financial data of RJS Power as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014 have been derived from, and should be read together with, the audited consolidated and combined financial statements of RJS Power and the accompanying notes contained elsewhere in this prospectus. The selected historical combined financial data of RJS Power as of December 31, 2012 has been derived from the audited combined financial statements of RJS Power not included in this prospectus. The selected historical combined financial data of RJS Power as of December 31, 2010 and 2011 and for each of the years ended December 31, 2010 and 2011 have been derived from the unaudited combined financial statements of RJS Power not included in this prospectus. The selected historical consolidated and combined financial data presented below include certain assets and liabilities of RJS Power relating to facilities that may be sold as part of Talen Energy's mitigation plan discussed elsewhere in this prospectus. As a result, the selected historical consolidated and combined financial data of RJS Power set forth below may not necessarily be indicative of the RJS Power business that will be operated by Talen Energy in future periods. The selected historical consolidated and combined financial data set forth below are not necessarily indicative of the results of future operations.

The selected historical consolidated and combined financial data should be read in conjunction with Risk Factors, Unaudited Pro Forma Condensed Combined Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations RJS Power and the audited consolidated and combined financial statements of RJS Power and accompanying notes, all of which are included elsewhere in this prospectus.

| (dollars in millions)                                       | <b>Year Ended December 31,</b> |             |             |             |             |
|---|--------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2010</b>                    | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> |
| <b>Statement of Operations Data:</b>                        |                                |             |             |             |             |
| Operating revenue   | \$ 128                         | \$ 190      | \$ 453      | \$ 979      | \$ 1,045    |
| Operating income (loss)                                     | 16                             | 51          | 82          | 67          | 55          |
| Income (loss) from continuing operations after income taxes | (29)                           | 5           | 33          | (27)        | (55)        |
| Net income (loss)   | (29)                           | 5           | 33          | (27)        | (55)        |
| <b>Balance Sheet Data (at period end):</b>                  |                                |             |             |             |             |
| Cash and cash equivalents (1)                               | \$ 11                          | \$ 17       | \$ 18       | \$ 141      | \$ 30       |
| Total assets  | 1,190                          | 1,457       | 1,963       | 1,981       | 1,798       |
| Total liabilities   | 657                            | 830         | 1,050       | 1,376       | 1,549       |
| Long-term debt  | 593                            | 740         | 880         | 1,204       | 1,275       |
| Members' interest   | 533                            | 627         | 913         | 605         | 249         |
| <b>Statement of Cash Flows Data:</b>                        |                                |             |             |             |             |
| Net cash provided by (used in):                             |                                |             |             |             |             |
| Operating activities  | \$ (2)                         | \$ 37       | \$ 14       | \$ 169      | \$ 183      |
| Investing activities  | (133)                          | (260)       | (397)       | (33)        | 11          |
| Financing activities  | 129                            | 229         | 384         | (13)        | (305)       |

- \* RJS Power selected historical information includes the historical combined financial results of Topaz Power, Sapphire Power, which was acquired in October 2011, and Raven Power, which was acquired in November 2012.
- (1) Does not include restricted cash.



---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Because the businesses of Energy Supply and RJS Power have historically been managed separately, we are presenting management's discussion and analysis of financial condition and results of operations separately. Dollars are in millions, unless otherwise indicated.

Upon completion of the Transactions described in this prospectus, Talen Energy will be one of the largest competitive energy and power generation companies in North America. Our primary business will be the production and sale of electricity, capacity and related products from our fleet of power plants totaling approximately 14,000 MW of generating capacity. We will own and operate a portfolio of generation assets principally located in PJM and ERCOT, which we consider to be two of the most attractive power markets in the United States. Within these markets, our portfolio benefits from technological and fuel diversity, enabling us to respond to changing market conditions and regulatory developments. We believe stockholder value creation is built on a foundation of excellence in operations and skillful commercial management of our generation fleet with a strong focus on cash returns. We intend to pursue a strategy that embraces these core concepts, optimizes Talen Energy's operations and supports value-enhancing growth.

In addition, the sales of certain assets of Energy Supply and RJS Power will be required to obtain regulatory approvals with respect to the Transactions. Accordingly, the historical financial and operating results of Energy Supply and RJS Power may not be comparable to future results to the extent certain assets of Energy Supply and/or RJS Power are disposed of. See "The Separation Agreement and the Transaction Agreement" "The Transaction Agreement" "Regulatory Approvals and Efforts to Close" "Mitigation Plan."

Energy Supply will treat the Combination with the RJS Power business as an acquisition, as Energy Supply will be considered the accounting acquirer in accordance with business combination accounting guidance.

**Energy Supply**

*You should read the following discussion of Energy Supply's results of operations and financial condition together with Energy Supply's selected historical consolidated financial data, audited historical consolidated financial statements and notes thereto included elsewhere in this prospectus, as well as the discussion in the section of this prospectus entitled "Business - Energy Supply." This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this prospectus entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." The financial information discussed below and included in this prospectus may not necessarily reflect what our financial condition, results of operations or cash flow would have been had we been a stand-alone company during the periods presented or what our financial condition, results of operations and cash flows may be in the future.*

Management's Discussion and Analysis of Financial Condition and Results of Operations - Energy Supply includes the following information:

Overview provides a description of Energy Supply's business strategy and key factors expected to impact Energy Supply's 2015 earnings and a discussion of important financial and operational developments.

Results of Operations includes a summary of earnings. Margins provides explanations of a non-GAAP financial measure and Statement of Income Analysis addresses significant changes in principal line items on Energy Supply's Statements of Income comparing 2014 with 2013 and 2013 with 2012.

## **Table of Contents**

**Financial Condition Liquidity and Capital Resources** provides an analysis of Energy Supply's liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.

**Financial Condition Risk Management** provides an explanation of risk management programs relating to market and credit risk.

**Application of Critical Accounting Policies** provides an overview of the accounting policies that are particularly important to Energy Supply's results of operations and financial condition and that require management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

## **Overview**

### **Business Strategy**

The strategy for Energy Supply is to optimize the value from its competitive power generation assets and marketing portfolios while mitigating near-term volatility in both cash flows and earnings. Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk. Energy Supply is focused on maintaining profitability and positive cash flow during this current period of low energy and capacity prices.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of Energy Supply is to maintain targeted credit profiles and liquidity positions. In addition, Energy Supply has financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility related to, as applicable, changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. To manage these risks, Energy Supply generally uses contracts such as forwards, options, swaps and insurance contracts.

### **Financial and Operational Developments**

Earnings in future periods are subject to various risks and uncertainties. See **Cautionary Statement Regarding Forward-Looking Statements**, **Business Energy Supply**, **Risk Factors** and Notes 1 and 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for a discussion of the risks, uncertainties and factors that may impact future earnings.

### *Economic and Market Conditions*

The Energy Supply business is subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, effluent limitation guidelines and MATS. See **Business The Companies Environmental Matters** below for additional information on these requirements. These and other stringent environmental requirements, combined with low energy margins for competitive generation, have led several energy companies, including Energy Supply, to announce plans to either temporarily or permanently close, place in long-term reserve status or impair certain of their coal-fired generating plants.

As a result of current economic and market conditions, the announced Transactions, Energy Supply's current sub-investment grade credit rating and Talen Energy's expected sub-investment grade credit rating, Energy Supply continues to monitor its business and operational plans, including capital, operation and maintenance expenditures, its hedging strategies and potential plant modifications to burn lower-cost fuels. See Results of Operations below for information on energy margins for all periods. 2014 energy margins were lower compared to 2013 due to a higher average hedge price in 2013, partially offset by higher pricing on unhedged generation. Energy Supply cannot predict the impact that future economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

**Table of Contents***Labor Union Agreement*

PPL and Energy Supply finalized a new three-year labor agreement with IBEW local 1600 in May 2014 and the agreement was ratified in early June 2014. The agreement covers certain Energy Supply employees. As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. As a result, for the year ended December 31, 2014, the following total separation benefits have been recorded.

|                                  |              |
|----------------------------------|--------------|
| Pension Benefits                 | \$ 11        |
| Severance Compensation           | 6            |
| <b>Total Separation Benefits</b> | <b>\$ 17</b> |

|                     |     |
|---------------------|-----|
| Number of Employees | 105 |
|---------------------|-----|

The separation benefits are included in *Other operation and maintenance* on the Statement of Income. The liability for pension benefits is included in *Accrued pension obligations* on the Balance Sheet at December 31, 2014. All of the severance compensation was paid in 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of Energy Supply.

*Anticipated Spinoff of Energy Supply*

Following the announcement of the transaction to form Talen Energy as discussed in *Business Strategy* above, efforts were initiated to identify the appropriate staffing for Talen Energy following completion of the spinoff. Organizational plans and staffing selections were substantially completed in 2014.

The new organizational plans identify the need to resize and restructure the Energy Supply organization. As a result, during 2014, charges for employee separation benefits were recorded in *Other operation and maintenance* on the Statement of Income and in *Other current liabilities* on the Balance Sheet as follows.

|                     |       |
|---------------------|-------|
| Separation benefits | \$ 16 |
| Number of positions | 112   |

The separation benefits incurred include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to occur in 2015.

Additional employee related costs to be incurred primarily include accelerated stock-based compensation and pro-rated performance based cash incentive and stock-based compensation awards, primarily for Energy Supply employees and for PPL employees who will become Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. Energy Supply estimates these additional costs will be in the range of \$30 million to \$40 million.

Energy Supply will treat the combination with RJS Power as an acquisition and Energy Supply will be considered the acquirer of RJS Power.

*Montana Hydroelectric Sale Agreement*

In November 2014, PPL Montana completed the sale to NorthWestern of 633 MW of hydroelectric generating facilities located in Montana for \$900 million in cash. As a result of the sale, Energy Supply recorded a gain of \$306 million (\$206 million after-tax) included in Income (Loss) from Discontinued Operations (net of income taxes) on the 2014 Statement of Income. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information including the components of Discontinued Operations.

---

**Table of Contents**

*Kerr Dam Project Arbitration Decision and Impairment*

PPL Montana previously held a joint operating license issued for the Kerr Dam project, which was sold to NorthWestern as part of the Montana hydro sale in November 2014. Between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes ) have the option to purchase, hold and operate the Kerr Dam project. In March 2014, an arbitration panel issued its final decision holding that the conveyance price payable by the Tribes for the Kerr Dam project is \$18 million. As a result of the decision and the Tribes having given notice of their intent to exercise the option, in the first quarter of 2014 Energy Supply recorded an impairment charge of \$18 million (\$10 million after-tax) to reduce the carrying amount to its fair value. See Note 12 to the audited condensed consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information on the impairment. Additionally, as a result of a guarantee included in the sale agreement with NorthWestern, if the Tribes exercise their option and purchase the Kerr Dam project for \$18 million as expected, PPL Montana must pay NorthWestern \$12 million, which is recorded as a liability on the Balance Sheet at December 31, 2014.

*Susquehanna Turbine Blade Inspection*

PPL Susquehanna continues to make modifications to address the causes of turbine blade cracking at the PPL Susquehanna nuclear plant that was first identified in 2011. Unit 1 completed its planned refueling and turbine inspection outage in June 2014 and installed newly designed shorter last stage blades on one of the low pressure turbines. This change allowed Unit 1 to run with reduced blade vibration and no cracking during 2014. In the first, second and third quarters of 2014, Unit 2 was shut down for blade inspection and replacement, as well as additional maintenance. The financial impact of the Unit 2 outages was not material. Based on the positive experience on Unit 1, the same short blade modification will be installed on two of the three turbines on Unit 2 during the scheduled refueling outage in spring 2015. PPL Susquehanna continues to monitor blade performance and work with the turbine manufacturer to identify and resolve the issues causing the blade cracking.

*Mechanical Contracting Subsidiaries and Renewables Plants*

Energy Supply is presently considering divesting its mechanical contracting subsidiaries. The mechanical contracting subsidiaries represented an average of less than 5% of each of Energy Supply's income from continuing operations and total assets over the five-year period ended December 31, 2014.

Energy Supply is also presently considering divesting its renewables plants, which collectively represent approximately 25 MW of generating capacity (summer rating) and are located in various states in the eastern United States. The renewables plants represented an average of less than 2% of each of Energy Supply's income from continuing operations and total assets over the five-year period ended December 31, 2014.

**Results of Operations**

The discussion for Energy Supply provides a summary of earnings. The Margins discussion includes a reconciliation of a non-GAAP financial measure to Operating Income and Statement of Income Analysis addresses significant changes in principal line items on the Statements of Income comparing year-to-year changes.

**Earnings, Margins and Statement of Income Analysis**

**Earnings**

Edgar Filing: Talen Energy Corp - Form S-1/A

|   | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|-------------|
| Net Income (Loss) Attributable to<br>Energy Supply Member | \$ 410      | \$ (230)    | \$ 474      |
| Special items, gains (losses), after-tax                  | 179         | (531)       | 18          |

113



**Table of Contents**

Excluding special items, earnings in 2014 compared with 2013 decreased, primarily due to lower margins resulting from lower energy and capacity prices, partially offset by favorable baseload asset performance, gains on certain commodity positions, net benefits of unusually cold weather in the first quarter of 2014 and lower financing costs.

Excluding special items, earnings in 2013 compared with 2012 decreased primarily due to lower baseload energy prices and higher depreciation, partially offset by higher capacity prices, higher nuclear generation volume and lower operation and maintenance expense.

The table below quantifies the changes in the components of Net Income (Loss) Attributable to Energy Supply Member between these periods, which reflect amounts classified as Gross Energy Margins and certain items that management considers special on separate lines within the table and not in their respective Statement of Income line items. See below for the details of the special items.

|                                    | <b>2014 vs. 2013</b> | <b>2013 vs. 2012</b> |
|------------------------------------|----------------------|----------------------|
| Gross Energy Margins               | \$ (188)             | \$ (194)             |
| Other operation and maintenance    | (7)                  | 25                   |
| Depreciation                       | 2                    | (27)                 |
| Taxes, other than income           | 2                    | 5                    |
| Other Income (Expense) net         | (2)                  | 15                   |
| Interest Expense                   | 35                   | (1)                  |
| Other                              | (6)                  | (3)                  |
| Income Taxes                       | 77                   | 24                   |
| Discontinued Operations, after-tax | 17                   | 1                    |
| Special items, after-tax           | 710                  | (549)                |
| <b>Total</b>                       | <b>\$ 640</b>        | <b>\$ (704)</b>      |

**Table of Contents**

The following after-tax gains (losses), which management considers special items, also impacted Energy Supply's results.

|  | Income Statement<br>Line Item   | 2014   | 2013     | 2012  |
|--|---------------------------------|--------|----------|-------|
| Adjusted energy-related economic activity net, net of tax of \$4, \$54, (\$26)               | (a)                             | \$ (6) | \$ (77)  | \$ 38 |
| Impairments:   |                                 |        |          |       |
| Kerr Dam Project impairment, net of tax of \$8, \$0, \$0 (b)                                 | Discontinued Operations         | (10)   |          |       |
| Adjustments nuclear decommissioning trust investments, net of tax of \$0, \$0, (\$2)         | Other Income (Expense) net      |        |          | 2     |
| Other asset impairments, net of tax of \$0, \$0, \$0   | Other operation and maintenance |        |          | (1)   |
| Corette asset impairment, net of tax of \$0, \$26, \$0 (c)                                   | Other operation and maintenance |        | (39)     |       |
| Spinoff of Energy Supply:  |                                 |        |          |       |
| Separation benefits, net of tax of \$6, \$0, \$0 (d)   | Other operation and maintenance | (10)   |          |       |
| Transition costs, net of tax of \$0, \$0, \$0  | Other operation and maintenance | (1)    |          |       |
| Other:   |                                 |        |          |       |
| Change in tax accounting method related to repairs   | Income Taxes                    |        | (3)      |       |
| Counterparty bankruptcy, net of tax of \$0, (\$1), \$5 (e)                                   | Other operation and maintenance |        | 1        | (6)   |
| Wholesale supply cost reimbursement, net of tax of \$0, \$0, \$0                             | Unregulated wholesale energy    |        |          | 1     |
| Ash basin leak remediation adjustment, net of tax of \$0, \$0, (\$1)                         | Other operation and maintenance |        |          | 1     |
| Coal contract modification payments, net of tax of \$0, \$0, \$12 (f)                        | Fuel                            |        |          | (17)  |
| Separation benefits bargaining unit voluntary program, net of tax of \$7, \$0, \$0 (g)       | Other operation and maintenance | (10)   |          |       |
| Loss on Colstrip operating lease termination, net of tax of \$0, \$284, \$0 (h)              | Loss on lease termination       |        | (413)    |       |
| Mechanical contracting and engineering revenue adjustment, net of tax of \$(7), \$0, \$0 (i) | Energy related business         | 10     |          |       |
| Sale of Montana hydroelectric generating facilities, net of tax of \$(100), \$0, \$0 (j)     | Discontinued Operations         | 206    |          |       |
| Total  |                                 | 179    | \$ (531) | \$ 18 |

(a) Represents unrealized gains (losses), after-tax, on economic activity. See **Commodity Price Risk (Non-trading) - Economic Activity** in Note 13 to the audited consolidated financial statements of Energy Supply included

elsewhere in this prospectus for additional information. Amounts have been adjusted for insignificant amounts for option premiums.

- (b) In 2014, an arbitration panel issued its final decision holding that the conveyance price payable to PPL Montana was \$18 million. As a result, Energy Supply determined the Kerr Dam project was impaired and recorded a pre-tax charge of \$18 million. See Note 12 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (c) In 2013, Energy Supply determined its Corette plant was impaired and recorded a pre-tax charge of \$65 million for the plant and related emission allowances. See Note 12 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (d) Energy Supply recorded separation benefits related to the anticipated spinoff transaction. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

**Table of Contents**

- (e) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. In 2012, EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012. In June 2013, EnergyPlus received an approval for an administrative claim in the amount of \$2 million.
- (f) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 coal deliveries.
- (g) In June 2014, Energy Supply's largest IBEW local ratified a new three-year labor agreement. In connection with the new agreement, bargaining unit one-time voluntary retirement benefits were recorded. See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (h) In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern certain hydroelectric generating facilities located in Montana. To facilitate the sale, PPL Montana terminated its operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electric generating facility in December 2013 and acquired those interests, collectively, for \$271 million. At lease termination, the existing lease-related assets on the balance sheet were written-off and the acquired Colstrip assets were recorded at fair value as of the acquisition date. Energy Supply recorded a pre-tax charge of \$697 million for the termination of the lease. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (i) In 2014, Energy Supply recorded \$17 million to Energy-related businesses' revenues on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (j) In November 2014, PPL Montana completed the sale of 633 MW of hydroelectric generating facilities to NorthWestern, resulting in Energy Supply recording a pre-tax gain of \$306 million. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

**Reconciliation of Economic Activity**

The following table reconciles unrealized pre-tax gains (losses) from the table within Commodity Price Risk (Non-trading) Economic Activity in Note 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus to the special item identified as Adjusted energy-related economic activity, net.

|   | 2014   | 2013     | 2012     |
|---|--------|----------|----------|
| Operating Revenues                        |        |          |          |
| Unregulated wholesale energy              | \$ 325 | \$ (721) | \$ (311) |
| Unregulated retail energy                 | 29     | 12       | (17)     |
| Operating Expenses                        |        |          |          |
| Fuel                                      | (27)   | (4)      | (14)     |
| Energy Purchases                          | (327)  | 586      | 442      |
| Energy-related economic activity (a)      |        | (127)    | 100      |
| Option premiums (b)                       | (10)   | (4)      | (1)      |
| Adjusted energy-related economic activity | (10)   | (131)    | 99       |
|   |        |          | 35       |

Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010

|   |         |          |       |
|---|---------|----------|-------|
| Adjusted energy-related economic activity, net, pre-tax   | \$ (10) | \$ (131) | \$ 64 |
| Adjusted energy-related economic activity, net, after-tax | \$ (6)  | \$ (77)  | \$ 38 |

**Table of Contents**

- (a) See Note 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in Unregulated wholesale energy and Energy purchases on the Statements of Income.

**Margins**

Management utilizes a non-GAAP financial measure as an indicator of performance for its business.

Gross Energy Margins is a single financial performance measure of Energy Supply's competitive energy activities, which are managed on a geographic basis. In calculating this measure, energy revenues, including operating revenues associated with certain businesses classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, recorded in Taxes, other than income, and operating expenses associated with certain businesses classified as discontinued operations. This performance measure is relevant due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise Gross Energy Margins. This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either Unregulated wholesale energy,

Unregulated retail energy or Energy purchases on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in Unregulated wholesale energy to affiliate in the reconciliation table below. Gross Energy Margins excludes adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of the competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Adjusted energy-related economic activity includes the ineffective portion of qualifying cash flow hedges and premium amortization associated with options. Unrealized gains and losses related to this activity are deferred and included in Gross Energy Margins over the delivery period of the item that was hedged or upon realization.

This measure is not intended to replace Operating Income, which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes this measure provides additional useful criteria to make investment decisions. This performance measure is used, in conjunction with other information, by senior management to manage Energy Supply's operations, analyze actual results compared with budget and, in certain cases, to measure certain corporate financial goals used to determine variable compensation.

**Table of Contents**

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to Operating Income for the years ended December 31.

|   | 2014                 |            |                      | 2013                 |             |                      |
|---|----------------------|------------|----------------------|----------------------|-------------|----------------------|
|   | Gross Energy Margins | Other (a)  | Operating Income (b) | Gross Energy Margins | Other (a)   | Operating Income (b) |
| <b>Operating Revenues</b>                 |                      |            |                      |                      |             |                      |
| Unregulated wholesale energy              | \$1,490              | \$ 318(c)  | \$ 1,808             | \$ 3,623             | \$ (714)(c) | \$ 2,909             |
| Unregulated wholesale energy to affiliate | 84                   |            | 84                   | 51                   |             | 51                   |
| Unregulated retail energy (d)             | 1,216                | 27(c)      | 1,243                | 1,015                | 12(c)       | 1,027                |
| Energy-related businesses                 |                      | 601        | 601                  |                      | 527         | 527                  |
| Total Operating Revenues                  | 2,790                | 946        | 3,736                | 4,689                | (175)       | 4,514                |
| <b>Operating Expenses</b>                 |                      |            |                      |                      |             |                      |
| Fuel                                      | 1,169                | 27(e)      | 1,196                | 1,045                | 4(e)        | 1,049                |
| Energy purchases                          | (121)                | 330(c)     | 209                  | 1,745                | (574)(c)    | 1,171                |
| Other operation and maintenance           | 22                   | 985        | 1,007                | 20                   | 1,006       | 1,026                |
| Loss on lease termination (Note 4)        |                      |            |                      |                      | 697         | 697                  |
| Depreciation                              |                      | 297        | 297                  |                      | 299         | 299                  |
| Taxes, other than income                  | 43                   | 14         | 57                   | 37                   | 16          | 53                   |
| Energy-related businesses                 | 8                    | 565        | 573                  | 7                    | 505         | 512                  |
| Total Operating Expenses                  | 1,121                | 2,218      | 3,339                | 2,854                | 1,953       | 4,807                |
| Discontinued Operations                   | 117                  | (117)(f)   |                      | 139                  | (139)(f)    |                      |
| Total                                     | \$1,786              | \$ (1,389) | \$ 397               | \$ 1,974             | \$ (2,267)  | \$ (293)             |

|   | 2012                 |             |                      |
|---|----------------------|-------------|----------------------|
|   | Gross Energy Margins | Other (a)   | Operating Income (b) |
| <b>Operating Revenues</b>                 |                      |             |                      |
| Unregulated wholesale energy              | \$4,266              | \$ (290)(c) | \$ 3,976             |
| Unregulated wholesale energy to affiliate | 78                   |             | 78                   |
| Unregulated retail energy (d)             | 861                  | (17)(c)     | 844                  |
| Energy-related businesses                 |                      | 448         | 448                  |
| Total Operating Revenues                  | 5,205                | 141         | 5,346                |
| <b>Operating Expenses</b>                 |                      |             |                      |
| Fuel                                      | 931                  | 34(e)       | 965                  |
| Energy purchases                          | 2,204                | (386)(c)    | 1,818                |

Edgar Filing: Talen Energy Corp - Form S-1/A

|                                 |                |                   |               |
|---------------------------------|----------------|-------------------|---------------|
| Energy purchases from affiliate | 3              |                   | 3             |
| Other operation and maintenance | 19             | 978               | 997           |
| Depreciation                    |                | 272               | 272           |
| Taxes, other than income        | 34             | 21                | 55            |
| Energy-related businesses       |                | 432               | 432           |
| <b>Total Operating Expenses</b> | <b>3,191</b>   | <b>1,351</b>      | <b>4,542</b>  |
| Discontinued Operations         | 154            | (154)(f)          |               |
| <b>Total</b>                    | <b>\$2,168</b> | <b>\$ (1,364)</b> | <b>\$ 804</b> |

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.



**Table of Contents**

- (c) Includes energy-related economic activity, which is subject to fluctuations in value due to market price volatility. See *Commodity Price Risk (Non-trading) Economic Activity* within Note 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus. For 2012, *Unregulated wholesale energy and Energy purchases* include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts.
- (d) Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of *Gross Energy Margins*.
- (e) Includes economic activity related to fuel as described in *Commodity Price Risk (Non-trading) Economic Activity* within Note 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments.
- (f) Represents the revenues associated with the hydroelectric generating facilities located in Montana that are classified as discontinued operations. These revenues are not reflected in *Operating Income* on the Statements of Income.

**Changes in Gross Energy Margins**

The following table shows *Gross Energy Margins* by component for the year ended December 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

|              | 2014            | 2013            | 2012            | \$ Change       |                 |
|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|              |                 |                 | 2014 vs. 2013   | 2013 vs. 2012   |                 |
| Eastern U.S. | \$ 1,591        | \$ 1,756        | \$ 1,867        | \$ (165)        | \$ (111)        |
| Western U.S. | 195             | 218             | 301             | (23)            | (83)            |
| <b>Total</b> | <b>\$ 1,786</b> | <b>\$ 1,974</b> | <b>\$ 2,168</b> | <b>\$ (188)</b> | <b>\$ (194)</b> |

*Eastern U.S.*

Eastern margins decreased in 2014 compared with 2013 primarily due to lower baseload energy prices of \$354 million and lower capacity prices of \$34 million, partially offset by net gains on commodity positions of \$75 million, favorable asset performance of \$70 million, \$38 million related to weather as discussed below and gas optimization of \$26 million.

During the first quarter of 2014, the PJM region experienced unusually cold weather conditions, higher demand and congestion patterns, causing rising natural gas and electricity prices in spot and near-term forward markets. Due to these market dynamics, Energy Supply captured opportunities on unhedged generation, which were primarily offset by under-hedged full-requirement sales contracts and retail electric.

Eastern margins decreased in 2013 compared with 2012 primarily due to \$435 million of lower baseload energy prices, partially offset by \$198 million of higher capacity prices and \$100 million of increased nuclear generation volume.

*Western U.S.*

Western margins decreased in 2014 compared with 2013 primarily due to lower wholesale energy prices.

Western margins decreased in 2013 compared with 2012 primarily due to \$69 million of lower wholesale energy prices and \$15 million of lower net economic availability of coal and hydroelectric units.

**Table of Contents****Statement of Income Analysis****Certain Operating Revenues and Expenses Included in Margins**

The following Statement of Income line items are included above within Margins and are not discussed separately.

|   | <b>2014 vs. 2013</b> | <b>2013 vs. 2012</b> |
|---|----------------------|----------------------|
| Unregulated wholesale energy              | \$ (1,101)           | \$ (1,067)           |
| Unregulated wholesale energy to affiliate | 33                   | (27)                 |
| Unregulated retail energy                 | 216                  | 183                  |
| Fuel                                      | 147                  | 84                   |
| Energy purchases                          | (962)                | (650)                |

**Energy-Related Businesses**

Net contributions from energy-related businesses increased by \$13 million in 2014 compared with 2013. During 2014, Energy Supply recorded a \$17 million increase to Energy-related businesses revenues on the Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. See Note 1 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

Energy Supply is presently considering divesting its mechanical contracting subsidiaries. See Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply Overview Financial and Operational Developments Mechanical Contracting Subsidiaries and Renewables Plants.

**Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance was due to:

|  | <b>2014 vs. 2013</b> | <b>2013 vs. 2012</b> |
|--|----------------------|----------------------|
| Fossil and hydroelectric plants (a)                              | \$ (78)              | \$ 41                |
| PPL Susquehanna (b)  | 28                   | (3)                  |
| PPL EnergyPlus (c)   | 1                    | (18)                 |
| Bargaining unit one-time voluntary retirement benefits (Note 9)  | 17                   |                      |
| Separation benefits related to spinoff of Energy Supply (Note 4) | 16                   |                      |
| Other  | (3)                  | 9                    |
| <b>Total</b>   | <b>\$ (19)</b>       | <b>\$ 29</b>         |

(a) The decrease in 2014 compared with 2013 was primarily due to a \$65 million impairment charge in 2013 related to the Corette plant and the elimination of \$20 million of rent expense associated with the Colstrip lease which

was terminated in December 2013. The increase in 2013 compared with 2012 was primarily due to the \$65 million impairment charge in 2013 related to the Corette plant, partially offset by lower fossil and hydroelectric expenses of \$24 million, largely driven by lower outage expenses in 2013. See Note 12 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information on the Corette plant impairment.

- (b) The increase in 2014 compared with 2013 was primarily due to project expenses, including refueling outage expenses.
- (c) The decrease in 2013 compared with 2012 was primarily due to SMGT filing under Chapter 11 of the U.S. Bankruptcy Code. \$11 million of receivables billed to SMGT were fully reserved in 2012.

**Table of Contents****Loss on Lease Termination**

A \$697 million charge was recorded in 2013 for the termination of the Colstrip operating lease to facilitate the sale of the Montana hydroelectric generating facilities. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

**Depreciation**

Depreciation decreased by \$2 million in 2014 compared with 2013, primarily due to decreases of \$15 million from the impairment recorded at PPL Montana for the Corette plant and the write-down of assets in conjunction with the termination of the operating lease at the Colstrip facility, both of which occurred in 2013. These decreases were partially offset by increases of \$13 million from PP&E additions in part due to the completed PPL Holtwood project in 2013. See Notes 4 and 12 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for information on the Colstrip operating lease termination and the Corette impairment, respectively.

Depreciation increased by \$27 million in 2013 compared with 2012, primarily due to net PP&E additions.

**Taxes, Other Than Income**

Taxes, other than income increased by \$4 million in 2014 compared with 2013 due to an \$8 million increase in state gross receipts tax offset by a \$4 million increase in state capital stock tax.

**Other Income (Expense) net**

Other income (expense) net decreased by \$2 million in 2014 compared with 2013 and increased by \$13 million in 2013 compared with 2012. The decrease in 2014 compared with 2013 resulted from 2013 including a gain of \$8 million related to adjustments to liabilities for a former mining subsidiary of Energy Supply partially offset by a \$5 million increase in 2014 in net earnings on NDT funds. The increase in 2013 compared with 2012 primarily related to the former mining subsidiary's gains discussed above.

**Interest Expense**

The increase (decrease) in interest expense was due to:

|   | <b>2014 vs. 2013</b> | <b>2013 vs. 2012</b> |
|---|----------------------|----------------------|
| Long-term debt interest expense (a)                             | \$ (50)              | \$ 1                 |
| Short-term debt interest expense                                | 7                    | (2)                  |
| Capitalized interest (b)  | 14                   | 2                    |
| Net amortization of debt discounts, premiums and issuance costs | (4)                  | (1)                  |
| Other   | (2)                  | 1                    |
| Total   | \$ (35)              | \$ 1                 |

(a)

The decrease in 2014 compared with 2013 was primarily due to the repayment of debt in July and December 2013.

- (b) The increase in 2014 compared with 2013 was primarily due to the Holtwood hydroelectric expansion project placed in service in November 2013.

**Table of Contents****Income Taxes**

The increase (decrease) in income taxes was due to:

|   | <b>2014 vs. 2013</b> | <b>2013 vs. 2012</b> |
|---|----------------------|----------------------|
| Change in pre-tax income at current period    |                      |                      |
| tax rates                                     | \$ 298               | \$ (439)             |
| State deferred tax rate change (a)            | (16)                 | 34                   |
| Federal income tax credits (b)                | 8                    | 3                    |
| Federal and state tax reserve adjustments (c) | (6)                  | 8                    |
| Other   | (9)                  | (1)                  |
| <b>Total</b>                                  | <b>\$ 275</b>        | <b>\$ (395)</b>      |

- (a) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2014 and 2012 and an increase to the future estimated state tax rate at December 2013. Energy Supply recorded an insignificant deferred tax benefit in 2014, a \$15 million deferred tax expense in 2013, and a \$19 million deferred tax benefit in 2012 related to its state deferred tax liabilities.
- (b) During 2013 and 2012, Energy Supply recorded deferred tax benefits related to investment tax credits on progress expenditures related to the Holtwood hydroelectric plant expansion. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (c) During 2013, Energy Supply reversed \$3 million in tax benefits related to a 2008 change in method of accounting for certain expenditures for tax purposes and recorded \$4 million in federal tax expense related to differences in over (under) payment interest rates applied to audit claims as a result of the U.S. Supreme Court decision related to Windfall Profits Tax.

See Note 2 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information on income taxes.

**Income (Loss) from Discontinued Operations (net of income taxes)**

Income (Loss) from Discontinued Operations (net of income taxes) primarily includes the results of operations of the Montana hydroelectric generating facilities for all periods presented. See *Discontinued Operations Montana Hydro Sale* in Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information. Income (Loss) from Discontinued Operations (net of income taxes) increased by \$191 million in 2014 compared with 2013 primarily due to the gain on the sale of the Montana hydroelectric generating facilities, and decreased by \$14 million in 2013 compared with 2012 primarily due to lower energy margins due to lower energy prices.

**Financial Condition*****Liquidity and Capital Resources***

Energy Supply's cash flows from operations and access to cost-effective credit and capital markets financing sources are subject to risks and uncertainties. See *Risk Factors* for a discussion of risks and uncertainties that could affect

Energy Supply's cash flows.

Energy Supply had the following at:

|                           | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------|------------------------------|------------------------------|------------------------------|
| Cash and cash equivalents | \$ 352                       | \$ 239                       | \$ 413                       |
| Short-term debt           | \$ 630                       |                              | 356                          |



**Table of Contents**

Net cash provided by (used in) operating, investing and financing activities for the years ended December 31 and the changes between periods were as follows.

|                             | 2014   | 2013   | 2012   | 2014 vs. 2013<br>Change | 2013 vs. 2012<br>Change |
|-----------------------------|--------|--------|--------|-------------------------|-------------------------|
| Operating activities        | \$ 462 | \$ 410 | \$ 784 | \$ 52                   | \$ (374)                |
| Investing activities        | 497    | (631)  | (469)  | 1,128                   | (162)                   |
| Financing activities        | (846)  | 47     | (281)  | (893)                   | 328                     |
| <u>Operating Activities</u> |        |        |        |                         |                         |

A significant portion of Energy Supply's operating cash flows is derived from its competitive baseload generation activities. Energy Supply employs a formal hedging program for its baseload generation fleet, the objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential over the medium term to benefit from power price increases. See Note 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for further discussion. Despite Energy Supply's hedging practices, future cash flows from operating activities are influenced by energy and capacity prices and, therefore, will fluctuate from period to period.

Energy Supply's contracts for the sale and purchase of electricity and fuel often require cash collateral or cash equivalents (e.g. letters of credit), or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of Energy Supply's or its subsidiaries' credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if Energy Supply's or its subsidiaries' ratings were further downgraded and there was a 10% adverse movement in energy prices, Energy Supply estimates that, based on its December 31, 2014 positions, it would have been required to post additional collateral of approximately \$321 million with respect to electricity and fuel contracts. Energy Supply had adequate liquidity sources at December 31, 2014 had it been required to post this additional collateral. Energy Supply also has in place risk management programs that are designed to monitor and manage exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of generating units. During the second quarter of 2014, Energy Supply's corporate credit rating was lowered to below investment grade. See Forecasted Sources of Cash Credit Facilities below for additional information.

The components of the change in cash provided by (used in) operating activities were as follows.

| Change Cash Provided (Used)  | 2014 vs. 2013 | 2013 vs. 2012 |
|------------------------------|---------------|---------------|
| Net income                   | \$ 639        | \$ (704)      |
| Non-cash components          | (656)         | 313           |
| Working capital              | (46)          | 65            |
| Defined benefit plan funding | 78            | (38)          |
| Other operating activities   | 37            | (10)          |
| Total                        | \$ 52         | \$ (374)      |

Energy Supply had a \$52 million increase in cash provided by operating activities in 2014 compared with 2013.

Net income improved by \$639 million between the periods; however, this included an additional \$656 million of net non-cash benefits, including a \$315 million pre-tax gain in 2014 on the sale of the Montana hydroelectric generation facilities, a \$426 million charge in 2013 to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests, and \$167 million of lower unrealized losses on hedging activities. These non-cash benefits were partially offset by a \$270 million decrease in deferred income tax benefits. The net \$17 million decline from net income

**Table of Contents**

and non-cash adjustments in 2014 compared with 2013 reflects lower unregulated gross energy margins, higher operation and maintenance expenses and other factors. Cash provided by operating activities in 2014 included a \$176 million payment to PPL in November 2014 to satisfy the tax liability related to the gain on the sale of the PPL Montana hydroelectric facilities. Cash provided by operating activities in 2013 included a \$271 million payment in December in connection with terminating the operating lease arrangement for interests in the Montana Colstrip facility and acquiring the previously leased interests.

Pension funding was \$78 million lower in 2014.

Energy Supply had a \$374 million decrease in cash from operating activities in 2013 compared with 2012. Net income declined by \$704 million between the periods, but included net non-cash charges of \$313 million. These net non-cash charges included a charge of \$426 million in 2013 to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests associated with the lease termination, \$212 million of higher unrealized losses on hedging activities, and a \$65 million charge in 2013 for the impairment of the Corette facility. These non-cash charges were partially offset by a \$448 million decline in deferred income taxes. The net \$391 million decline from net income and non-cash adjustments in 2013 compared with 2012 was primarily due to a \$271 million payment in December 2013, also in connection with terminating the operating lease arrangement for interests in the Montana Colstrip facility and acquiring the previously leased interests. The decrease in cash between the periods also reflects lower unregulated gross energy margins in 2013 compared with 2012.

**Investing Activities**

The components of the change in cash provided by (used in) investing activities were as follows.

|  | <b>2014 vs. 2013</b> | <b>2013 vs. 2012</b> |
|--|----------------------|----------------------|
| Expenditures for PP&E                          | \$ 167               | \$ 65                |
| Acquisitions & divestitures, net               | 900                  | 84                   |
| Notes receivable with affiliates activity, net |                      | (198)                |
| Restricted cash and cash equivalent activity   | (86)                 | (126)                |
| Purchase and sale of investments, net          | (1)                  |                      |
| Other investing activities                     | 148                  | 13                   |
| <b>Total</b>                                   | <b>\$ 1,128</b>      | <b>\$ (162)</b>      |

In 2014 compared with 2013, the decrease in Expenditures for PP&E was partially due to expenditures made in 2013 for the Holtwood hydroelectric expansion project. Acquisitions & divestitures, net reflects the 2014 sale of PPL Montana's hydroelectric generation facilities. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information. The change in Other investing activities was the result of investing inflow of \$164 million, in 2014, from U.S. Department of Treasury grants for the Rainbow and Holtwood hydroelectric expansion projects.

In 2013 compared with 2012, the change in Acquisitions & divestitures, net related to the disbursement in 2012 for the Ironwood Acquisition. The change in Notes receivable with affiliates, net resulted from repayments received in 2012. The change in Restricted cash and cash equivalent activity was primarily related to margin deposit returns in 2012.



**Table of Contents****Financing Activities**

The components of the change in cash provided by (used in) financing activities were as follows.

|  | <b>2014 vs. 2012</b> | <b>2013 vs. 2012</b> |
|--|----------------------|----------------------|
| Debt issuance/retirement, net            | \$ 438               | \$ (738)             |
| Capital contributions/distributions, net | (2,336)              | 1,393                |
| Changes in net short-term debt           | 986                  | (312)                |
| Other financing activities               | 19                   | (15)                 |
| <b>Total</b>                             | <b>\$ (893)</b>      | <b>\$ 328</b>        |

In 2014, financing activities included distributions of \$836 million to PPL of the proceeds from the PPL Montana hydroelectric generation facilities sale, net of a tax liability payment discussed in *Operating Activities* above, and proceeds from the U.S. Department of Treasury PPL Holtwood tax grant. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for information on these transactions. Both receipts are included within *Investing Activities* above.

In 2013, financing activities included net capital contributions of \$1.1 billion from PPL to Energy Supply to fund the debt maturities discussed below, to repay short-term debt and to terminate the operating lease arrangement for interests in the Montana Colstrip facility and acquire the previously leased interests. Debt repayments included the \$300 million debt maturity and the \$437 million repayment of outstanding debt related to the acquisition of the previously leased Lower Mt. Bethel facility.

See *Long-term Debt* below for additional information on current year activity. See *Forecasted Sources of Cash* for a discussion of Energy Supply's plans to issue debt securities, as well as a discussion of credit facility capacity available to Energy Supply. See *Forecasted Uses of Cash* for a discussion of maturities of long-term debt.

*Long-term Debt*

Long-term debt activity for 2014 included the retirement of \$309 million of debt.

See Note 3 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information about long-term debt.

**Forecasted Sources of Cash**

Energy Supply expects to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents and credit facilities. Additionally, subject to market conditions, Energy Supply may access the capital markets. As a result of the proposed Transactions, Energy Supply does not expect to receive cash equity contributions from its member in 2015.

**Table of Contents***Credit Facilities*

Energy Supply maintains credit facilities to enhance liquidity and provide credit support. Amounts borrowed under these credit facilities are reflected in Short-term debt on the Balance Sheets. At December 31, 2014, the total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

*External*

|                             | December 31, 2014 |          |                         |          | December 31, 2013 |          |                         |          |
|-----------------------------|-------------------|----------|-------------------------|----------|-------------------|----------|-------------------------|----------|
|                             | Committed         |          | Letters<br>of<br>Credit | Unused   | Committed         |          | Letters<br>of<br>Credit | Unused   |
| Credit Facilities (a)(b)(c) | Capacity          | Borrowed | Issued                  | Capacity | Capacity          | Borrowed | Issued                  | Capacity |
|                             | \$ 3,150          | \$ 630   | \$ 259                  | \$ 2,261 | \$ 3,150          | \$ 167   | \$ 2,983                |          |

- (a) The credit facilities contain a financial covenant requiring debt to total capitalization not to exceed 65%, as calculated in accordance with the facility, and other customary covenants. See Note 3 to the audited consolidated financial statements of Energy Supply for additional information regarding these credit facilities.
- (b) The commitments under the credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.
- (c) Energy Supply pays customary fees under its credit facilities and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

In connection with the Transactions, Energy Supply has syndicated a \$1.85 billion credit facility which is currently fully committed. This New Revolving Facility will replace the existing \$3 billion Energy Supply credit facility and will be effective upon closing of the spinoff transaction. See Description of Material Indebtedness Energy Supply Energy Supply New Revolving Facility.

During the second quarter of 2014, Energy Supply's corporate credit rating was lowered to below investment grade. At December 31, 2014, the additional collateral posted as a result of the downgrade was \$190 million. Energy Supply primarily issued letters of credit under its credit facilities noted above to post the required collateral. Energy Supply continues to have adequate access to the capital markets and adequate capacity under its credit facilities and does not expect a material change in its financing costs as a result of the downgrade.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. Energy Supply monitors compliance with the covenants on a regular basis. At December 31, 2014 and December 31, 2013, Energy Supply was in compliance with these covenants. At this time, Energy Supply believes that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 3 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for further discussion of Energy Supply's credit facilities.

*Commercial Paper*

In August 2014, Energy Supply's commercial paper program was terminated. Following the Transactions, Energy Supply does not expect to issue commercial paper.

*Long-term Debt*

Subject to market conditions, Energy Supply may issue long-term debt securities in 2015 to fund its current debt maturity obligations or for general corporate purposes, if necessary.

**Table of Contents***Contributions from Member*

From time to time, Energy Supply's member has made capital contributions. The proceeds from these contributions were used to fund capital expenditures and for other general corporate purposes. As discussed above, Energy Supply does not expect to receive cash equity contributions from its member in 2015.

**Forecasted Uses of Cash**

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, Energy Supply currently expects to incur future cash outflows for capital expenditures, various contractual obligations, and distributions to its member and the purchase, repayment or redemption of a portion of debt securities. Under the terms of the agreements relating to the Transactions, Energy Supply is generally prohibited from making distributions or other payments to PPL or any PPL affiliate that is not a subsidiary of Energy Supply, with the exception of specific distributions and other payments set forth in the spinoff agreements. These exceptions are generally limited to a planned distribution from Energy Supply to PPL during the first quarter of 2015 in an amount not to exceed \$191 million.

*Capital Expenditures*

The table below shows Energy Supply's current capital expenditure projections for the years 2015 through 2019.

|  | <b>Total</b>    | <b>2015</b>   | <b>Projected</b> |               |               |               |
|--|-----------------|---------------|------------------|---------------|---------------|---------------|
|  |                 |               | <b>2016</b>      | <b>2017</b>   | <b>2018</b>   | <b>2019</b>   |
| Construction expenditures (a)(b)       |                 |               |                  |               |               |               |
| Generating facilities                  | \$ 1,317        | \$ 325        | \$ 301           | \$ 241        | \$ 281        | \$ 169        |
| Environmental                          | 122             | 41            | 22               | 34            | 13            | 12            |
| Other                                  | 42              | 9             | 8                | 9             | 8             | 8             |
| <b>Total Construction Expenditures</b> | <b>1,481</b>    | <b>375</b>    | <b>331</b>       | <b>284</b>    | <b>302</b>    | <b>189</b>    |
| Nuclear fuel                           | 566             | 106           | 85               | 120           | 126           | 129           |
| <b>Total Capital Expenditures</b>      | <b>\$ 2,047</b> | <b>\$ 481</b> | <b>\$ 416</b>    | <b>\$ 404</b> | <b>\$ 428</b> | <b>\$ 318</b> |

(a) Construction expenditures include capitalized interest, which is expected to total approximately \$64 million.

(b) The 2015 total excludes amounts included in accounts payable as of December 31, 2014.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for information on significant development plans.

Energy Supply plans to fund capital expenditures in 2014 with cash on hand and cash from operations.



**Table of Contents***Contractual Obligations*

Energy Supply has assumed various financial obligations and commitments in the ordinary course of business. At December 31, 2014, estimated contractual cash obligations were as follows.

|  | <b>Total</b>    | <b>2015</b>     | <b>2016 - 2017</b> | <b>2018 - 2019</b> | <b>After 2019</b> |
|--|-----------------|-----------------|--------------------|--------------------|-------------------|
| Long-term Debt (a)   | \$ 2,238        | \$ 535          | \$ 358             | \$ 407             | \$ 938            |
| Interest on Long-term Debt (b)   | 799             | 120             | 164                | 117                | 398               |
| Operating Leases (c)   | 39              | 11              | 21                 | 5                  | 2                 |
| Purchase Obligations (d)   | 2,400           | 790             | 813                | 419                | 378               |
| Other Long-term Liabilities<br>Reflected on the Balance<br>Sheet under GAAP (e)(f) | 73              | 73              |                    |                    |                   |
| <b>Total Contractual Cash Obligations</b>  | <b>\$ 5,549</b> | <b>\$ 1,529</b> | <b>\$ 1,356</b>    | <b>\$ 948</b>      | <b>\$ 1,716</b>   |

- (a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 3 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds issued on behalf of Energy Supply. Energy Supply does not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity or earlier put dates. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 5 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes as applicable, the purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (e) The amounts include Energy Supply's share of contributions made or committed to be made in 2015 for PPL's U.S. pension plans. See Note 7 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for a discussion of expected contributions.
- (f) At December 31, 2014, total unrecognized tax benefits of \$15 million were excluded from this table as management cannot reasonably estimate the amount and period of future payments. See Note 2 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

*Distributions*

From time to time, as determined by its board of managers, Energy Supply pays distributions to its member. Certain of the credit facilities include minimum debt covenant ratios that could effectively restrict the payment of distributions. Energy Supply expects to distribute to its member an amount not to exceed \$191 million in the first quarter of 2015. See Forecasted Uses of Cash above for information on additional restrictions on Energy Supply's ability to make distributions to its member, PPL.

See Note 3 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for information related to restrictions related to distributions on capital interests.

*Purchase or Redemption of Debt Securities*

Energy Supply will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

**Table of Contents****Rating Agency Actions**

Moody's, S&P and Fitch have periodically reviewed the credit ratings of the debt of Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations. In January 2015, Fitch withdrew its ratings for Energy Supply.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of Energy Supply and its subsidiaries are based on information provided by Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of Energy Supply and its subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities.

The following table sets forth Energy Supply's credit ratings for outstanding debt securities as of December 31, 2014.

| <b>Senior Unsecured</b> |                |              |
|-------------------------|----------------|--------------|
| <b>Moody's</b>          | <b>S&amp;P</b> | <b>Fitch</b> |
| Ba1                     | BB             | BB           |

A downgrade in Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. Energy Supply and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies have taken the following actions related to Energy Supply and its subsidiaries:

In April 2014, Fitch affirmed its ratings with a negative outlook for Energy Supply.

In May 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BBB to BB+ and its commercial paper rating and short-term issuer rating from A-2 to A-3 with a stable outlook for Energy Supply.

In June 2014, Moody's lowered its senior unsecured rating from Baa2 to Ba1 and its commercial paper rating and short-term issuer rating from P-2 to Not Prime with a negative outlook for Energy Supply. Moody's also assigned a Corporate Family Rating of Ba1, a Probability of Default Rating of Ba1-PD and a Speculative Grade Liquidity rating of SGL-1 to Energy Supply.

In June 2014, S&P lowered its long-term issuer rating and senior unsecured rating from BB+ to BB and its commercial paper rating and short-term issuer rating from A-3 to B for Energy Supply and placed the issuer on CreditWatch with negative implications.

In June 2014, Fitch lowered its long-term issuer default rating and senior unsecured debt rating from BBB- to BB and its commercial paper rating and short-term issuer default rating from F3 to B for Energy Supply and placed the issuer on Rating Watch Negative.

Ratings Triggers

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage and interest rate instruments, contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if Energy Supply's or its subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 13 to the audited condensed consolidated financial statements of Energy Supply included elsewhere in this prospectus for a

**Table of Contents**

discussion of Credit Risk-Related Contingent Features, including a discussion of the potential additional collateral requirements for Energy Supply for derivative contracts in a net liability position at December 31, 2014.

**Guarantees for Subsidiaries**

Energy Supply guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, Energy Supply believes that these covenants will not limit access to relevant funding sources. See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information about guarantees.

***The Combined Company***

Following the completion of the Transactions, we expect Talen Energy to have adequate liquidity available through operating cash flows, cash and cash equivalents and credit facilities (including the New Revolving Facility). The availability of at least \$1.00 billion of undrawn capacity under a revolving credit facility or similar facility available to Talen Energy and its subsidiaries (for purposes of which any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding shall not be considered as drawn against such facility) is a condition to the completion of the Transactions. Additionally, subject to market conditions, Talen Energy or its subsidiaries may borrow in the credit or capital markets.

Although we expect Talen Energy's cash flows from operations and access to cost-effective credit and capital markets financing sources to be subject to similar risks and uncertainties as those described above with respect to Energy Supply, we expect that cash provided by operating activities and available capacity under the New Revolving Facility and Secured Trading Facility will provide sufficient funds to operate the combined company's business and meet the combined company's other liquidity needs for the twelve months following the closing of the Transactions.

Following the announcement of the Transactions, efforts were initiated to identify the appropriate staffing for Talen Energy following completion of the Transactions. Organizational plans and staffing selections were substantially completed in 2014. The new organizational plans identify the need to resize and restructure the Energy Supply organization. As a result, during 2014, charges for employee separation benefits were recorded in Other operation and maintenance on the Statement of Income and in Other current liabilities on the Balance Sheet as follows.

|                     |       |
|---------------------|-------|
| Separation benefits | \$ 16 |
| Number of positions | 112   |

The separation benefits incurred include cash severance compensation, lump-sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to occur in 2015.

Additional employee-related costs to be incurred primarily include accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for Energy Supply employees and for PPL employees who will become Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. Energy Supply estimates these additional costs will be in the range of \$30 million to \$40 million.

Pursuant to the Transaction Agreement, Energy Supply has made or will make distributions to its member and ultimately to PPL for certain tax grants, the proceeds from the sale of the Montana hydroelectric generating facilities and additional amounts. During 2014, \$992 million was distributed. Energy Supply expects to distribute an amount not to exceed \$191 million during the first quarter of 2015.

**Table of Contents****Off-Balance Sheet Arrangements**

Energy Supply has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for a discussion of these agreements.

**Risk Management****Market Risk**

See Notes 1, 12 and 13 to the audited condensed consolidated financial statements of Energy Supply included elsewhere in this prospectus for information about Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

*Commodity Price Risk (Non-trading)*

Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of Energy Supply's competitive power generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. See Note 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

To hedge the impact of market price volatility on Energy Supply's energy-related assets, liabilities and other contractual arrangements, Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31, 2014 and 2013. See Notes 12 and 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

|  | <b>Gains (Losses)</b> |             |
|--|-----------------------|-------------|
|  | <b>2014</b>           | <b>2013</b> |
| Fair value of contracts outstanding at the beginning of the period | \$ 107                | \$ 473      |
| Contracts realized or otherwise settled during the period          | 328                   | (452)       |
| Fair value of new contracts entered into during the period (a)     | (12)                  | 58          |
| Other changes in fair value  | (370)                 | 28          |

|  |       |        |
|--|-------|--------|
| Fair value of contracts outstanding at the end of the period | \$ 53 | \$ 107 |
|--|-------|--------|

(a) Represents the fair value of contracts at the end of the quarter of their inception.



**Table of Contents**

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2014 based on the observability of the information used to determine the fair value.

| Source of Fair Value   | Net Asset (Liability)     |                    |                    | Total Fair Value |
|--|---------------------------|--------------------|--------------------|------------------|
|  | Maturity Less Than 1 Year | Maturity 1-3 Years | Maturity 4-5 Years |                  |
| Prices based on significant observable inputs (Level 2)      | \$ 12                     | \$ (32)            | \$ 10              | \$ (10)          |
| Prices based on significant unobservable inputs (Level 3)    | 46                        | 16                 | 1                  | 63               |
| Fair value of contracts outstanding at the end of the period | \$ 58                     | \$ (16)            | \$ 11              | \$ 53            |

Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although Energy Supply 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 nonperformance in the future.

*Commodity Price Risk (Trading)*

Energy Supply's trading commodity derivative contracts range in maturity through 2020. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31, 2014 and 2013. See Notes 12 and 13 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

|  | Gains (Losses) |       |
|--|----------------|-------|
|  | 2014           | 2013  |
| Fair value of contracts outstanding at the beginning of the period | \$ 11          | \$ 29 |
| Contracts realized or otherwise settled during the period          | (60)           | (13)  |
| Fair value of new contracts entered into during the period (a)     | 5              | 3     |
| Other changes in fair value  | 92             | (8)   |
| Fair value of contracts outstanding at the end of the period       | \$ 48          | \$ 11 |

(a) Represents the fair value of contracts at the end of the quarter of their inception. The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2014 based on the observability of the information used to determine the fair value.

| Source of Fair Value  | Net Asset (Liability)     |                    |                    |                               | Total Fair Value |
|---|---------------------------|--------------------|--------------------|-------------------------------|------------------|
|   | Maturity Less Than 1 Year | Maturity 1-3 Years | Maturity 4-5 Years | Maturity in Excess of 5 Years |                  |
| Prices quoted in active markets for identical instruments (Level 1) | \$ 1                      |                    |                    |                               | \$ 1             |
| Prices based on significant observable inputs (Level 2)             | (10)                      | \$ 11              | \$ (2)             |                               | (1)              |
| Prices based on significant unobservable inputs (Level 3)           | 6                         | 14                 | 17                 | \$ 11                         | 48               |
| Fair value of contracts outstanding at the end of the period        | \$ (3)                    | \$ 25              | \$ 15              | \$ 11                         | \$ 48            |

**Table of Contents***VaR Models*

A VaR model is utilized to measure commodity price risk in gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term.

The VaR for portfolios using end-of-month results for 2014 was as follows.

|  | <b>Trading</b> | <b>Non-Trading</b> |
|--|----------------|--------------------|
| <b>95% Confidence Level, Five-Day Holding Period</b> |                |                    |
| Period End   | \$ 4           | \$ 7               |
| Average for the Period                               | 7              | 10                 |
| High   | 10             | 15                 |
| Low  | 4              | 5                  |

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at December 31, 2014.

*Interest Rate Risk*

Energy Supply and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Energy Supply and its subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates 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 changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates.

Energy Supply had no interest rate hedges outstanding at December 31, 2014 and 2013.

Energy Supply is exposed to a potential increase in interest expense and to changes in the fair value of its debt portfolio. The estimated impact of a 10% adverse movement in interest rates at the dates indicated is shown below.

|                                | <b>December<br/>31, 2014</b> | <b>December 31, 2013</b> |
|--------------------------------|------------------------------|--------------------------|
| Increase in interest expense   | Not significant              | Not significant          |
| Increase in fair value of debt | \$ 46                        | \$ 48                    |

*NDT Funds Securities Price Risk*

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At December 31, 2014, these funds were invested primarily in

domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheets. The mix of securities is designed to provide returns sufficient to fund Susquehanna nuclear plant'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 primarily exposed to changes in interest rates. Energy Supply actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement.

## **Table of Contents**

At December 31, 2014, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$73 million reduction in the fair value of the trust assets, compared with \$66 million at December 31, 2013. See Notes 12 and 16 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information regarding the NDT funds.

### *Defined Benefit Plans Securities Price Risk*

See *Application of Critical Accounting Policies Defined Benefits* for additional information regarding the effect of securities price risk on plan assets.

### **Credit Risk**

Credit risk is the risk that Energy Supply would incur a loss as a result of the nonperformance by counterparties of their contractual obligations. Energy Supply maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, Energy Supply has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact Energy Supply's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

Energy Supply includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, Energy Supply would have to sell into a lower-priced market or purchase in a higher-priced market. When necessary, Energy Supply records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries Energy Supply has made but not yet billed, which are reflected in *Unbilled revenues* on the Balance Sheets.

### **Related Party Transactions**

Energy Supply is not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with Energy Supply. See Note 10 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information on related party transactions for Energy Supply.

### **Acquisitions, Development and Divestitures**

Energy Supply from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for information on the anticipated spinoff of the Energy Supply business and the completed Montana hydro sale.

### **Competition**

See *Risk Factors* for a discussion of competitive factors affecting Energy Supply.



**Table of Contents****New Accounting Guidance**

See Notes 1 and 18 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for a discussion of new accounting guidance adopted and pending adoption.

**Application of Critical Accounting Policies**

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Audited Consolidated Financial Statements of Energy Supply (these accounting policies are also discussed in Note 1 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them.

**Price Risk Management**

See Price Risk Management in Note 1 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus, as well as Risk Management above.

**Defined Benefits**

Energy Supply and certain of its subsidiaries sponsor or participate in, as applicable, various qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of Energy Supply's employees (based on eligibility for their applicable plans). Energy Supply and certain of its subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 7 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information about the plans and the accounting for defined benefits.

A summary of plan sponsors and whether Energy Supply or its subsidiaries sponsor (S) or participate in and receive allocations (P) from those plans is shown in the table below.

| <b>Plan Sponsor</b> | <b>Energy Supply</b> |
|---------------------|----------------------|
| PPL Services        | P                    |
| PPL Montana         | S                    |

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in AOCI. These amounts in AOCI are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

**Discount Rate** The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.



**Table of Contents**

**Expected Return on Plan Assets** Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs Energy Supply records currently.

**Rate of Compensation Increase** Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

**Health Care Cost Trend Rate** Management projects the expected increases in the cost of health care. In addition to the economic assumptions above that are evaluated annually, management must also make assumptions regarding the life expectancy of employees covered under their defined benefit pension and other postretirement benefit plans. At December 31, 2014, the plan sponsors adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for applicable defined benefit pension and other postretirement benefit plans. In addition, plan sponsors updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for applicable defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in an increase to defined benefit pension and other postretirement benefit obligations, an increase to future expense and a decrease to funded status.

For the year ended December 31, 2014, PPL's defined benefit pension and other postretirement benefit plans incurred actuarial losses of \$203 million attributable to Energy Supply primarily due to the decrease in discount rates and updated mortality assumptions partially offset by asset gains in excess of assumed rates of return.

In selecting the discount rates for applicable defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

To determine the expected return on plan assets, plan sponsors project the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions used for discount rate, expected return on plan assets and rate of compensation increase at December 31.

| <b>Assumption</b>    | <b>2014</b> | <b>2013</b> |
|----------------------|-------------|-------------|
| <i>Discount rate</i> |             |             |
| Pension              | 4.28%       | 5.18%       |

Edgar Filing: Talen Energy Corp - Form S-1/A

|                                       |       |       |
|---------------------------------------|-------|-------|
| Other Postretirement                  | 3.81% | 4.51% |
| <i>Expected return on plan assets</i> |       |       |
| Pension                               | 7.00% | 7.00% |
| <i>Rate of compensation increase</i>  |       |       |
| Pension                               | 4.03% | 3.94% |
| Other Postretirement                  | 4.03% | 3.94% |

**Table of Contents**

In selecting health care cost trend rates, plan sponsors consider past performance and forecasts of health care costs. At December 31, 2014, the health care cost trend rates for all plans were 7.2% for 2015, gradually declining to an ultimate trend rate of 5.0% in 2020.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI. At December 31, 2014, the defined benefit plans were recorded in the financial statements as follows.

|  |        |
|--|--------|
| <b>Balance Sheet:</b>                    |        |
| Pension liabilities                      | \$ 299 |
| Other postretirement benefit liabilities | 44     |
| AOCI (pre-tax)                           | (496)  |
| <b>Statement of Income:</b>              |        |
| Defined benefits costs                   | \$ 42  |
| Increase (decrease) from prior year      | (9)    |

The following tables reflect changes in certain assumptions based on Energy Supply's primary defined benefit plans. The tables reflect either an increase or decrease in each assumption. The inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

|                                 |         |
|---------------------------------|---------|
| <b>Actuarial assumption</b>     |         |
| Discount Rate                   | (0.25%) |
| Expected Return on Plan Assets  | (0.25%) |
| Rate of Compensation Increase   | 0.25%   |
| Health Care Cost Trend Rate (a) | 1%      |

(a) Only impacts other postretirement benefits.

|                                | <b>Defined Benefit<br/>Liabilities</b> | <b>Increase (Decrease)<br/>AOCI (pre-tax)</b> | <b>Defined Benefit<br/>Costs</b> |
|--------------------------------|--|---|----------------------------------|
| <b>Actuarial assumption</b>    |  |   |                                  |
| Discount rate                  | \$ 64                                  | \$ (64)                                       | \$ 4                             |
| Expected return on plan assets | n/a                                    | n/a   | 4                                |
| Rate of compensation increase  | 9                                      | (9)   | 2                                |

**Asset Impairment (Excluding Investments)**

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

a significant decrease in the market price of an asset;

a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;

a significant adverse change in legal factors or in the business climate;

an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;

**Table of Contents**

a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or

a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of the assets, the forward prices for revenue and fuel components in the markets where the assets are utilized, the amount of capital and operations and maintenance spending and management's intended use of the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the most likely alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used, taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including an assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in materially different results than those identified and recorded in the financial statements.

In September 2012, Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. Energy Supply has been monitoring the plant for potential impairment since this announcement and until the fourth quarter of 2013 no impairment was indicated as various price scenarios allowed for recovery of the asset. During the fourth quarter of 2013, in connection with the completion of its annual business planning process, management updated its fundamental view for long-term power and gas prices. Based upon this fundamental view, management altered its expectations regarding the probability that the Corette plant would operate subsequent to its initially being placed in long-term reserve status. As a result, based on an undiscounted cash flow analysis, the carrying amount for Corette was determined to no longer be recoverable. Energy Supply performed an internal analysis using an income approach based on discounted cash flows to assess the fair value of the Corette asset group. Assumptions used in the fair value assessment were forward energy prices, expectations for demand for energy in Corette's market and expected operation and maintenance and capital expenditures that were consistent with assumptions used in the business planning process. Through this analysis, Energy Supply determined the fair value of the asset group to be negligible. This resulted in Energy Supply recording an impairment charge of \$65 million, or \$39 million after-tax, for the Corette plant and related excess emission allowances. Operations were suspended and the Corette plant was retired in March 2015.

PPL Montana held a joint operating license issued for the Kerr Dam project, which was sold to NorthWestern along with PPL Montana's other hydroelectric assets in November 2014. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes to PPL Montana was \$18 million. As a result of the decision, Energy Supply performed a recoverability test on the Kerr Dam project. Energy Supply performed an internal analysis using an income approach based on discounted cash flows (an Energy Supply proprietary model) to assess the fair value of the Kerr Dam project. Assumptions used in the Energy Supply proprietary model were the conveyance price, forward

energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the

---

**Table of Contents**

business planning process and a market participant discount rate. Through this analysis, Energy Supply determined the fair value of the Kerr Dam project to be \$29 million at March 31, 2014, resulting in Energy Supply recording an impairment charge of \$18 million, or \$10 million after-tax. The Kerr Dam project was included in the sale of the Montana Hydroelectric facilities and the assets were removed from the Balance Sheet.

The depressed levels of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models, has put pressure on the recoverability of Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, after updating its fundamental pricing models in conjunction with the annual business planning process, management tested the Brunner Island and Montour plants for impairment and concluded that neither plant was impaired as of December 31, 2013. The recoverability assessment is very sensitive to forward energy and capacity price assumptions, as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operation and maintenance expenditures, could negatively impact Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. There were no events or changes in circumstances that indicated a recoverability assessment was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets tested was \$2.6 billion as of December 31, 2014 (\$1.4 billion for Brunner Island and \$1.2 billion for Montour).

See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information on MATS and other environmental requirements for coal-fired generation plants.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized in future periods for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, Energy Supply considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and determining the present value of the cash flow streams using risk-adjusted discount rates.

Goodwill is tested for impairment at the reporting unit level. Energy Supply operates within a single reporting unit. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Energy Supply may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, Energy Supply determines whether a potential impairment exists by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value

exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.



## **Table of Contents**

The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

Energy Supply elected to bypass step zero. Therefore, the goodwill for this reporting unit was tested for impairment using the quantitative test in the fourth quarter of 2014, and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting unit. A decrease in the forecasted cash flows of 10%, an increase in the discount rate by 0.25%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for this reporting unit.

## **Loss Accruals**

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines *probable* as cases in which the future event or events are likely to occur. The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are consulted, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Certain events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is *reasonably possible* that a loss has been incurred. Accounting guidance defines *reasonably possible* as cases in which the future event or events occurring is more than remote, but less than likely to occur.

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when new information becomes known, the contingency has been resolved and the actual loss is settled or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Actions or decisions by certain regulators could result in a better estimate of a previously recorded loss accrual.

**Table of Contents**

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, business unit management and other parties.

See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

**Asset Retirement Obligations**

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the statement of income, for changes in the obligation due to the passage of time.

See Note 15 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information on AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset.

At December 31, 2014, the total recorded balances and information on the most significant recorded ARO were as follows.

| <b>Total<br/>AROs<br/>Recorded</b> | <b>Amount<br/>Recorded</b> | <b>Most Significant AROs</b> |                         |
|------------------------------------|----------------------------|------------------------------|-------------------------|
|                                    |                            | <b>% of<br/>Total</b>        | <b>Description</b>      |
| \$425                              | \$ 369                     | 87                           | Nuclear decommissioning |

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2014, a 10% change to retirement cost, a 0.25% decrease in the discount rate or a 0.25% increase in the inflation rate would not have had a significant impact on the ARO liabilities of Energy Supply. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

**Income Taxes**

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and valuation allowances on deferred tax assets.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity

**Table of Contents**

to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2014, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could decrease by \$15 million.

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the timing and utilization of tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 2 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for income tax disclosures.

**Table of Contents****RJS POWER**

*The following discussion and analysis of RJS Power's financial condition and results of operations should be read in conjunction with Selected Historical Consolidated and Combined Financial Data of RJS Power and the consolidated and combined financial statements of RJS Power and accompanying notes included elsewhere in this prospectus. This discussion contains forward-looking statements that are subject to numerous risks and uncertainties, including, but not limited to, those described in Risk Factors and Cautionary Statement Regarding Forward-Looking Statements. Actual results could differ materially from those anticipated in the forward-looking statements.*

**Overview**

RJS Power is an independent power producer operating in the United States. RJS Power sells electric energy, generating capacity and ancillary services on a wholesale basis from its fleet of fifteen power plants, totaling approximately 5,331 MW of electricity generation capacity, located in five states. RJS Power operates a diverse portfolio of power plants across various geographic locations, fuel and technology types and operating characteristics. RJS Power focuses on achieving excellence in safety and operating performance at its power plants, compliance with all laws and regulations, managing the dispatch of the RJS Power assets to maximize physical energy margin and delivering prudent risk-mitigation by way of contracted forward capacity sales and physical and financial hedges.

RJS Power is a holding company and conducts substantially all of its business operations through its subsidiaries. RJS Power is a Delaware limited liability company formed on June 18, 2014, to facilitate the combination of all the electric generation assets owned by RJS into one legal entity. On July 10, 2014, RJS contributed substantially all of its electricity generation assets to an indirect wholly owned subsidiary of RJS Power.

**RJS Power's Properties**

RJS Power's operating power generating facilities are as follows:

| <b>Facility (1)</b> | <b>Total net generating capacity (MW) (1)(5)</b> | <b>Primary fuel type</b> | <b>Location</b> | <b>Market</b> |
|---------------------|--|--------------------------|-----------------|---------------|
| Brandon Shores      | 1,273  | Coal                     | Maryland        | PJM           |
| H.A. Wagner         | 976  | Coal (2)(3)(4)           | Maryland        | PJM           |
| C.P. Crane          | 399  | Coal (2)(4)              | Maryland        | PJM           |
| Bayonne             | 174  | Natural Gas (3)          | New Jersey      | PJM           |
| Camden              | 151  | Natural Gas (3)          | New Jersey      | PJM           |
| Pedricktown         | 132  | Natural Gas (3)(5)       | New Jersey      | PJM           |
| Newark Bay          | 129  | Natural Gas (3)          | New Jersey      | PJM           |
| Elmwood Park        | 73   | Natural Gas (3)          | New Jersey      | PJM           |
| York                | 52   | Natural Gas              | Pennsylvania    | PJM           |
| Total PJM Capacity  | 3,359  |                          |                 |               |
| Nueces Bay          | 678  | Natural Gas              | Texas           | ERCOT         |

Edgar Filing: Talen Energy Corp - Form S-1/A

|                           |       |                 |               |        |
|---------------------------|-------|-----------------|---------------|--------|
| Barney Davis 2            | 674   | Natural Gas     | Texas         | ERCOT  |
| Barney Davis 1            | 335   | Natural Gas     | Texas         | ERCOT  |
| Laredo 4                  | 98    | Natural Gas     | Texas         | ERCOT  |
| Laredo 5                  | 98    | Natural Gas     | Texas         | ERCOT  |
| Total ERCOT Capacity      | 1,883 |                 |               |        |
| Dartmouth                 | 89    | Natural Gas (3) | Massachusetts | ISO-NE |
| Total ISO-NE Capacity     | 89    |                 |               |        |
| Total Generating Capacity | 5,331 |                 |               |        |

## **Table of Contents**

- (1) Total net generating capacities are based on average summer and winter capacity.
- (2) H.A. Wagner includes 440 MW of capacity burning bituminous coal, 410 MW of capacity burning fuel oil and 126 MW of capacity burning natural gas. C.P. Crane includes 14 MW of fuel oil capacity.
- (3) Approximately 868 MW of capacity has dual fuel capability.
- (4) C.P. Crane and H.A. Wagner each have 14 MW and 13 MW, respectively, of black start combustion turbine capacity.
- (5) Pedricktown capacity includes capacity dedicated to serving landlord load (which has historically averaged 9 MW).

As described under The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans, pursuant to the FERC Order, we have agreed to dispose of one of two alternative divestiture packages within one year of the completion of the Transactions, both of which include the Bayonne, Camden, Newark Bay, Pedricktown, Elmwood Park and York facilities listed in the table above, and one of which also includes the C.P. Crane facility.

## **Outlook**

RJS Power's business strategy is to create value through the safe, reliable and cost-efficient operation of RJS Power's power generation assets. Future financial results may continue to change based upon fuel and commodity prices, especially natural gas prices. Other factors to which future financial results will remain sensitive include market structure and prices for electric energy, capacity and ancillary services, including pricing at RJS Power's plant locations relative to pricing at their respective trading hubs, the volatility of fuel and electricity prices, transportation and transmission logistics, weather conditions and asset availability. Further, there is a trend toward greater environmental regulation of all aspects of the RJS Power business. If this trend continues, it is possible that RJS Power could experience additional costs associated with, among others, the handling and disposal of coal ash, the consumption and disposal of water or changes in allowable levels of air emissions. See Risk Factors.

## **Results of Operations**

In this Results of Operations section, RJS Power reviews its business and results of operation on a consolidated and combined basis and discusses the period over period changes.

## **Key Factors Affecting RJS Power's Operating Results**

RJS Power generates earnings and cash flows through wholesale sales of electric energy, generating capacity and ancillary services. The key factors affecting RJS Power's earnings and cash flows include:

Prices for power, natural gas, coal, fuel oil and emission allowances, which in turn are largely driven by supply and demand;

Demand for power, natural gas, coal and fuel oil which can vary due to weather and general economic conditions, among other things;



Supply of power, natural gas, coal and fuel oil which can vary by region and are impacted significantly by available generating capacity, transmission capacity and federal and state regulation;

The relationship between electricity prices and prices for natural gas and coal which drive the margin RJS Power earns on the majority of the electricity it generates; and

RJS Power's ability to enter into commercial transactions to mitigate short-term and medium-term earnings volatility and RJS Power's ability to manage its credit risk.

**Table of Contents**

Other factors that have affected, and that RJS Power expects to continue to affect, RJS Power's earnings and cash flows include:

Transmission constraints, congestion and other factors that can affect the price differential between the locations where RJS Power delivers generated power and the liquid market hub;

RJS Power's ability to control capital expenditures, which primarily include maintenance, safety, environmental and reliability projects, and its ability to control operating expenses through disciplined management;

RJS Power's ability to achieve a high in-market availability, reliable run-time and safe, low-cost operations;

RJS Power's ability to operate and market power generated at its facilities during periods of planned and unplanned electric transmission outages;

The cost of compliance with existing and future environmental requirements that are likely to become more stringent and more comprehensive (see *Business* *The Companies* *Environmental Matters* for further discussion);

Market supply conditions resulting from federal and regional renewable power mandates and initiatives;

RJS Power's ability to maintain sufficient coal inventories, which is dependent upon the ability of mines and railroads to deliver coal in a consistent and timely manner, and the related impact on RJS Power's ability to serve the critical winter and summer on-peak loads;

Costs of transportation related to coal deliveries; and

Interest expense.

See *Risk Factors* for additional factors that could affect future operating results, financial condition and cash flows.

**Factors Affecting the Comparability of RJS Power's Financial Condition and Results of Operations**

*Formation Transactions.* On June 18, 2014, RJS formed RJS Power. On July 10, 2014, the following transactions occurred:

Raven contributed Raven Power, together with all of its net assets, to an indirect wholly owned subsidiary of RJS Power;

Jade contributed Topaz Power, together with all of its net assets, to an indirect wholly owned subsidiary of RJS Power;

Sapphire contributed Sapphire Power, together with all of its net assets, to an indirect wholly owned subsidiary of RJS Power;

RJS Power issued the 2019 Senior Notes (as defined below) in a private placement and entered into a new credit facility, and used the net proceeds thereof, together with borrowings under the new revolving credit facility, in the manner described in [Liquidity and Capital Resources](#) ; and

Raven Power, Topaz Power and Sapphire Power distributed an amount equal to their cash on hand, concurrently with the closing of the offering of the 2019 Senior Notes, to Raven, Jade and Sapphire as applicable.

*Raven Acquisition.* In November 2012, Raven acquired the Raven Power generating facilities and certain associated assets and liabilities from CPSG for cash consideration of \$383 million (the *Raven Acquisition* ). The Raven Power facilities are comprised of three coal power plants: Brandon Shores, H.A. Wagner and C.P. Crane. Raven Power's 2,648 MW of generating capacity represents approximately 50% of RJS Power's total generating capacity.

**Table of Contents**

*The Transactions.* The sales of certain assets of Energy Supply and RJS Power are required to obtain regulatory approvals with respect to the Transactions. Accordingly, RJS Power's historical financial and operating results may not be comparable to future results to the extent certain assets of RJS Power are sold.

See The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans.

**Financial Statement Line Item Descriptions**

We refer to RJS Power's financial statement line items in the explanation of RJS Power's period over period changes in results of operations. Below are general definitions of what those line items include and represent.

*Power revenues.* Power revenues includes the sale of electricity, generating capacity and ancillary services directly to a RTO or ISO, such as PJM, ERCOT or ISO-NE, or through third-party contracts. Revenue for the sale of electricity is recognized upon transmission and delivery to the customer at the contractual price. Revenue from capacity and other ancillary service contracts are recognized when contractually earned at the negotiated contract price. Energy sales, capacity revenues, and services revenues are recorded on a gross basis for third-party contracts and on a net basis for sales directly and indirectly to PJM, ISO-NE or ERCOT.

*Realized settlements on commodity derivative contracts.* RJS Power enters into derivative contracts, including HRCOs and short-term financially settled swap agreements related to power and gas prices ( Power and Gas Swaps ), in order to reduce RJS Power's exposure to fluctuations in the market price of electricity and fuel. HRCOs are financially settled based on the differential between (i) a variable power price index at a predetermined location ( Index Price ), and (ii) an exercise price tied to the heat rate conversion factors of our plants and corresponding variable natural gas index ( Exercise Price ). The HRCOs require a counterparty to pay RJS Power a premium in exchange for the right to exercise the option and receive an amount equal to the Index Price less the Exercise Price ( Option Exercise Amount ). The net amount of the option premium and the Option Exercise Amount paid to or received from the HRCO counterparty is recorded net in the *Realized settlements on commodity derivative contracts* line item. If the Option Exercise Amount is greater than the premium received it will result in a net realized loss on settlement. If the Option Exercise Amount is less than the premium received it will result in a net realized gain on settlement. Power and Gas Swaps require payments to or from counterparties based upon the differential between a fixed price and variable index price for a predetermined contractual notional amount. The cash settlements received or paid by RJS Power on net settlement of the Power and Gas Swaps are recorded net in the *Realized settlements on commodity derivative contracts* line item. The amount of the cash settlement is determined as the difference between the agreed fixed price at the initiation of the swap contract and the actual index price as of the date of settlement.

*Unrealized gain (loss) on commodity derivative contracts.* RJS Power is exposed to market risks associated with changes in commodity prices and enters into economic hedges to mitigate exposure to these fluctuations. See Financial Statement Line Item Descriptions Realized settlements on commodity derivative contracts for more information about RJS Power's derivative contracts. RJS Power's derivative contracts are not designated as hedges for accounting purposes. Consequently, RJS Power marks its derivative contracts to market each quarter and recognizes fair value gains and losses as a gain or loss in RJS Power's results of operations. The amount of future gain or loss recognized on these derivative instruments depends upon future market prices outside RJS Power's control, which will affect the value of the contracts. See Note 11 of the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for additional information on the variable and assumptions used.

*Fuel and other variable costs.* Fuel and other variable costs includes the cost of coal, natural gas, oil, emission allowances and other variable costs directly related to the generation of electric power that RJS Power sells.



## **Table of Contents**

*Operations and maintenance.* Operations and maintenance expenses are the operating expenses of RJS Power's facilities, including salaries and related expenses of plant personnel, routine operating and maintenance expenses and major maintenance expenses.

*General and administrative.* General and administrative expenses are costs incurred for overhead, including payroll and benefits for RJS Power's corporate staff, the costs of maintaining RJS Power's headquarters, the costs of managing RJS Power's applications, including numerous software operations, audit fees and other fees for professional services and legal compliance.

*Depreciation, amortization and accretion.* Depreciation, amortization and accretion represents an allocation to expense within the statement of operations of the carrying value of capital and intangible assets. RJS Power allocates value based on the straight-line method over the estimated useful life of the related asset.

*Taxes other than income taxes.* RJS Power is subject to a variety of ad valorem and other taxes in the states and counties where RJS Power's facilities are located. Ad valorem taxes are generally based on the valuation of properties.

*Other income.* Other income primarily represents proceeds received from insurance recoveries, sales of excess emission credits and sales of gypsum and fly ash generated by RJS Power's coal-fired power generating facilities.

*Interest expense.* Interest expense relates primarily to interest incurred on RJS Power's operating subsidiaries' existing senior secured notes, interest incurred on RJS Power's operating subsidiaries' existing term loan facilities and interest incurred on RJS Power's operating subsidiaries' revolving credit facilities.

*Loss on extinguishment of debt.* Loss on extinguishment of debt primarily represents the realization of unamortized deferred financing costs and prepayment costs associated with refinanced debt.

## **Adjusted EBITDA**

Adjusted EBITDA, as presented in this Management's Discussion and Analysis of Financial Condition and Results of Operations RJS Power, is a supplemental measure of RJS Power's performance that is not required by, or presented in accordance with GAAP. RJS Power defines Adjusted EBITDA as EBITDA adjusted to eliminate the effect of certain items including (i) loss on early extinguishment of debt, (ii) unrealized losses and gains on derivative contracts, (iii) major maintenance expense, (iv) non-cash compensation expense, (v) pension-related payments and (vi) other items not indicative of ongoing operating performance.

RJS Power's management believes Adjusted EBITDA is useful because it allows investors and other external users of RJS Power's financial statements, such as lenders and rating agencies, to more effectively evaluate RJS Power's operating performance and compare the results of RJS Power's operations from period to period without regard to RJS Power's financing methods or capital structure. RJS Power excludes the items listed above from net income in arriving at Adjusted EBITDA because RJS Power believes investors commonly adjust EBITDA information to eliminate the effect of these items. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income as determined in accordance with GAAP or as an indicator of RJS Power's operating performance. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company's financial performance.

RJS Power's computations of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies including the Adjusted EBITDA of Talen Energy included elsewhere in this prospectus. RJS Power believes that Adjusted EBITDA is a widely followed measure of operating performance and may also be used by

investors to measure its ability to meet debt service requirements. Adjusted EBITDA should not be relied upon to the exclusion of GAAP financial measures such as net income and is by definition an incomplete understanding of RJS Power's business, and must be considered in conjunction with GAAP measures.

**Table of Contents**

The following table presents a reconciliation of Adjusted EBITDA to GAAP net income for each of the periods indicated.

|  | <b>Year Ended December 31,</b> |               |               |
|--|--------------------------------|---------------|---------------|
|  | <b>2014</b>                    | <b>2013</b>   | <b>2012</b>   |
| <b>Adjusted EBITDA reconciliation to net income (loss):</b>  |                                |               |               |
| Net Income (loss)  | \$ (55)                        | \$ (27)       | \$ 33         |
| Depreciation, amortization and accretion                     | 90                             | 92            | 74            |
| Interest expense   | 74                             | 67            | 49            |
| <b>EBITDA</b>  | <b>109</b>                     | <b>132</b>    | <b>156</b>    |
| <b>Adjustments:</b>  |                                |               |               |
| Loss on early extinguishment of debt (1)                     | 36                             | 27            |               |
| Unrealized (gain) loss on commodity derivative contracts (2) | 64                             | 38            | (61)          |
| Major maintenance (3)  | 66                             | 47            | 15            |
| Non-cash compensation expense (4)                            | 15                             |               |               |
| Raven Acquisition adjustment (5)                             | 20                             | 3             |               |
| Other (6)  | 1                              |               |               |
| <b>Adjusted EBITDA</b>                                       | <b>\$ 311</b>                  | <b>\$ 247</b> | <b>\$ 110</b> |

- (1) During 2013, RJS Power wrote off deferred financing costs and expensed prepayment penalties associated with the refinancing of the then-existing debt of Raven Power, Topaz Power and Sapphire Power. During 2014, RJS Power wrote off deferred financing and unamortized debt discount on the Company's then-outstanding debt, recorded in connection with the issuance of the 2019 Senior Notes.
- (2) Represents non-cash change in the fair value of derivative instruments as recorded on RJS Power's balance sheet.
- (3) Includes costs incurred in accordance with standard industry practice for any overhaul or major procedure which requires significant disassembly or shutdown of a generating facility, including costs incurred in connection with long-term service agreements. RJS Power has elected to use the expense-as-incurred method of accounting for major maintenance. Other companies in RJS Power's industry have elected to capitalize and recognize these costs as depreciation expense over a period of time until the next major maintenance event occurs. Depreciation expense is not included in EBITDA. As such, RJS Power makes an adjustment to EBITDA for major maintenance expenses to allow for comparison with industry participants.
- (4) Non-cash compensation expense related to agreements directly with the owners of RJS Power and the contracted asset manager, TPM, which allow TPM to participate in the profits of RJS Power if certain cash generation and distribution targets are met. Although the amounts paid under these agreements are not paid directly by RJS Power, RJS Power recognizes amounts paid under these agreements as non-cash compensation expense included in general and administrative expenses on the combined statements of operations.
- (5) Comprised of two adjustments resulting from the Raven Acquisition in 2012. RJS Power has adjusted EBITDA as reported for pension-related payments made to legacy CPSG employees, as these payments will no longer be a recurring expense for RJS Power after December 31, 2014. RJS Power has also adjusted EBITDA as reported to reflect capacity make-whole payments of \$17 million from CPSG during the year ended December 31, 2014. Under a purchase and sale agreement between CPSG and Raven Power Holdings LLC, CPSG agreed to capacity make-whole payments for uncleared capacity in the 2014/2015 PJM Capacity year. The right to receive the



capacity make-whole payment from CPSG was recorded as a receivable on RJS Power's balance sheet under the purchase accounting rules. Payments received under this agreement are not reflected as revenue in the RJS Power financial statements. RJS Power makes an adjustment to EBITDA to eliminate the effect of adjustments resulting from the application of purchase accounting to this payment stream.

- (6) Includes \$2 million of nonrecurring expense incurred in connection with the Transactions, net of a \$1 million non-cash gain recorded on the sale of capital assets.

**Table of Contents****Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**

|  | <b>Year ended December 31,</b> |             | <b>Favorable</b>     |
|--|--------------------------------|-------------|----------------------|
|  | <b>2014</b>                    | <b>2013</b> | <b>(unfavorable)</b> |
| <b>Revenues</b>  |                                |             |                      |
| Power revenues   | \$ 1,211                       | \$ 955      | \$ 256               |
| Realized settlements on commodity derivative contracts | (102)                          | 62          | (164)                |
|  | 1,109                          | 1,017       | 92                   |
| Unrealized loss on commodity derivative contracts      | (64)                           | (38)        | (26)                 |
| Total revenues   | 1,045                          | 979         | 66                   |
| <b>Expenses</b>  |                                |             |                      |
| Fuel and other variable cost                           | 577                            | 543         | (34)                 |
| Operations and maintenance                             | 225                            | 189         | (36)                 |
| General and administrative                             | 80                             | 62          | (18)                 |
| Depreciation, amortization and accretion               | 90                             | 92          | 2                    |
| Taxes other than income taxes                          | 21                             | 28          | 7                    |
| Other income   | (3)                            | (2)         | 1                    |
| Total expenses   | 990                            | 912         | (78)                 |
| Operating income                                       | 55                             | 67          | (12)                 |
| Interest expense                                       | (74)                           | (67)        | (7)                  |
| Loss on early extinguishment of debt                   | (36)                           | (27)        | (9)                  |
| Net loss   | \$ (55)                        | \$ (27)     | \$ (28)              |

*Power revenues.* Power revenues increased by \$256 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to:

strong market conditions driven by colder than normal winter weather in the PJM region during the first quarter of 2014, which resulted in revenue increases of \$222 million due to higher average realized power prices, and \$202 million due to an increase in MWh produced; partially offset by

a revenue decrease of \$115 million during the second half of 2014, compared to the same period in 2013, due to an approximately 40% decrease in MWh produced by the Raven Power generating facilities combined with lower average realized prices in the Mid-Atlantic PJM region as demand decreased with mild weather conditions;

a revenue decrease of \$30 million during the second half of 2014, compared to the same period in 2013, due to an approximately 35% decrease in MWh produced by the Topaz Power generating facilities combined

with lower average realized prices in the ERCOT region as demand decreased with mild weather conditions; and

a \$29 million decrease in Raven Power PJM capacity revenues due to lower average cleared capacity prices for the year ended December 31, 2014.

*Realized settlements on commodity derivative contracts.* Realized settlements on commodity derivative contracts decreased by \$164 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to:

\$146 million of realized losses on economic hedges backed by the Raven Power and Sapphire Power generating facilities as realized power prices and hedged generation volumes were significantly higher during the first quarter of 2014, compared to the same period in 2013; and

a decrease in HRCO notional volumes used to economically hedge the Topaz Power generating facilities resulted in a \$29 million decrease in realized settlements during the year ended December 31, 2014, compared to the same period in 2013; offset by

**Table of Contents**

a \$21 million increase in realized gains on Power Swaps used to economically hedge the Raven Power generating facilities during the second half of 2014, due to a decrease in realized power prices and increase in hedged generation volumes during the period.

*Unrealized loss on commodity derivative contracts.* Unrealized losses on economic hedging activity were \$64 million in the year ended December 31, 2014, compared to unrealized losses of \$38 million in the same period in 2013. The \$64 million of unrealized losses on economic hedging activity for the year ended December 31, 2014 were primarily due to:

\$18 million reversal of previously recognized unrealized net gains on positions settled during the period; and

the HRCOs economically hedging certain Sapphire Power generating facilities decreased in value by \$74 million during the year ended December 31, 2014, due to an increase in PJM forward market heat rates; partially offset by

the Power Swaps that economically hedge a portion of the output from the Raven Power generating facilities, including economic hedges entered into during the second half of 2014, increased in value by \$27 million, primarily due to a decrease in PJM forward power prices.

See Notes 10 and 11 of the audited consolidated and combined condensed financial statements of RJS Power included elsewhere in this prospectus for additional information on unrealized gains and losses associated with commodity derivatives.

*Fuel and other variable costs.* Fuel and other variable costs increased by \$34 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to:

an increase in fuel burned at the Raven Power and Sapphire Power generating facilities as electricity demand increased with colder than normal weather conditions in the PJM region during the first quarter of 2014, compared to the same period in 2013; partially offset by

a decrease in fuel burned as electricity demand decreased with the mild summer and fall temperatures in the Mid-Atlantic PJM region and ERCOT during the second half of 2014, compared to the same period in 2013.

*Operations and maintenance.* Operations and maintenance costs increased by \$36 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to:

an increase in major maintenance costs of \$19 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to an increase in the number of planned and unplanned major maintenance projects during the year ended December 31, 2014, compared to same period in 2013;

\$12 million in higher routine maintenance costs resulting from excessive run times in the first quarter of 2014, compared to the same period in 2013; and

higher salary and related expenses due to an increase in overtime hours worked resulting from increased facility run times in the first quarter of 2014 and annual merit-based salary increases.

*General and administrative.* General and administrative costs increased by \$18 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to:

\$15 million of nonrecurring expense attributable to the recognition of non-cash compensation expense in the year ended December 31, 2014 related to agreements directly with the owners of RJS Power that allow TPM to participate in the profits of RJS Power if certain cash generation and distribution targets are met. Although the amounts paid under these agreements are not paid directly by RJS Power, RJS Power recognizes amounts paid under these agreements as non-cash compensation expense included in

**Table of Contents**

general and administrative expenses on the combined and consolidated statements of operations along with the corresponding impact on members' interest;

\$2 million of nonrecurring expenses related to the Transactions; and

higher labor and benefit costs as the result of recent growth; partially offset by

a reduction in outage insurance coverage in the second half of 2014.

*Depreciation, amortization and accretion.* Depreciation, amortization and accretion expense decreased by \$2 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to the timing of assets placed in service.

*Taxes other than income taxes.* Taxes other than income taxes, decreased by \$7 million in the year ended December 31, 2014, compared to the same period in 2013, primarily due to a reduction in the estimated property tax liability on the Brandon Shores and H.A. Wagner generating facilities.

*Interest expense.* Interest expense increased by \$7 million for the year ended December 31, 2014, compared to the same period in 2013, primarily due to:

an increase in the average amount of debt outstanding during the year ended December 31, 2014, compared to the same period in 2013; partially offset by

a decrease in the annual effective interest rate by approximately 50 basis points.

See Note 8 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for additional information on the refinancing transactions.

*Loss on extinguishment of debt.* Loss on early extinguishment of debt for the year ended December 31, 2014, consisted of a \$36 million charge for the write-off of unamortized debt discounts and deferred financing costs, on RJS Power's then-outstanding debt, upon the issuance of the 2019 Senior Notes. Debt extinguishment cost for the year ended December 31, 2013, consisted of a \$27 million charge for the write-off of unamortized debt discount and deferred financing costs on the then-outstanding debt of Raven Power, Topaz Power and Sapphire Power, that was paid off with the issuance of the Raven 2013 Senior Secured Notes, the Topaz Senior Notes and the Sapphire 2013 Senior Secured Notes, respectively.

**Table of Contents****Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

|  | <b>Year ended December 31,</b> |             | <b>Favorable</b>     |
|--|--------------------------------|-------------|----------------------|
|  | <b>2013</b>                    | <b>2012</b> | <b>(unfavorable)</b> |
| <b>Revenues</b>  |                                |             |                      |
| Power revenues   | \$ 955                         | \$ 320      | \$ 635               |
| Realized settlements on commodity derivative contracts   | 62                             | 72          | (10)                 |
|  | 1,017                          | 392         | 625                  |
| Unrealized (loss) gain on commodity derivative contracts | (38)                           | 61          | (99)                 |
| Total revenues   | 979                            | 453         | 526                  |
| <b>Expenses</b>  |                                |             |                      |
| Fuel and other variable cost                             | 543                            | 188         | (355)                |
| Operations and maintenance                               | 189                            | 67          | (122)                |
| General and administrative                               | 62                             | 30          | (32)                 |
| Depreciation, amortization and accretion                 | 92                             | 74          | (18)                 |
| Taxes other than income taxes                            | 28                             | 14          | (14)                 |
| Other income   | (2)                            | (2)         |                      |
| Total expenses   | 912                            | 371         | (541)                |
| Operating income   | 67                             | 82          | (15)                 |
| Interest expense   | (67)                           | (49)        | (18)                 |
| Loss on early extinguishment of debt                     | (27)                           |             | (27)                 |
| Net (loss) income  | \$ (27)                        | \$ 33       | \$ (60)              |

*Power revenues.* Power revenues increased by \$635 million in the year ended December 31, 2013, compared to the same period in 2012, primarily due to:

the Raven Acquisition, which increased power revenues by \$545 million in the year ended December 31, 2013, compared to the prior year;

the restructuring of RJS Power's physical tolling agreements with Morgan Stanley on Barney Davis 1 and 2, and Nueces Bay generating facilities into financially settled HRCOs in May 2012 ( MS Tolling Agreement Restructuring ). Under the tolling agreements, power revenues were net of the tolling counterparty's fuel expense. Under the restructured HRCOs, RJS Power has power revenues associated with selling physical competitive power and ancillary services to ERCOT, collection of hedge premiums, net of any exercises on the financial HRCO and separate fuel expense related to purchasing physical gas for plant operations; and

higher capacity revenues on the Sapphire Power generating facilities for the latter half of the year ended December 31, 2013, compared to the prior year.

*Realized settlements on commodity derivative contracts.* Realized settlements on commodity derivative contracts for the year ended December 31, 2013 decreased by \$10 million, compared to the same period in 2012, primarily due to:

reductions in the amount of capacity from the Nueces Bay generation facility hedged with HRCOs in the year ended December 31, 2013, compared to the prior year; partially offset by

increases in the amount of capacity from the Barney Davis 1 and 2 generation facilities hedged with HRCOs in the year ended December 31, 2013, compared to the prior year, due to the HRCOs being in effect for a full year in 2013 (see discussion above regarding the MS Tolling Agreement Restructuring); and

an increase in realized settlements from new HRCOs hedging the Pedricktown and Dartmouth generating facilities in the year ended December 31, 2013, compared to the prior year. RJS Power



**Table of Contents**

entered into the HRCOs on the Pedricktown and Dartmouth generating facilities in July 2012 and January 2013, respectively.

*Unrealized (loss) gain on commodity derivative contracts.* Unrealized losses on economic hedging activities were \$38 million in the year ended December 31, 2013 compared to gains of \$61 million in the year ended December 31, 2012. The \$38 million of unrealized losses on economic hedging activity for the year ended December 31, 2013 were primarily due to:

the reversal of \$21 million of previously recognized unrealized gains on positions settled during the period; and

the HRCOs economically hedging certain Sapphire Power generating facilities decreased in value by \$16 million during the year ended December 31, 2013, primarily due to an increase in PJM forward market heat rates.

See Notes 10 and 11 to the audited combined financial statements of RJS Power included elsewhere in this prospectus for information on gains and losses associated with commodity derivatives.

*Fuel and other variable costs.* Fuel and other variable costs increased by \$355 million for the year ended December 31, 2013, compared to the prior year, primarily due to:

the Raven Acquisition, which increased fuel and other variable costs by \$292 million in the year ended December 31, 2013, compared to the year ended December 31, 2012; and

the MS Tolling Agreement Restructuring. Under the tolling agreements, power revenues were net of the tolling counterparty's fuel expense and no fuel expenses were recorded. Under the restructured agreements, RJS Power has power revenues associated with selling physical competitive power and ancillary services to ERCOT, collection of hedge premiums, net of any exercises on the financial HRCO, and separate fuel expense related to purchasing physical gas for plant operations.

*Operations and maintenance.* Operations and maintenance costs increased \$122 million in the year ended December 31, 2013, compared to the prior year, primarily due to:

the Raven Acquisition, which increased operations and maintenance costs by \$101 million in the year ended December 31, 2013, compared to the prior year ended; and

an increased number of major maintenance projects at the Sapphire Power and Topaz Power generation facilities, resulting in an increase of approximately \$19 million in major maintenance expenses compared to the prior year.

*General and administrative.* General and administrative costs increased by \$32 million for the year ended December 31, 2013, compared to the prior year, primarily due to the Raven Acquisition, which increased general and administrative costs by \$30 million in the year ended December 31, 2013.

*Depreciation, amortization and accretion.* Depreciation, amortization and accretion expense increased by \$18 million in the year ended December 31, 2013, compared to the prior year, primarily due to the Raven Acquisition, which increased depreciation, amortization and accretion expense by \$28 million in the year ended December 31, 2013; partially offset by assets fully depreciated by the end of 2013.

*Taxes other than income taxes.* Taxes other than income taxes increased by \$14 million in the year ended December 31, 2013, compared to the prior year, primarily due to increased property taxes as a result of the Raven Acquisition.

*Other Income.* Other income was \$2 million for the year ended December 31, 2013 and the year ended December 31, 2012.

## **Table of Contents**

*Interest expense.* Interest expense increased by \$18 million for the year ended December 31, 2013, compared to the prior year, primarily due to:

the Raven Acquisition, which increased interest expense by \$13 million in the year ended December 31, 2013;

the inclusion of \$10 million of unrealized gains on interest rate swaps in the year ended December 31, 2012 that was not present in the year ended December 31, 2013; and

the issuance of new senior secured notes by each of Sapphire Power and Topaz Power which increased average amount of debt outstanding; partially offset by interest savings resulting from the termination of interest swaps in conjunction with the refinancing of debt associated with the Topaz Power generating assets in the year ended December 31, 2013.

*Loss on extinguishment of debt.* Loss on extinguishment of debt was \$27 million for the year ended December 31, 2013, compared to \$0 in the prior year, due to the write-off of deferred financing costs and payment of prepayment penalties in conjunction with the refinancing of debt at Raven Power, Topaz Power and Sapphire Power.

## **Seasonality**

Historically, RJS Power has recognized a majority of its power revenues and a significant portion of its income from operations in the winter and summer seasons, driven primarily by increased production resulting from hot and cold weather events.

## **Liquidity and Capital Resources**

RJS Power's liquidity and capital requirements are generally a function of debt service requirements, capital expenditures, timing of maintenance activities and working capital requirements. RJS Power's working capital requirements are primarily driven by RJS Power's ability to manage its fuel inventory. RJS Power's working capital totaled \$77 million and \$312 million at December 31, 2014 and December 31, 2013, respectively.

RJS Power's primary sources of liquidity and capital have traditionally been cash flows from operations, cash on hand and amounts available under its revolving credit facilities. RJS Power believes its ability to generate sufficient cash flows from operating activities will continue to be primarily dependent on producing and selling power, generating capacity and ancillary services at margins sufficient to cover fixed and variable expenses.

RJS Power may use a variety of derivative instruments to enhance the stability of its cash flows. In general, RJS Power may attempt to mitigate risks related to the variability of its future cash flow and profitability resulting from changes in applicable commodity prices or interest rates so that RJS Power can maintain cash flows sufficient to meet debt service, required capital expenditures and similar requirements.

Based on current and anticipated levels of operations and conditions in RJS Power's industry and markets, it believes that cash on hand, together with cash flows from operations and borrowings available under RJS Power's revolving credit facility, will be adequate to meet working capital, capital expenditure and any debt service and other cash requirements for at least the next twelve months. RJS Power's various financing arrangements are described in Note 8

to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus. See Energy Supply Financial Condition The Combined Company for a discussion of management's expectations regarding Talen Energy's ability to satisfy its liquidity needs following the Transactions.

**Table of Contents**

The following table summarizes RJS Power's liquidity position for the periods indicated at December 31, 2014:

|                                     | <b>December 31, 2014</b> |
|-------------------------------------|--------------------------|
| Revolver capacity                   | \$ 150                   |
| Less: Outstanding letters of credit | (2)                      |
| Less: Outstanding draws             | (25)                     |
| <br>Revolver availability           | <br>123                  |
| Cash and cash equivalents           | 30                       |
|                                     | <br>\$ 153               |

*Issuance of 2019 Senior Notes.* On July 10, 2014, RJS Power Holdings LLC, a direct wholly owned subsidiary of RJS Power, completed a private placement to eligible purchasers of an aggregate principal amount of \$1,250 million of its 5.125% senior notes due July 15, 2019 (2019 Senior Notes). The net proceeds from the sale of the 2019 Senior Notes were approximately \$1,216 million (after deducting offering fees and expenses). The proceeds were primarily used to repay borrowings outstanding under RJS Power's then-outstanding senior secured notes (see Note 8 to the audited consolidated and combined condensed financial statements of RJS Power included elsewhere in this prospectus) and for general corporate purposes.

Interest on the 2019 Senior Notes will accrue at a rate of 5.125% per annum until the first interest payment date following a Merger Ratings Event, after which the interest rate will decrease to 4.625% per annum. The Merger Ratings Event will occur if, on the date of the occurrence of the Merger Event or, if later, on the date that Moody's and S&P first publicly issue corporate ratings for the successor issuer of the notes, the corporate ratings of such successor issuer of the notes are at least (i) Ba2 from Moody's and BB- from S&P or (ii) Ba3 from Moody's and BB from S&P, in each case with a stable or better outlook. RJS Power will pay interest on the notes semi-annually in arrears on January 15th and July 15th of each year, beginning on January 15, 2015. The 2019 Senior Notes are senior unsecured obligations of RJS Power and rank equally with all of its current and future senior indebtedness. See Description of Material Indebtedness RJS Power RJS Power Senior Notes.

*RJS Power Credit Facility.* Concurrently with the issuance of the 2019 Senior Notes, RJS Power Holdings LLC entered into a senior secured revolving credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and other lenders and issuing banks party thereto (the RJS Power Credit Facility). The RJS Power Credit Facility will mature in five years and provide for aggregate revolving commitments in an amount equal to \$150 million, all of which will be available for the issuance of letters of credit. Borrowings under the RJS Power Credit Facility may be paid down and reborrowed and bear interest at LIBOR plus 2.50%, as adjusted pursuant to terms of the RJS Power Credit Facility, or 1.50% above the Alternate Base Rate, as defined in the RJS Power Credit Facility. The annual commitment fee on the unused portion of the RJS Power Credit Facility is 0.50%. RJS Power will additionally pay letter of credit fees on the aggregate face amount of outstanding letters of credit plus a fronting fee to the issuing banks. See Description of Material Indebtedness RJS Power RJS Power Revolving Credit Facility.

*Distributions.* RJS Power is generally prohibited from making distributions or other payments to its owners, with the exception of allowances for specific distributions and other payments that are set forth in the documents governing the indebtedness of RJS Power and the agreements relating to the Transactions. These allowances include permitted tax distributions as well as other cash distributions in an amount not to exceed \$30 million per quarter under the agreements relating to the Transactions or \$125 million in aggregate under the documents governing the indebtedness

of RJS Power. Pursuant to these exceptions, RJS Power will be permitted to pay a distribution to its owners prior to the closing of the Transactions in an amount not to exceed approximately \$120 million, in addition to any permitted tax distributions. In addition, RJS Power can have up to \$1.3 billion of outstanding indebtedness immediately prior to the consummation of the Transactions.

**Table of Contents*****Cash Flows***

The following table sets forth RJS Power's cash flows for the periods indicated:

|                                      | 2014   | 2013   | 2012  |
|--------------------------------------|--------|--------|-------|
| <b>Statement of Cash Flows Data:</b> |        |        |       |
| Cash provided by (used in):          |        |        |       |
| Operating activities                 | \$ 183 | \$ 169 | \$ 14 |
| Investing activities                 | 11     | (33)   | (397) |
| Financing activities                 | (305)  | (13)   | 384   |

*Net cash provided by operating activities.* Net cash flow provided by operating activities totaled \$183 million for the year ended December, 2014. During the period, the most significant sources of cash were sales of electricity driven by colder than normal weather resulting in higher realized power prices and MWhs produced during the first quarter of 2014 compared to the first quarter of 2013. Additional sources of cash during the period were sales of generating capacity and ancillary services, and decreases in working capital. Sources of cash during the period were partially offset by fuel expense, operating expenses, increased major maintenance expenses and interest paid on outstanding debt during the period.

Net cash flow provided by operating activities totaled \$169 million for the year ended December 31, 2013. During the period, the most significant sources of cash were sales of electricity, generating capacity and ancillary services, and decreases in working capital; partially offset by operating expenses, major maintenance expenses and interest paid on outstanding debt.

Net cash flow provided by operating activities totaled \$14 million for the year ended December 31, 2012. During the period, the most significant sources of cash were sales of electricity, generating capacity and ancillary services; partially offset by increases in working capital, operating expenses, major maintenance expenses and interest paid on outstanding debt.

*Future operating cash flows.* RJS Power's future operating cash flows will vary based on a number of factors, many of which are beyond RJS Power's control, including the price of power, the prices of natural gas, coal and fuel oil and their correlation to power prices, collateral requirements, the value of capacity and ancillary services, the run time of RJS Power's generating facilities, the effectiveness of RJS Power's commercial strategy, legal, environmental and regulatory requirements and RJS Power's ability to capture value associated with commodity price volatility.

*Net cash provided by (used in) investing activities.* Net cash flow provided by investing activities totaled \$11 million for the year ended December 31, 2014. During the period, the most significant sources of cash were transfers of restricted cash to unrestricted cash, insurance proceeds and proceeds from sales of capital assets, partially offset by capital expenditures during the periods.

Net cash flow used in investing activities totaled \$33 million for the year ended December 31, 2013. During the period, the most significant use of cash was for capital expenditures, partially offset by transfers of restricted cash to unrestricted cash.

Net cash flow used in investing activities totaled \$397 million for the year ended December 31, 2012. During the period, the most significant uses of cash were the Raven Acquisition, capital expenditures and increases in restricted cash.

*Net cash provided by (used in) financing activities.* Net cash flow used in financing activities totaled \$305 million for the year ended December 31, 2014. During the year ended December 31, 2014, RJS Power used cash flow provided by operating activities and the issuance of the 2019 Senior Notes to pay the aggregate



**Table of Contents**

principal balance of RJS Power's then-outstanding senior secured notes and make \$316 million of cash distributions to the members of Raven, Jade and Sapphire. Uses of cash were also partially offset by proceeds from a \$25 million revolver draw made during the fourth quarter of 2014.

Net cash flow used in financing activities totaled \$13 million for the year ended December 31, 2013. During the period, RJS Power used proceeds received from issuances of new senior secured notes to pay the aggregate principal balance of RJS Power's subsidiaries' outstanding debt, terminate interest rate swaps and pay financing costs associated with the issuance of the new senior secured notes (Debt Refinancing). RJS Power also made cash distributions to the members of Raven Power and Sapphire Power, which were partially funded with net proceeds from the Debt Refinancing.

Net cash flow provided by financing activities totaled \$384 million for the year ended December 31, 2012. During the period the most significant sources of cash were contributions from RJS Power's members and proceeds from new issuances of debt used to fund the Raven Acquisition, partially offset by principal payments of outstanding debt associated with the Topaz Power and Sapphire Power generating facilities.

**Contractual Obligations**

RJS Power has incurred various contractual obligations and financial commitments in the normal course of its operations and financing activities. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. Contingent financial commitments represent obligations that become payable only if certain pre-defined events occur, such as financial guarantees.

The following table summarizes RJS Power's contractual obligations as of December 31, 2014:

|   | Total    | Expiration by period |              |              |                      |
|---|----------|----------------------|--------------|--------------|----------------------|
|   |          | Less than<br>1 year  | 1-3<br>Years | 3-5<br>Years | More than<br>5 Years |
| Long-term debt (1)                            | \$ 1,275 | \$                   | \$           | \$ 1,275     | \$                   |
| Facility and equipment leases (2)             | 20       | 2                    | 4            | 2            | 12                   |
| Pipeline facilities agreement (2)             | 37       | 6                    | 12           | 5            | 14                   |
| Coal supply and transportation agreements (3) | 517      | 168                  | 231          | 118          |                      |
| Long-term service agreements (2)              | 99       | 5                    | 36           | 20           | 38                   |
| Total Contractual Obligations                 | \$ 1,948 | \$ 181               | \$ 283       | \$ 1,420     | \$ 64                |

- (1) See Note 8 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for a discussion of RJS Power's long-term debt.
- (2) See Note 12 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for a discussion of facility and equipment leases, pipeline facilities agreement and long-term service agreements. Estimated amounts for the long-term service agreements were based on projected factored fire hours and/or starts.
- (3)

At December 31, 2014, Raven Power had contracts in place to purchase and transport coal for various Raven Power generation facilities. The amounts in the table reflect RJS Power's minimum purchase obligations based on the terms of the contracts.

**Quantitative and Qualitative Disclosures about Market Risk**

RJS Power is exposed to various market risks, including the effects of adverse changes in commodity prices, interest rates and counterparty credit as described below. RJS Power uses the term "market risk" to refer to the risk of loss arising from adverse changes in certain commodity prices and interest rates, which arise from the

## **Table of Contents**

ownership of assets and operation of RJS Power's business. RJS Power has a risk control framework designed to monitor, measure and define appropriate transactions to hedge and manage the risk in RJS Power's existing portfolio of assets and contracts and to authorize new transactions. RJS Power believes it has effective procedures for evaluating and managing the risks to which it is exposed. Ultimate decisions are made by the management of RJS Power within guidelines established by the board of directors. In addition, certain actions are limited under covenants contained within the agreements governing RJS Power's credit facilities. All of RJS Power's market risk-sensitive instruments were entered into for purposes other than speculative trading.

### ***Commodity Price Risk***

Commodity price risks result from exposure to changes in spot prices, forward prices, volatilities, and correlations between various commodities, such as natural gas, coal, and emissions credits. RJS Power manages the commodity price risk of its competitive power generation operations by entering into derivative or non-derivative instruments to hedge the variability in future cash flows from forecasted sales of power and forecasted purchases of fuel. The portion of forecasted transactions hedged may vary based upon management's assessment of market, weather, operation and other factors. As of December 31, 2014, the maximum length of time RJS Power was hedging exposure to the relationship of power prices to natural gas was three years.

At December 31, 2014, Raven Power had 3.9 million MWh of the 46.4 million MWh of available capacity through the end of 2016 economically hedged using Power and Gas Swaps.

At December 31, 2014, Topaz Power had a HRCO in place to economically hedge 200 MW of capacity at the Nueces Bay generating facility. Additionally, Topaz Power had 1.3 million MWh, out of the remaining available 14.3 million MWh through the end of 2015, economically hedged using Power and Gas Swaps.

At December 31, 2014, Sapphire Power had substantially all the capacity of its generation facilities economically hedged through the end of 2017 using HRCOs, with the exception of the York facility (52 MW nameplate capacity) and the Pedricktown facility (140 MW nameplate capacity).

See Notes 10 and 11 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for more information about commodity derivatives.

### ***Interest Rate Risk***

RJS Power is exposed to fluctuations in interest rates in connection with the RJS Power Credit Facility. Exposure to interest rate fluctuations may be mitigated by entering into derivative instruments known as interest rate swaps, caps, collars and put or call options. These contracts reduce exposure to interest rate volatility and result in primarily fixed rate debt obligations when taking into account the combination of the variable rate debt and the interest rate derivative instrument. RJS Power's risk management policies allow it to reduce interest rate exposure from variable rate debt obligations

Topaz Power and Sapphire Power were previously required to enter into interest rate swaps to hedge the risks associated with interest rates on project level debt. See Note 8 to the audited consolidated and combined financial statements of it included elsewhere in this prospectus for a discussion of RJS Power's long-term debt. See Note 10 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for more information about interest rate swaps. All outstanding interest rate swaps were terminated in conjunction with the issuance of the 2019 Senior Notes.

***Counterparty and Customer Credit Risk***

Financial instruments that potentially subject RJS Power to concentrations of credit risk include cash and cash equivalents, restricted cash, accounts receivable and derivative contracts. RJS Power believes the credit risk

## **Table of Contents**

in cash and cash equivalents is limited because it maintains its cash in major U.S. banks and the terms of these deposits are on demand. From time to time, cash amounts in U.S. banks may exceed the FDIC insured limit. Historically, RJS Power has not incurred losses related to these deposits.

Credit risk is inherent in RJS Power's normal commercial activities and relates to the risk of loss resulting from nonperformance of contractual obligations by counterparties. Although not always possible, RJS Power seeks to enter into contracts that permit netting of receivables and payables with counterparties. RJS Power also enters into contracts that enable it to obtain collateral from a given counterparty under certain conditions and to terminate upon occurrence of certain events of default.

The management of RJS Power established acceptable levels of counterparty credit limits within guidelines established by the board of directors. Credit risk exposure and the financial condition of counterparties are monitored periodically. If any of RJS Power's counterparties fail to perform its contractual obligations, RJS Power might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then-current market prices. In this event, RJS Power might incur additional costs in addition to the amounts owed to RJS Power by the counterparty.

RJS Power obtains insurance from carriers who meet certain rating requirements, monitor events in the insurance industry and review the financial security of our carriers. Should a carrier experience a downgrade in rating, RJS Power may elect to choose other insurance providers and may not be able to recover premiums should a default occur.

## **Significant Accounting Policies and Critical Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires the application by management of the appropriate technical accounting rules as well as the application of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. RJS Power's significant accounting policies are summarized in Note 3 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus. RJS Power believes the following are our more critical accounting estimates due to the significance, subjectivity and judgment involved. RJS Power evaluates its estimates and assumptions used in preparing the consolidated and combined financial statements on an ongoing basis utilizing historic experience, anticipated future events or trends, consultation with third-party advisors or other methods that involve judgment as determined appropriate under the circumstances. The resulting effects of changes in estimates are recorded in the consolidated and combined financial statements in the period in which the facts and circumstances that give rise to the change in estimate become known.

### *Derivative Instruments and Valuation Techniques*

The primary factors affecting the fair value of RJS Power's derivative instruments at any point in time are the volumes of open derivative positions (MWh, MMBtu and \$ notional amounts), changing commodity prices, primarily for power and natural gas; credit standing of RJS Power and counterparties for energy commodity derivatives; and interest rates for interest rate swaps. Prices for power, natural gas and interest rates are volatile, which can result in material changes to the fair value of derivative instruments recorded in the RJS Power financial statements in the future.

Derivative instruments are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the

full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace except for certain unobservable pricing inputs that are used to value HRCOs.

---

**Table of Contents***Acquisition of Assets and Liabilities*

U.S. GAAP requires that the purchase price for an acquisition, such as the acquisition of Raven Power or Sapphire Power, be assigned and allocated to the individual assets and liabilities based upon their estimated fair value. Differing fair values will impact the allocations of the purchase price to the individual assets and liabilities and can impact the gross amount and classification of assets and liabilities recorded on RJS Power's consolidated and combined balance sheet and can also have a material impact on the timing and the amount of depreciation and amortization expense recorded in any given period. RJS Power utilizes its best efforts to make its determinations and review all information available including estimated future cash flows and prices of similar assets when making a best estimate. RJS Power also may hire independent appraisers to help it make these determinations as it deems appropriate under the circumstances.

*Asset Retirement Obligations*

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO.

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2014, a 10% change to retirement cost, a 0.25% decrease in the discount rate or a 0.25% increase in the inflation rate would not have had a significant impact on amounts recorded in the RJS Power financial statements.

*Long-Lived Assets and Depreciation Expense*

Determination of the appropriate depreciation method and proper useful lives involves significant judgment, estimates and assumptions, based on historical experience and other factors. Changes in estimates and methods can result in a significant impact in the amounts and timing of when depreciation expense is recognized and therefore significantly impact the financial condition and results of operations of RJS Power from period to period. Different depreciation methods can impact the timing and amount of depreciation expense affecting the results of operations of RJS Power and could result in different net book values of assets at particular times during the useful life of the asset affecting the financial position of RJS Power. Estimates of useful lives also significantly impact the timing and amounts of depreciation expense and include significant estimates. If useful lives are too short, then the asset is depreciated too quickly and depreciation expense is overstated. Estimated useful lives can significantly decrease if routine maintenance or certain upgrades are not performed, premature mechanical failure of the asset occurs, significant increases in the planned level of usage occur, advances in technology make the asset obsolete or if there are adverse changes in environmental regulations.

*Impairment Evaluation of Long-Lived Assets*

RJS Power evaluates its long-lived assets, such as property, plant and equipment, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Examples of such events or changes in circumstances are:

a significant decrease in the market price of a long-lived asset;

a significant adverse change in the manner an asset is being used or its physical condition;

an adverse action by a regulator or legislature or an adverse change in the business climate;



## **Table of Contents**

a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset; or

a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

When RJS Power believes an impairment condition on long-lived assets such as property, plant and equipment may have occurred, RJS Power is required to estimate the undiscounted future cash flows associated with a long-lived asset or group of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for long-lived assets that are expected to be held and used. If RJS Power determines that the undiscounted cash flows from an asset to be held and used are less than the carrying amount of the asset, the estimated fair value must be estimated to determine the amount of any impairment loss. RJS Power uses its best estimates in making these evaluations and considers various factors, including forward price curves for energy, fuel costs and operating costs. However, actual future market prices and operating costs could vary from the assumptions used in the RJS Power's estimates, and the impact of such variations could be material.

## **Recent Accounting Pronouncements**

See Note 3 to the audited consolidated and combined condensed financial statements of RJS Power included elsewhere in this prospectus for a discussion of recent accounting pronouncements.

## **Inflation**

Inflation did not have a material impact on RJS Power's results of operations for the years ended December 31, 2014, 2013 or 2012. Although inflation did not have a material impact on RJS Power's results of operations for these years, RJS Power may experience inflationary pressure on the cost of services and equipment.

## **Off-Balance Sheet Arrangements**

Raven Power has agreements with three special purpose entities that qualify as VIEs in accordance with Financial Accounting Standards Board Accounting Standards Codification section 810-10, Consolidation-Variable Interest Entities (ASC 810-10), for which Raven Power is not the primary beneficiary. The purpose of these entities is to install and operate special equipment at the Raven Power generation facilities that will be used to treat the coal to reduce emissions when the coal is burned in the power plants. These entities qualify as VIEs because Raven Power is the sole supplier of coal to the entities and it is not economical for the entities to obtain a supply of coal from any other source. Accordingly, the entities are effectively dependent upon RJS Power as the sole supplier of coal and the entities would not be able to generate any economic returns without the coal that RJS Power supplies. However, Raven Power is not the primary beneficiary of these entities because Raven Power does not control the most significant activity of the entities which is the successful application of the proprietary formula and techniques for treating the coal to reduce emissions. Other than the long-term agreements to supply coal, Raven Power has not provided any material financial or other support to these VIEs during the years ended December 31, 2014, 2013 or from August 13, 2012 to December 31, 2012, and does not currently intend to provide any funding or other support to these entities in the future. The maximum exposure to loss associated with these entities amounts to the outstanding receivable balance at any given time which fluctuates within a range of approximately \$0.1 million up to \$0.4 million based on the amount of coal refined each month.



**Table of Contents**

**BUSINESS**

**Talen Energy**

Upon completion of the Transactions described in this prospectus, Talen Energy will be one of the largest competitive energy and power generation companies in North America. Our primary business will be the production and sale of electricity, capacity and related products from our fleet of power plants totaling approximately 14,000 MW of generating capacity. We will own and operate a portfolio of generation assets principally located in PJM and ERCOT, which we consider to be two of the most attractive power markets in the United States. Within these markets, our portfolio is expected to benefit from technological and fuel diversity, enabling us to respond to changing market conditions and regulatory developments. We believe stockholder value creation is built on a foundation of excellence in operations and skillful commercial management of our generation fleet with a strong focus on cash returns. We intend to pursue a strategy that embraces these core concepts, optimizes Talen Energy's operations and supports value-enhancing growth.

**Our Operations**

Our generation fleet is diverse in terms of fuel, technology, dispatch characteristics and location. A majority of our generation revenue is expected to come from our efficient low-cost baseload and intermediate generation facilities. We also expect to capture additional value by selling power during periods of peak demand from our quick-start peaking facilities. We plan to further enhance margins by selling capacity within the PJM markets, both in the three-year forward PJM base residual auction and through bilateral agreements with power purchasers, as well as by providing ancillary services to support transmission system reliability.

We believe our assets are strategically positioned in what we view as the two most attractive power markets in the United States, each of which is characterized by strong and improving fundamentals and a regulatory framework supportive of competitive generators. Our generation facilities will be predominantly located in PJM and ERCOT, which are regional organizations formed, in part, to provide reliable wholesale power marketplaces. PJM is the largest wholesale energy market in the United States and ERCOT is the oldest ISO in the country. PJM is characterized by improving fundamentals due to limited import capacity, significant anticipated capacity retirements, an improving demand outlook and a forward capacity market that provides future cash flow visibility for generation asset owners. Specific efforts are being undertaken by PJM to support and potentially increase capacity prices for existing generation to ensure the availability of adequate resources. ERCOT is an attractive wholesale electricity market with historically above-average demand growth, tight reserve margins, increasing price caps and an increasing reliance on flexible and quickly-dispatchable natural gas-fired assets. Additionally, the ERCOT sub region in which we operate, ERCOT-South, has historically experienced premium energy pricing relative to the average price for the broader ISO. We consider PJM and ERCOT to be two of the most well-developed power markets in the United States, providing significant price transparency, market liquidity and support to competitive generators, including recent proposed reforms that we believe will enhance the value of our portfolio.

The competitive dispatch costs and operating flexibility of our generation fleet position us favorably to generate attractive cash margins in a wide variety of market conditions. In an effort to support our operations and stabilize future cash flows, we will enter into forward physical and financial transactions to hedge energy, capacity and related products and to hedge fuel and fuel transportation. We will sell the output of our generation facilities to a diverse group of wholesale customers, including RTOs and ISOs, utilities, cooperatives, municipalities, power marketers, and financial counterparties. We will also sell the output of our generation facilities to commercial, industrial and residential retail customers.



## **Table of Contents**

The following map illustrates the locations of our generation facilities as of December 31, 2014:

The charts below illustrate the composition and diversity of our portfolio by market and fuel type as of December 31, 2014:

The charts above do not reflect the sale or other disposition of approximately 1,300 MW of generation capacity that is required to obtain regulatory approval for the Transactions. As a result, our generation portfolio will not include all of the plants that currently comprise the Energy Supply business and the RJS Power business. See The Separation Agreement and The Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans.

### **Our Competitive Strengths**

We believe that we will be well-positioned to execute our business strategy and create superior value for our stakeholders based on of the following competitive strengths:

***Well-positioned in attractive, liquid and transparent energy markets.*** We believe that the composition and locations of our facilities will give us a strategic advantage and offer attractive upside opportunities. The majority of our facilities will be located in PJM and ERCOT, which are among the most liquid, well-developed power markets in the United States, each with attractive fundamentals.

---

**Table of Contents**

We believe the PJM market presents attractive value opportunities, driven by a substantial number of announced power plant retirements, limited import capacity and an improving demand outlook. Our PJM assets are highly diverse both in terms of fuel (coal, natural gas/oil dual fuel, nuclear, natural gas, oil and hydro and other renewables) and dispatch (baseload, intermediate/load following and peaking), which provides us with operational flexibility and enables our portfolio to provide reliable generation under a variety of market conditions. A key attribute of PJM is its base residual auction, a long-term capacity market in which power customers pay for capacity three years in advance. These known capacity revenues are expected to be an important component of our gross margins. Additionally, we expect that recently proposed market reforms may provide additional revenue opportunities for us in PJM in future capacity auctions. See [Our Key Markets PJM](#) for information on the recently proposed market reforms in PJM.

We believe the ERCOT market also presents attractive value opportunities, driven by robust demand growth and limited import capacity, which we expect will result in a lower reserve margin. Our generation assets in ERCOT consist of flexible, natural gas-fired units that have the ability to start up quickly and respond to load variability, which positions them well to produce significant margin from ancillary products offered in this market in addition to physical energy sales. All of our ERCOT capacity is located in the ERCOT South Zone, which has historically experienced premium pricing due to favorable supply and demand fundamentals and strong demand driven by growth related to Eagle Ford shale development, the midstream energy sector and petrochemical industry expansion. The ERCOT regulatory framework has addressed resource adequacy concerns through rule changes that have increased generator compensation and pricing floors for ancillary products and increased the state-wide offer cap. ERCOT reserve margins are forecasted to continue to compress due to growing demand and limited announced new-build projects, further tightening the supply/demand balance across ERCOT and creating conditions that may generate increased price volatility and higher energy prices until additional resources are added.

***Robust cash flow generation potential.*** We expect to be able to generate substantial free cash flow, which we define as cash from operations less maintenance capital expenditures. A number of factors are expected to contribute to our strong cash flow profile: our focus on lean operations, relatively low financial leverage, efficient baseload units with low dispatch costs, significant ancillary revenue potential of the Texas facilities, significant synergies resulting from successful execution of our transition plans with PPL and Riverstone, and a well-maintained fleet requiring modest maintenance and environmental expenditures. The stability of our cash flows is further supported by forward capacity sales in PJM through May 2018. We believe this cash flow potential provides a competitive advantage by making us more resilient during price fluctuations in the commodity cycles, less reliant on external sources of capital to finance operations and a company better situated to pursue both organic and acquisition-driven growth opportunities.

***Strong balance sheet, poised for growth.*** We believe that our expected financial leverage will provide multiple competitive advantages. First, our strong balance sheet and credit profile are expected to enhance our ability to pursue both organic and acquisition-driven growth by offering favorable access to capital markets and maximum financial flexibility. We also believe a strong balance sheet will position us well to manage through periods of commodity price volatility which may require collateral posting and credit support that could challenge a more levered competitive power company. We believe we will be able to use our strong balance sheet to grow through acquisitions, taking an opportunistic approach when others in the sector may face financial stresses during those periods. Finally, our low level of financial leverage will allow us to absorb a greater degree of operating cash flow volatility, which will allow our margin hedging program to have a shorter-term focus. We believe this will reduce hedging transaction volume and expenses, liquidity needs and hedge book complexity, which we believe will result in lower operating costs and greater financial transparency.

***Competitive scale.*** As one of the largest competitive power generating companies in North America, with approximately 14,000 MW of operating capacity, we expect to benefit from the multiple competitive advantages attendant to a large scale portfolio. We will have a scale presence in our key markets, allowing us to operate integrated

portfolios within each of PJM and ERCOT and offering us beneficial dispatch and operational

## **Table of Contents**

synergies. We expect those benefits will include improved leverage of our fixed costs, enhanced procurement opportunities and diversity of cash flows. These advantages combined with a strong balance sheet and significant liquidity, enable us to operate with more financial flexibility and, as such, should enable us to utilize our competitive scale to grow and further expand our already-robust generation platform.

***Significant historical environmental control investments.*** We believe our assets are substantially compliant with current environmental regulations and are well-positioned relative to the current trend of tightening environmental legislation and regulations. Because of significant prior investments and the composition of our fleet, we expect that future environmental compliance-driven capital expenditures will be a relatively modest \$155 million dollars through 2019, representing less than 10% of total capital expenditures for the same period.

***Proven, experienced management team.*** Our management team has significant experience and expertise operating power generating facilities, marketing electricity and ancillary services and managing the risks of a competitive power generation business. We have a strong track record of value creation through the execution of strategic initiatives and exceptional asset management, which positions us optimally to enhance and expand the Talen Energy platform. We strongly believe that the proven leadership team at Talen Energy will successfully execute our business strategy and deliver superior operating and financial performance.

### **Our Business Strategy**

Our business strategy is to maximize value to our customers and stockholders with particular emphasis on:

***Excellence in operations.*** We believe that value is built on a foundation of operational excellence. Safety is a core value of ours and is critical to maintaining a platform for strong, reliable plant performance. We inherit robust safety programs from our predecessor companies which have demonstrated dedication to sustaining safe cultures by achieving VPP Star status at a majority of our facilities.

We also believe value is a function of disciplined investment and continuous improvement in operating efficiency. We intend to make prudent investments to enable our plants to run at the most profitable times while ensuring safe, reliable operations. Additionally, we plan to continue our commitment to asset optimization and reducing operating costs. We believe that persistent focus on process improvement and innovative cost management is a key component to success.

***Focus on cash returns.*** We will run our business with a focus on producing strong cash flows in order to sustain our operations and fund growth opportunities. Capital allocation decisions will be made on a cash return basis, as we believe this discipline is necessary to drive consistent long-term value creation for our stockholders. We believe that our proven management team, reliable, low-cost operating structure and strong commercial management of our plants will enable us to invest in and grow the existing platform while enhancing overall cash flows and achieving attractive returns on investment.

***Active hedging and commercial management.*** Hedging the fuel and output of our plants will be primarily focused on providing margin and cash flow visibility on a one-year forward basis. We intend to execute hedging and marketing strategies for the output of our facilities in both the wholesale and retail energy markets. We also intend to execute asset-based portfolio strategies to monetize inherent market volatility. We believe our hedging and commercial management strategy, in combination with a strong balance sheet, will provide a long-term advantage through cycles of higher and lower commodity prices. Finally, our lower level of financial leverage will allow us to absorb a greater degree of operating cash flow volatility, which will further allow our margin hedging program to have a shorter-term focus. We believe this will reduce hedging transaction volume and expenses, liquidity needs and hedge book



complexity, which we further believe will result in lower operating costs and greater financial flexibility.

***Growth posture.*** We believe scale in the competitive power generation sector is an element of value creation. We expect to be able to leverage our management and operational systems to integrate additional assets and activities with relatively modest incremental cost. We intend to grow value through development and

## **Table of Contents**

acquisitions that are complementary to our competitive strengths, with a focus on developed competitive markets that offer liquidity and price transparency. Additionally, as Talen Energy grows, our goal is to maintain a multi-fuel and multi-dispatch profile, as we believe this type of diversity is inherently valuable and provides an added measure of risk-mitigation. We believe that our strong balance sheet and cash flow generation, combined with our current presence in attractive markets and our experienced, disciplined management team, will position Talen Energy favorably in its pursuit of value-enhancing growth opportunities.

### **Our Management Team**

In selecting our management team, sourced largely from PPL, we have focused on individuals that have strong and proven track records of delivering stockholder value in executive capacities covering operations, strategy and financing. Our President and Chief Executive Officer, Paul Farr, has over 20 years of power and utilities experience having spent more than seven years as Chief Financial Officer of PPL prior to being named President of Energy Supply at the announcement of the Transactions. Mr. Farr also has extensive operations experience, having served as Chief Operating Officer of PPL Global, LLC for over three years, which included responsibility for all of PPL's international utilities operations in Latin America and the United Kingdom, as well as global corporate strategy. Mr. Farr was also integral to the establishment of PPL's competitive power generation business in Montana from 1999 to 2001. Jeremy McGuire, our Senior Vice President and Chief Financial Officer, served as Vice President Strategic Development of PPL Strategic Development, LLC since 2008. Prior to joining PPL, Mr. McGuire was an investment banker for 13 years, ten of which were focused on competitive power companies and utilities. Mr. Farr and Mr. McGuire were instrumental in PPL's acquisition and financing of \$14 billion in utility businesses in Kentucky and the United Kingdom, which nearly doubled PPL's asset base, increased annual revenues by 70 percent and helped grow market capitalization by 40 percent between 2009 and 2011.

Our executive team includes other key members that bring significant experience and expertise operating, marketing and managing risks of a competitive power generation business. Joe Hopf, our Senior Vice President and Chief Commercial Officer, has more than 30 years of experience in the electricity business serving in various roles in power plant operations, trading and risk management. Most recently, Mr. Hopf led PPL's fossil and hydro generating operations with nearly 8,000 MWs of generating capacity. Tim Rausch, our Senior Vice President and Chief Nuclear Officer, served as PPL Generation's Senior Vice President and Chief Nuclear Officer since 2009. Mr. Rausch came to PPL after 25 years of experience in virtually all disciplines of the nuclear power industry. Jim Schinski, our Senior Vice President and Chief Administrative Officer, joined PPL Services in 2009 as Vice President-Chief Information Officer. Prior to joining PPL, Mr. Schinski served as Chief Information Officer and Vice President of Human Resources for the Midwest Independent System Operator since 2004, where he was responsible for design, development, implementation and operation of technology systems for one of the country's largest electricity markets. We believe our leadership team positions Talen Energy to meet our objectives of delivering superior operating and financial performance through committed execution of Talen Energy's business strategy.

### **Our Key Markets**

The substantial majority of our generation capacity is located in either PJM or ERCOT. We consider these regions to be among the most well-developed, transparent and liquid energy markets in the United States.

#### ***PJM***

PJM is an RTO that coordinates the movement of wholesale electricity in all or parts of thirteen states and the District of Columbia. It is the largest competitive wholesale electricity market in the United States, dispatching more than 180,000 MW to more than 60 million people. The current mix of generating capacity within PJM is largely

coal-dominated, with a significant number of nuclear and natural gas power plants rounding out the dispatch curve. As is the case in many markets in the United States, generating capacity within

**Table of Contents**

PJM is transitioning from a coal-dominated generation base to a mix that incorporates larger amounts of natural gas and renewable units, driven in large part by current and impending EPA regulations. The following map illustrates PJM by regions.

PJM benefits from a combination of stable demand growth, liquid trading hubs, limited energy import capacity and a wide range of available market products. Generation owners in PJM may earn energy, capacity and ancillary revenues. The PJM energy market consists of day-ahead and real-time markets. The day-ahead market is a forward market in which hourly prices are calculated for the next operating day based on offers, bids and bilateral obligations. The real-time market is a spot market in which energy is continuously bought and sold based on actual grid operating conditions.

The PJM capacity market, known as the RPM, is intended to ensure that resources are available when needed to keep the power grid operating reliably for customers. Under the RPM, PJM conducts a series of auctions. Most capacity is procured in the base residual auctions each May for the sale of generating capacity three years in advance of the delivery year. In these auctions, prices are set based on available capacity and other factors such as transmission constraints. The capacity market construct provides generation owners the opportunity for some revenue visibility on a multi-year basis. The following table presents PJM's published auction clearing prices for the periods indicated for the PJM sub-regions in which we operate.

| <b>Sub-region</b> | <b>2014/2015</b> | <b>2015/2016</b> | <b>2016/2017</b> | <b>2017/2018</b> |
|-------------------|------------------|------------------|------------------|------------------|
| PJM MAAC          | \$ 136.50        | \$ 167.46        | \$ 119.13        | \$ 120.00        |
| PJM SWMAAC        | \$ 136.50        | \$ 167.46        | \$ 119.13        | \$ 120.00        |
| PJM RTO           | \$ 125.99        | \$ 136.00        | \$ 59.37         | \$ 120.00        |

**Table of Contents**

Recent developments have the potential to be supportive of future revenue opportunities for generation owners in PJM, including:

PJM's proposal to add an enhanced Capacity Performance product to the capacity market structure to permit additional compensation for generation owners/operators to make the necessary investments to maintain system reliability in exchange for stronger performance requirements. The intent of the Capacity Performance product is to improve operational availability during periods of peak power system demand, such as extreme weather. Specifically, PJM's stated objectives of this product include fuel security through dependable fuel sources, high availability of generation resources and operational diversity. If approved by the FERC, Capacity Performance is expected to benefit generation owners like Talen Energy that will own assets supplied by firm fuel commitments and have demonstrated reliability during peak load and extreme weather conditions. In March 2015, the FERC issued a deficiency letter to PJM instead of approving the PJM Capacity Performance filing. In April 2015, PJM responded to the FERC's deficiency letter. Also in April 2015, PPL filed a motion requesting a delay in implementing the capacity auction for 2015 and asking the FERC to respond to its request to delay implementing the capacity auction by April 24, 2015;

PJM's recent changes to the VRR curve. The VRR curve is a downward-sloping demand curve used by PJM to model sufficient capacity resources for PJM and set capacity prices. The VRR curve supports PJM's objective of attracting and retaining adequate capacity resources to ensure grid reliability, providing an indication of incremental reliability and economic value of capacity at different planning reserve levels. PJM's recent changes include a shift in the VRR curve, which signifies an increase in demand and therefore price, offering potential upside to future capacity prices for PJM generators;

Recent developments that increase uncertainty associated with demand response's ability to participate in future capacity auctions, offering potential upside to future capacity prices for PJM generators; and

Potential rule changes affecting price formation including offer cap changes which may lead to higher energy market prices.

**Table of Contents**

***ERCOT***

ERCOT is an ISO that manages the flow of electricity from approximately 75,000 MW of installed capacity to 24 million Texas customers, representing 90% of the state's electric load and covering approximately 75% of its geography. ERCOT is an attractive wholesale electricity market with historically above-average demand growth, tight reserve margins, increasing price caps and an increasing reliance on flexible and quickly-dispatchable natural gas-fired assets. ERCOT was established in September 1996 and, as such, is the oldest ISO in the United States. The following map illustrates ERCOT by regions.

As an energy-only market, ERCOT's market design is different from other competitive electricity markets in the United States. Other markets, including PJM, maintain a minimum reserve margin through regulated planning, resource adequacy requirements and/or capacity markets. In contrast, ERCOT's resource adequacy is predominately dependent on free market processes and energy market price signals. All electricity prices are subject to a system-wide offer cap, which was \$5,000/MWh in 2013. This offer cap increased to \$7,000/MWh in 2014 and is set to increase to \$9,000/MWh in June 2015, providing a higher maximum marginal price. The system-wide offer cap has been reached on a number of occasions since 2011.

Transactions in ERCOT take place in two key markets: the day-ahead market and the real-time market. The day-ahead market is a voluntary forward energy market conducted the day before each operating day in which generators and purchasers of power may bid for one or more hours of energy supply or consumption. The day-ahead market also allows ERCOT and generators and purchasers of power to buy and sell ancillary services. The real-time market is a spot market in which energy may be sold in five-minute intervals.

Generation facilities in the region include efficient combined cycle natural gas-fired facilities, a large wind fleet and a mixture of environmentally compliant and older, non-compliant coal-fired assets. The combination of these assets has historically led to lower marginal cost of production during most periods, compared to other

**Table of Contents**

markets. However, the region has limited excess capacity to meet high demand days and the marginal facilities have high operating costs. Therefore, the marginal price of supply rapidly increases during periods of high demand. As a result, many generators benefit from these sporadic periods of scarcity pricing in which power prices increase significantly.

The Texas population and gross state product is currently expanding at well above the national average rate, spurred in part from significant growth in oil and gas development and associated petrochemical industry growth. In December 2014, ERCOT released its latest reserve margin projections, which showed ERCOT's reserve margin dipping below 10% the current target reserve margin of 13.75% in 2019. The table below illustrates ERCOT's forecasted reserve margin for 2015 through 2019.

|                                | 2015  | 2016  | 2017  | 2018  | 2019  |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Reserve Margin Forecast</b> | 15.7% | 17.1% | 18.1% | 16.5% | 13.6% |

In addition to energy, ancillary services, such as non-spinning reserves, responsive reserves and regulation up/down, offer another potential revenue stream for market participants in order to maintain system reliability, which is impacted by the high concentration of wind capacity in ERCOT. These ancillary services provide network support from quick-start generation capacity that is able to reach full load operation in exceptionally short periods of time in order to help manage the impact of wind variability on the electricity grid. Such ancillary services have received increased compensation and exhibited higher offer floors in part because ERCOT has one of the highest concentrations of wind capacity in the United States, with over 12,500 MW of installed capacity.

### **Market Opportunity**

The market for competitive power generation assets has been very robust over the past five years, and we expect a continuation of this trend, providing further opportunities to enhance our competitive scale. From 2010 to 2014, roughly 344 GW of competitive power generation capacity has been sold, with approximately 121 GW and 36 GW in PJM and ERCOT, respectively. The diverse nature of these transactions, encompassing both conventional (predominantly natural gas and coal) and renewable (predominantly wind and solar) generating facilities, aligns with our goal of maintaining a multi-fuel and multi-dispatch profile. The table below illustrates the volume of transactions in dollars and GWs from 2010 through 2014.

## **Table of Contents**

We believe that there will continue to be significant acquisition opportunities for competitive power generation assets in the United States, enabling us to grow our fleet and enhance shareholder value. Approximately 81 GW of operating capacity are owned by companies that operate both regulated utilities and competitive power generation assets, while approximately 40 GW are owned by private equity funds. Given the trend of separating competitive power generation assets from regulated utility assets, and the typically defined target holding period of private equity funds, we expected that a significant number of assets will come to market over the next several years.

## **The Companies**

### **Energy Supply**

Energy Supply's principal subsidiaries at December 31, 2014 are shown below.

Energy Supply is an energy company that through its principal subsidiaries is primarily engaged in the competitive generation and marketing of electricity in key markets. Energy Supply's principal subsidiaries are PPL EnergyPlus and PPL Generation.

PPL Generation, through its subsidiaries, owns and operates competitive domestic power plants in Pennsylvania and Montana to generate electricity and acquires and develops competitive domestic generation projects. In September 2013, Energy Supply entered into a definitive agreement to sell to NorthWestern all of its hydroelectric generation capacity in Montana, representing approximately one-third of its total generation capacity located in Montana. That sale was completed in November 2014. PPL EnergyPlus markets and trades electricity, natural gas, and other energy-related products in competitive wholesale and retail markets. The northeastern generating capacity is located primarily in Pennsylvania within PJM and the northwestern generating capacity is located in Montana. Energy Supply enters into energy and energy-related contracts to hedge the variability of expected cash flows associated with its generating units and marketing activities, as well as for trading purposes. PPL EnergyPlus sells the electricity produced by Energy Supply's generation plants based on prevailing market rates. Energy Supply's total expected generation in 2015 is anticipated to be used to meet its committed contractual sales. Energy Supply has also entered into commitments of varying quantities and terms for 2016 and beyond.

PPL EnergyPlus sells the capacity and electricity produced by PPL Generation subsidiaries, and buys and sells purchased power, capacity, ancillary services, FTRs, natural gas, oil, uranium, emission allowances and RECs in competitive wholesale and competitive retail markets.

PPL EnergyPlus transacts in competitive retail energy markets, and buys and sells electricity and natural gas supply, to meet the diverse needs of business customers. PPL EnergyPlus sells retail electricity supply to business customers in Delaware, the District of Columbia, Maryland, Montana, New Jersey, Ohio and Pennsylvania and sells retail natural gas supply to business customers in Delaware, Maryland, New Jersey, and Pennsylvania. The company also offers electricity supply to select residential customers in Pennsylvania. Although retail energy revenues continue to grow, the net margins related to these activities are not currently a significant component of Energy Supply's margins. Within the constraints of its hedging policy, PPL EnergyPlus actively manages its portfolios of energy and energy-related products to optimize their value and to limit exposure to price fluctuations.





**Table of Contents****Energy Supply Properties**

The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances. Energy Supply's electricity generating capacity (summer rating) at December 31, 2014 was as follows.

| <b>Primary Fuel/Plant (a)</b> | <b>Total MW Capacity</b> | <b>% Ownership</b> | <b>Energy Supply's Ownership in MW (a)</b> | <b>Location</b> |
|-------------------------------|--------------------------|--------------------|--|-----------------|
| <b>Natural Gas/Oil</b>        |                          |                    |  |                 |
| Martins Creek                 | 1,700                    | 100.00             | 1,700                                      | Pennsylvania    |
| Ironwood                      | 660                      | 100.00             | 660  | Pennsylvania    |
| Lower Mt. Bethel              | 538                      | 100.00             | 538  | Pennsylvania    |
| Combustion turbines           | 354                      | 100.00             | 354  | Pennsylvania    |
|                               | 3,252                    |                    | 3,252                                      |                 |
| <b>Coal</b>                   |                          |                    |  |                 |
| Montour                       | 1,504                    | 100.00             | 1,504                                      | Pennsylvania    |
| Brunner Island                | 1,411                    | 100.00             | 1,411                                      | Pennsylvania    |
| Colstrip Units 1 & 2 (b)      | 614                      | 50.00              | 307  | Montana         |
| Conemaugh (b)                 | 1,711                    | 16.25              | 278  | Pennsylvania    |
| Colstrip Unit 3 (b)           | 740                      | 30.00              | 222  | Montana         |
| Keystone (b)                  | 1,710                    | 12.34              | 211  | Pennsylvania    |
| Corette (c)                   | 148                      | 100.00             | 148  | Montana         |
|                               | 7,838                    |                    | 4,081                                      |                 |
| <b>Nuclear</b>                |                          |                    |  |                 |
| Susquehanna (b)               | 2,494                    | 90.00              | 2,245                                      | Pennsylvania    |
| <b>Hydro</b>                  |                          |                    |  |                 |
| Holtwood                      | 249                      | 100.00             | 249  | Pennsylvania    |
| Wallenpaupack                 | 44                       |                    | 44   | Pennsylvania    |
|                               | 293                      |                    | 293  |                 |
| <b>Qualifying Facilities</b>  |                          |                    |  |                 |
| Renewables (d)(e)             | 16                       | 100.00             | 16   | Pennsylvania    |
| Renewables (e)                | 9                        | 100.00             | 9  | Various         |
|                               | 25                       |                    | 25   |                 |
| <b>Total</b>                  | <b>13,902</b>            |                    | <b>9,896</b>                               |                 |

- (a) As described under, The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans, pursuant to the FERC Order, we have agreed to dispose of one of two alternative divestiture packages within one year of the completion of the Transactions, one of which includes the Ironwood plant and one of which includes the Holtwood and Wallenpaupack plants.
- (b) This unit is jointly owned. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Note 8 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (c) Operations were suspended and the Corette plant was retired in March 2015.
- (d) Includes facilities owned, controlled or for which Energy Supply has the rights to the output.
- (e) Energy Supply is presently considering divesting its renewables plants. See Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply Overview Financial and Operational Developments Mechanical Contracting Subsidiaries and Renewables Plants.

**Table of Contents**

Amounts guaranteed by PPL Montour and PPL Brunner Island in connection with an \$800 million secured energy marketing and trading facility are secured by liens on the generating facilities owned by PPL Montour and PPL Brunner Island. See Note 3 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

**Power Supply**

Energy Supply owned or controlled generating capacity (summer rating) of 9,896 MW at December 31, 2014. Generating capacity controlled by PPL Generation and other Energy Supply subsidiaries includes power obtained through PPL EnergyPlus power purchase agreements.

During 2014, Energy Supply owned or controlled power plants that generated the following amounts of electricity.

| Fuel Source    | GWh          |              | Total  |
|----------------|--------------|--------------|--------|
|                | Northeastern | Northwestern |        |
| Nuclear        | 16,903       |              | 16,903 |
| Oil / Gas      | 11,080       |              | 11,080 |
| Coal           | 16,074       | 4,030        | 20,104 |
| Hydro (a)      | 931          | 3,318        | 4,249  |
| Renewables (b) | 413          |              | 413    |
| Total (c)      | 45,401       | 7,348        | 52,749 |

- (a) The NorthWestern amount reflects generation from hydroelectric generating facilities that were sold by PPL Montana to NorthWestern in November 2014. See Note 4 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.
- (b) Energy Supply subsidiaries own or control renewable energy projects located in Pennsylvania, New Jersey, Vermont and New Hampshire with a generating capacity (summer rating) of 25 MW. PPL EnergyPlus sells the energy, capacity and RECs produced by these plants into the wholesale market as well as to commercial and industrial customers. Energy Supply is presently considering divesting its renewables plants. See Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply Overview Financial and Operational Developments Mechanical Contracting Subsidiaries and Renewables Plants.
- (c) As described under The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans, pursuant to the FERC Order, we have agreed to dispose of one of two alternative divestiture packages within one year of the completion of the Transactions, one of which includes the Ironwood gas plant and one of which includes the Holtwood and Wallenpaupack hydro plants.

Energy Supply's generation subsidiaries are exempt wholesale generators ( EWGs ) that sell electricity into wholesale markets. EWGs are subject to regulation by the FERC, which has authorized these EWGs to sell the electricity generated at market-based prices. This electricity is sold to PPL EnergyPlus under FERC-jurisdictional power purchase agreements. PPL Susquehanna is subject to the jurisdiction of the NRC in connection with the operation of its Susquehanna nuclear units. Certain of Energy Supply's other subsidiaries are subject to the jurisdiction of the NRC in connection with the operation of their fossil plants with respect to certain level and density monitoring devices. Certain operations of PPL Generation's subsidiaries are also subject to OSHA and comparable state statutes.

Fuel Supply

Coal

*Pennsylvania*

PPL EnergyPlus actively manages Energy Supply's coal requirements by purchasing coal principally from mines located in northern Appalachia.

## Table of Contents

During 2014, PPL Generation purchased 5.6 million tons of coal required for its wholly owned Pennsylvania plants. Coal inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties. PPL Generation, by and through its agent PPL EnergyPlus, has agreements in place that will provide more than 16 million tons of PPL Generation's projected coal needs for the Pennsylvania power plants from 2015 through 2018 and augments its coal supply agreements with spot market purchases, as needed.

A PPL Generation subsidiary owns a 12.34% interest in the Keystone plant and a 16.25% interest in the Conemaugh plant. PPL Generation owns a 12.34% interest in Keystone Fuels, LLC and a 16.25% interest in Conemaugh Fuels, LLC. The Keystone plant contracts with Keystone Fuels, LLC for its coal requirements, which provided 4.5 million tons of coal to the Keystone plant in 2014. The Conemaugh plant requirements are purchased under contract from Conemaugh Fuels, LLC, which provided 4.5 million tons of coal to the Conemaugh plant in 2014.

All wholly owned PPL Generation coal plants within Pennsylvania are equipped with Scrubbers, which use limestone in their operations. Acting as agent for PPL Generation, PPL EnergyPlus has entered into limestone contracts with suppliers that will provide for those plants' requirements through 2016. During 2014, 430,000 tons of limestone were delivered to Brunner Island and Montour under these contracts. Annual limestone requirements range from approximately 400,000-500,000 tons.

### *Montana*

PPL Montana owns a 30% interest in Colstrip Unit 3 and NorthWestern owns a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4, and is entitled to take up to 15% of the available generation from Units 3 and 4. Each party is responsible for its own coal costs. PPL Montana, with the other Colstrip owners, is party to contracts to purchase 100% of its coal requirements with defined coal quality characteristics and specifications. PPL Montana, with the other Colstrip Units 1 and 2 owner, has a long-term purchase and supply agreement with the current supplier for Units 1 and 2, which provides these units 85% to 100% of their coal requirements (at owners' option) from January 2015 through December 2019. PPL Montana, with the other Colstrip Units 3 and 4 owners, has a long-term coal supply contract for Units 3 and 4, which provides these units 100% of their coal requirements through December 2019.

These units were originally built containing scrubbers and PPL Montana has entered into a long-term contract to purchase the limestone requirements for these units. The contract extends through December 2030.

Coal supply contracts are in place to purchase low-sulfur coal with defined quality characteristics and specifications for PPL Montana's Corette plant. The contracts covered 100% of the plant's coal requirements in 2014 and similar contracts are in place to supply 100% of the expected coal requirements through the suspension of plant operations which occurred in March 2015. The plant was then retired in March 2015.

### Oil and Natural Gas

#### *Pennsylvania*

PPL Generation's Martins Creek Units 3 and 4 burn both oil and natural gas. During 2014, 100% of the physical gas requirements for the Martins Creek units were purchased on the spot market using either delivered supply or a combination of spot market supply and short-term capacity and oil requirements were supplied from inventory and replenished by purchases made in the spot market. At December 31, 2014, there were no long-term agreements for oil or natural gas for these units.

## **Table of Contents**

Short-term and long-term gas transportation contracts are in place for approximately 38% of the maximum daily requirements of the Lower Mt. Bethel combined-cycle facility.

For PPL's Ironwood combined-cycle facility, PPL EnergyPlus has long-term transportation contracts that can deliver up to approximately 25% of Ironwood's maximum daily gas requirements. Daily gas requirements can also be met through a combination of short-term transportation capacity release transactions coupled with upstream supply.

In addition, PPL EnergyPlus has secured long-term natural gas supply for approximately 10% of the combined needs of Ironwood and Lower Mt. Bethel through 2016.

## **Nuclear**

The nuclear fuel cycle consists of several material and service components: the mining and milling of uranium ore to produce uranium concentrates; the conversion of these concentrates into uranium hexafluoride, a gas component; the enrichment of the hexafluoride gas; the fabrication of fuel assemblies for insertion and use in the reactor core; and the temporary storage and final disposal of spent nuclear fuel.

PPL Susquehanna has a portfolio of supply contracts, with varying expiration dates, for nuclear fuel materials and services. These contracts are expected to provide sufficient fuel to permit Unit 1 to operate into the first quarter of 2020 and Unit 2 to operate into the first quarter of 2019. PPL Susquehanna anticipates entering into additional contracts to ensure continued operation of the nuclear units.

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna nuclear plant's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates, under current operating conditions, that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site spent fuel storage facility at the Susquehanna nuclear plant to accommodate spent fuel discharged through approximately 2017. If necessary, the on-site spent fuel storage facility can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facility will accommodate all of the spent fuel expected to be discharged through 2044, the current licensed life of the plant.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit. The settlement included reimbursement of certain costs to store spent nuclear fuel at the Susquehanna nuclear plant incurred from 1998 through December 31, 2013, and PPL Susquehanna received payments for its claimed costs for those periods. In exchange, PPL Susquehanna waived any claims against the U.S. government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna nuclear plant through December 31, 2013. In January 2014, PPL Susquehanna entered into a new agreement with the DOE to extend the settlement agreement on the same terms as the prior agreement for an additional three years to the end of 2016.

## ***Franchises and Licenses***



PPL EnergyPlus has a license from the DOE to export electric energy to Canada. PPL EnergyPlus also has a permit from the National Energy Board of Canada to export firm and interruptible energy from Canada to the United States.

## **Table of Contents**

PPL Susquehanna operates Units 1 and 2 pursuant to NRC operating licenses that expire in 2042 for Unit 1 and in 2044 for Unit 2.

In 2008, an Energy Supply subsidiary, PPL Bell Bend, LLC, submitted a COLA to the NRC for a new nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna nuclear plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend, LLC does not expect to complete the COLA review process with the NRC prior to 2018. See Note 4 to audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for additional information.

PPL Holtwood, LLC, a subsidiary of PPL Generation that owns hydroelectric generating operations in Pennsylvania, operates the Holtwood and Wallenpaupack hydroelectric generating plants pursuant to FERC-granted licenses that expire in 2030 and 2045, respectively.

In connection with the relicensing of these generating facilities, applicable law permits the FERC to relicense the original licensee or license a new licensee or allow the U.S. government to take over the facility. If the original licensee is not relicensed, it is compensated for its net investment in the facility, not to exceed the fair value of the property taken, plus reasonable damages to other property affected by the lack of relicensing.

## ***Employees***

At December 31, 2014, Energy Supply and its subsidiaries had 4,156 full-time employees, 2,482 of which were represented by labor unions. These numbers include union employees of mechanical contracting subsidiaries and tend to fluctuate due to the nature of the mechanical contractors' business.

## ***Legal Proceedings***

On October 20, 2014, Energy Supply received a notice letter from the Chesapeake Bay Foundation ( CBF ) alleging violations of the Clean Water Act and Pennsylvania Clean Streams Law at Brunner Island. The letter was sent to PPL Brunner Island and the PADEP and is intended to provide PPL Brunner Island and PADEP with notice of the alleged violations and CBF's intent to file suit in Federal court after expiration of the 60 day statutory notice period. Among other things, the letter alleges that PPL Brunner Island failed to comply with the terms of its National Pollutant Discharge Elimination System permit and associated regulations pertaining to the application of nutrient credits to the facility's discharges of nitrogen to the Susquehanna River. The letter also alleges that PADEP has failed to ensure that credits generated from nonpoint source pollution reduction activities that PPL Brunner Island applies to its discharges meet the eligibility and certification requirements under PADEP's nutrient trading program regulations. If a court-approved settlement cannot be reached, CBF plans to seek injunctive relief, monetary penalties, fees and costs of litigation. Energy Supply cannot predict the outcome of this matter.

See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for information regarding legal, litigation, regulatory and environmental proceedings and matters.

**Table of Contents**

**RJS Power**

RJS Power's simplified organizational structure at December 31, 2014 is shown below.

RJS Power is an independent power producer operating in the United States. RJS Power sells electricity, generating capacity and ancillary services on a wholesale basis from RJS Power's fleet of 15 power plants located in five states totaling approximately 5,331 MW of electricity generation capacity. RJS Power's operations consist primarily of generating electricity from its power plants, selling physical production, capacity and ancillary services into markets administered by regional ISOs and RTOs, hedging its physical production with highly rated counterparties, procuring and managing fuel and providing logistical support for and maintaining the reliability of its power plant facilities.

The charts below illustrate the composition and diversity of RJS Power's portfolio by fuel type and region as of December 31, 2014:

(1) May not add to 100% due to rounding.

The charts above do not reflect the sale or other disposition of generation capacity that is required in order to obtain regulatory approval for the Transactions. As a result, RJS Power's generation portfolio will not include all of the facilities that currently comprise its business. See The Separation Agreement and The Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans.

**Table of Contents**

RJS Power's primary customers are PJM and ERCOT. Approximately 63% and 35% of the net generating capacity of RJS Power's facilities is located in PJM and ERCOT, respectively. RJS Power considers these markets to be among the most developed in the United States, providing significant price transparency and market liquidity.

RJS Power expects that a material portion of its anticipated sales will be generated through forward contracts for the sale of its generation capacity to PJM, ISO-NE and other markets. RJS Power currently has an average of 2,943 MW of its generating capacity contracted for sale through May 2018. In addition, in order to reduce the risk of price volatility and achieve more predictable financial results, RJS Power has hedged a significant portion of its gross margin through physical and financial contracts for the purchase of fuel and the sale of electricity with highly rated counterparties. RJS Power intends to continue employing a similar strategy of using capacity sales and physical and financial hedges with the goal of covering a significant portion of its projected fixed costs.

**RJS Power Properties**

RJS Power's operating power generating facilities are as follows:

| <b>Primary Fuel/Plant (1)</b> | <b>Total MW Capacity (1)(2)(6)</b> | <b>Location</b> |
|-------------------------------|------------------------------------|-----------------|
| <b>Natural Gas</b>            |                                    |                 |
| Nueces Bay                    | 678                                | Texas           |
| Barney Davis 2                | 674                                | Texas           |
| Barney Davis 1                | 335                                | Texas           |
| Bayonne (3)                   | 174                                | New Jersey      |
| Camden (3)                    | 151                                | New Jersey      |
| Pedricktown (3)(6)            | 132                                | New Jersey      |
| Newark Bay (3)                | 129                                | New Jersey      |
| Laredo 4                      | 98                                 | Texas           |
| Laredo 5                      | 98                                 | Texas           |
| Dartmouth (3)                 | 89                                 | Massachusetts   |
| Elmwood Park (3)              | 73                                 | New Jersey      |
| York                          | 52                                 | Pennsylvania    |
|                               | 2,683                              |                 |
| <b>Coal</b>                   |                                    |                 |
| Brandon Shores                | 1,273                              | Maryland        |
| H.A. Wagner (3)(4)(5)         | 976                                | Maryland        |
| C.P. Crane (4)(5)             | 399                                | Maryland        |
|                               | 2,648                              |                 |
| Total                         | 5,331                              |                 |

(1)

As described under The Separation Agreement and the Transaction Agreement The Transaction Agreement Regulatory Approvals and Efforts to Close Mitigation Plans, pursuant to the FERC Order, we have agreed to dispose of one of two alternative divestiture packages within one year of the completion of the Transactions, both of which include the Bayonne, Camden, Newark Bay, Pedricktown, Elmwood Park and York facilities listed in the table above, and one of which also includes the C.P. Crane facility.

- (2) Total net generating capacities are based on average summer and winter capacity.
- (3) Approximately 874 MW of capacity has dual fuel generating capability.
- (4) H.A. Wagner includes 440 MW of capacity burning coal, 410 MW of capacity burning fuel oil and 126 MW of capacity burning natural gas or fuel oil. C.P. Crane includes 14 MW of fuel oil capacity.
- (5) C.P. Crane and H.A. Wagner each have 14 MW and 13 MW, respectively of black start combustion turbine capacity.
- (6) Pedricktown capacity includes capacity dedicated to serving landlord load (which has historically averaged 9MW).

## **Table of Contents**

### ***Employees***

As of December 31, 2014, TPM, the entity that manages RJS Power's assets, had approximately 50 full-time employees at corporate headquarters and RJS Power's facilities, including certain field-based administrative employees. RJS Power's subsidiaries employ approximately 500 plant-level employees, including administrative employees.

### ***Legal Proceedings***

See Note 12 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for information regarding legal, litigation, regulatory and environmental proceedings and matters.

### **Competition**

Since the early 1990s, there has been increased competition in U.S. energy markets because of federal and state competitive market initiatives. Although some states, such as Pennsylvania, Texas and Montana, have created a competitive market for electricity generation, other states continue to consider different types of regulatory initiatives concerning competition in the power and gas industries. Some states that were considering creating competitive markets have slowed their plans or postponed further consideration. In addition, states that have created competitive markets have, from time to time, considered new market rules and re-regulation measures that could result in more limited opportunities for competitive energy suppliers. Interest in re-regulation, however, has slowed due to recent declining power prices. As such, the markets in which Talen Energy participates are highly competitive.

The power generation business is a regional business that is diverse in terms of industry structure and fundamentals. Demand for electricity may be met by generation capacity based on several competing generation technologies, such as natural gas-fired, coal-fired or nuclear generation, as well as power generation facilities fueled by alternative energy sources, including hydro power, synthetic fuels, solar, wind, wood, geothermal, waste heat and solid waste sources. Talen Energy faces competition in wholesale markets for available energy, capacity and ancillary services. Competition is impacted by electricity and fuel prices, congestion along the power grid, subsidies provided by state and federal governments for new generation facilities, new market entrants, construction of new generating assets, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. Talen Energy primarily competes with other electricity suppliers based on its ability to aggregate generation supply at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities, ISOs and RTOs. Competitors in wholesale power markets include regulated utilities, industrial companies, NUGs, competitive subsidiaries of regulated utilities and other energy marketers. See Risk Factors Risks Related to Our Business, Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 11 and 15 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus for more information concerning the risks faced with respect to competitive energy markets.

### **Seasonality**

The demand for and market prices of electricity and natural gas are affected by weather. As a result, Talen Energy's operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or extreme winter weather make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned, the retail load served and the terms of contracts to purchase or sell electricity. See The Companies Environmental Matters below for additional information regarding climate change.

**Environmental Matters**

Extensive federal, state and local environmental laws and regulations are applicable to Energy Supply's and RJS Power's air emissions, water discharges and the management of hazardous and solid waste, as well as other

---

**Table of Contents**

aspects of Energy Supply's and RJS Power's businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements, scope or interpretations of environmental laws or regulations, or similar rules, become more stringent overtime, or are otherwise expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for Energy Supply's and RJS Power's services.

The following is a discussion of the more significant environmental matters. See Note 9 to the audited consolidated financial statements of Energy Supply included elsewhere in this prospectus and Note 12 to the audited consolidated and combined financial statements of RJS Power included elsewhere in this prospectus for additional information on environmental matters.

*GHG Regulations & Tort Litigation*

In December 2009, the EPA issued a finding that GHG emissions from motor vehicles cause or contribute to air pollution that endangers the public health and welfare. The EPA has since finalized several rules concerning GHGs that are directly relevant to Energy Supply's and RJS Power's facilities. In January 2010, the EPA rule on mandatory reporting of GHG emissions from all sectors of the economy went into effect and requires sources emitting more than 25,000 tons per year of GHGs to report their GHG emissions to EPA annually. Energy Supply and RJS Power have implemented processes and procedures to report these emissions.

In November 2010, the EPA issued the Prevention of Significant Deterioration ( PSD ) and Title V Permitting Guidance for GHGs, which focuses on steam turbine and boiler efficiency improvements as a reasonable Best Available Control Technology ( BACT ) requirement for coal-fired electric generating units ( EGUs ). The so-called EPA Tailoring Rule, effective in January 2011, phases in new emissions thresholds applicable to GHGs that trigger regulation under the existing PSD permit program and for the operating permit program under Title V of the Clean Air Act. In general, the Tailoring Rule establishes a GHG emissions PSD applicability threshold of CO<sub>2</sub>e for certain new and modified major sources. Application of the PSD program to GHG emissions will require implementation of BACT for such new and modified major sources of GHG, which could result in the need to install costly equipment to control emissions. For example, consistent with a recent U.S. Supreme Court decision addressing certain litigation relating to the EPA Tailoring Rule, facilities that must obtain a PSD permit for other pollutants must also address GHG emission increases of 75,000 tons per year or more of CO<sub>2</sub>e. The EPA's proposal notes that a subsequent rulemaking will be completed by April 30, 2016 to determine whether it would be appropriate to lower the thresholds at that time.

In June 2013, President Obama released his Climate Action Plan, which reiterates the goal of reducing GHG emissions in the U.S. in the range of 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing more restrictive energy efficiency standards. Additionally, the Climate Action Plan calls for the United States to prepare for the impacts of climate change. Requirements related to this could affect Energy Supply and RJS Power and others in the industry, as modifications may be needed to electricity delivery systems to improve the ability to withstand major storms in order to meet those requirements. Also, by Presidential Memorandum the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule to be issued in a timely fashion thereafter, and to issue proposed standards for existing power plants by June 1, 2014 with a final rule by June 1, 2015. As further described below, the EPA has proposed rules pursuant to this directive, which it expects to finalize in the second or third quarter of 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 30, 2016. The Obama Administration's recent increase in its



estimate of the social cost of carbon (which is used to calculate benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton for 2015 may lead to more costly regulatory requirements. In addition, President Obama's commitment to international leadership in

**Table of Contents**

the area of carbon emission reductions could lead to more costly regulatory requirements. For example, in November 2014 the United States and China announced a joint agreement to specific carbon reduction targets.

The EPA's revised proposal for new power plants was published in the Federal Register on January 8, 2014. The proposed New Source Performance Standard ( NSPS ) is for EGUs with a capacity greater than 25 MW. The proposed rule would require that all new natural gas-fired plants meet the GHG emission limit associated with the performance of natural gas combined cycle technology, and that all new coal-fired plants meet the GHG emission limits that the EPA associates with the performance of partial carbon capture and sequestration. The NSPS proposal would apply to covered facilities that commence construction after January 8, 2014, unless they have already been issued permits but not yet commenced construction. Because this rule will apply only to new sources, not modified or reconstructed sources, and Energy Supply and RJS Power have no current plans for the construction of new facilities, Energy Supply and RJS Power do not currently expect this proposed rule to have a significant impact on their respective businesses. The carbon capture and sequestration technology is not presently commercially viable and, therefore, the proposed limits effectively preclude the construction of new coal plants. The proposed standards for new gas-fired plants may also not be continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new gas-fired plants could have a significant industry-wide impact.

The EPA's proposed regulation addressing GHG emissions from existing sources was published in the Federal Register on June 18, 2014, with an extended comment deadline of December 1, 2014. The proposal contains state-specific rate-based reduction goals and guidelines for the development, submission, and implementation of state plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying EPA's very broad interpretation and definition of the Best System of Emission Reduction resulting in very stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the plan filed (single or multi-state). PPL has analyzed the proposal and identified potential impacts and solutions in comments filed on December 1, 2014. The regulation of GHG emissions from existing plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

Some states have developed initiatives to stimulate national climate legislation through carbon dioxide emission reductions in the electric power industry. Certain northeastern states, including Maryland where RJS Power has generation facilities, participate in the Regional Greenhouse Gas Initiative ( RGGI ), a cap and trade program covering carbon dioxide emissions from electric generating units in the Northeast. Generators may acquire RGGI allowances through a regional auction or through secondary markets.

Based on the stringent reduction requirements in the EPA proposed rule under Section 111(d), and based on information gained from public input, the PADEP is no longer expecting to achieve reductions required under the EPA's proposed rule by solely increasing efficiency at existing fossil-fuel plants and/or reducing generation as set forth in its April 10, 2014 white paper. On October 23, 2014, the Pennsylvania Governor signed into law Act 175 of 2014 requiring the PADEP to obtain General Assembly approval of any state plan addressing GHG emissions under the EPA's rules for existing plants. The law includes provisions to minimize the exposure to a federal implementation plan due to legislative delay.

The MDEQ, at the request of the Governor of Montana, has prepared a white paper outlining possible regulatory scenarios to implement the EPA's proposed Section 111(d) rule, including a combination of increasing energy efficiency at coal plants, adding more low- and zero-carbon generation, and carbon sequestration at Colstrip. The white paper was released to the public in September, 2014 and the MDEQ held public meetings to present the white paper and gather comment.

It is possible that federal and state actions intended to address climate change could result in costs directly applied to GHG emissions that neither Energy Supply nor RJS Power would be able to fully recover through

---

**Table of Contents**

market pricing or otherwise. If capital and/or operating costs related to compliance with regulations intended to address climate change become great enough to render the operations of certain plants uneconomical, Energy Supply or RJS Power could, at their option and subject to any applicable financing agreements or other obligations, reduce operations or cease to operate such plants and forego such capital and/or operating costs.

In 2014, Energy Supply's and RJS Power's facilities emitted approximately 26 million and 10 million tons of CO<sub>2</sub>e respectively. The amount of CO<sub>2</sub>e emitted from Energy Supply's and RJS Power's facilities during any time period will depend upon their dispatch rates during the period.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of an existing PPL subsidiary as a defendant based upon emissions from certain Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including a number of indirect subsidiaries of PPL, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues may arise in the future.

### *Climate Change*

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to Energy Supply's or RJS Power's generation assets, as well as impacts on Energy Supply's or RJS Power's customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where Energy Supply or RJS Power have hydroelectric generating facilities or where river water is used to cool its fossil and nuclear powered generators. Neither Energy Supply nor RJS Power can currently predict whether its businesses will experience these potential risks or estimate the cost of their related consequences.

### *Carbon Initiatives*

Energy Supply and RJS Power participates in several programs that partially offset or mitigate power plant GHG emissions. Energy Supply and RJS Power also have programs to reuse CCRs produced at their coal-fired generation units through agreements with cement manufacturers that incorporate the material into cement products, helping to reduce CO<sub>2</sub> emissions from the cement manufacturing process.

### *Coal Combustion Residuals (CCRs)*

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous waste) under existing federal law. On December 19, 2014, as agreed upon under a litigation settlement involving certain environmental groups, the EPA issued its pre-publication version of the final CCR regulation. Under the final CCR rule, the EPA is regulating CCR disposal in landfills or surface

**Table of Contents**

impoundments as a non-hazardous solid waste under Subtitle D of RCRA. The Subtitle D rule establishes national criteria for disposal of CCRs in landfills and surface impoundments, requiring new disposal facilities to install composite liners. The Subtitle D rule also requires existing unlined surface impoundments found to be impacting ground water to close or be retrofitted with a liner. The rule is self-implementing with enforcement through citizen suits and requires compliance documentation to be posted on publically available websites. Energy Supply and RJS Power expect that any plants using surface impoundments for management and disposal of CCRs or the past management and disposal of CCRs and continued use to manage waste waters will be most impacted by this rule. The rule's requirements for closure of CCR impoundments and landfills may require significant increases to AROs for certain facilities. The EPA indicates that the rule focuses on ground water impact mitigation, structural integrity for disposal facilities, and run-on, run-off and dust controls for disposal facilities. While the rule does not specifically regulate beneficial use of CCRs, the rule will restrict certain fill operation uses. Encapsulated uses, such as in concrete or wall board, will not be impacted by the rule.

Energy Supply and RJS Power are continuing to evaluate the pre-publication version of the rule. While Energy Supply and RJS Power do not currently expect this rule to have a material impact on their respective businesses, the financial and operational impact could be significant.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. In addition, environmental groups have urged EPA to require states to update permits for coal ash impoundments to impose stricter requirements on wastewater discharges. Recent ash spills that have occurred within the utility industry are adding increased pressure to regulate both active and legacy sites.

*Effluent Limitation Guidelines*

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA's review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations also contain some requirements that would affect the inspection and operation of CCR facilities, if finalized as proposed. The proposal contains several alternative approaches, some of which could significantly impact Energy Supply's and RJS Power's coal-fired plants. As proposed, the new requirements would be phased in between 2017 and 2022 through the discharge permitting renewal process. The final regulation is expected to be issued by the third or fourth quarter of 2015. In addition, certain states (including Pennsylvania) and environmental groups are proposing more stringent technology-based limits for permit renewals. The EPA has agreed to a deadline for the final regulation of September 30, 2015. Such deadline is contingent upon the EPA meeting its deadline of December 19, 2014 for issuing its final CCR regulations. At the present time, neither RJS Power nor Energy Supply is able to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

*Clean Water Act/316(b)*

The EPA's final 316(b) rule for existing facilities, which became effective October 14, 2014, regulates cooling water intake structures and their impact on aquatic organisms. The rule allows states considerable authority to interpret the rule. The rule requires all existing facilities to choose one of seven options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would

likely require additional technology to comply with the rule.

**Table of Contents**

Energy Supply's and RJS Power's ultimate compliance approach with the final rule at any particular facility will depend on numerous factors, including technology studies, compliance deadlines and implementation by the relevant state permitting authority.

*Waters of the United States (WOTUS)*

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers ( Army Corps ) published the proposed rule defining Waters of the United States ( WOTUS ) that could significantly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including activities affecting storm water conveyances and wetlands), the implications of which could be significant. On September 9, 2014, the U.S. House of Representatives passed House Bill H.R. 5078 the Waters of the United States Regulatory Overreach Protection Act of 2014, to block these regulations, and the Senate is considering similar legislation. Neither Energy Supply or RJS Power can predict the outcome of the pending rulemaking.

*MATS*

In February 2012, the EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes construction of any new coal-fired plants. In April 2014, the U.S. Court of Appeals for the District of Columbia Circuit ( D.C. Court of Appeals ) upheld MATS, which may lead to the premature retirement of a number of older coal-fired generation units. On November 25, 2014, the U.S. Supreme Court granted certiorari in several petitions for review of the D.C. Court of Appeals' decision to uphold MATS. Specifically, the U.S. Supreme Court will consider whether the EPA unreasonably refused to consider costs in determining whether to regulate hazardous air pollutants from fossil-fuel fired plants. Apart from the EPA's MATS rule, several states have enacted or proposed regulations requiring reductions in mercury emissions from coal-fired power plants.

Energy Supply and RJS Power are generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls. Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved emission reductions. In September 2012, Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS. Operations were suspended and the Corette plant was retired in March 2015. The Corette plant asset group was determined to be impaired in December 2013. See Management's Discussion and Analysis of Financial Condition and Results of Operations Energy Supply Application of Critical Accounting Policies Asset Impairment (Excluding Investments) for additional information. Given the air emission controls already employed, RJS Power expects that each of RJS Power's facilities will be in compliance with the MATS rule emission limits without the need for significant additional investment. Energy Supply has received approval for one-year compliance extensions for certain plants in Pennsylvania, and a one-year extension request has been submitted for Colstrip. Other Energy Supply extension requests are under regulatory consideration.

*CSAPR and CAIR*

In 2011, the EPA finalized the CSAPR regulating emissions of NO<sub>x</sub> and SO<sub>2</sub> through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, the CSAPR targeted sources in the eastern U.S. In December 2011, the D.C. Court of Appeals stayed implementation of the CSAPR, leaving the CAIR in place. Subsequently, in August 2012, the D.C. Court of Appeals vacated the CSAPR



and remanded it back to the EPA for further rulemaking, again leaving the CAIR in place in the interim. In April 2014, the U.S. Supreme Court reversed and remanded the D.C. Court of Appeals' decision to vacate the CSAPR, and on October 23, 2014, the D.C. Court of Appeals lifted the stay of CSAPR, granting EPA's request. While the D.C. Court of Appeals' motion did not expressly address the three-year compliance deadline extension

---

**Table of Contents**

requested by EPA, the extension appears to be implied by the order. Through an interim final rule and Notice of Data Availability released on November 21, 2014, the EPA amended the CSAPR and emission allowance allocations as tolled by the D.C. Court of Appeals' order. Phase 1 annual trading programs for NO<sub>x</sub> and SO<sub>2</sub> commenced on January 1, 2015. Phase 1 ozone season trading will begin on May 1, 2015. Phase 2 reductions impacting the annual and ozone season trading programs will take effect in 2017 and continue into the future. CSAPR was developed to address the EPA's 1997 ozone NAAQS. Implementation of the EPA's 2008 ozone NAAQS could lead to a new transport rule or further CSAPR revisions in the future. Oral arguments pertaining to outstanding challenges to CSAPR were heard before the D.C. Court of Appeals on February 25, 2015.

Based on analyses conducted in 2011 to prepare for CSAPR compliance, Energy Supply does not anticipate significant compliance costs, however these analyses will be reviewed under current market and operating conditions to make further assessments on compliance impacts.

*Regional Haze*

Under the EPA's regional haze programs (developed to eliminate man-made visibility degradation by 2064), states are required to make reasonable progress every decade, including the application of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977. For the eastern U.S., the EPA determined that region-wide reductions under the CSAPR trading program could be utilized under state programs to satisfy BART requirements for SO<sub>2</sub> and NO<sub>x</sub>. Although the D.C. Court of Appeals recently lifted the CSAPR stay in response to a U.S. Supreme Court action in April, 2014 (see CSAPR/CAIR discussion above), future decisions by the EPA and the courts will determine whether power plants located in the eastern U.S., including Energy Supply's plants in Pennsylvania, will be subject to further reductions in those pollutants in accordance with BART requirements.

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Energy Supply's Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Energy Supply's Colstrip Units 3 & 4), and tighter emission limits for Energy Supply's Corette plant (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the suspension of operations and the retirement of the Corette plant in March 2015 (see MATS discussion above). Both PPL and environmental groups have appealed the final FIP rules to the U.S. Court of Appeals for the Ninth Circuit and litigation is ongoing.

*National Ambient Air Quality Standards*

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania and Maryland, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reductions. However, the proposal is being questioned as too lenient by the EPA, other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on Energy Supply's Pennsylvania coal plants. The PADEP is expected to finalize its rule in 2015. On November 25, 2014, the EPA issued a proposal to further tighten the ozone standard, which may require further nitrogen oxide controls, particularly for fossil-fueled plants within the OTR. The EPA is under court order to finalize the standard by October 1, 2015. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of good neighbor state implementation plans for those states that are found to contribute significantly to another state's non-attainment. The EPA recently sent a policy memo to state agencies to facilitate the development of these plans, including modeling

data showing which states are contributing. The implementation of such plans could have an impact on the structure and stringency of CSAPR Phase 2 reductions (discussed above). On December 1, 2014, the Maryland Department of the Environment

---

**Table of Contents**

issued a notice of proposed action to adopt new regulations, to place NO<sub>x</sub> emissions limits on coal-fired electric generation units within Maryland and require certain units to either put on SCRs, repower to natural gas or shut down by June 2020. These regulations, if promulgated as proposed, will apply to certain RJS Power generation units within Maryland and will require Crane 1 and 2 and Wagner 2 to make such an election by June 2020.

In December 2012, the EPA issued final rules that tighten the National Ambient Air Quality Standard for fine particulates. The rules were challenged by industry groups, and were upheld by the D.C. Court of Appeals on May 9, 2014. Final designations for the 2012 particulate standard were published in January 2015, identifying non-attainment areas in Pennsylvania. States have until 2021 to achieve attainment in non-attainment areas.

In 2010, the EPA finalized a new, more stringent National Ambient Air Quality Standard for SO<sub>2</sub> and required states to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area). Attainment must be achieved by 2018. States are working to finalize designations for other areas. On April 17, 2014 the EPA proposed timeframes for completing these designations. Energy Supply anticipates that some of the measures required for compliance with the CAIR and CSAPR, the MATS, or the Regional Haze requirements (as discussed above), will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as operations were suspended and the Corette plant was retired in March 2015.

Until final rules are promulgated, non-attainment designations are finalized and state compliance plans are developed, we cannot predict the ultimate outcome of the new National Ambient Air Quality standards for ozone, sulfur dioxide and particulate matter.

*Remedial Laws*

Energy Supply and RJS Power are subject to environmental requirements relating to handling and disposal of toxic and hazardous materials, including provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ( CERCLA ) and RCRA and similar state laws. CERCLA imposes strict liability for contaminated sites resulting from the release of hazardous substances into the environment on the current or previous owner and operator of a facility and companies that disposed, or arranged for disposal, of hazardous substances found at a contaminated facility. CERCLA also authorizes the EPA and, in some cases, private parties to take actions in response to threats to public health or the environment and to seek recovery for costs of cleaning up hazardous substances that have been released and for damages to natural resources from responsible parties. Further, it is not uncommon for neighboring landowners and other affected parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment. CERCLA, RCRA, or similar state laws could impose remedial obligations with respect to a variety of our facilities and operations. Contamination from historical activities has been identified at some of our facilities, including seepages or groundwater infiltration at wastewater basins and landfills, and we have completed or are working with agencies to respond to notices of violations and implement assessment or abatement measures, where required or applicable. Although neither Energy Supply nor RJS Power currently expect to incur material costs responding to such matters, the discovery of additional contamination or the imposition of additional remedial obligations in the future could result in significant costs to RJS Power or Energy Supply.

In August 2012, PPL Montana entered into an Administrative Order on Consent ( AOC ) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years PPL Montana provide

financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities. In September 2012, Earthjustice filed an

**Table of Contents**

affidavit pursuant to Montana's Major Facility Siting Act ( MFSA ) that sought review of the AOC by Montana's Board of Environmental Review ( BER ) on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation. In September 2012, PPL Montana Filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay which was granted by the court in May 2014. PPL Montana and MDEQ responded to the amended petition and filed partial motions to dismiss in July 2014, which were both denied in October 2014. Discovery is ongoing, and a bench trial is set for April 2016.

As a result of their age, a number of Energy Supply's and RJS Power's facilities contain quantities of asbestos-containing materials, lead-based paint and/or other regulated materials. Existing state and federal rules require the proper management and disposal of these materials. RJS Power and Energy Supply have developed a management plan that includes proper maintenance of existing non-friable asbestos installations and removal and abatement of asbestos-containing materials where necessary because of maintenance, repairs, replacement or damage to the asbestos itself.

*Other Issues*

Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, Brunner Island signed a Consent Order and Agreement ( COA ) with PADEP allowing Energy Supply to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. Negotiations with the agency are ongoing, and Energy Supply cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have, but the costs could be significant.

**Table of Contents****MANAGEMENT OF TALEN ENERGY FOLLOWING THE TRANSACTIONS**

The following table sets forth certain information concerning those persons who will become our directors and our executive officers at or prior to the completion of the Transactions. Ages are as of March 31, 2015.

| <b>Name</b>           | <b>Age</b> | <b>Position *</b>                                       |
|-----------------------|------------|---|
| Paul A. Farr          | 47         | President, Chief Executive Officer and Director         |
| Jeremy R. McGuire     | 43         | Senior Vice President and Chief Financial Officer       |
| Clarence J. Hopf, Jr. | 58         | Senior Vice President and Chief Commercial Officer      |
| Timothy S. Rausch     | 50         | Senior Vice President and Chief Nuclear Officer         |
| James E. Schinski     | 55         | Senior Vice President and Chief Administrative Officer  |
| Paul M. Breme         | 44         | Vice President, General Counsel and Corporate Secretary |
| J. Matt Simmons, Jr.  | 49         | Vice President, Chief Accounting and Risk Officer       |
| Ralph C. Alexander    | 60         | Director  |
| Frederick M. Bernthal | 72         | Director  |
| Edward J. Casey, Jr.  | 57         | Director  |
| Philip G. Cox         | 63         | Director  |
| Louise K. Goeser      | 61         | Director  |
| Stuart E. Graham      | 69         | Chairman  |
| Michael B. Hoffman    | 64         | Director  |

\* With the exception of Mr. Farr, who currently serves as an Executive Vice President and a Director of Talen Energy, none of the listed officers or directors currently serve as officers or directors of Talen Energy. Each of the directors and Messrs. Farr, McGuire and Breme will also serve in the same roles in respect of HoldCo, beginning at or prior to the completion of the Transactions.

**Executive Officers**

Upon the completion of the Transactions, the executive officers of Talen Energy will consist of the following executives. All of these executives who will be our executive officers following the completion of the Transactions are currently employees of affiliates of PPL. Following the completion of the Transactions, none of our executive officers will be employees of PPL.

**Paul A. Farr**, *President, Chief Executive Officer and Director*, has served as President of Energy Supply and PPL Generation since June 2014. He previously served as Executive Vice President and Chief Financial Officer of PPL since April 2007 and, in that role, was instrumental in PPL's acquisition of \$14 billion in utility businesses through two major transactions that transformed PPL and provided a more stable foundation for future growth. He also served as Senior Vice President-Financial of PPL from 2006 through March 2007 and in the Controller role for PPL from August 2004 to 2006. Mr. Farr joined PPL in 1998 and has served in various senior management roles, including for over three years as Chief Operating Officer of PPL Global, LLC, the PPL affiliate that, through its subsidiaries, owns and operates PPL's regulated electricity distribution businesses in the U.K. Prior to joining PPL, Mr. Farr served as an international project finance manager for Illinova Generating Company and as a certified public accountant at Price Waterhouse LLP and Arthur Andersen.

**Jeremy R. McGuire**, *Senior Vice President and Chief Financial Officer*, has 20 years of financing and strategic advisory experience, and has led the strategic planning function at PPL since 2008. He led several competitive power

generation transactions for PPL, both as buyer and seller, comprising 2,500 megawatts of capacity. With Mr. Farr, he also played a leading role in PPL's acquisition of \$14 billion in utility businesses. Prior to joining PPL in 2008, Mr. McGuire was an investment banker at Lehman Brothers since 2000, where he worked with regulated utilities, independent power producers and private equity clients. Prior to joining Lehman Brothers, Mr. McGuire had more than five years of additional experience in the investment banking industry.



---

**Table of Contents**

**Clarence J. Hopf, Jr.**, *Senior Vice President and Chief Commercial Officer*, has served as Senior Vice President-Fossil and Hydro Generation for Energy Supply since August 2014. He currently oversees PPL's hydroelectric and fossil-fueled generating plants in Pennsylvania and Montana and PPL's wholesale and competitive retail energy sales and services operations. Mr. Hopf has more than 30 years of experience in the electricity business, as well as expertise in risk management and credit issues. He began his career in power plant operations at PSI Energy in Indiana, where he advanced to supervisor of PSI's energy control center before the company merged with Cincinnati Gas and Electric to form Cinergy. He was supervisor of Cinergy's control center before becoming Director of Midwest Trading. Mr. Hopf advanced to Managing Director of Trading and Operations for Cinergy before joining Ameren Energy in 1999. He spent four years as a vice president at Ameren Energy, where he was responsible for an asset-backed operation similar to that of PPL. In 2003, Mr. Hopf became Vice President of Energy Trading for Goldman Sachs in New York, where he developed that company's 24-hour energy trading operation. Mr. Hopf joined PPL in October 2005 as Senior Vice President-Energy Marketing for PPL EnergyPlus. He was named president of PPL EnergyPlus in July 2006 before leaving the company to accept a position with PSEG as President of its energy marketing and trading subsidiary in 2008. He rejoined PPL EnergyPlus in 2012 and directed coal trading and supply, and later the wholesale marketing function, before being named Eastern Trading Vice President in March 2014.

**Timothy S. Rausch**, *Senior Vice President and Chief Nuclear Officer*, has served as PPL Generation's Senior Vice President and Chief Nuclear Officer, with responsibility for the Susquehanna nuclear plant, since July 2009 after 25 years of experience in virtually all the disciplines of the nuclear power industry. He began his nuclear career with GPU Nuclear Corp. as an operator training instructor at the Oyster Creek plant in New Jersey. After moving to the Perry nuclear plant in Ohio, he served as emergency operations procedures coordinator, as supervisor of operations, as training manager, as quality manager, as manager of engineering and as manager of maintenance before being named plant general manager in 2002. In 2004, he accepted a position with Exelon Nuclear Corp. as design engineering director for that company's fleet of 17 nuclear units. In 2005, he was promoted to engineering director for the Exelon fleet, and then in 2006, he was named Site Vice President at that company's Oyster Creek plant.

**James E. Schinski**, *Senior Vice President and Chief Administrative Officer*, joined PPL Services in 2009 as Vice President-Chief Information Officer and served in that role until July 2014. Since that time, he has served in a Vice President role to assist future Talen Energy senior management in the transition from PPL to Talen Energy. Prior to joining PPL, Mr. Schinski served as Chief Information Officer and Vice President of Human Resources for the Midwest Independent System Operator since 2004, where he was responsible for design, development, implementation and operation of technology systems for one of the country's largest electricity markets. He began his career as an engineer for the former Philadelphia Electric Company at the Limerick and Peach Bottom nuclear power plants.

**Paul M. Breme**, *Vice President, General Counsel and Corporate Secretary*, joined PPL's Office of General Counsel in 2008 from the law firm of Cahill, Gordon & Reindel LLP in New York, where he specialized in corporate law and finance for two years. At PPL, he served as Counsel from 2008 to 2009, as Senior Counsel until 2012 and as Associate General Counsel since 2012. He previously worked in the legal department of CapitalSource, a Maryland-based finance company from 2001 until 2007, and began his legal career as an associate at the law firm of King & Spalding in Atlanta in 1999. He is a U.S. Army veteran and served as a first lieutenant for an armored tank battalion.

**J. Matt Simmons, Jr.**, *Vice President, Chief Accounting and Risk Officer*, joined PPL in 2006 as Vice President and Controller, a role in which he served until March 2010. He was also appointed as Vice President-Risk Management and Chief Risk Officer in September 2009, a role in which he served for PPL until October 2014, when he assumed the Vice President and Chief Risk Officer role for PPL Energy Supply. Prior to joining PPL in 2006, Mr. Simmons served as Vice President-Finance and Controller of Duke Energy Americas since October 2003, and as Chief Risk and

Chief Accounting Officer for Reliant Energy Europe for almost four years before that. He has more than 20 years of experience in auditing, accounting and risk management, much of it

---

**Table of Contents**

derived from work in capital markets and energy marketing both in the U.S. and internationally. He is a certified public accountant.

**Directors**

The Transaction Agreement provides that, as of the completion of the Transactions, the board of directors of Talen Energy will consist of the following directors, a majority of whom will not be employees of Talen Energy or its affiliates and will satisfy the independence requirements of the SEC and NYSE. We have listed below biographical information for each person who is currently expected to be a member of the board of directors of Talen Energy as of the completion of the Transactions, in addition to Mr. Farr.

**Ralph C. Alexander** is a Partner of Riverstone Holdings. Riverstone Holdings is an energy and power-focused private equity firm founded in 2000. Before joining Riverstone Holdings in September 2007, Mr. Alexander served nearly 25 years in various positions with subsidiaries and affiliates of BP plc, one of the world's largest oil and gas companies. From June 2004 until December 2006, he served as Chief Executive Officer of Innovene, BP's \$20 billion olefins and derivatives subsidiary. From 2001 until June 2004, he served as Chief Executive Officer of BP's Gas, Power and Renewables and Solar segment and was a member of the BP group executive committee. Prior to that, Mr. Alexander served as a Group Vice President in BP's Exploration and Production segment and BP's Refinery and Marketing segment. He held responsibilities for various regions of the world, including North America, Russia, the Caspian, Africa, and Latin America. Prior to these positions, Mr. Alexander held various positions in the upstream, downstream and finance groups of BP. In addition to serving on the boards of a number of Riverstone portfolio companies and their affiliates, Mr. Alexander has served on the board of EP Energy Corporation since September 2013, the board of the general partner of Enviva Partners, LP since November 2013 and the board of Niska Gas Storage Partners LLC since December 2014. In addition, Mr. Alexander is currently Chairman of the Board of Polytech Institute of New York. He previously served on the boards of Stein Mart, Inc. (2007-June 2014), KiOR, Inc. (2011-May 2013) and Amyris, Inc. (2007-July 2013). Mr. Alexander will be appointed to our board of directors by the Contributors pursuant to the Stockholders Agreement described below. We believe Mr. Alexander's extensive experience with the energy industry enables him to provide critical insight and guidance to our management team and board of directors.

**Frederick M. Bernthal** is the retired President of Universities Research Association (URA), a position he held from 1994 until March 2011. URA is a consortium of research universities engaged in the construction and operation of major research facilities on behalf of the U.S. Department of Energy and the National Science Foundation. Dr. Bernthal served from 1990 to 1994 as Deputy Director of the National Science Foundation, from 1988 to 1990 as Assistant Secretary of State for Oceans, Environment and Science, and from 1983 to 1988 as a member of the U.S. Nuclear Regulatory Commission. Dr. Bernthal has served as a director of PPL since 1997 and will resign from that board as of or prior to the completion of the Transactions. Having served as a member of the Nuclear Regulatory Commission and considering his governmental and leadership experience, Dr. Bernthal is expected to bring to our board of directors a unique point of view and knowledge vital to a company having nuclear operations.

**Edward J. Casey, Jr.** is Chief Operating Officer, and sits on the board of directors, of Serco Group plc, a company that provides professional, technology and management outsourcing services to governments, international agencies and corporations. Before accepting his current position in 2013, Mr. Casey served as Chief Executive Officer of the U.S. subsidiary of Serco Group plc, Serco Inc., from 2005 to 2013 and has sat on the board of Serco Inc. since 2006, including serving as Chairman from 2006 to 2013. Before joining Serco Inc., Mr. Casey worked for nine years in the energy business, including President and Chief Executive Officer of NP Energy Inc., an energy marketing business he founded and later sold; President and Chief Operating Officer of Tenneco Energy until it was sold to El Paso Energy; and as Group President and as Chief Financial Officer for LG&E Energy Corp. Previously, Mr. Casey worked over ten years in investment banking and private equity, including with The Blackstone Group and Fremont Group LLC.

Mr. Casey will be appointed to our board of directors by the Contributors pursuant to the Stockholders Agreement described below. We believe that

---

**Table of Contents**

Mr. Casey's extensive executive leadership experience, as well as his specific knowledge of the energy and financial services industries, will enable him to provide critical insight and guidance to our management team and board of directors.

**Philip G. Cox** retired in April 2013 as Chief Executive Officer of International Power plc, a global independent power producer based in the United Kingdom. He was promoted to that position in 2003 after serving in his previous role of Chief Financial Officer, a position he held since 2000. Before joining International Power, Mr. Cox served as Senior Vice President-Operational Planning at Invensys plc from 1999 to 2000 and in several financial roles at Siebe PLC, including Chief Financial Officer, from 1989 to 1999. Before joining Siebe, he served in several senior roles in both public and private industry, after beginning his career with Price Waterhouse in 1973, where he qualified as a Chartered Accountant in 1976. He was awarded a CBE (Commander of the British Empire) for services to the energy industry in 2013. Mr. Cox serves as a director of Drax Group plc and Wm Morrison Supermarkets PLC. He previously served on the boards of International Power Ltd. (2003-April 2013); Meggitt PLC (2012-January 2015); Tractebel Energia S.A. (2011-March 2013); and Wincanton plc (2001 to 2009). He has also served as a director of PPL since May 2013 and will resign from that board prior to the completion of the Transactions. Having served as the CEO and CFO of a global energy company, as well as in other leadership and accounting roles throughout his career, Mr. Cox is expected to provide critical insight into organizational and operational management, global business and financial matters to our board of directors.

**Louise K. Goeser** is President and Chief Executive Officer of Grupo Siemens S.A. de C.V. and is responsible for Siemens Mesoamérica. Siemens Mesoamérica is the Mexican, Central American and Caribbean unit of multinational Siemens AG, a global engineering company operating in the industry, energy and healthcare sectors. Before accepting this position in March 2009, Ms. Goeser served as President and Chief Executive Officer of Ford of Mexico from January 2005 until November 2008. Prior to this position, she served as Vice President, Global Quality for Ford Motor Company, a position she had held since 1999. In that position, she was responsible for ensuring superior quality in the design, manufacture, sale and service of all Ford cars, trucks and components worldwide. Prior to 1999, she served as Vice President for Quality at Whirlpool Corporation and served in various leadership positions with Westinghouse Electric Corporation. She serves as a director of MSC Industrial Direct Co., Inc. Ms. Goeser has also served as a director of PPL since 2003 and will resign from that board as of or prior to the completion of the Transactions. With years of demonstrated leadership and business experience in a variety of industry and international positions, Ms. Goeser is expected to bring to our board of directors valuable insight into global organizational and operational management crucial to a large public company.

**Stuart E. Graham** is non-executive Chairman of Sweden-based Skanska AB, an international project development and construction company. He served as President and CEO of Skanska from 2002 to 2008, and served on its board of directors for the same period of time. He continued to serve as chairman of Skanska USA Inc., a U.S. subsidiary, until May of 2011. From 2000 to 2002, Mr. Graham served as Executive Vice President of Skanska responsible for business units in the United States, the United Kingdom, Hong Kong and Latin America. Mr. Graham's career spans over four decades in the construction industry, including the construction, and in one case, the operation of, power plants in the United States and Latin America. He is past chairman of the Engineering and Construction Governors Council of the World Economic Forum and founded the Engineering and Construction Risk Institute. He serves on the boards of Harsco Corporation; and Skanska AB, of which he is Chairman. Mr. Graham has also served as a director of PPL since 2008 and will resign from that board as of or prior to the completion of the Transactions. Having served as the CEO of a global construction firm, Mr. Graham is expected to bring to our board of directors a strong mix of operational and organizational skills and global business expertise, as well as leadership experience from a variety of public company boards, all of which are critical to Talen Energy.

**Michael B. Hoffman** is a Partner of Riverstone Holdings, where he is principally responsible for investments in power and renewable energy for Riverstone. Riverstone Holdings is an energy and power-focused

## **Table of Contents**

private equity firm founded in 2000. Before joining Riverstone Holdings in 2003, Mr. Hoffman was senior managing director and head of the mergers and acquisitions advisory business of The Blackstone Group for 15 years, where he also served on the firm's principal group investment committee as well as its executive committee. Prior to joining Blackstone, Mr. Hoffman was a managing director and co-head of the mergers and acquisitions department at Smith Barney, Harris Upham & Co. In addition to serving on the boards of a number of Riverstone portfolio companies and their affiliates, Mr. Hoffman currently serves as a director of Pattern Energy, Inc., which became a public company in October 2013, as a director of the general partner of Enviva Partners, LP, and is the Chairman of Onconova Therapeutics, Inc. Until December 31, 2011, Mr. Hoffman served as an executive officer of Amaizeingly Green Products GP Ltd., which filed an application for a receivership order in Canada with the Ontario Superior Court of Justice under section 243(1) of the Bankruptcy and Insolvency Act on December 3, 2012. Mr. Hoffman will be appointed to our board of directors by the Contributors pursuant to the Stockholders Agreement described below. We believe Mr. Hoffman's experience with the energy industry and extensive investment banking experience enables him to provide critical insight and guidance to our management team and board of directors.

## **Board Composition and Director Independence**

Effective upon completion of the Transactions, our business and affairs will be managed under the direction of our board of directors. We expect that we will have eight directors upon the completion of the Transactions. Our directors will hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

The majority of our directors will be independent as determined in accordance with the requirements of the SEC and NYSE.

Under our amended and restated certificate of incorporation, our board of directors shall initially consist of eight directors and thereafter shall, subject to the terms of the Stockholders Agreement described below, consist of such number of directors as may be determined from time to time by resolution of the board of directors. Each director will hold office until his or her successor has been duly elected and qualified or until his or her earlier death, resignation or removal. Board vacancies or newly created directorships would ordinarily be filled by the affirmative vote of a majority of our directors then in office, even if less than a quorum, or by a sole remaining director, though, pursuant to the Stockholders Agreement, the Contributors would be entitled to designate any replacement of a director originally designated by the Contributors.

Pursuant to the terms of the Transaction Agreement and the Stockholders Agreement to be entered into between the Contributors and Talen Energy, the board of directors will nominate for election two members designated by the Contributors until such time as the Contributors no longer own at least 25% of the common stock of Talen Energy outstanding at the completion of the Transactions, after which time the board of directors will nominate for election one member designated by the Contributors for so long as the Contributors beneficially own at least 10% of the common stock of Talen Energy outstanding at the completion of the Transactions. Messrs. Alexander and Hoffman are the designees of the Contributors pursuant to this provision. The Contributors also have the right to designate one independent member to be nominated by the board of directors for election to the board of directors for so long as the Contributors own at least 10% of the common stock of Talen Energy outstanding at the completion of the Transactions. The Contributors' designee pursuant to this provision is Mr. Casey. If a director designated by the Contributors pursuant to these rights is not elected by the stockholders, the Contributors will be entitled to designate another individual to become a member of the board of directors and the board of directors will take such action as is necessary to appoint such individual to become a member of the board of directors, including, if applicable, by increasing the size of the board of directors and appointing such individual to fill the newly created vacancy. Pursuant to the Stockholders Agreement, after the first date on which the Contributors no longer own at least 25% of the of the

common stock of Talen Energy outstanding at the completion of the Transactions, the Contributors will cause one of directors previously designated by them (other than the independent director) to resign from the board of directors. After the first date on which the Contributors no longer own at least 10% after the first date on which the Contributors



## **Table of Contents**

no longer own at least of the common stock of Talen Energy outstanding at the completion of the Transactions, the Contributors will cause the other non-independent director previously designated by them to resign from the board of directors, but the independent director previously designated by the Contributors shall continue to serve his or her term as a director, though the board of directors will not be required to re-nominate such independent director at the next election of directors.

### **Committees of the Board of Directors**

Effective upon completion of the Transactions, our board of directors will have the following committees, each of which will operate under a written charter that will satisfy the applicable standards of the SEC and the NYSE and be posted to our website in connection with the Transactions.

#### ***Audit Committee***

The Audit Committee, which we expect will consist of Dr. Bernthal, Mr. Casey, Mr. Cox and Ms. Goeser, will have the responsibility for, among other things, assisting the board of directors in reviewing: our financial reporting and other internal control processes; our financial statements; the independent auditors' qualifications and independence; the performance of our internal audit function and independent auditors; and our compliance with legal and regulatory requirements and our code of business conduct and ethics.

We expect that the board of directors will determine that at least one of the members of the Audit Committee qualifies as an audit committee financial expert as that term is defined in the rules and regulations of the SEC and that all members are financially literate under the NYSE rules. We expect that Mr. Cox will chair the Audit Committee.

#### ***Compensation, Governance and Nominating Committee***

The Compensation, Governance and Nominating Committee (CGNC), which we expect will consist of Mr. Casey, Mr. Graham and Ms. Goeser, will have the responsibility for, among other things, reviewing and approving the compensation and benefits of our executive officers, directors and compensation consultants, as well as identifying and recommending candidates to the board of directors for election to our board of directors, reviewing the composition of the board of directors and its committees, developing and recommending to the board of directors corporate governance guidelines that are applicable to us and overseeing board of directors evaluations. We expect that Mr. Graham will chair the CGNC.

#### ***Nuclear Oversight Committee***

The Nuclear Oversight Committee, which we expect will consist of Dr. Bernthal and Messrs. Alexander, Cox, Graham and Hoffman, will have the responsibility, among other things, to assist the board of directors in the fulfillment of its responsibilities for oversight of Talen Energy's nuclear operations; to advise company management on nuclear matters; and to provide advice and recommendations to the board of directors concerning the future direction of the company and management performance related to nuclear operations. We expect that Dr. Bernthal will chair the Nuclear Oversight Committee.

### **Code of Ethics for Senior Executives and Financial Officers and Code of Business Conduct and Ethics**

Prior to the completion of the Transactions, our board of directors intends to adopt a single code of business conduct and ethics, which will be applicable to all employees, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions, as well as to our board of directors. The

code of business conduct and ethics will require our employees to avoid actions or relationships that might conflict or appear to conflict with their job responsibilities or our interests and to disclose their outside activities, financial interests or relationships that may present a possible conflict of interest or the appearance of a

## **Table of Contents**

conflict to management or corporate counsel. The code of business conduct and ethics will also apply to our directors, as applicable. The code of business conduct and ethics will not, by itself, prohibit transactions with our principal stockholders. A copy of the code of business conduct and ethics will be made available on our website. We will promptly disclose any substantive changes in or waiver of, together with reasons for any waiver of, this code granted to our executive officers, including our principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions, as well as our directors, by posting such information on our website.

## **Compensation of Directors**

We have not yet paid any compensation to the individuals who will become Talen Energy's directors. We expect to establish a director compensation policy prior to the consummation of the Transactions, as described below.

**Annual Retainer.** Directors who are company employees or employees of Riverstone Holdings (or any of its subsidiaries), initially Messrs. Alexander and Hoffman, will not receive any separate compensation for service on the Board of Directors or committees of the Board of Directors. We expect that directors who are not employees of Talen Energy or of Riverstone Holdings (or any of their respective subsidiaries) will receive an annual retainer of \$235,000, of which a minimum of \$130,000 will be mandatorily allocated in quarterly installments to each director's deferred stock account under a Directors Deferred Compensation Plan, or DDCP. The remaining \$105,000 portion of the annual retainer would be paid in cash in quarterly installments to each director, unless voluntarily deferred to his or her stock account or to his or her deferred cash account under the DDCP (as discussed below with respect to all retainers).

Each deferred stock unit would represent the right to receive a share of Talen Energy common stock and be fully vested upon grant, but would not be paid to the director until after retirement (as discussed below with respect to payments under the DDCP). Deferred stock units are not expected to have voting rights, but would accumulate quarterly dividend equivalents, which would be reinvested in additional deferred stock units, which also would not be paid to the director until retirement.

**Retainer for Chairman of the Board.** Talen Energy expects to provide an additional annual cash retainer of \$150,000 to its Chairman of the Board, who will be an independent director. This retainer would be paid in quarterly installments unless voluntarily deferred under the DDCP.

**Committee Chair Retainers.** The Audit Committee Chair is expected to receive an additional annual cash retainer of \$20,000, which is to be paid in quarterly installments unless voluntarily deferred under the DDCP. Each other committee chair is expected to receive an additional annual cash retainer of \$15,000, which is to be paid in quarterly installments unless voluntarily deferred under the DDCP.

**Other Fees.** Talen Energy does not expect to pay any meeting fees but will reimburse each director for usual and customary travel expenses.

**Directors Deferred Compensation Plan.** Talen Energy expects that it will adopt a directors deferred compensation plan. See [Executive Compensation](#) Directors Deferred Compensation Plan.

**Table of Contents**

**EXECUTIVE COMPENSATION**

Talen Energy has not yet paid any compensation to the individuals who will become its executive officers, and we have not yet made any determinations with respect to the compensation of the executive officers following the Transactions, other than as described below. Information as to the historical compensation by PPL of certain persons who will become executive officers of Talen Energy upon the completion of the Transactions is not indicative of the compensation of those executives following the completion of the Transactions. Accordingly, Talen Energy has not included information regarding compensation and other benefits paid to those executives during 2014 or prior years.

Upon completion of the Transactions, our board of directors will have a CGNC as described above. In connection with the completion of the Transactions, the CGNC will commence to oversee and determine the compensation of the Chief Executive Officer and other executive officers of Talen Energy and evaluate and determine the appropriate executive compensation philosophy and objectives for Talen Energy and the process for establishing executive compensation. The CGNC will evaluate and determine the appropriate design of Talen Energy's executive compensation program and make any adjustment to the compensation arrangements currently contemplated and described below. If determined to be necessary or appropriate by the CGNC, the CGNC will retain a compensation consultant to provide advice and support to the CGNC in the design and implementation of the executive compensation program for Talen Energy.

**Compensation Philosophy**

Following the consummation of the Transactions, our CGNC will review and consider our compensation philosophy and may make adjustments as it determines are necessary or appropriate. Talen Energy's compensation philosophy will aim to attract, retain, and motivate key leadership and talent by providing a high upside and downside opportunity that supports an overall emphasis on at-risk compensation versus guaranteed pay that is necessary for our sustained long-term growth while aligning executives with the interests of its stockholders.

**Primary Elements of Expected Direct Compensation from Talen Energy**

We expect that our executive compensation program will consist of the following key elements:

***Base Salary***

Base salary is the fixed element of an executive officer's annual cash compensation and is intended to attract and retain highly qualified executives and to compensate for expected day-to-day performance. Each of our executive officers will be paid a base salary. Factors that we expect our CGNC to consider in making determinations about the base salaries for our executive officers following the completion of the Transactions include the executive officer's position, responsibilities associated with the job scope, experience, expertise, value to the organization and market factors, salary levels of the other members of our executive team, and our overall compensation philosophy. The expected base salaries of our Chief Executive Officer and other executive officers will be determined in accordance with these criteria.

***Annual Cash Incentive Compensation***

Our executive officers are also expected to be eligible for annual cash incentive awards, which are intended to motivate the executive officers to achieve identified short-term company and business unit performance goals, to reward the executive officers for superior individual achievements in attaining those goals, and to align executive officers' interests with those of our stockholders. Following the completion of the Transactions, we expect that our

CGNC will establish an annual incentive plan and annual bonus framework for our executive officers.

## **Table of Contents**

### ***Long-Term Equity-Based Incentive Awards***

We anticipate that following the consummation of the Transactions, our executive officers will be eligible to participate in our long-term equity incentive compensation programs, which will motivate executive officers to achieve long-term performance goals, encourage them to remain in the employ of Talen Energy, and ensure goal alignment with Talen Energy stockholders. The amount and timing of any long-term equity-based incentive compensation to be paid or awarded to our executive officers following the consummation of the Transactions will be determined by our CGNC. Any equity incentive awards granted, paid or awarded to our executive officers following the consummation of the Transactions will generally be granted pursuant to a new equity incentive plan, as discussed below under **Stock Incentive Plan**.

With respect to base salaries, annual cash incentive compensation and any long-term incentive awards, it is expected that our CGNC will develop programs reflecting appropriate measures, goals, targets and business objectives based on Talen Energy's competitive marketplace and will make any adjustments to the proposed elements of compensation described above that it determines are necessary or appropriate in its sole discretion. Our CGNC will also determine the appropriate additional benefits and perquisites, if any, that it will make available to executive officers.

### **Perquisites and Other Benefits**

In addition to its direct compensation, which includes salary, annual cash incentive and long-term incentive opportunities, Talen Energy expects to provide carefully selected executive perquisites, consistent with market practices, which serve a direct business interest, such as financial planning services to assist executive officers, who generally have more complex financial situations than most employees, and severance protection in the event of termination of employment under limited circumstances.

Executive officers of Talen Energy may be eligible for company-paid financial planning services. These services include financial planning, tax preparation support and a one-time payment for estate documentation preparation. These services would be provided in recognition of time constraints on busy executives and their more complex compensation program that requires professional financial and tax planning. We believe that good financial planning by experts reduces the amount of time and attention that executive officers must spend on such issues. Such planning also helps ensure that the objectives of our compensation programs are met and not hindered by unexpected tax or other consequences.

Talen Energy may also provide for an executive physical every two years, not to exceed a cost of \$5,000. The benefit is beneficial to both the employee and to the company through reduced costs. Executive physical examinations offer a more thorough and intensive health screening, are comprehensive and include tests for rare diseases.

### **Potential Payments upon Termination**

#### ***Executive Severance Plan***

In connection with the completion of the Transactions, we expect the Talen Energy board of directors to adopt a Talen Energy executive severance plan. This plan is expected to provide severance benefits for executive officers terminated for reasons other than for cause. The key features of the plan are expected to include: (1) 12 or 24 months (depending on position) of base pay; (2) an allowance for benefit continuation for 12 or for 24 months (depending on position); and (3) outplacement or career services support for 12 months, subject to a maximum of \$25,000, or for 24 months, subject to a maximum of \$50,000 (depending on position). Severance benefits payable under this program will be conditioned on the executive officer agreeing to release the company from any liability arising from the employment

relationship.

## **Table of Contents**

### ***Change in Control Protections***

It is expected that, following the Transactions, the Talen Energy board of directors will adopt change in control protections in the event that an executive is terminated in connection with a change in control.

The decision to establish any executive severance policy, change in control protections and final terms of any such policies will be in the sole discretion of our CGNC following the completion of the Transactions and may differ from the policies described above.

The consequences of a termination of employment upon any equity awards granted to our executive officers will be determined by our CGNC and provided in our new stock incentive plan and applicable award agreements.

### **Stock Incentive Plan**

In connection with the completion of the Transactions, we expect the Talen Energy board of directors to adopt a Talen Energy stock incentive plan or the Stock Incentive Plan. The following is a description of the purpose and the expected material provisions of the Stock Incentive Plan.

#### ***Purpose***

The purpose of the Stock Incentive Plan is to aid us and our affiliates in recruiting and retaining key employees, directors and other service providers and to motivate those employees, directors and other service providers to exert their best efforts on our behalf and on behalf of our affiliates by providing incentives through the granting of stock options, stock appreciation rights ( SARs ), other stock-based awards, and other performance-based awards.

#### ***Shares Subject to the Plan***

The Stock Incentive Plan is expected to provide that the total number of shares of common stock that may be issued under the Stock Incentive Plan is 5,630,000, and the maximum number of shares for which incentive stock options ( ISOs ) may be granted is 2,000,000. Additionally, the maximum number of shares for which stock options or SARs may be granted to any participant in one fiscal year is 2,000,000. Shares of our common stock or the payment of cash upon the exercise of an award or in consideration of the cancellation or termination of an award will reduce the aggregate number of shares available under the Stock Incentive Plan. If shares are not issued or are withheld from payment of an award to satisfy tax obligations with respect to the award, such shares will not be added back to the aggregate number of shares with respect to which awards may be granted under the Stock Incentive Plan, but rather will count against the aggregate number of shares with respect to which awards may be granted. When a stock option or SAR is granted under the Stock Incentive Plan, the number of shares subject to the stock option or SAR will be counted against the aggregate number of shares with respect to which awards may be granted under the Stock Incentive Plan as one share for every share subject to such stock option or SAR, regardless of the actual number of shares (if any) used to settle such stock option or SAR upon exercise. Shares of our common stock covered by awards that terminate or lapse without the payment of consideration may be granted again under the Stock Incentive Plan.

#### ***Administration***

The Stock Incentive Plan is administered by the CGNC or such other committee of our board of directors to which it has delegated such authority (the Committee ). The Committee will be authorized to interpret the Stock Incentive Plan, to establish, amend and rescind any rules and regulations relating to the Stock Incentive Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Stock Incentive Plan, and may



delegate such authority as it deems appropriate. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Stock Incentive Plan in the manner and to the extent the Committee deems necessary or desirable. The Committee will have the full power and authority to establish

## **Table of Contents**

the terms and conditions of any award consistent with the provisions of the Stock Incentive Plan and to waive any such terms and conditions at any time (including, without limitation, accelerating or waiving any vesting conditions).

### ***Eligible Participants***

Participants in the Stock Incentive Plan will be selected by the Committee from the employees, directors and other service providers of us and our affiliates. The selection of those persons within a particular class who will receive awards is entirely within the discretion of the Committee, although the Stock Incentive Plan is expected to be structured to allow grants to be made to employees, directors and other service providers of us and our affiliates.

### ***Limitations***

No award may be granted under the Stock Incentive Plan after the tenth anniversary of the effective date of the Stock Incentive Plan, but awards theretofore granted may extend beyond that date.

### ***Options***

The Committee may grant non-qualified stock options and ISOs, which will be subject to the terms and conditions as set forth in the Stock Incentive Plan, the related award agreement and any other terms, not inconsistent therewith, as determined by the Committee; provided that all stock options granted under the Stock Incentive Plan are required to have a per share exercise price that is not less than 100% of the fair market value of our common stock underlying such stock options on the date an option is granted (other than in the case of options granted in substitution of previously granted awards), and all stock options that are intended to qualify as ISOs will be subject to the terms and conditions that comply with the rules as may be prescribed by Section 422 of the Code. The maximum term for stock options granted under the Stock Incentive Plan will be ten years from the initial date of grant. The purchase price for the shares as to which a stock option is exercised will be paid to us, to the extent permitted by the Committee, (1) in cash or its equivalent at the time the stock option is exercised, (2) in shares having a fair market value equal to the aggregate exercise price for the shares being purchased and satisfying any requirements that may be imposed by the Committee, so long as the shares will have been held for such period established by the Committee in order to avoid adverse accounting treatment, (3) partly in cash and partly in shares, (4) if there is a public market for the shares at such time, through the delivery of irrevocable instructions to a broker to sell the shares being obtained upon the exercise of the stock option and to deliver to us an amount out of the proceeds of such sale equal to the aggregate exercise price for the shares being purchased, or (5) through a net settlement feature. The repricing of stock options is prohibited without prior approval of our shareowners, unless otherwise permitted by applicable stock exchange listing rules. Dividend equivalent payments or units will not be awarded with respect to stock options.

### ***SARs***

The Committee may grant SARs independent of or in connection with a stock option. The exercise price per share of a SAR will be an amount determined by the Committee but in no event will such amount be less than 100% of the fair market value of a share on the date the SAR is granted (other than in the case of SARs granted in substitution of previously granted awards). Generally, each SAR will entitle the participant upon exercise to an amount equal to the product of (1) the excess of (A) the fair market value on the exercise date of one share of common stock, over (B) the exercise price per share, times (2) the number of shares of common stock covered by the SAR. As discussed above with respect to options, the repricing of SARs is prohibited under the Stock Incentive Plan without prior approval of our shareowners, unless otherwise permitted by applicable stock exchange listing rules.



**Table of Contents*****Other Stock-based Awards (including Performance-based Awards)***

In addition to stock options and SARs, the Committee may grant or sell awards of shares, restricted shares, restricted stock units, dividend equivalents and awards that are valued in whole or in part by reference to, or otherwise based on the fair market value of, shares of our common stock, including performance-based awards. The Committee, in its sole discretion, may grant awards which are denominated in shares or cash (such awards, Performance-based Awards), which awards may, but are not required to, be granted in a manner which is intended to be deductible by us under Section 162(m) of the Code. Such Performance-based Awards will be in such form, and dependent on such conditions, as the Committee will determine, including, without limitation, the right to receive, or vest with respect to, one or more shares of our common stock or the cash value of the award upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. The maximum amount of a Performance-based Award that may be earned during each fiscal year during a performance period by any participant will be: (x) with respect to Performance-based Awards that are denominated in shares, 750,000 shares and (y) with respect to Performance-based Awards that are denominated in cash, \$4,000,000. The amount of the Performance-based Award actually paid to a participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. Performance-based Awards will be determined based on attainment of one or more of the following objective performance goals, as determined by the Committee: (1) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (2) net income; (3) operating income; (4) earnings per share; (5) book value per share; (6) return on shareowners' equity (including total shareowners' return); (7) expense management; (8) return on investment before or after the cost of capital; (9) improvements in capital structure; (10) profitability of an identifiable business unit or product; (11) maintenance or improvement of profit margins; (12) stock price; (13) market share; (14) revenues or sales; (15) costs; (16) cash flow (or free cash flow); (17) working capital; (18) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); (19) return on assets; (20) credit rating; (21) improvement in workforce diversity; (22) employee retention; (23) closing of corporate transactions; (24) strategic plan development and implementation; and (25) independent industry ratings or assessments.

***Effect of Certain Events on Stock Incentive Plan and Awards***

In the event of any stock dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or transaction or exchange of shares or other corporate exchange, any equity restructuring (as defined under FASB Accounting Standard Codification 718), or any distribution to shareowners of common stock other than regular cash dividends or any similar event, the Committee, in its sole discretion and without liability to any person, will make such substitution or adjustment, if any, as it deems to be reasonably necessary to address, on an equitable basis, the effect of such event, as to (i) the number or kind of common stock or other securities that may be issued as set forth in the Stock Incentive Plan or pursuant to outstanding awards, (ii) the maximum number of shares for which options or SARs may be granted during a fiscal year to any participant, (iii) the maximum amount of a Performance-Based Award that may be granted during a fiscal year to any participant, (iv) the exercise price of any award and/or (v) any other affected terms of such awards. In the event of a Change in Control (as defined in the Stock Incentive Plan), with respect to any outstanding awards then held by participants which are unexercisable or otherwise unvested or subject to lapse restrictions, the Committee may, but will not be obligated to, in a manner intended to comply with the requirements of Section 409A of the Code, (1) accelerate, vest, or cause the restrictions to lapse with all or any portion of an award, (2) cancel awards for fair value (as determined in the sole discretion of the Committee), which, in the case of stock options and SARs, may equal the excess, if any, of the value of the consideration to be paid in the Change in Control transaction to holders of the same number of shares subject to such stock options or SARs over the aggregate exercise price of such stock options or SARs, (3) provide for the issuance of substitute awards or (4) provide that the stock options or SARs will be exercisable for all shares subject thereto for a period of at least 30 days prior to the Change in Control and that upon the occurrence of the Change in Control, the stock options or

SARs will terminate and be of no further force or effect. The Committee may cancel stock options and SARs for no consideration if the fair market value of the shares subject to such options or SARs is less than or equal to the aggregate exercise price of such stock options or SARs.

## **Table of Contents**

### ***Forfeiture and Clawback***

The Committee may, in its sole discretion, specify in an award or a policy that is incorporated into an award by reference that the participant's rights, payments, and benefits with respect to such award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions contained in such award. Such events may include, but are not limited to, termination of employment for cause, termination of the participant's provision of services to us, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the participant, or adverse restatement of our previously released financial statements as a consequence of errors, omissions, fraud, or misconduct.

### ***Nontransferability of Awards***

Unless otherwise determined by the Committee, an award will not be transferable or assignable by a participant otherwise than by a will or by the applicable laws of descent and distribution.

### ***Amendment and Termination***

After completion of the Transactions, the Talen Energy board of directors may generally amend, alter or discontinue the Stock Incentive Plan, but no amendment, alteration or discontinuation will be made (1) without the approval of our shareowners (a) to increase the number of shares reserved under the Stock Incentive Plan, (b) to modify the requirements for participation in the Stock Incentive Plan or (c) to the extent such shareowner approval is required by or desirable to satisfy the requirements of any applicable law, including the listing standards of the securities exchange, which is, at the applicable time, the principal market for the shares of our common stock; or (2) without the consent of a participant, if such action would materially adversely impair any of the rights or obligations under any award theretofore granted to the participant under the Stock Incentive Plan; provided, however, that the Committee may amend the Stock Incentive Plan in such manner as it deems necessary to permit the granting of awards meeting the requirements of the Code or other applicable laws, including, without limitation, to avoid adverse tax or accounting consequences to us or any participant.

### ***Section 409A of the Code***

The Stock Incentive Plan and awards issued under it will be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations, and no award will be granted, deferred, accelerated, extended, paid out or modified under the Stock Incentive Plan in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon a participant.

### ***United States Federal Income Tax Consequences***

The following is a general summary of the material United States federal income tax consequences of the grant, vesting and exercise of awards under the Stock Incentive Plan and the disposition of shares acquired pursuant to the exercise of such awards and is intended to reflect the current provisions of the Code and the Treasury regulations thereunder. This summary is not intended to be a complete statement of applicable law, nor does it address foreign, state, local and payroll tax considerations. Moreover, the United States federal income tax consequences to any particular participant may differ from those described herein by reason of, among other things, the particular circumstances of such participant.

### ***ISOs***

Options granted as ISOs under Section 422 of the Code may qualify for special tax treatment. The Code requires that, for treatment of an option as an ISO, common stock acquired through the exercise of the option cannot be disposed of before the later of (i) two years from the date of grant of the option or (ii) one year from the date of exercise. Holders of ISOs will generally incur no federal income tax liability at the time of grant or

---

**Table of Contents**

upon exercise of those options. However, the option spread value at the time of option exercise will be an item of tax preference, which may give rise to alternative minimum tax liability for the taxable year in which the exercise occurs. If the holder does not dispose of the shares before two years following the date of grant and one year following the date of exercise, the difference between the exercise price and the amount realized upon disposition of the shares will constitute long-term capital gain or loss, as the case may be. Assuming both holding periods are satisfied, we will not be allowed a deduction for federal income tax purposes in connection with the grant or exercise of the ISO. If, within two years following the date of grant or within one year following the date of exercise, the holder of shares acquired through the exercise of an ISO disposes of those shares, the participant will generally realize taxable compensation at the time of such disposition equal to the difference between the exercise price and the lesser of the fair market value of the shares on the date of exercise or the amount realized on the subsequent disposition of the shares, and that amount will generally be deductible by us for federal income tax purposes, subject to the possible limitations on deductibility under Sections 280G and 162(m) of the Code for compensation paid to executives designated in those Sections. Finally, if an otherwise qualified ISO becomes first exercisable in any one year for shares having an aggregate value in excess of \$100,000 (based on the grant date value), the portion of the ISO in respect of those excess shares will be treated as a non-qualified stock option for federal income tax purposes.

*Non-Qualified Stock Options*

No income will be realized by a participant upon grant of a non-qualified stock option. Upon the exercise of a non-qualified stock option, the participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the underlying exercised shares over the option exercise price paid at the time of exercise. We will be able to deduct this same amount for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

*SARs*

No income will be realized by a participant upon grant of an SAR. Upon the exercise of an SAR, the participant will recognize ordinary compensation income in an amount equal to the fair market value of the shares of stock or cash payment received in respect of the SAR. We will be able to deduct this same amount for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

*Restricted Stock*

A participant will not be subject to tax upon the grant of an award of restricted stock unless the participant otherwise elects to be taxed at the time of grant pursuant to Section 83(b) of the Code. On the date an award of restricted stock becomes transferable or is no longer subject to a substantial risk of forfeiture, the participant will have taxable compensation equal to the difference between the fair market value of the shares on that date over the amount the participant paid for such shares, if any, unless the participant made an election under Section 83(b) of the Code to be taxed at the time of grant. If the participant makes an election under Section 83(b) of the Code, the participant will have taxable compensation at the time of grant equal to the difference between the fair market value of the shares on the date of grant over the amount the participant paid for such shares, if any. Special rules apply to the receipt and disposition of restricted stock received by officers and directors who are subject to Section 16(b) of the Exchange Act. We will be able to deduct, at the same time as it is recognized by the participant, the amount of taxable compensation to the participant for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.





## **Table of Contents**

### *Restricted Stock Units*

A participant will not be subject to tax upon the grant of a restricted stock unit award. Rather, upon the delivery of shares or cash pursuant to a restricted stock unit award, the participant will have taxable compensation equal to the fair market value of the number of shares (or the amount of cash) the participant actually receives with respect to the award. We will be able to deduct the amount of taxable compensation to the participant for United States federal income tax purposes, but the deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

### *Stock Bonus Awards*

A participant will have taxable compensation equal to the difference between the fair market value of the shares on the date the common stock subject to the award is transferred to the participant over the amount the participant paid for such shares, if any. We will be able to deduct, at the same time as it is recognized by the participant, the amount of taxable compensation to the participant for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

## **Short-Term Incentive Plan**

In connection with the completion of the Transactions, we expect the Talen Energy board of directors to adopt a Talen Energy short-term incentive plan (the "STIP"). The purpose of the STIP is to advance the interests of us and our stockholders by providing incentives in the form of periodic cash bonus awards to certain senior executive employees of us and our affiliates, thereby motivating such executives to attain corporate performance goals under the STIP (described below) while preserving for the benefit of us and our affiliates the associated U.S. federal income tax deduction. Section 162(m) of the Code, imposes limitations on the amount of compensation expense that a publicly held corporation may deduct for income tax purposes.

The following is a brief summary of the expected terms of the STIP.

### *Administration*

The STIP will be administered by a committee of two or more outside directors as defined under Section 162(m) of the Code (the "STIP Committee"). The STIP Committee will have the exclusive authority to select the senior executives to be granted awards under the STIP, to determine the size and terms of the award, to modify the terms of any award that has been granted (except for any modification that would increase the amount of the award payable to an executive), to determine the time when awards will be made and the performance period to which they relate, to establish performance objectives in respect of such performance periods and to certify that such performance objectives were attained; provided, however, that any such action shall be consistent with the applicable provisions of Section 162(m) of the Code.

### *Participation*

Awards may be granted to senior executives of Talen Energy and our affiliates who are covered employees, as defined in Section 162(m) of the Code, or who the STIP Committee anticipates may become covered employees. An executive to whom an award is granted is deemed to be a participant.

### *Awards under the STIP*

A participant's award is expected to be determined based on the attainment of written performance goals approved by the STIP Committee for a performance period which is established by the STIP Committee while the outcome for that performance period is substantially uncertain and no more than 90 days after the commencement of that performance period or, if less, the number of days which is equal to 25% of that

## **Table of Contents**

performance period. The performance goals, which must be objective, are expected to be based upon one or more of the following criteria: (1) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (2) net income; (3) operating income; (4) earnings per share; (5) book value per share; (6) return on shareholders equity (including total shareholders return); (7) expense management; (8) return on investment before or after the cost of capital; (9) improvements in capital structure; (10) profitability of an identifiable business unit or product; (11) maintenance or improvement of profit margins; (12) stock price; (13) market share; (14) revenues or sales; (15) costs; (16) cash flow (or free cash flow); (17) working capital; (18) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); (19) return on assets; (20) credit ratings; (21) improvement in workforce diversity; (22) employee retention; (23) closing of corporate transactions; (24) strategic plan development and implementation; and (25) independent industry ratings or assessments. The maximum amount of an award to any participant in the STIP with respect to a fiscal year of Talen Energy (or other designated performance period) shall be \$4,000,000.

The STIP Committee must determine whether the performance goals have been met with respect to any affected participant of the STIP and, if they have, so certify and ascertain the amount of the applicable award. No awards will be paid for that performance period until such certification is made by the STIP Committee. The amount of the award actually paid to any affected participant of the STIP may be less than the amount determined by the applicable performance goal formula, at the discretion of the STIP Committee.

### ***Amendment and Termination of the STIP***

The STIP Committee may at any time, or from time to time, suspend or terminate the STIP in whole or in part or amend it in such respects as the STIP Committee may deem appropriate. No amendment, suspension or termination of the STIP will, without the participant's consent, impair any of the rights or obligations under any award theretofore granted to a participant under the STIP.

### **Directors Deferred Compensation Plan**

In connection with the completion of the Transactions, we expect the Talen Energy board of directors to adopt a Talen Energy directors deferred compensation plan (a DDCP). Pursuant to the DDCP, directors who are not employees of Talen Energy or of Riverstone Holdings (or any of their respective subsidiaries), which would exclude Messrs. Alexander, Farr and Hoffman, may elect to defer all or any part of the fees and any retainer that is not part of the mandatory stock unit deferrals. Under this plan, directors can defer cash compensation other than the mandatory deferrals into a deferred cash account or a deferred stock account. The deferred cash account is expected to earn a return as if the funds had been invested in one or more of the core investment options offered to employees under our deferred savings plan. These investment accounts are expected to include large, mid and small cap index and investment funds, international equity index funds, target date funds, bond funds and a stable value fund. Payment of the amounts allocated to a director's deferred cash account and accrued earnings, together with deferred stock units and accrued dividend equivalents, will be deferred until after the director's separation from service with the Talen Energy board of directors or reaches an elected age, at which time the deferred cash and stock will be disbursed in one or more annual installments for a period of up to ten years, as previously elected by the director.

### **Executive Deferred Compensation Plan**

In connection with the completion of the Transactions, we expect the Talen Energy board of directors to adopt a Talen Energy executive deferred compensation plan, which will permit participants to defer a portion or all of their cash compensation in excess of the estimated minimum legally required annual payroll tax withholding. A hypothetical account will be established for each participant who elects to defer, and the participant will select one or more

investment choices that generally mirror those that are available generally to employees under the Talen Energy Savings Plan. Matching contributions will be made under this plan on behalf of participants to make up for matching contributions that would have been made on behalf of such participants

**Table of Contents**

under the Talen Energy Savings Plan or Talen Energy Retirement Savings Plan but for the imposition of maximum statutory limits on qualified plan benefits (for example, annual limits on eligible pay and contributions). Participants who reach the maximum limits in the Talen Energy Savings Plan or Talen Energy Retirement Savings Plan will generally be eligible for matching contributions under the Talen Energy executive deferred compensation plan. There will be no vesting requirement for the company matching contributions.

**Supplemental Compensation Pension Plan**

In connection with the completion of the Transactions, we expect the Talen Energy board of directors to adopt a Talen Energy supplemental compensation pension plan. This plan will be a non-qualified plan that will apply to active employees hired by PPL prior to January 1, 2012 who are vested in the PPL Retirement Plan. The benefit formula is expected to be the same as the PPL Retirement Plan, but will reflect compensation in excess of the IRS-prescribed limit. The plan benefit will be calculated using all PPL and Talen Energy affiliated company service, not just service credited under the PPL or Talen Energy Retirement Plans. Upon retirement, this plan will only pay out the excess benefit above and beyond the Talen Energy Retirement Plan.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

As of the date of this prospectus, all of the outstanding shares of our common stock are beneficially owned by HoldCo, which is a wholly owned direct subsidiary of PPL. After the Transactions, PPL will not own any shares of our common stock.

The following table provides information with respect to the anticipated beneficial ownership of our common stock by:

each person known to beneficially own more than 5% of our outstanding common stock;

each of our directors;

each of our executive officers; and

all of our directors and executive officers as a group.

To the extent certain of our directors and executive officers own PPL common stock at the record date of the Distribution, they will participate in the Distribution on the same terms as other holders of PPL common stock.

Except as otherwise noted in the footnotes below, each person or entity identified in the tables below has sole voting and investment power with respect to the securities owned by such person or entity.

Immediately following the Transactions, 128,500,000 shares of our common stock will be issued and outstanding, inclusive of the number of shares to be issued in a private placement transaction in connection with the Combination.

**Stock Ownership of Certain Beneficial Owners**

We anticipate, based on information to our knowledge as of March 31, 2015, that our directors, executive officers and the following entities will beneficially own the indicated number of shares of our common stock after the Transactions.

| Name and Address of Beneficial Owner | Shares Beneficially Owned After the Transactions |                    |
|--------------------------------------|--|--------------------|
|                                      | Number   | Percent            |
| The Contributors                     | 44,975,000 <sup>(1)</sup>                        | 35% <sup>(1)</sup> |
| Paul A. Farr                         | 5,003  | *                  |
| Jeremy R. McGuire                    | 2,123  | *                  |
| Clarence J. Hopf, Jr.                | 65   | *                  |
| Timothy S. Rausch                    | 4,666  | *                  |
| James E. Schinski                    | 1,314  | *                  |
| Paul M. Breme                        | 322  | *                  |
| J. Matt Simmons, Jr.                 | 992  | *                  |

Edgar Filing: Talen Energy Corp - Form S-1/A

|  |        |   |
|--|--------|---|
| Ralph C. Alexander   |        | * |
| Frederick M. Bernthal  |        | * |
| Edward J. Casey, Jr.   |        | * |
| Philip G. Cox  |        | * |
| Louise K. Goeser   |        | * |
| Stuart E. Graham   | 625    | * |
| Michael B. Hoffman   |        | * |
| All directors and executive officers as a group (14 individuals) | 15,110 | * |

\* Represents less than 1%.

(1) Beneficial ownership of the shares of common stock of Talen Energy received by the Contributors will be shared by Sapphire Power Holdings LLC, Raven Power Holdings LLC and C/R Energy Jade, LLC. R/C



**Table of Contents**

Renewable Energy GP II, LLC exercises investment discretion and control over the shares of common stock beneficially owned by Sapphire Power Holdings LLC. R/C Renewable Energy GP II, LLC is managed by a seven person board of managers of Pierre F. Lapeyre, Jr., David M. Leuschen, Ralph C. Alexander, Michael B. Hoffman, Stephen B. Schafer, Daniel D Aniello and Edward J. Mathias. Riverstone Energy GP V, LLC exercises investment discretion and control over the shares of common stock beneficially owned by Raven Power Holdings LLC. Riverstone Energy GP V, LLC is managed by a six person board of managers of Pierre F. Lapeyre, Jr., David M. Leuschen, James T. Hackett, Michael B. Hoffman, N. John Lancaster, Jr. and Andrew W. Ward. C/R Energy GP III, LLC exercises investment discretion and control over the shares of common stock beneficially owned by C/R Energy Jade, LLC. C/R Energy GP III, LLC is managed by a 7 person managing committee of William E. Conway, Jr., Daniel D Aniello, David M. Rubenstein, Edward J. Mathias, Pierre F. Lapeyre, Jr., David M. Leuschen and Michael B. Hoffman. Each member of each board of managers disclaims any beneficial ownership of the shares.

---

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

**Policies and Procedures for Related Person Transactions**

Our board of directors is expected to adopt a written related-person transaction policy to recognize the process the board of directors will use to identify potential conflicts of interest arising out of financial transactions, arrangements or relations between Talen Energy and any related persons. This policy would apply to any transaction or series of transactions in which Talen Energy or a subsidiary is a participant, the amount exceeds \$120,000 and a related person has a direct or indirect material interest. A related person includes not only the company's directors and executive officers, but others related to them by certain family relationships, as well as stockholders who own more than 5% of any class of Talen Energy's voting securities.

Under the proposed policy, each related-person transaction would be reviewed and approved or ratified by the disinterested independent members of our board of directors, other than any employment relationship or transaction involving an executive officer and any related compensation, which must be approved by the Compensation, Governance and Nominating Committee, or CGNC.

In connection with the review and approval or ratification of a related-person transaction, our board of directors, or the CGNC, as applicable, will consider the relevant facts and circumstances, including:

the approximate dollar value involved in the transaction, and all the material facts as to the related person's direct or indirect interest in, or relationship to, the related-person transaction;

whether the related-person transaction complies with the terms of Talen Energy's agreements governing its material outstanding indebtedness that limit or restrict Talen Energy's ability to enter into a related-person transaction;

whether the related-person transaction will be required to be disclosed in Talen Energy's applicable filings under the Securities Act or the Exchange Act; and

whether the related-person transaction constitutes a personal loan for purposes of Section 402 of the Sarbanes-Oxley Act.

In addition, in connection with any approval or ratification of a related-person transaction involving a non-employee director or nominee for director, the CGNC is expected to consider whether such transaction would compromise such director's status as: (1) an independent director under the New York Stock Exchange Listing Standards, including those rules applicable to board and committee service, and (2) an outside director under Section 162(m) of the Code or a nonemployee director under Rule 16b-3 under the Exchange Act, if such non-employee director serves on the CGNC, or (3) an independent director under Rule 10A-3 under the Exchange Act, if such non-employee director serves on the Audit Committee of our board of directors.

We expect to collect information about potential related-person transactions in annual questionnaires to be completed by directors and executive officers. We also expect to review any payments made by the company or its subsidiaries to each director and executive officer and their immediate family members, and to or from those companies that either

employ a director or an immediate family member of any director or executive officer. In addition, we expect to review any payments made by the company or its subsidiaries to, or any payments received by the company and its subsidiaries from, any shareowner who owns more than 5% of any class of Talen Energy's voting securities. The company's Office of General Counsel is expected to determine whether a transaction will require review by our board of directors or the CGNC. Transactions that fall within the definition of the policy are expected to be reported to our board of directors or the CGNC. The disinterested independent members of our board of directors, or the CGNC, as applicable, are expected to review and consider the relevant facts and circumstances and determine whether to approve, deny or ratify the related-person transaction.

### **Stockholders Agreement**

Talen Energy will enter into a Stockholders Agreement with the Contributors containing provisions related to board designation rights, voting agreements, standstill restrictions, restrictions on transfers of common stock,

**Table of Contents**

registration rights, minority protections, conflicts of interest, corporate opportunities and confidentiality. Pursuant to the Stockholders Agreement, the Contributors will be provided with demand registration rights and customary piggyback registration rights. The Stockholders Agreement will provide that Talen Energy will pay certain expenses relating to such registrations and indemnify the registration rights holders against certain liabilities which may arise under the Securities Act. See The Separation Agreement and the Transaction Agreement Ancillary Agreements Stockholders Agreement for a description of the Stockholders Agreement.

**Transactions with Riverstone**

For a discussion of the contracts that the Contributors and Talen Energy have entered into or will enter into in connection with the Transactions, see The Separation Agreement and the Transaction Agreement The Separation Agreement, The Separation Agreement and the Transaction Agreement The Transaction Agreement and The Separation Agreement and the Transaction Agreement Ancillary Agreements.

**Transactions with PPL**

For a discussion of the contracts that PPL and Talen Energy have entered into or will enter into in connection with the Transactions, see The Separation Agreement and the Transaction Agreement The Separation Agreement, The Separation Agreement and the Transaction Agreement The Transaction Agreement and The Separation Agreement and the Transaction Agreement Ancillary Agreements.

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

In connection with the Transactions, we will amend and restate our certificate of incorporation and our bylaws. The following is a description of the material terms of, and is qualified in its entirety by, our amended and restated certificate of incorporation and amended and restated bylaws, each of which will be in effect upon the consummation of the Transactions, the forms of which are filed as exhibits to the registration statement of which this prospectus forms a part. Under Description of Capital Stock, we, us, our and our company refer to Talen Energy Corporation not to any of its subsidiaries.

Our purpose is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the DGCL. Upon the completion of the Distribution and the Merger, our issued and outstanding authorized capital stock will consist of 1,000,000,000 shares of common stock, par value \$0.001 per share, and 100,000,000 shares of preferred stock, par value \$0.001 per share. Unless our board of directors determines otherwise, we will issue all shares of our capital stock in uncertificated form.

**Common Stock**

Holders of shares of our common stock are entitled to one vote for each share held of record on all matters on which stockholders are entitled to vote generally, including the election or removal of directors. See Management of Talen Energy Following the Transactions Board Composition and Director Independence. The Contributors will have certain rights pursuant to the Stockholders Agreement. See Certain Relationships and Related Party Transactions Stockholders Agreement. The holders of our common stock do not have cumulative voting rights in the election of directors.

The Holders of our common stock will be entitled to receive, on a pro rata basis, dividends and distributions, if any, that the board of directors may declare out of legally available funds, subject to preferences that may be applicable to preferred stock, if any, then outstanding. Upon our liquidation, dissolution or winding up and after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of our common stock will be entitled to receive pro rata our remaining assets available for distribution. All shares of our common stock that will be outstanding at the time of the completion of the Transactions will be fully paid and non-assessable. The common stock will not be subject to further calls or assessment by us. Holders of our common stock do not have preemptive, subscription, redemption or conversion rights. There will be no redemption or sinking fund provisions applicable to the common stock. The rights, powers, preferences and privileges of holders of our common stock will be subject to those of the holders of any shares of our preferred stock we may authorize and issue in the future.

Before the date of this prospectus, there has been no public market for our common stock. As of December 31, 2014, we had one share of common stock outstanding and one holder of record of common stock.

**Preferred Stock**

Our board of directors will have the authority, without further action by our stockholders, to issue shares of preferred stock from time to time in one or more series, and to fix by resolution, at the time of issuance of each of such series, the designations, powers, preferences, and relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions, if any, of the shares of each such series. Upon completion of the Transactions, no shares of preferred stock will be outstanding.

We could issue a series of preferred stock that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority, of the holders of our common stock might believe to

be in their best interests or in which the holders of our common stock might receive a premium over the market price of the common stock. Additionally, the issuance of preferred stock may adversely affect the holders of our common stock by restricting dividends on the common stock, diluting the voting power

## **Table of Contents**

of the common stock or subordinating the liquidation rights of the common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our common stock.

## **Dividends**

The DGCL permits a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is defined as the excess of the net assets of the corporation over the amount determined to be the capital of the corporation by its board of directors. The capital of the corporation is typically calculated to be (and cannot be less than) the aggregate par value of all issued shares of capital stock. Net assets equals the fair value of the total assets minus total liabilities. The DGCL also provides that dividends may not be paid out of net profits if, after the payment of the dividend, remaining capital would be less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. Declaration and payment of any dividend will be subject to the discretion of our board of directors.

## **Stockholder Meetings**

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that annual stockholder meetings will be held at a date, time and place, if any, as exclusively selected by our board of directors. Our amended and restated certificate of incorporation and amended and restated bylaws will provide that special meetings of the stockholders may be called only by the Chairman of our board of directors or by resolution of the board of directors. To the extent permitted under applicable law, we may conduct meetings by remote communications, including by webcast.

## **Voting**

The affirmative vote of a majority of the shares of our common stock present, in person or by proxy, at the meeting and entitled to vote at any annual or special meeting of stockholders will decide all matters voted on by stockholders, unless the question is one upon which, by express provision of law, under our amended and restated certificate of incorporation, or under our amended and restated bylaws, a different vote is required, in which case such provision will control. Directors will be elected by a plurality of votes cast.

## **Anti-Takeover Effects of Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws and Certain Provisions of Delaware Law**

The provisions of our amended and restated certificate of incorporation and amended and restated bylaws and of the DGCL summarized below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that you might consider in your best interest, including an attempt that might result in your receipt of a premium over the market price for your shares. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which could result in an improvement of their terms.

## ***Undesignated Preferred Stock***

The ability to authorize undesignated preferred stock will make it possible for our board of directors to issue preferred stock with super majority voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us or otherwise effect a change in control of us. These and other provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or

management of our company.

We do not have a stockholder rights plan or any series of preferred stock designated in connection with such a plan.



## **Table of Contents**

### ***Special Meetings of Stockholders***

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that a special meeting of stockholders may be called only by the Chairman of our board of directors, if there be one, or by a resolution adopted by our board of directors, which may fix the date, time and place of the meeting.

### ***Stockholder Action by Written Consent***

Our amended and restated certificate of incorporation will provide that any action that may be taken at any meeting of stockholders may be taken by written consent of stockholders in lieu of a meeting if, and only if, the consent in writing is signed by all stockholders entitled to vote.

### ***Removal of Directors***

Our amended and restated certificate of incorporation will provide that the affirmative vote of at least 66  $\frac{2}{3}$ % of the voting power of the stock outstanding and entitled to vote thereon is required to remove the directors.

### ***Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals***

Our amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. For any matter to be properly brought before a meeting, a stockholder will have to comply with advance notice requirements and provide us with certain information. Additionally, vacancies and newly created directorships may be filled only by a vote of a majority of the directors then in office, even though less than a quorum, and not by the stockholders. Our amended and restated bylaws will allow the presiding officer at a meeting of the stockholders to adopt rules and regulations for the conduct of meetings which may have the effect of precluding the conduct of certain business at a meeting if the rules and regulations are not followed. These provisions may also defer, delay or discourage a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to influence or obtain control of our company.

### ***No Cumulative Voting***

The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless our amended and restated certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation will not provide for cumulative voting.

### ***Section 203 of the DGCL***

In our amended and restated certificate of incorporation, we will elect not to be governed by Section 203 of the DGCL, as permitted under and pursuant to subsection (b)(3) of Section 203. Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's outstanding voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we will not be subject to any anti-takeover effects of Section 203.

### **Corporate Opportunities**

Our amended and restated certificate of incorporation will provide that we, on our behalf and on behalf of our subsidiaries, renounce any interest or expectancy in, or in being offered an opportunity to participate in, corporate opportunities, that are from time to time presented to our stockholders, any director or any of their

## **Table of Contents**

respective affiliates who acquire knowledge of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us or any other stockholder, even if the opportunity is one that we or our subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so. Neither our stockholders, any director nor any of their respective affiliates will generally be liable to us or any of our subsidiaries for breach of any duty by reason of the fact that such person pursues or acquires such corporate opportunity, directs such corporate opportunity to another person or fails to present such corporate opportunity, or information regarding such corporate opportunity, to us or our subsidiaries so long as such stockholder, director or any of their respective affiliates do not engage in such business or activity using confidential or proprietary information that was provided by or on behalf of Talen Energy. Stockholders will be deemed to have notice of and consented to this provision of our amended and restated certificate of incorporation.

## **Dissenters Rights of Appraisal and Payment**

Under the DGCL, with certain exceptions, our stockholders will have appraisal rights in connection with a merger or consolidation of our company. Pursuant to the DGCL, stockholders who properly request and perfect appraisal rights in connection with such merger or consolidation will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

## **Stockholders Derivative Actions**

Under the DGCL, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of our shares at the time of the transaction to which the action relates or such stockholder's stock thereafter devolved by operation of law.

## **Exclusive Forum**

Our amended and restated certificate of incorporation will provide that unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, with certain limited exceptions, be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, or (iv) any action asserting a claim governed by the internal affairs doctrine, in each such case subject to said Court of Chancery having subject matter jurisdiction, in certain cases, and having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provisions in our amended and restated certificate of incorporation. However, the enforceability of similar forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable.

## **Limitations on Liability and Indemnification of Officers and Directors**

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. Our amended and restated certificate of incorporation will include a provision that eliminates the personal liability of directors for monetary damages for any breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL. The effect of these provisions is to eliminate the rights of us and our stockholders, through stockholders' derivative suits on our behalf, to recover monetary damages from a director for breach of fiduciary duty as a director, including breaches resulting from grossly negligent behavior.

However, exculpation does not apply to any director if the director has acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions or derived an improper benefit from his or her actions as a director.

## **Table of Contents**

Our amended and restated bylaws will provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the DGCL, subject to reimbursement in the event it is ultimately determined that the individual's conduct did not meet the applicable standard of conduct to entitle the individual to indemnification under the DGCL. We also are expressly authorized to carry directors' and officers' liability insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification and advancement provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability, indemnification and advancement provisions to be included in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

## **Amendments to our Certificate of Incorporation and Bylaws**

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that the affirmative vote of at least 66 2/3% of the voting power of the stock outstanding and entitled to vote thereon will be required to adopt, amend or repeal any provision of our amended and restated certificate of incorporation or our amended and restated bylaws.

## **Transfer Agent and Registrar**

Upon completion of the Transactions, the transfer agent and registrar for our common stock will be Wells Fargo Bank, National Association.

## **Listing**

We have applied to list our common stock on the NYSE under the symbol TLN.

**Table of Contents**

**SHARES ELIGIBLE FOR FUTURE SALE**

Prior to the Transactions, there has been no public market for shares of our common stock. We cannot predict the effect, if any, future sales of shares of common stock, or the availability for future sale of shares of common stock, will have on the market price of shares of our common stock prevailing from time to time. The sale of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our common stock and could impair our future ability to raise capital through the sale of our equity or equity-related securities at a time and price that we deem appropriate. See **Risk factors** **Risks Relating to Our Common Stock**. After the completion of the Transactions, sales of our common stock may negatively affect its market price.

Immediately following the Transactions, 128,500,000 shares of our common stock will be issued and outstanding, inclusive of the number of shares to be issued in a private placement transaction in connection with the Combination. Of the outstanding shares, the 83,525,000 shares delivered to the PPL shareholders who hold PPL common stock as of the record date will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations described below. The remaining outstanding 44,975,000 shares of common stock to be issued in a private placement transaction to the Contributors in connection with the Combination will be deemed restricted securities under the meaning of Rule 144 and may be sold in the public market only if registered or if they qualify for an exemption from registration, including the exemptions pursuant to Rule 144, which we summarize below.

We intend to file one or more registration statements on Form S-8 under the Securities Act to register shares of our common stock or securities convertible into or exchangeable for shares of common stock issued pursuant to our new stock incentive plan and directors deferred compensation plan. Any such Form S-8 registration statements will automatically become effective upon filing. Accordingly, subject to applicable vesting restrictions or lock-up restrictions (described below), shares registered under such registration statements will be available for sale in the open market. We expect that the initial registration statements on Form S-8 will cover 6,205,000 shares.

**Registration Rights**

In connection with the Transactions, we intend to enter into the Stockholders Agreement, which will provide the Contributors demand registration rights and customary piggyback registration rights. The Stockholders Agreement will also provide that we will pay certain expenses relating to such registrations and indemnify the registration rights holders against certain liabilities which may arise under the Securities Act. Securities registered under any such registration statement will be available for sale in the open market. See **The Separation Agreement and the Transaction Agreement** **Ancillary Agreements** **Stockholders Agreement**.

**Lock-up**

Pursuant to the Stockholders Agreement, the Contributors will, subject to certain customary exceptions, be restricted from transferring, directly or indirectly, the shares of our common stock held by them for a period starting on the date of the prospectus and continuing for 180 days after the closing date of the Transactions.

**Rule 144**

In general, under Rule 144, as currently in effect, a person who is not deemed to be our affiliate for purposes of Rule 144 or to have been one of our affiliates at any time during the three months preceding a sale and who has beneficially

owned the shares of common stock proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares of common stock without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to

**Table of Contents**

compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares of common stock proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person is entitled to sell those shares of common stock without complying with any of the requirements of Rule 144. Our shares of common stock delivered to the PPL shareholders who hold PPL common stock as of the record date and who are not our affiliates will be freely tradable without restriction or further registration under the Securities Act. In general, six months after the effective date of the registration statement of which this prospectus forms a part, under Rule 144, as currently in effect, our affiliates or persons selling shares of common stock on behalf of our affiliates are entitled to sell, within any three-month period, a number of shares of common stock that does not exceed the greater of (1) 1% of the number of shares of common stock then outstanding and (2) the average weekly trading volume of the shares of common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale. Sales under Rule 144 by our affiliates or persons selling shares of common stock on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.



**Table of Contents**

**DESCRIPTION OF MATERIAL INDEBTEDNESS**

**Energy Supply**

***Energy Supply New Revolving Facility***

Concurrently with, and subject to, the consummation of the Transactions, we intend to enter into a credit agreement (the Credit Agreement) with Citibank, N.A., as administrative agent, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc., BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, Bank of Tokyo-Mitsubishi UFJ Ltd. and RBC Capital Markets, as joint lead arrangers and joint bookrunners, and the other agents and lenders from time to time party thereto. The Credit Agreement will provide for a \$1.85 billion revolving credit facility, which will mature in five years from the Closing Date (the New Revolving Facility). Concurrently with the execution of the Credit Agreement, Energy Supply will terminate its existing credit facility and repay any borrowings thereunder.

Energy Supply will be the borrower under the New Revolving Facility. The New Revolving Facility will include capacity available for letters of credit and for short-term borrowings. In addition, the New Revolving Facility will also provide the borrower with the option to raise incremental credit facilities (including an incremental facility that will provide the borrower the option to increase the amount available under the New Revolving Facility or additional term loan facilities by an aggregate amount of up to \$750 million, subject to additional increases upon achievement of a consolidated first lien net leverage ratio of less than or equal to an amount to be agreed), refinance the loans with debt incurred outside the Credit Agreement and extend the maturity date of the revolving credit commitments and loans and, if applicable, term loans, subject to certain limitations. No commitments have been obtained for any incremental facilities.

***Interest rate and fees***

Borrowings under the New Revolving Facility will bear interest, at the borrower's option, at a rate equal to a margin over either (a) a base rate determined by reference to the highest of (1) the administrative agent's prime lending rate, (2) the federal funds effective rate plus 1/2 of 1.00% and (3) the LIBOR for a one-month interest period plus 1.00% or (b) a LIBOR determined by reference to the Reuters LIBOR for the interest period relevant to such borrowing. The margin for the New Revolving Facility is expected to be 1.50% for base rate loans and 2.50% for LIBOR loans, subject to two step-downs of 0.25% each upon the achievement of a consolidated total net leverage ratio of less than 4.00 to 1.00 and less than 3.00 to 1.00, respectively.

In addition, the borrower will be required to pay a 0.375% commitment fee to the lenders under the New Revolving Facility in respect of the unutilized commitments thereunder. The borrower will also be required to pay customary letter of credit fees.

***Prepayments***

The borrower will have the ability to voluntarily repay outstanding loans at any time without premium or penalty, other than a reimbursement of the lenders' redeployment costs in the case of prepayment of a LIBOR loan.

***Guarantees and security***

The obligations under the revolving credit facility will be guaranteed by each of Energy Supply and any wholly owned domestic subsidiary of Energy Supply (such subsidiaries collectively referred to as the credit agreement

guarantors ) other than excluded subsidiaries. Excluded subsidiaries will include, among other exceptions, unrestricted subsidiaries, captive insurance subsidiaries, not-for-profit subsidiaries, special purpose vehicles, immaterial subsidiaries, excluded project subsidiaries, specified subsidiaries and other subsidiaries to the extent a guarantee of which is prohibited by certain contracts. In addition, the New Revolving Facility will be secured by first priority or equivalent security interests in (i) all the capital stock owned by, or other equity interests owned by, the borrower and certain of the borrower s and credit agreement guarantors direct or indirect wholly

**Table of Contents**

owned restricted domestic subsidiaries, and 65% of the voting stock (and 100% of the non-voting stock) of, or other equity interests of, each of the borrower s or any credit agreement guarantors direct wholly owned first-tier restricted foreign subsidiaries (of which there are presently none) and (ii) certain tangible and intangible assets of the borrower (other than real property except for certain real property described in the Credit Agreement) and those of the credit agreement guarantors, in each case subject to certain exceptions and qualifications.

The borrower will have the ability to designate certain subsidiaries as unrestricted subsidiaries or excluded project subsidiaries utilizing investment capacity under the Credit Agreement.

The obligations under the New Revolving Facility will rank pari passu in right of payment with the obligations under the Secured Trading Facility described below.

*Certain covenants and events of default*

The Credit Agreement will contain a number of significant negative covenants and customary events of default. Such covenants, among other things, will limit or restrict, subject to certain exceptions, the ability of the borrower and its restricted subsidiaries to:

incur additional indebtedness and make guarantees;

incur liens on assets;

engage in mergers or consolidations or fundamental changes;

sell assets;

pay dividends and distributions or repurchase our capital stock;

make investments, loans and advances, including acquisitions; and

engage in certain transactions with affiliates.

The Credit Agreement will also require the borrower to maintain a senior secured net leverage ratio (as defined in the Credit Agreement) as of the last day of any fiscal quarter of less than or equal to 4.50 to 1.00.

The Credit Agreement will also contain certain customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, the lenders under the senior secured credit facilities will be entitled to take various actions, including the acceleration of amounts due under the revolving credit facility and all actions permitted to be taken by a secured creditor.

***Energy Supply Senior Unsecured Notes***

As of December 31, 2014, Energy Supply had \$2,168 million aggregate principal amount of senior notes outstanding. The Energy Supply senior notes are unsecured and are not guaranteed by any subsidiaries of Energy Supply. The Energy Supply senior notes range in maturity from 2015 to 2036 and as of December 31, 2014, bear interest at a weighted average rate of 5.32%. The indenture governing the Energy Supply senior notes, among other restrictions, limits Energy Supply's ability to (1) sell assets; (2) merge, consolidate or sell all or substantially all of its assets; and (3) incur certain liens to secure indebtedness. The indenture governing the Energy Supply senior notes does not limit the ability of Energy Supply to incur additional indebtedness.

***Energy Supply Secured Trading Facility***

Energy Supply, together with PPL EnergyPlus, PPL Montour and PPL Brunner Island (the Trading Facility Credit Parties ) maintain an \$800 million secured energy marketing and trading facility (the Secured Trading Facility ), whereby PPL EnergyPlus receives or will receive credit to be applied to satisfy collateral posting

**Table of Contents**

obligations related to its energy marketing and trading activities with counterparties participating in the facility. The facility expires in November 2019, but is subject to automatic one-year renewals under certain conditions. There were \$64 million of secured obligations outstanding under this facility at December 31, 2014.

*Guarantees and Security*

The credit amount is guaranteed by Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities, which had an aggregate carrying value of \$2.6 billion at December 31, 2014, to secure any amount they may owe under their guarantees.

*Certain covenants and events of default*

The Secured Trading Facility contains a number of significant covenants and customary events of default. Such covenants, among other things, limit or restrict, subject to certain exceptions, the ability of the Trading Facility Credit Parties to:

incur indebtedness;

modify the ownership of certain other Trading Facility Credit Parties;

incur liens on certain assets of the Trading Facility Credit Parties;

engage in certain mergers or consolidations or fundamental changes; and

sell certain assets.

The Secured Trading Facility also contains certain customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, the collateral agent under the Secured Trading Facility will be entitled to take various actions, including the demand for payment of amounts due under the secured counterparty ISDA agreements and the Secured Trading Facility and all actions permitted to be taken by a secured creditor under such agreements.

***PPL Ironwood Senior Secured Notes***

As of December 31, 2014, PPL Ironwood, a wholly owned indirect subsidiary of Energy Supply, had \$50 million aggregate principal amount of senior secured notes outstanding. These notes mature in 2025 and bear interest at 8.857%. Energy Supply is not an obligor of these notes.

**RJS Power**

***RJS Power Holdings LLC Senior Notes***

On July 10, 2014, RJS Power Holdings LLC, a direct wholly owned subsidiary of RJS Power, completed a private placement to eligible purchasers of an aggregate principal amount of \$1,250 million of its 5.125% senior notes due July 15, 2019 (the 2019 Senior Notes ). The net proceeds from the sale of the 2019 Senior Notes were approximately \$1,216 million (after deducting offering fees and expenses). The proceeds were used to repay borrowings outstanding under RJS Power's senior secured notes (See Note 3 to the unaudited combined condensed financial statements of RJS Power included elsewhere in this prospectus) and for general corporate purposes. The 2019 Senior Notes are initially guaranteed on a senior unsecured basis by RJS Power LLC, the wholly owned direct subsidiary of RJS Power Holdings LLC. Interest on the 2019 Senior Notes is paid semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2015. The 2019 Senior Notes are senior unsecured obligations of RJS Power Holdings LLC and rank equally with all of its current and future senior indebtedness.

Prior to the occurrence of a Merger Event as described below, the indenture governing the 2019 Senior Notes (the RJS Indenture ), among other restrictions, limits the ability of RJS Power Holdings LLC and its

**Table of Contents**

subsidiaries to (1) incur or guarantee additional indebtedness; (2) pay dividends on, make other distributions in respect of, or repurchase or redeem capital stock or units; (3) prepay, redeem or repurchase certain junior indebtedness; (4) issue preferred stock or similar equity securities; (5) make loans and investments; (6) sell assets; (7) incur or permit to exist liens on assets to secure indebtedness; (8) enter into transactions with affiliates; (9) create or designate subsidiaries as unrestricted subsidiaries; (10) enter into agreements restricting RJS Power Holdings LLC's ability or the ability of any of its subsidiaries to pay dividends or make other distributions or engage in other transactions with RJS Power Holdings LLC or any restricted subsidiaries; and (11) consolidate, merge or sell all or substantially all of its assets. The RJS Indenture permits RJS Power Holdings LLC to incur additional indebtedness under Credit Facilities (as defined in the RJS Indenture) not to exceed the sum of \$150 million and 7.5% of the total assets of RJS Power Holdings LLC as shown on its most recent consolidated balance sheet. The RJS Indenture limits RJS Power Holdings LLC's ability to incur additional indebtedness in excess of the amount discussed above, including borrowings under its revolving credit facility, unless RJS Power Holdings LLC meets the fixed charge coverage ratio test. The fixed charge coverage ratio test requires that after giving effect to the incurrence of additional debt, the ratio of RJS Power Holdings LLC's adjusted Consolidated Cash Flow (as defined in the RJS Indenture) to its Fixed Charges (as defined in the RJS Indenture) over the trailing four fiscal quarters will be at least 2.0 to 1.0. The RJS Indenture permits RJS Power Holdings LLC to pay dividends or make distributions in an aggregate amount from the issue date of the 2019 Senior Notes not to exceed \$125.0 million. The RJS Indenture restricts RJS Power Holdings LLC's ability to pay further dividends or make further distributions unless no event of default has occurred and RJS Power Holdings LLC would, at the time of the payment and after giving pro forma effect thereto as if such payment had been made at the beginning of the trailing four fiscal-quarters have been permitted to incur at least \$1.00 of additional indebtedness pursuant to the fixed charge coverage ratio test described above.

Under the RJS Indenture, a Merger Event occurs upon the merger, consolidation, or certain equivalent combinations, of substantially all of the businesses and operations of RJS Power Holdings LLC with substantially all of the businesses and operations of Energy Supply, subject to certain conditions. Upon the occurrence of a Merger Event, (1) the restrictive covenants in the RJS Indenture will cease to apply and will be replaced with less restrictive covenants substantially similar to the covenants in the indenture governing Energy Supply's senior notes and (2) all guarantees with respect to the notes will be automatically released.

From and after the first interest payment date following a Merger Ratings Event, the interest rate will decrease to a rate of 4.625% per annum. The Merger Ratings Event will occur if, on the date of the occurrence of the Merger Event or, if later, on the date that Moody's and S&P first publicly issue corporate ratings for the successor issuer of the notes, the corporate ratings of such successor issuer of the notes are at least (i) Ba2 from Moody's and BB- from S&P or (ii) Ba3 from Moody's and BB from S&P, in each case with a stable or better outlook.

As of December 31, 2014, the outstanding balance on the 2019 Senior Notes was \$1,250 million.

***RJS Power Holdings LLC Revolving Credit Facility***

In July 2014, concurrently with the issuance of the 2019 Senior Notes, RJS Power Holdings LLC entered into a \$150 million revolving credit facility. In connection with the Transactions, it is expected that RJS Power Holdings LLC will terminate its existing revolving credit facility and either repay all then-outstanding borrowings thereunder or transfer such borrowings to the New Revolving Facility. As of December 31, 2014, \$25 million of revolving loans were outstanding under the RJS Power Holdings LLC revolving credit facility.

**Table of Contents**

**LEGAL MATTERS**

The validity of the shares of Talen Energy common stock issuable to PPL shareholders in connection with the Distribution and Merger will be passed upon by Simpson Thacher & Bartlett LLP, New York, New York. Simpson Thacher & Bartlett LLP will also pass on certain U.S. federal income tax matters for PPL.

**EXPERTS**

The financial statements of PPL Energy Supply, LLC as of December 31, 2014 and 2013 and for each of the three years ended December 31, 2014 appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing herein, are included in reliance on their report given on the authority of such firm as experts in accounting and auditing.

The consolidated and combined financial statements of RJS Generation Holdings LLC as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 included in this registration statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.



**Table of Contents**

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to our common stock being distributed as contemplated hereby. This prospectus is part of, and does not contain all of the information set forth in, the registration statement and the exhibits thereto. Some items are omitted in accordance with the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement and the exhibits filed therewith. Statements contained in this prospectus as to the contents of any contract, agreement or any other document referred to are summaries of the material terms of the respective contract, agreement or other document. With respect to each of these contracts, agreements or other documents filed as an exhibit to the registration statement, reference is made to the exhibits for a more complete description of the matter involved.

A copy of the registration statement, and the exhibits thereto, may be inspected without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials may be obtained by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. The SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the SEC's website is <http://www.sec.gov>.

In connection with the Transactions, we will become subject to the information and periodic reporting requirements of the Exchange Act and, accordingly, will file annual reports containing financial statements audited by an independent public accounting company, quarterly reports containing unaudited financial statements, current reports, proxy statements and other information with the SEC. You will be able to inspect and copy these reports, proxy statements and other information at the public reference facilities maintained by the SEC at the address noted above. You will also be able to obtain copies of this material from the Public Reference Room of the SEC as described above, or inspect them without charge at the SEC's website. Upon completion of the spinoff, you will also be able to access, free of charge, our reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K and any amendments to those forms) through our website. Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. Our website is included in this prospectus as an inactive textual reference only. The information found on our website is not part of this prospectus or any report filed with or furnished to the SEC.

**Table of Contents**

**GLOSSARY**

The following are definitions of certain terms used in this prospectus except as otherwise indicated:

**AEPS** means Alternative Energy Portfolio Standard.

**AOCI** means accumulated other comprehensive income or loss.

**ARO** means asset retirement obligation.

**baseload generation** means the output provided by nuclear, coal, hydroelectric and qualifying facilities for demand that occurs continuously.

**basis** when used in the context of derivatives and commodity trading, means the commodity price differential between two locations, products or time periods.

**CAIR** means the EPA's Clean Air Interstate Rule.

**CCR** means coal combustion residuals, which include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

**Closing Date** means the date on which the consummation of the Closing Transactions occurs.

**Closing Transactions** means the Merger, the Combination and other transactions that shall occur pursuant to the Transaction Agreement as described under The Separation Agreement and the Transaction Agreement The Transaction Agreement The Merger, The Separation Agreement and the Transaction Agreement The Transaction Agreement The Contributions and The Separation Agreement and the Transaction Agreement The Transaction Agreement Financing and Debt Payoff.

**CQ** means carbon dioxide.

**CQ<sub>e</sub>** means the climate change potential of other GHGs relative to the potential of CQ

**COBRA** means Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

**Code** means the Internal Revenue Code of 1986, as amended.

**COLA** means the license application for a combined construction permit and operating license from the NRC for a nuclear plant.

**Colstrip** means Colstrip Steam Electric Station, the four unit, approximately 2,100 MW net coal-fired generating plant located in Montana that is jointly owned by PPL Montana, Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern and PacifiCorp.

Colstrip Owners means Avista Corporation, Puget Sound Energy, Inc., Portland General Electric Company, NorthWestern and PacifiCorp., who along with PPL Montana, own Colstrip.

Combination means the contribution by its owners of the RJS Power business through the contribution, directly or indirectly, of all of the equity interests of RJS Power, in exchange for shares of Talen Energy common stock.

**Table of Contents**

Contributors means Raven, Jade and Sapphire, collectively, or the RJS SPE, as applicable.

CPSG means Constellation Power Source Generation, Inc.

CSAPR means Cross-State Air Pollution Rule.

Default Service Supply Master Agreement means the agreement pursuant to which PPL Electric purchases power from PPL Energy Plus to satisfy PPL Electric's obligation as a provider of last resort to customers in its service territory.

Distribution means the pro rata distribution immediately prior to the consummation of the Merger of all the then outstanding shares of HoldCo common stock to the shareholders of PPL.

DGCL means the General Corporation Law of the State of Delaware.

Dodd-Frank Act means the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

DOE means Department of Energy.

DOJ means Department of Justice.

EBPB means Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

Effective Time means the effective time of the Merger, which shall be the date and time the Certificate of Merger executed by HoldCo is duly filed with the Secretary of State of the State of Delaware, or at such other time as is agreed among the parties to the Transaction Agreement and specified in the Certificate of Merger in accordance with the relevant provisions of the DGCL.

EGU means Electric Generating Unit.

ELG means Effluent Limitations Guidelines.

Energy Supply or PPL Energy Supply means PPL Energy Supply, LLC, a Delaware limited liability company.

Energy Supply business means the competitive power generation business of PPL and its subsidiaries.

EPA means Environmental Protection Agency, a U.S. government agency.

ERCOT means The Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

ESOP means Employee Stock Ownership Plan.

Exchange Act means the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder.



**Table of Contents**

FDIC means the Federal Deposit Insurance Corporation.

FERC means Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

FERC Order means the order of the FERC dated December 18, 2014 approving the Transactions pursuant to Section 203 of the FPA.

Fitch means Fitch Inc., a credit rating agency.

FTC means Federal Trade Commission, a U.S. government agency.

FTRs means financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

GAAP means U.S. generally accepted accounting principles.

GHGs means greenhouse gases.

GWh means gigawatt-hour, one million kilowatt-hours.

HoldCo means Talen Energy Holdings, Inc., a Delaware corporation.

HRCO means a heat rate call option, which is a contract for the financial purchase and sale of power based on a floating price of natural gas at a predetermined location using a predetermined conversion factor required to turn the fuel input into electricity.

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

IBEW means International Brotherhood of Electrical Workers.

ICP means Incentive Compensation Plan.

ICPKE means Incentive Compensation Plan for Key Employees.

intermediate and peaking generation means the output provided by oil- and natural gas-fired units that generally do not run on an on-going basis or run when there is a high demand.

Ironwood Acquisition means the acquisition in April 2012, in which PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of Energy Supply, acquired from a subsidiary of The AES Corporation all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which together own and operate the Ironwood Facility.

Ironwood Facility means a natural gas-fired power plant in Lebanon, Pennsylvania with a summer rating of 662 MW.

IRS means the Internal Revenue Service, a U.S. government agency.

ISO means independent system operator.

ISO-NE means ISO New England, operator of the electricity transmission network and electricity energy market in all or parts of Connecticut, Rhode Island, Massachusetts, Vermont, New Hampshire and Maine.

**Table of Contents**

Jade means C/R Energy Jade, LLC, a Delaware limited liability company.

kWh means kilowatt-hour, basic unit of electrical energy.

LIBOR means London Interbank Offered Rate.

MATS means Mercury and Air Toxics Standards.

MDEQ means Montana Department of Environmental Quality.

MEIC means Montana Environmental Information Center.

Merger means the merger of Merger Sub with and into HoldCo, with HoldCo continuing as the surviving company.

Merger Event has the meaning specified in Description of Material Indebtedness.

Merger Ratings Event has the meaning specified in Description of Material Indebtedness.

Merger Sub means Talen Energy Merger Sub, Inc., a Delaware corporation.

MMBtu means one million British Thermal Units.

Moody's means Moody's Investors Services, Inc., a credit rating agency.

Morgan Stanley means Morgan Stanley Capital Group Inc., the Morgan Stanley affiliate that is the counterparty to certain of the HRCOs for the generating facilities owned by RJS Power.

MW means megawatts, one thousand kilowatts.

MW-Month means megawatts month.

MWh means megawatt hours, one thousand kilowatt-hours.

NDT means PPL Susquehanna, LLC's nuclear plant decommissioning trust.

NEIL means Nuclear Electric Insurance Limited, insurers of domestic and international nuclear utilities.

NERC means North American Electric Reliability Corporation.

New Revolving Facility refers to the credit agreement with Citibank, N.A., as administrative agent, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc., BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, Bank of Tokyo-Mitsubishi UFJ Ltd. and RBC Capital Markets, as joint lead arrangers and joint bookrunners, and the other agents and lenders from time to time party thereto, and Energy Supply, as borrower, to be entered into in connection with the Distribution and the Combination, which will provide for a revolving loan facility consisting of a \$1.850 billion revolving loan facility maturing in five years from the Closing Date.

NGCC means Natural gas-fired combined-cycle generating plant.





**Table of Contents**

**NorthWestern** means NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

**NO<sub>x</sub>** means oxides of nitrogen.

**NPNS** means the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

**NRC** means Nuclear Regulatory Commission, the U.S. federal agency that regulates nuclear power facilities.

**NUGs** means 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.

**NYSE** means the New York Stock Exchange.

**OCI** means other comprehensive income or loss.

**OSHA** means the Occupational Safety and Health Administration.

**PADEP** means the Pennsylvania Department of Environmental Protection, a state government agency.

**PJM** means PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

**PLR** means Provider of Last Resort, the role of an electric utility in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the 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.

**PPL** means PPL Corporation, a Pennsylvania corporation and the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, Inc., LG&E and KU Energy LLC and other subsidiaries and, prior to the spinoff of HoldCo, Talen Energy, HoldCo and Energy Supply.

**PPL Brunner Island** means PPL Brunner Island, LLC, a Delaware limited liability company and a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

**PPL Electric** means PPL Electric Utilities Corporation, a Pennsylvania corporation and a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

**PPL Energy Funding** means PPL Energy Funding Corporation, a Pennsylvania corporation and a subsidiary of PPL and the parent holding company of Energy Supply, PPL Global and other subsidiaries.

**PPL EnergyPlus** means PPL EnergyPlus, LLC, a Pennsylvania limited liability company and a subsidiary of Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Generation means PPL Generation, LLC, a Delaware limited liability company and a subsidiary of Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Ironwood means PPL Ironwood, LLC, a Delaware limited liability company and an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

**Table of Contents**

PPL Montana means PPL Montana, LLC, a Delaware limited liability company and an indirect subsidiary of PPL Generation that owns generating operations in Montana.

PPL Montour means PPL Montour, LLC, a Delaware limited liability company and a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Services means PPL Services Corporation, a Delaware corporation and a subsidiary of PPL that provides services to PPL and its subsidiaries.

PPL Susquehanna means PPL Susquehanna, LLC, a Delaware limited liability company and a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PP&E means property, plant and equipment.

PSEG means Public Service Electric and Gas Company.

PUC means Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

PURPA means the Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

Raven means Raven Power Holdings LLC, a Delaware limited liability company.

Raven Power means, collectively, Raven Power Finance LLC and its subsidiaries and Raven Power Group LLC.

RCRA means The Resource Conservation and Recovery Act of 1976, as amended.

RECs means renewable energy credits.

RFC means ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

Riverstone means Riverstone Holdings and investment funds managed or advised by Riverstone Holdings or its affiliates.

Riverstone Holdings means Riverstone Holdings LLC.

RMC means Risk Management Committee.

RJS means, collectively, Raven, Jade and Sapphire.

RJS Power means RJS Generation Holdings LLC, a Delaware limited liability company that is wholly owned by RJS.

RJS Power business means the competitive power generation business of RJS Power and its subsidiaries.

RJS SPE means a special purpose entity wholly owned by Raven, Jade and Sapphire and controlled by Raven.

RTOs means regional transmission organizations.

Sapphire means Sapphire Power Holdings LLC, a Delaware limited liability company.

**Table of Contents**

**Sapphire Power** means, collectively, Sapphire Power Finance LLC and its subsidiaries, Morris Energy Management Company, LLC and its subsidiaries, and MEG Yellow Pine, LLC.

**Sarbanes-Oxley Act** means the Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

**Scrubber** means an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

**SEC** means the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

**Securities Act** means the Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder.

**Separation Agreement** means the Separation Agreement, dated as of June 9, 2014, among PPL, HoldCo, Talen Energy, Energy Supply, Raven, Jade and Sapphire.

**Separation Transactions** means the restructuring transactions that will occur prior to the spinoff of HoldCo pursuant to the Separation Agreement as described under "The Separation Agreement and the Transaction Agreement" in "The Separation Agreement" in "The Separation Transaction."

**SERC** means SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

**SIFMA Index** means the Securities Industry and Financial Markets Association Municipal Swap Index.

**Simpson Thacher** means Simpson Thacher & Bartlett LLP.

**SIP** means PPL's 2012 Stock Incentive Plan.

**SMGT** means Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

**SNCR** means selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

**SQ** means sulfur dioxide.

**Spark Spread** means a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

**Stockholders Agreement** means the Stockholders Agreement to be entered into by Talen Energy and the Contributors as of the Closing Date.

Superfund means the federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

**Table of Contents**

**Susquehanna Steam Electric Station** means the nuclear generating station in Pennsylvania that is 90 percent owned by PPL Susquehanna.

**SWMAAC** means Southwest Mid-Atlantic Area Council, which consists of Baltimore Gas and Electric Company and Potomac Electric Power Co.

**S&P** means Standard & Poor's Ratings Services, a credit rating agency.

**Talen Energy** means Talen Energy Corporation, a Delaware corporation formed to be the publicly traded owner of the competitive power generation assets of Energy Supply and RJS Power.

**Tolling agreement** means agreement whereby the owner of an electricity generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

**Topaz Power** means, collectively, C/R Topaz Holdings, LLC and its subsidiaries, Topaz Power Group, LLC and Topaz Power Property Management II, LP.

**TPM** means Topaz Power Management, LP, the entity that manages RJS Power's assets.

**Transaction Agreement** means the Transaction Agreement, dated as of June 9, 2014, among PPL, HoldCo, Talen Energy, Energy Supply, Merger Sub, Raven, Jade and Sapphire, as amended by Amendment No. 1 to the Transaction Agreement, dated as of October 23, 2014.

**Transactions** means the transactions contemplated by the Separation Agreement and the Transaction Agreement, which provide, among other things, for the Separation Transactions and the Closing Transactions, as described in the section **The Transactions**.

**Transition Services Agreements** means the Transition Services Agreements that Energy Supply will be entering into with PPL and TPM.

**VaR** means value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

**VEBA** means Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

**VIE** means variable interest entity.

**VPP Star status** means the highest level of recognition in the DOE Voluntary Protection Program, a DOE program established to promote safety and health excellence through cooperative efforts among labor, management and government at the DOE contractor sites.

**WARN Act** means Worker Adjustment and Retraining Notification Act of 1988.

**WECC** means Western Electricity Coordinating Council, operator of the electricity transmission network and electricity energy market in all or parts of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, South Dakota, Texas, Utah, Washington and Wyoming and the provinces of Alberta and British Columbia in Canada and the northern portion of Baja California in Mexico.





**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS**

|  | <b>Page<br/>No.</b> |
|--|---------------------|
| <b>Consolidated Financial Statements of PPL Energy Supply LLC</b>  |                     |
| Audited Consolidated Financial Statements:   |                     |
| <u>Report of Independent Registered Public Accounting Firm</u>   | F-2                 |
| <u>Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012</u>                                    | F-3                 |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012</u>                      | F-4                 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>                                | F-5                 |
| <u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>  | F-6                 |
| <u>Consolidated Statements of Equity for the years ended December 31, 2014, 2013 and 2012</u>                                    | F-8                 |
| <u>Notes to Financial Statements</u>   | F-9                 |
| <b>Consolidated and Combined Financial Statements of RJS Generation Holdings LLC</b>   |                     |
| Audited Consolidated and Combined Financial Statements:  |                     |
| <u>Report of Independent Auditors</u>  | F-80                |
| <u>Consolidated and Combined Balance Sheets as of December 31, 2014 and 2013</u>   | F-81                |
| <u>Consolidated and Combined Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u>                   | F-82                |
| <u>Consolidated and Combined Statements of Changes in Members Interests for the years ended December 31, 2014, 2013 and 2012</u> | F-83                |
| <u>Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>                   | F-84                |
| <u>Notes to Consolidated and Combined Financial Statements</u>   | F-85                |

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Managers and Sole Member of PPL Energy Supply, LLC

We have audited the accompanying consolidated balance sheets of PPL Energy Supply, LLC and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Energy Supply, LLC and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

February 23, 2015

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,****PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

|   | <b>2014</b>   | <b>2013</b>     | <b>2012</b>   |
|---|---------------|-----------------|---------------|
| <b>Operating Revenues</b>   |               |                 |               |
| Unregulated wholesale energy  | \$ 1,808      | \$ 2,909        | \$ 3,976      |
| Unregulated wholesale energy to affiliate                           | 84            | 51              | 78            |
| Unregulated retail energy   | 1,243         | 1,027           | 844           |
| Energy-related businesses   | 601           | 527             | 448           |
| <b>Total Operating Revenues</b>                                     | <b>3,736</b>  | <b>4,514</b>    | <b>5,346</b>  |
| <b>Operating Expenses</b>   |               |                 |               |
| Operation   |               |                 |               |
| Fuel  | 1,196         | 1,049           | 965           |
| Energy purchases  | 209           | 1,171           | 1,821         |
| Other operation and maintenance                                     | 1,007         | 1,026           | 997           |
| Loss on lease termination (Note 4)                                  |               | 697             |               |
| Depreciation  | 297           | 299             | 272           |
| Taxes, other than income  | 57            | 53              | 55            |
| Energy-related businesses   | 573           | 512             | 432           |
| <b>Total Operating Expenses</b>                                     | <b>3,339</b>  | <b>4,807</b>    | <b>4,542</b>  |
| <b>Operating Income (Loss)</b>                                      | <b>397</b>    | <b>(293)</b>    | <b>804</b>    |
| Other Income (Expense) net  | 30            | 32              | 19            |
| Interest Expense  | 124           | 159             | 158           |
| <b>Income (Loss) from Continuing Operations Before Income Taxes</b> | <b>303</b>    | <b>(420)</b>    | <b>665</b>    |
| Income Taxes  | 116           | (159)           | 236           |
| <b>Income (Loss) from Continuing Operations After Income Taxes</b>  | <b>187</b>    | <b>(261)</b>    | <b>429</b>    |
| Income (Loss) from Discontinued Operations (net of income taxes)    | 223           | 32              | 46            |
| <b>Net Income (Loss)</b>  | <b>410</b>    | <b>(229)</b>    | <b>475</b>    |
| Net Income (Loss) Attributable to Noncontrolling Interests          |               | 1               | 1             |
| <b>Net Income (Loss) Attributable to PPL Energy Supply Member</b>   | <b>\$ 410</b> | <b>\$ (230)</b> | <b>\$ 474</b> |
| <b>Amounts Attributable to PPL Energy Supply Member:</b>            |               |                 |               |
| Income (Loss) from Continuing Operations After Income Taxes         | \$ 187        | \$ (262)        | \$ 428        |
| Income (Loss) from Discontinued Operations (net of income taxes)    | 223           | 32              | 46            |

|                   |        |          |        |
|-------------------|--------|----------|--------|
| Net Income (Loss) | \$ 410 | \$ (230) | \$ 474 |
|-------------------|--------|----------|--------|

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

F-3

**Table of Contents****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31,****PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

|   | <b>2014</b>   | <b>2013</b>     | <b>2012</b>   |
|---|---------------|-----------------|---------------|
| <b>Net income (loss)</b>  | <b>\$ 410</b> | <b>\$ (229)</b> | <b>\$ 475</b> |
| <b>Other comprehensive income (loss):</b>   |               |                 |               |
| Amounts arising during the period gains (losses), net of tax (expense) benefit:         |               |                 |               |
| Available-for-sale securities, net of tax of (\$40), (\$72), (\$31)                     | <b>35</b>     | 67              | 29            |
| Qualifying derivatives, net of tax of \$0, \$0, (\$46)                                  |               |                 | 68            |
| Defined benefit plans:  |               |                 |               |
| Prior service costs, net of tax of (\$6), (\$1), \$0                                    | <b>8</b>      | 2               | 1             |
| Net actuarial gain (loss), net of tax of \$83, (\$49), \$56                             | <b>(120)</b>  | 71              | (82)          |
| Reclassifications to net income (gains) losses, net of tax expense (benefit):           |               |                 |               |
| Available-for-sale securities, net of tax of \$7, \$4, \$1                              | <b>(6)</b>    | (6)             | (7)           |
| Qualifying derivatives, net of tax of \$17, \$84, \$291                                 | <b>(25)</b>   | (123)           | (463)         |
| Defined benefit plans:  |               |                 |               |
| Prior service costs, net of tax of (\$1), (\$3), (\$2)                                  | <b>3</b>      | 4               | 5             |
| Net actuarial loss, net of tax of (\$4), (\$10), (\$2)                                  | <b>5</b>      | 14              | 10            |
| <b>Total other comprehensive income (loss) attributable to PPL Energy Supply Member</b> | <b>(100)</b>  | 29              | (439)         |
| <b>Comprehensive income (loss)</b>  | <b>310</b>    | (200)           | 36            |
| Comprehensive income attributable to noncontrolling interests                           |               | 1               | 1             |
| <b>Comprehensive income (loss) attributable to PPL Energy Supply Member</b>             | <b>\$ 310</b> | <b>\$ (201)</b> | <b>\$ 35</b>  |

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

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,****PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

|  | 2014   | 2013     | 2012   |
|--|--------|----------|--------|
| <b>Cash Flows from Operating Activities</b>  |        |          |        |
| Net income (Loss)  | \$ 410 | \$ (229) | \$ 475 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities |        |          |        |
| Depreciation   | 313    | 318      | 285    |
| Amortization   | 163    | 156      | 119    |
| Defined benefit plans expense  | 42     | 51       | 43     |
| Deferred income taxes and investment tax credits   | (26)   | (296)    | 152    |
| Impairment of assets   | 20     | 65       | 3      |
| Unrealized (gains) losses on derivatives, and other hedging activities                     | 4      | 171      | (41)   |
| Pre-tax gain from the sale of the Montana hydroelectric generation business (Note 4)       | (315)  |          |        |
| Loss on lease termination (Note 4)   |        | 426      |        |
| Other  | 36     | 2        | 19     |
| Change in current assets and current liabilities   |        |          |        |
| Accounts receivable  | 17     | 23       | (54)   |
| Accounts payable   | 2      | (56)     | (22)   |
| Unbilled revenues  | 68     | 83       | 33     |
| Fuel, materials and supplies   | (97)   | (31)     | (29)   |
| Prepayments  | (53)   | (5)      | (1)    |
| Counterparty collateral  | (17)   | (81)     | (34)   |
| Price risk management assets and liabilities   | (30)   | 7        | (21)   |
| Taxes payable  | (3)    | (31)     | (27)   |
| Other  | (40)   | (16)     | (17)   |
| Other operating activities   |        |          |        |
| Defined benefit plans funding  | (35)   | (113)    | (75)   |
| Other assets   | 3      | (4)      | (41)   |
| Other liabilities  |        | (30)     | 17     |
| Net cash provided by (used in) operating activities  | 462    | 410      | 784    |
| <b>Cash Flows from Investing Activities</b>  |        |          |        |
| Expenditures for property, plant and equipment   | (416)  | (583)    | (648)  |
| Proceeds from the sale of the Montana hydroelectric generation business (Note 4)           | 900    |          |        |
| Ironwood Acquisition, net of cash acquired   |        |          | (84)   |
| Expenditures for intangible assets   | (46)   | (42)     | (45)   |
| Purchases of nuclear plant decommissioning trust investments                               | (170)  | (159)    | (154)  |
| Proceeds from the sale of nuclear plant decommissioning trust investments                  | 154    | 144      | 139    |
| Proceeds from the receipt of grants  | 164    | 3        |        |
| Net (increase) decrease in notes receivable from affiliates                                |        |          | 198    |

Edgar Filing: Talen Energy Corp - Form S-1/A

|   |            |              |           |
|---|------------|--------------|-----------|
| Net (increase) decrease in restricted cash and cash equivalents | (108)      | (22)         | 104       |
| Other investing activities                                      | 19         | 28           | 21        |
| Net cash provided by (used in) investing activities             | 497        | (631)        | (469)     |
| <b>Cash Flows from Financing Activities</b>                     |            |              |           |
| Retirement of long-term debt                                    | (309)      | (747)        | (9)       |
| Contributions from member                                       | 739        | 1,577        | 563       |
| Distributions to member   | (1,906)    | (408)        | (787)     |
| Net increase (decrease) in short-term debt                      | 630        | (356)        | (44)      |
| Other financing activities                                      |            | (19)         | (4)       |
| Net cash provided by (used in) financing activities             | (846)      | 47           | (281)     |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>     | <b>113</b> | <b>(174)</b> | <b>34</b> |
| Cash and Cash Equivalents at Beginning of Period                | 239        | 413          | 379       |
| Cash and Cash Equivalents at End of Period                      | \$ 352     | \$ 239       | \$ 413    |
| <b>Supplemental Disclosures of Cash Flow Information</b>        |            |              |           |
| Cash paid (received) during the period for:                     |            |              |           |
| Interest net of amount capitalized                              | \$ 122     | \$ 157       | \$ 150    |
| Income taxes net  | \$ 310     | \$ 189       | \$ 128    |

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



**Table of Contents****CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,****PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

|  | 2014   | 2013   |
|--|--------|--------|
| <b>Assets</b>  |        |        |
| <b>Current Assets</b>  |        |        |
| Cash and cash equivalents  | \$ 352 | \$ 239 |
| Restricted cash and cash equivalents                                       | 176    | 68     |
| Accounts receivable (less reserve: 2014, \$2; 2013, \$21)                  |        |        |
| Customer   | 186    | 233    |
| Other  | 103    | 97     |
| Accounts receivable from affiliates  | 36     | 45     |
| Unbilled revenues  | 218    | 286    |
| Fuel, materials and supplies   | 455    | 358    |
| Prepayments  | 70     | 20     |
| Price risk management assets   | 1,079  | 860    |
| Other current assets   | 26     | 27     |
| Total Current Assets   | 2,701  | 2,233  |
| <b>Investments</b>   |        |        |
| Nuclear plant decommissioning trust funds                                  | 950    | 864    |
| Other investments  | 30     | 37     |
| Total Investments  | 980    | 901    |
| <b>Property, Plant and Equipment</b>                                       |        |        |
| Non-regulated property, plant and equipment                                |        |        |
| Generation   | 11,318 | 11,891 |
| Nuclear fuel   | 624    | 591    |
| Other  | 293    | 288    |
| Less: accumulated depreciation non-regulated property, plant and equipment | 6,242  | 6,046  |
| Non-regulated property, plant and equipment, net                           | 5,993  | 6,724  |
| Construction work in progress  | 443    | 450    |
| Property, Plant and Equipment, net   | 6,436  | 7,174  |
| <b>Other Noncurrent Assets</b>   |        |        |
| Goodwill   | 72     | 86     |
| Other intangibles  | 257    | 266    |
| Price risk management assets   | 239    | 328    |
| Other noncurrent assets  | 75     | 86     |

|                               |                  |                  |
|-------------------------------|------------------|------------------|
| Total Other Noncurrent Assets | 643              | 766              |
| <b>Total Assets</b>           | <b>\$ 10,760</b> | <b>\$ 11,074</b> |

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

F-6

**Table of Contents****CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,****PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

|  | <b>2014</b>      | <b>2013</b>      |
|--|------------------|------------------|
| <b>Liabilities and Equity</b>                                  |                  |                  |
| <b>Current Liabilities</b>                                     |                  |                  |
| Short-term debt  | \$ 630           |                  |
| Long-term debt due within one year                             | 535              | \$ 304           |
| Accounts payable   | 361              | 393              |
| Accounts payable to affiliates                                 | 50               | 4                |
| Taxes  | 28               | 31               |
| Interest   | 16               | 22               |
| Price risk management liabilities                              | 1,024            | 750              |
| Other current liabilities                                      | 246              | 278              |
| <b>Total Current Liabilities</b>                               | <b>2,890</b>     | <b>1,782</b>     |
| <b>Long-term Debt</b>  | <b>1,683</b>     | <b>2,221</b>     |
| <b>Deferred Credits and Other Noncurrent Liabilities</b>       |                  |                  |
| Deferred income taxes  | 1,223            | 1,114            |
| Investment tax credits   | 27               | 205              |
| Price risk management liabilities                              | 193              | 320              |
| Accrued pension obligations                                    | 299              | 111              |
| Asset retirement obligations                                   | 415              | 393              |
| Other deferred credits and noncurrent liabilities              | 123              | 130              |
| <b>Total Deferred Credits and Other Noncurrent Liabilities</b> | <b>2,280</b>     | <b>2,273</b>     |
| <b>Commitments and Contingent Liabilities (Note 9)</b>         |                  |                  |
| <b>Member s equity</b>   | <b>3,907</b>     | <b>4,798</b>     |
| <b>Total Liabilities and Equity</b>                            | <b>\$ 10,760</b> | <b>\$ 11,074</b> |

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

**Table of Contents****CONSOLIDATED STATEMENTS OF EQUITY****PPL Energy Supply, LLC and Subsidiaries***(Millions of Dollars)*

|                                   | <b>Member s<br/>equity</b> | <b>Non-<br/>controlling<br/>interests</b> | <b>Total</b> |
|-----------------------------------|----------------------------|---|--------------|
| <b>December 31, 2011</b>          | \$ 4,019                   | \$ 18                                     | \$ 4,037     |
| Net income                        | 474                        | 1   | 475          |
| Other comprehensive income (loss) | (439)                      |   | (439)        |
| Contributions from member         | 563                        |   | 563          |
| Distributions                     | (787)                      | (1)                                       | (788)        |
| <b>December 31, 2012</b>          | \$ 3,830                   | \$ 18                                     | \$ 3,848     |
| Net income                        | \$ (230)                   | \$ 1                                      | \$ (229)     |
| Other comprehensive income (loss) | 29                         |   | 29           |
| Contributions from member         | 1,577                      |   | 1,577        |
| Distributions                     | (408)                      | (19)                                      | (427)        |
| <b>December 31, 2013</b>          | \$ 4,798                   | \$  | \$ 4,798     |
| Net income (loss)                 | \$ 410                     | \$  | \$ 410       |
| Other comprehensive income (loss) | (100)                      |   | (100)        |
| Contributions from member         | 739                        |   | 739          |
| Distributions (c)                 | (1,940)                    |   | (1,940)      |
| <b>December 31, 2014</b>          | \$ 3,907                   | \$  | \$ 3,907     |

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

**Table of Contents**

**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**General**

Capitalized terms and abbreviations appearing in the notes to financial statements are defined in the glossary. Dollars are in millions unless otherwise noted.

**Business and Consolidation**

PPL Energy Supply is an energy company conducting business primarily through its principal subsidiaries PPL Generation and PPL EnergyPlus. PPL Generation owns and operates a portfolio of competitive domestic power generating assets. These power plants are located in Pennsylvania and Montana and use well-diversified fuel sources including coal, uranium, natural gas, oil and water. PPL EnergyPlus sells electricity produced by PPL Generation subsidiaries, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, FTRs, coal, natural gas, oil, uranium, emission allowances, RECs and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern U.S.

PPL Energy Supply operates within a single reportable segment.

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. See Note 4 for additional information.

In November 2014, PPL Montana completed the sale of its hydroelectric generating facilities. See Note 4 for additional information.

Income (Loss) from Discontinued Operations (net of income taxes) on the Statements of Income includes the activities of PPL Montana's hydroelectric generating facilities and the gain on the sale of these facilities to NorthWestern in November 2014. The related assets and liabilities have not been reclassified to assets/liabilities of discontinued operations on the balance sheet at December 31, 2013. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations. See Note 4 for additional information.

The financial statements include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for VIEs. PPL Energy Supply consolidates a VIE when it is determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. PPL Energy Supply is not the primary beneficiary in any material VIEs. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated. Any noncontrolling interests are reflected in the financial statements.

The financial statements include PPL Energy Supply's share of any undivided interests in jointly owned facilities, as well as its share of the related operating costs of those facilities. See Note 8 for additional information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F-9

## **Table of Contents**

### **Loss Accruals**

Potential losses are accrued when (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated.

Accounting guidance defines probable as cases in which the future event or events are likely to occur. PPL Energy Supply continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

### **Changes in Classification**

The classification of certain amounts in the 2013 and 2012 financial statements have been changed to conform to the current presentation. The changes in classification did not affect PPL Energy Supply's net income or equity.

### **Price Risk Management**

Energy and energy-related contracts are used to hedge the variability of expected cash flows associated with the generating units and marketing activities, as well as for trading purposes at PPL Energy Supply. Interest rate contracts are used to hedge exposures to changes in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain energy and energy-related contracts meet the definition of a derivative, while others do not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative energy contracts have been excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. All other contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. These contracts are recorded as Price risk management assets and Price risk management liabilities on the Balance Sheets. The portion of derivative positions that deliver within a year are included in Current Assets and Current Liabilities, while the portion of derivative positions that deliver beyond a year are recorded in Other Noncurrent Assets and Deferred Credits and Other Noncurrent Liabilities. PPL Energy Supply considers intra-month transactions to be spot activity, which is not accounted for as a derivative.

Energy and energy-related contracts are assigned a strategy and accounting classification. Processes exist that allow for subsequent review and validation of the contract information. See Note 13 for more information. The accounting department provides the traders and the risk management department with guidelines on appropriate accounting classifications for various contract types and strategies. Some examples of these guidelines include, but are not limited to:

Physical coal, limestone, lime, uranium, electric transmission, gas transportation, gas storage and renewable energy credit contracts not traded on an exchange are not derivatives due to the lack of net settlement provisions.

Only contracts where physical delivery is deemed probable throughout the entire term of the contract can qualify for NPNS.

Physical transactions that permit cash settlement and financial transactions do not qualify for NPNS because physical delivery cannot be asserted; however, these transactions can receive cash flow hedge treatment if they effectively hedge the volatility in the future cash flows for energy-related commodities.



## **Table of Contents**

Certain purchased option contracts or net purchased option collars may receive cash flow hedge treatment.

Derivative transactions that do not qualify for NPNS or cash flow hedge treatment, or for which NPNS or cash flow hedge treatment is not elected, are recorded at fair value through earnings.

A similar process is also followed by the treasury department as it relates to interest rate derivatives. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.

Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.

Derivative transactions that do not qualify for cash flow treatment are marked to fair value through earnings. Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL Energy Supply has elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL Energy Supply reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in Unregulated wholesale energy on the Statements of Income.

See Notes 12 and 13 for additional information on derivatives.

## **Revenue**

### **Revenue Recognition**

Operating revenues, except for certain energy and energy-related contracts that meet the definition of derivative instruments and Energy-related businesses, are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Unbilled wholesale energy revenues are recorded at month-end to reflect estimated amounts until actual dollars and MWhs are confirmed and invoiced. Any difference between estimated and actual revenues is adjusted the following month.

Certain PPL Energy Supply subsidiaries participate primarily in the PJM RTO, as well as in other RTOs and ISOs. In PJM, PPL EnergyPlus is a marketer, a load-serving entity and a seller for PPL Energy Supply's generation subsidiaries. A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot-market sale to the RTO at the respective market price for that hour; if the net result is an obligation, the participant is charged with

a spot-market purchase at the respective market price for that hour. PPL Energy Supply records the hourly net sales in its Statements of Income as Unregulated wholesale energy if in a net sales position and Energy purchases if in a net purchase position.

PPL Energy Supply records non-derivative energy marketing activity in the period when the energy is delivered. Generally, sales contracts held for non-trading purposes are reported gross on the Statements of Income within Unregulated wholesale energy and Unregulated retail energy. However, non-trading physical sales and purchases of electricity at major market delivery points (which is any delivery point with liquid pricing available,

**Table of Contents**

such as the pricing hub for PJM West), are netted and reported in the Statements of Income within Unregulated wholesale energy or Energy purchases, depending on the net hourly position. Certain energy and energy-related contracts that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense (see Note 13), unless hedge accounting is applied or NPNS is elected. If derivatives meet cash flow hedging criteria, changes in fair value are recorded in AOCI. The unrealized and realized results of derivative and non-derivative contracts that are designated as proprietary trading activities are reported net on the Statements of Income within Unregulated wholesale energy.

Energy-related businesses revenue primarily includes revenue from PPL Energy Supply's mechanical contracting and engineering subsidiaries. These subsidiaries record revenue from construction contracts on the percentage-of-completion method of accounting, measured by the actual cost incurred to date as a percentage of the estimated total cost for each contract. Accordingly, costs and estimated earnings in excess of billings on uncompleted contracts are recorded within Unbilled revenues on the Balance Sheets, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded within Other current liabilities on the Balance Sheets. The amount of costs and estimated earnings in excess of billings was \$20 million and \$14 million at December 31, 2014 and 2013, and the amount of billings in excess of costs and estimated earnings was \$41 million and \$75 million at December 31, 2014 and 2013.

During 2014, PPL Energy Supply recorded a \$17 million increase to Energy-related businesses revenues and Income from Continuing Operations before Income Taxes on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. The \$10 million after-tax impact of correcting this error increased Income from Continuing Operations after Income Taxes and Net Income on the 2014 Statement of Income. The impact of the error is not material to the previously issued financial statements or to the full year results for 2014.

**Accounts Receivable**

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. During 2014, 2013 and 2012, PPL Electric purchased \$336 million, \$294 million and \$313 million of accounts receivable from PPL EnergyPlus.

Allowance for Doubtful Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness and economic conditions. Specific events, such as bankruptcies, are also considered. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when it is known they will be received.

**Table of Contents**

The changes in the allowance for doubtful accounts were:

|      | <b>Balance at<br/>Beginning of<br/>Period</b> | <b>Charged to<br/>Income</b> | <b>Additions<br/>Charged to<br/>Other<br/>Accounts</b> | <b>Deductions (a)</b> | <b>Balance at<br/>End of Period</b> |
|------|---|------------------------------|--|-----------------------|-------------------------------------|
| 2014 | \$ 21   |                              |  | \$ 19(b)              | \$ 2                                |
| 2013 | 23  | 1                            |  | 3                     | 21                                  |
| 2012 | 15  | 12(b)                        |  | 4                     | 23                                  |

(a) Primarily related to uncollectible accounts written off.

(b) In 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract and the U.S. Bankruptcy Court for the District of Montana approved a request to terminate the contract. In 2014, PPL EnergyPlus received an insignificant amount of cash, settling the outstanding administrative claim and therefore, the related reserve balance was offset against the accounts receivable balance.

**Cash****Cash Equivalents**

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

**Restricted Cash and Cash Equivalents**

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is shown as Restricted cash and cash equivalents while the noncurrent portion is included in Other noncurrent assets.

At December 31, the balances of restricted cash and cash equivalents included the following.

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Margin deposits posted to counterparties | \$ 175      | \$ 67       |
| Ironwood debt service reserves           | 17          | 17          |
| Other                                    | 1           | 1           |
| Total                                    | \$ 193      | \$ 85       |

**Fair Value Measurements**

PPL Energy Supply values certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities

including investments in the NDT funds and defined benefit plans, and cash and cash equivalents. PPL Energy Supply and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

## **Table of Contents**

PPL Energy Supply classifies fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

**Level 1** quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2** inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.

**Level 3** unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, PPL Energy Supply's assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

## **Investments**

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

### **Short-term Investments**

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

### **Investments in Debt and Equity Securities**

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt and equity securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt and equity securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt and equity securities. Any unrealized gains and losses on trading securities are included in earnings.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or

there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss, if any, is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax.

F-14

**Table of Contents**

Unrealized gains and losses on available-for-sale equity securities are reported, net of tax, in OCI. When an equity security's decline in fair value below cost is determined to be an other-than-temporary impairment, the unrealized loss is recognized currently in earnings. See Notes 12 and 16 for additional information on investments in debt and equity securities.

**Long-Lived and Intangible Assets****Property, Plant and Equipment**

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition, which establishes its original cost. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. PPL Energy Supply records costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued in advance of the period in which the work is performed.

Nuclear fuel-related costs, including fuel, conversion, enrichment, fabrication and assemblies, are capitalized as PP&E. Such costs are amortized as the fuel is spent using the units-of-production method and included in Fuel on the Statements of Income.

PPL Energy Supply capitalizes interest costs as part of construction costs. Capitalized interest was as follows.

|      |       |
|------|-------|
| 2014 | \$ 23 |
| 2013 | 37    |
| 2012 | 47    |

**Depreciation**

Depreciation is recorded over the estimated useful lives of property using primarily the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income.

The weighted-average rates of depreciation were 3.28 and 3.10 at December 31, 2014 and 2013.

**Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.



When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL Energy Supply and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

---

**Table of Contents**

PPL Energy Supply accounts for RECs as intangible assets. PPL Energy Supply buys and/or sells RECs and also creates RECs through owned renewable energy generation facilities. In any period, PPL Energy Supply can be a net purchaser or seller of RECs depending on its contractual obligations to purchase or deliver RECs and the production of RECs from its renewable energy generation facilities. The carrying value of RECs created from its renewable energy generation facilities is initially recorded at zero value and purchased RECs are initially recorded based on their purchase price. When RECs are consumed to satisfy an obligation to deliver RECs to meet a state's Renewable Portfolio Standard Obligation or when RECs are sold to third parties, they are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of RECs are not diminished until they are consumed, RECs are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in Energy purchases on the Statements of Income. Gains and losses on the sale of RECs are included in Other operation and maintenance on the Statements of Income.

PPL Energy Supply accounts for emission allowances as intangible assets. PPL Energy Supply is allocated emission allowances by states based on its generation facilities' historical emissions experience, and has purchased emission allowances generally when it is expected that additional allowances will be needed. The carrying value of allocated emission allowances is initially recorded at zero value and purchased allowances are initially recorded based on their purchase price. When consumed or sold, emission allowances are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of emission allowances are not diminished until they are consumed, emission allowances are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in Fuel on the Statements of Income. Gains and losses on the sale of emission allowances are included in Other operation and maintenance on the Statements of Income.

**Asset Impairment (Excluding Investments)**

PPL Energy Supply reviews long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value. See Note 12 for a discussion of asset impairments, including the Corette coal-fired plant and the Kerr Dam project, both in Montana.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

The depressed level of energy and capacity prices in PJM, as well as management's forward view of these prices using its fundamental pricing models, has put pressure on the recoverability assessment of PPL Energy Supply's investment in its Pennsylvania coal-fired generation assets. In the fourth quarter of 2013, after updating its fundamental pricing models in conjunction with the annual business planning process, management tested the Brunner Island and Montour plants for impairment and concluded neither plant was impaired as of December 31, 2013. The recoverability assessment is very sensitive to forward energy and capacity price assumptions as well as forecasted operation and maintenance and capital spending. Therefore, a further decline in forecasted long-term energy or capacity prices or changes in environmental laws requiring additional capital or operations and maintenance expenditures, could negatively impact PPL Energy Supply's operations of these facilities and potentially result in future impairment charges for some or all of the carrying value of these plants. There were no events or changes in circumstances that indicated a recoverability assessment was required to be performed in 2014. The carrying value of these assets was \$2.6 billion as of December 31, 2014 (\$1.4 billion for Brunner Island and \$1.2 billion for Montour).



## **Table of Contents**

PPL Energy Supply reviews goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL Energy Supply's reporting unit is at the operating segment level.

PPL Energy Supply may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as step zero) is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL Energy Supply elected to bypass step zero and quantitatively tested the goodwill for impairment in the fourth quarter of 2014 and no impairment was recognized.

## **Asset Retirement Obligations**

PPL Energy Supply and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within Other operation and maintenance on the Statements of Income to reflect changes in the obligation due to the passage of time.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 15 for additional information on AROs.

## **Compensation and Benefits**

### **Defined Benefits**

PPL sponsors various defined benefit pension and other postretirement plans in which PPL Energy Supply participates. Additionally, a subsidiary of PPL Energy Supply sponsors a defined benefit pension plan for its employees. For reporting purposes, PPL Energy Supply records its pro rata share of the pension and other post retirement plans in which it participates as if it was the Plan Sponsor, based on actuarially determined calculations of its share of the liability and associated plan assets. Therefore, for plans in which its subsidiary sponsors, and PPL Plans in which PPL Energy Supply participates, an asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

F-17

## **Table of Contents**

PPL and PPL Energy Supply use an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 7 for a discussion of defined benefits.

## **Stock-Based Compensation**

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units in which PPL Energy Supply participates. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Stock options that vest in installments are valued as a single award. PPL grants stock options with an exercise price that is not less than the fair value of PPL's common stock on the date of grant. See Note 6 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Energy Supply includes an allocation of PPL Services' expense.

## **Taxes**

### **Income Taxes**

PPL and its subsidiaries file a consolidated U.S. federal income tax return. The income tax provision for PPL Energy Supply is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Energy Supply filed a separate consolidated return. Tax benefits are not shared between the participants in the PPL tax sharing agreement. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes. At December 31, 2014 and 2013, the intercompany tax receivables (payables) that were recorded were \$105 million and \$44 million.

Significant management judgment is required in developing PPL Energy Supply's provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and valuation allowances on deferred tax assets.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. PPL Energy Supply uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of PPL Energy Supply in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

**Table of Contents**

PPL Energy Supply records valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. PPL Energy Supply considers the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If PPL Energy Supply determines that it is able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if PPL Energy Supply determines that it is not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

PPL Energy Supply defers investment tax credits when the credits are utilized and amortizes the deferred amounts over the average lives of the related assets.

PPL Energy Supply recognizes interest and penalties in **Income Taxes** on its Statements of Income.

PPL Energy Supply records the receipt of grants related to assets as a reduction to the book basis of the property and the related deferred income taxes as an immediate reduction to income tax expense.

See Note 2 for additional discussion regarding income taxes.

**Taxes, Other Than Income**

PPL Energy Supply presents sales taxes in **Other current liabilities** on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 2 for details on taxes included in **Taxes, other than income** on the Statements of Income.

**Other****Leases**

PPL Energy Supply evaluates whether arrangements entered into contain leases for accounting purposes. See Note 5 for a discussion of arrangements under which PPL Energy Supply is a lessee for accounting purposes.

**Fuel, Materials and Supplies**

Fuel, natural gas stored underground and materials and supplies are valued at the lower of cost or market using the average cost method. Fuel costs for electric generation are charged to expense as used.

Fuel, materials and supplies on the Balance Sheets consisted of the following at December 31.

|                                | <b>2014</b> | <b>2013</b> |
|--------------------------------|-------------|-------------|
| Fuel                           | \$ 243      | \$ 163      |
| Natural gas stored underground | 7           | 2           |
| Materials and supplies         | 205         | 193         |
|                                | \$ 455      | \$ 358      |



Guarantees

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 9 for further discussion of recorded and unrecorded guarantees.

F-19

## Table of Contents

### **New Accounting Guidance Adopted**

#### Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, PPL Energy Supply retrospectively adopted accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

The adoption of this guidance did not have a significant impact on PPL Energy Supply.

#### Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL Energy Supply prospectively adopted accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance did not have a significant impact on PPL Energy Supply.

#### Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, PPL Energy Supply prospectively adopted accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The adoption of this guidance did not have a significant impact on PPL Energy Supply.

## **2. Income and Other Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. jurisdictions in which PPL Energy Supply's operations have historically been profitable.

**Table of Contents**

Significant components of PPL Energy Supply's deferred income tax assets and liabilities were as follows:

|   | <b>2014</b>     | <b>2013</b>     |
|---|-----------------|-----------------|
| <b>Deferred Tax Assets</b>                |                 |                 |
| Deferred investment tax credits (a)       | \$ 11           | \$ 84           |
| Accrued pension costs                     | 98              | 39              |
| Federal loss carryforwards                | 22              | 28              |
| Federal tax credit carryforwards (a)      | 13              | 131             |
| State loss carryforwards                  | 79              | 80              |
| Other                                     | 79              | 69              |
| Valuation allowances                      | (78)            | (78)            |
| <b>Total deferred tax assets</b>          | <b>224</b>      | <b>353</b>      |
| <b>Deferred Tax Liabilities</b>           |                 |                 |
| Plant - net (a)                           | 1,374           | 1,392           |
| Unrealized gain on qualifying derivatives | 28              | 38              |
| Other                                     | 42              | 46              |
| <b>Total deferred tax liabilities</b>     | <b>1,444</b>    | <b>1,476</b>    |
| <b>Net deferred tax liability</b>         | <b>\$ 1,220</b> | <b>\$ 1,123</b> |

(a) During 2014, PPL accepted U.S. government grants for hydroelectric plant expansions resulting in reductions of investment tax credits previously claimed and reductions in the carrying value of the related plants. See Note 4 for additional information.

At December 31, PPL Energy Supply had the following loss and tax credit carryforwards.

|                                | <b>2014</b> | <b>Expiration</b> |
|--------------------------------|-------------|-------------------|
| <b>Loss carryforwards</b>      |             |                   |
| Federal net operating losses   | \$ 63       | 2031-2032         |
| State net operating losses (a) | 1,228       | 2018-2034         |
| <b>Credit carryforwards</b>    |             |                   |
| Federal AMT credit             | 6           | Indefinite        |
| Federal other                  | 7           | 2031-2034         |

(a) A valuation allowance of \$78 million has been recorded against the deferred tax assets for these losses. Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

**Additions**

|      | <b>Balance at<br/>Beginning<br/>of<br/>Period</b> | <b>Charged to<br/>Income</b> | <b>Charged to<br/>Other Accounts</b> | <b>Deduction (s)</b> | <b>Balance at<br/>End of Period</b> |
|------|---|------------------------------|--------------------------------------|----------------------|-------------------------------------|
| 2014 | \$ 78   |                              |                                      |                      | \$ 78                               |
| 2013 | 74  | \$ 4                         |                                      |                      | 78                                  |
| 2012 | 72  | 2                            |                                      |                      | 74                                  |

F-21

**Table of Contents**

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to Income (Loss) from Continuing Operations Before Income Taxes to income taxes for reporting purposes, and details of Taxes, other than income were as follows:

|  | 2014   | 2013     | 2012   |
|--|--------|----------|--------|
| <b>Income Tax Expense (Benefit)</b>                                      |        |          |        |
| Current Federal  | \$ 28  | \$ 118   | \$ 74  |
| Current State  | 13     | 16       | 19     |
| Total Current Expense  | 41     | 134      | 93     |
| Deferred Federal   | 66     | (285)    | 187    |
| Deferred State   | 11     | (27)     | 7      |
| Total Deferred Expense (Benefit), excluding operating loss carryforwards | 77     | (312)    | 194    |
| Investment tax credit, net federal                                       | (2)    | (3)      | (2)    |
| Tax expense (benefit) of operating loss carryforwards                    |        |          |        |
| Deferred Federal (a)   |        | 22       | (48)   |
| Deferred State   |        |          | (1)    |
| Total Tax Expense (Benefit) of Operating Loss Carryforwards              |        | 22       | (49)   |
| Total income taxes (benefits) from continuing operations (b)             | \$ 116 | \$ (159) | \$ 236 |
| Total income tax expense (benefit) Federal                               | \$ 92  | \$ (148) | \$ 211 |
| Total income tax expense (benefit) State                                 | 24     | (11)     | 25     |
| Total income taxes (benefits) from continuing operations (b)             | \$ 116 | \$ (159) | \$ 236 |

- (a) A 2012 federal income tax return adjustment was recorded in 2013 related to a reduction in the 2012 net operating loss recorded in the filed return. The reduction was primarily due to PPL's decision, at the time of filing, to utilize regular Modified Accelerated Cost Recovery System depreciation rates for certain non-regulated assets otherwise eligible for bonus tax depreciation.
- (b) Excludes current and deferred federal and state tax expense recorded to Discontinued Operations of \$109 million, \$17 million and \$27 million in 2014, 2013 and 2012. Also excludes federal and state tax expense (benefit) recorded to OCI of \$(56) million, \$47 million and \$(267) million in 2014, 2013, and 2012.

|  | 2014   | 2013     | 2012   |
|--|--------|----------|--------|
| <b>Reconciliation of Income Tax Expense</b>  |        |          |        |
| Federal income tax on Income (Loss) from Continuing Operations Before Income Taxes at statutory tax rate 35% | \$ 106 | \$ (147) | \$ 233 |

Edgar Filing: Talen Energy Corp - Form S-1/A

|   |        |          |        |
|---|--------|----------|--------|
| Increase (decrease) due to:                           |        |          |        |
| State income taxes, net of federal income tax benefit | 17     | (24)     | 30     |
| State deferred tax rate change (a)                    | (1)    | 15       | (19)   |
| Federal income tax credits (b)                        |        | (8)      | (11)   |
| Other   | (6)    | 5        | 3      |
| Total increase (decrease)                             | 10     | (12)     | 3      |
| Total income taxes from continuing operations         | \$ 116 | \$ (159) | \$ 236 |
| <b>Effective income tax rate</b>                      | 38.3%  | 37.9%    | 35.5%  |

- (a) During 2014, 2013 and 2012, PPL Energy Supply recorded adjustments related to its December 31 state deferred tax liabilities as a result of annual changes in state apportionment and the impact on the future estimated state income tax rate.

F-22

**Table of Contents**

- (b) During 2013 and 2012, PPL Energy Supply recorded a deferred tax benefit related to investment tax credits on progress expenditures related to the Holtwood hydroelectric plant expansions. See Note 4 for additional information.

| <b>Taxes, other than income</b> | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|---------------------------------|-------------|-------------|-------------|
| State gross receipts            | \$ 45       | \$ 37       | \$ 35       |
| State capital stock             | 1           | 1           | 5           |
| Property and other              | 11          | 15          | 15          |
| Total                           | \$ 57       | \$ 53       | \$ 55       |

**Unrecognized Tax Benefits**

Changes to unrecognized tax benefits were as follows:

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Beginning of period                              | \$ 15       | \$ 30       |
| Reductions based on tax positions of prior years |             | (15)        |
| End of period                                    | \$ 15       | \$ 15       |

At December 31, 2014, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could decrease by \$15 million.

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At December 31, 2014 and 2013, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were \$14 million.

At December 31, 2014 and 2013, receivable balances of \$16 million and \$15 million were recorded for interest related to tax positions.

The following interest expense (benefit) was recognized in income taxes.

| <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------|-------------|-------------|
| (1)         | \$5         | \$(4)       |

The income tax provisions for PPL Energy Supply is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Energy Supply filed a separate consolidated return. Based on this tax sharing agreement, PPL Energy Supply or its subsidiaries indirectly or directly file tax returns in three major tax jurisdictions. With few exceptions, at December 31, 2014, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows:



|                      |                |
|----------------------|----------------|
| U.S. (federal)       | 1997 and prior |
| Pennsylvania (state) | 2010 and prior |
| Montana (state)      | 2010 and prior |

**Table of Contents****3. Financing Activities****Credit Arrangements and Short-term Debt**

PPL Energy Supply maintains credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. The amounts borrowed below are recorded as Short-term debt on the Balance Sheets. The following credit facilities were in place at:

|   | Expiration Date | December 31, 2014 |          |   |                 | December 31, 2013 |   |
|---|-----------------|-------------------|----------|---|-----------------|-------------------|---|
|   |                 | Capacity          | Borrowed | Letters of Credit and Commercial Paper Issued | Unused Capacity | Borrowed          | Letters of Credit and Commercial Paper Issued |
| Syndicated Credit Facility (a)(b)(c)      | Nov. 2017       | \$ 3,000          | \$ 630   | \$ 121  | \$ 2,249        | \$ 29             |   |
| Letter of Credit Facility (b)             | Mar. 2015       | 150               |          | 138   | 12              | 138               |   |
| Uncommitted Credit Facilities (b)         |                 | 100               |          | 22  | 78              | 77                |   |
| Total PPL Energy Supply Credit Facilities |                 | \$ 3,250          | \$ 630   | \$ 281  | \$ 2,339        | \$ 244            |   |

- (a) PPL Energy Supply pays customary fees and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (b) The facility contains a financial covenant requiring debt to total capitalization not to exceed 65%. Additionally, subject to certain conditions, PPL Energy Supply may request that its facility's capacity be increased by up to \$500 million.
- (c) At December 31, 2014, PPL Energy Supply's interest rates on outstanding borrowings were 2.05%. In August 2014, PPL Energy Supply terminated its commercial paper program.

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, which provides PPL Energy Supply the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At December 31, 2014, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees, which had an aggregate carrying value of \$2.6 billion at December 31, 2014. The facility expires in

November 2019, but is subject to automatic one-year renewals under certain conditions. There were \$64 million of secured obligations outstanding under this facility at December 31, 2014.

**Table of Contents****Long-term Debt**

|   | <b>Weighted-<br/>Average<br/>Rate</b> | <b>Maturities</b> | <b>December 31,</b> |                 |
|---|---------------------------------------|-------------------|---------------------|-----------------|
|   |                                       |                   | <b>2014</b>         | <b>2013</b>     |
| Senior Unsecured Notes (a)              | 5.31%                                 | 2015 - 2036       | \$ 2,193            | \$ 2,493        |
| Senior Secured Notes                    | 8.86%                                 | 2025              | 45                  | 49              |
| Other                                   |                                       |                   |                     | 5               |
| Total Long-term Debt Before Adjustments |                                       |                   | 2,238               | 2,547           |
| Fair market value adjustments           |                                       |                   | (19)                | (22)            |
| Unamortized premium and (discount), net |                                       |                   | (1)                 |                 |
| <b>Total Long-term Debt</b>             |                                       |                   | <b>2,218</b>        | <b>2,525</b>    |
| Less current portion of Long-term Debt  |                                       |                   | 535                 | 304             |
| <b>Total Long-term Debt, noncurrent</b> |                                       |                   | <b>\$ 1,683</b>     | <b>\$ 2,221</b> |

- (a) Includes \$300 million of 5.70% REset Put Securities due 2035 (REPS). The REPS bear interest at a rate of 5.70% per annum to, but excluding, October 15, 2015 (Remarketing Date). The REPS are required to be put by existing holders on the Remarketing Date either for (a) purchase and remarketing by a designated remarketing dealer or (b) repurchase by PPL Energy Supply. If the remarketing dealer elects to purchase the REPS for remarketing, it will purchase the REPS at 100% of the principal amount, and the REPS will bear interest on and after the Remarketing Date at a new fixed rate per annum determined in the remarketing. PPL Energy Supply has the right to terminate the remarketing process. If the remarketing is terminated at the option of PPL Energy Supply or under certain other circumstances, including the occurrence of an event of default by PPL Energy Supply under the related indenture or a failed remarketing for certain specified reasons, PPL Energy Supply will be required to pay the remarketing dealer a settlement amount as calculated in accordance with the related remarketing agreement.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2015 through 2019 and thereafter are as follows:

|              |                 |
|--------------|-----------------|
| 2015         | \$ 535          |
| 2016         | 354             |
| 2017         | 4               |
| 2018         | 403             |
| 2019         | 4               |
| Thereafter   | 938             |
| <b>Total</b> | <b>\$ 2,238</b> |

### **Long-term Debt Activities**

In August 2014, PPL Energy Supply repaid the entire \$300 million principal amount of its 5.40% Senior Notes upon maturity.

### **Legal Separateness**

The subsidiaries of PPL Energy Supply are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply. Accordingly, creditors of PPL Energy Supply may not satisfy their debts from the assets of its subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Energy Supply is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of these

## **Table of Contents**

subsidiaries may not satisfy their debts from the assets of PPL Energy Supply (or its other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

## **Distributions and Related Restrictions**

Under the terms of the spinoff agreements with affiliates of Riverstone to create Talen Energy, PPL Energy Supply is generally prohibited from making distributions or other payments to PPL or any PPL affiliate that is not a subsidiary of PPL Energy Supply, with the exception of specific distributions and other payments set forth in the agreements. These exceptions are generally limited to a planned distribution from PPL Energy Supply to PPL during the first quarter of 2015 in an amount not to exceed \$191 million. At December 31, 2014, PPL Energy Supply's net assets of \$3.7 billion were restricted for the purposes of transferring funds to PPL in the form of distributions, loans or advances.

## **4. Acquisitions, Development and Divestitures**

PPL Energy Supply from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results.

## **Divestitures**

### **Anticipated Spinoff of PPL Energy Supply**

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners a newly formed entity, Talen Energy Holdings, Inc. (Holdco), which at such time will own all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy. Immediately following the spinoff, Holdco will merge with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power will be contributed by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, FERC, DOJ and PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn credit capacity under a Talen Energy (or its subsidiaries) revolving credit or similar facility. Any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions at the time of the spinoff are excluded from this calculation.

On December 18, 2014, the FERC issued a final order approving, subject to certain market power mitigation requirements, the combination of the competitive generation assets to form Talen Energy. On January 27, 2015, PPL

and an affiliate of RJS Power filed a joint response with the FERC accepting additional market power mitigation measures required for the FERC's approval. PPL and RJS Power originally proposed divesting either of two groups of assets each having approximately 1,300 MW of generating capacity. PPL and RJS Power have agreed that within 12 months after closing of the transaction, Talen Energy will divest generating assets in one of the groups (from PPL Energy Supply's existing portfolio, this includes either the Holtwood and Wallenpaupack hydroelectric facilities or the Ironwood facility), and limit PJM energy market offers from assets it would retain in the other group to cost-based offers.

**Table of Contents**

The transaction is expected to close in the second quarter of 2015.

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans and staffing selections were substantially completed in 2014.

The new organizational plans identify the need to resize and restructure the organizations. As a result, during 2014, charges for employee separation benefits were recorded by PPL Energy Supply in Other operation and maintenance on the Statement of Income and in Other current liabilities on the Balance Sheet as follows.

|                     |       |
|---------------------|-------|
| Separation benefits | \$ 16 |
| Number of positions | 112   |

The separation benefits incurred include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. Most separations and payment of separation benefits are expected to occur in 2015.

Additional employee-related costs to be incurred primarily include accelerated stock-based compensation and pro-rated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL employees who will become PPL Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. PPL and PPL Energy Supply estimate these additional costs will be in the range of \$30 million to \$40 million.

**Discontinued Operations****Montana Hydro Sale**

In November 2014, PPL Montana completed the sale to NorthWestern of 633 MW of hydroelectric generating facilities located in Montana for approximately \$900 million in cash. The sale included 11 hydroelectric generating facilities and related assets.

Following are the components of Discontinued Operations in the Statements of Income for the years ended December 31.

|  | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|-------------|
| <b><u>PPL Energy Supply</u></b>            |             |             |             |
| Operating revenues                         | \$ 117      | \$ 139      | \$ 154      |
| Gain on the sale (pre-tax)                 | 306         |             |             |
| Interest expense (a)                       | 9           | 12          | 10          |
| Income (loss) before income taxes          | 332         | 49          | 73          |
| Income (Loss) from Discontinued Operations | 223         | 32          | 46          |

(a) Represents allocated interest expense based upon the discontinued operations share of the net assets of PPL Energy Supply.



Upon completion of the sale, assets primarily consisting of \$544 million of PP&E, net, and \$14 million of Goodwill were removed from the Balance Sheet.

**Other**

To facilitate the sale of the Montana hydroelectric generating facilities discussed above, PPL Montana terminated, in December 2013, its operating lease arrangement related to partial interests in Units 1, 2 and 3 of the Colstrip coal-fired electric generating facility and acquired those interests, collectively, for \$271 million. At lease termination, the existing lease-related assets on the balance sheet consisting primarily of prepaid rent and

## Table of Contents

leasehold improvements were written off and the acquired Colstrip assets were recorded at fair value as of the acquisition date. PPL Energy Supply recorded a charge of \$697 million (\$413 million after-tax) for the termination of the lease included in Loss on lease termination on the 2013 Statements of Income. The \$271 million payment is reflected in Cash Flows from Operating Activities on the 2013 Statements of Cash Flow.

## **Development**

### Hydroelectric Expansion Projects

In 2009, in light of the availability of tax incentives and potential federal loan guarantees for renewable projects contained in the American Recovery and Reinvestment Act of 2009, PPL Energy Supply received FERC approval to expand capacity at its Holtwood and Rainbow hydroelectric facilities. In 2013, the Rainbow hydroelectric redevelopment project in Great Falls, Montana, which increased total capacity to 63 MW, was placed in service. Also in 2013, the 125 MW Holtwood project was placed in service.

In 2014, the U.S. Department of Treasury awarded \$56 million for the Rainbow hydroelectric redevelopment project and \$108 million for the Holtwood hydroelectric project for Specified Energy Property in Lieu of Tax Credits. As a result of the receipt of the grants, PPL Energy Supply was required to recapture investment tax credits previously recorded of \$60 million related to the Rainbow project and \$117 million related to the Holtwood project. The impact on the financial statements for the receipt of the grants and recapture of investment tax credits was not significant for 2014, and will not be significant in future periods.

### Bell Bend COLA

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) submitted a COLA to the NRC for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant.

Also in 2008, PPL Bell Bend submitted Parts I and II of an application for a federal loan guarantee for Bell Bend to the DOE. In February 2014, the DOE announced the first loan guarantee for a nuclear project in Georgia. Although eight of the ten applicants that submitted Part II applications remain active in the DOE program, the DOE has stated that the \$18.5 billion currently appropriated to support new nuclear projects would not likely be enough for more than three projects. PPL Bell Bend submits quarterly application updates for Bell Bend to the DOE to remain active in the loan guarantee application process.

The NRC continues to review the COLA. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2018. PPL Bell Bend has made no decision to proceed with construction and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized by PPL's Board of Directors to spend up to \$224 million on the COLA and other permitting costs necessary for construction. At December 31, 2014 and 2013, \$188 million and \$173 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent Other intangibles. PPL Energy Supply continues to support the Bell Bend licensing project with a near term focus on obtaining the final environmental impact statement. PPL Energy Supply placed the NRC safety review (which supports issuance of their final safety evaluation report, the other key element of the COLA) on hold in 2014, due to a lack of progress by the reactor vendor with respect to its NRC design certification process, which is a prerequisite to the COLA. PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application.



**Table of Contents****5. Leases**

PPL Energy Supply and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

**Rent - Operating Leases**

Rent expense for the years ended December 31 for operating leases was as follows:

|  | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|-------------|
|  | \$29        | \$55        | \$62        |

Total future minimum rental payments for all operating leases are estimated to be:

|              |              |
|--------------|--------------|
| 2015         | \$ 11        |
| 2016         | 11           |
| 2017         | 10           |
| 2018         | 4            |
| 2019         | 1            |
| Thereafter   | 2            |
| <b>Total</b> | <b>\$ 39</b> |

**6. Stock-Based Compensation**

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units in which PPL Energy Supply participates.

In 2012, PPL shareowners approved the PPL SIP. This new equity plan replaces the PPL ICP and incorporates the following changes:

Eliminates the potential to pay dividend equivalents on stock options.

Eliminates the automatic lapse of restrictions on all equity awards in the event of a potential change in control and requires that a termination of employment occur in the event of a change in control before restrictions lapse.

Changes the treatment of outstanding stock options upon retirement to limit the exercise period to the earlier of the end of the term (ten years from grant) or five years after retirement.

To further align the executives' interests with those of PPL shareowners, this plan provides that each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units would be deferred and payable in shares of PPL common stock at

the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICP and ICPKE are currently paid in cash when dividends are declared by PPL.

Under the ICP, SIP and the ICPKE (together, the Plans ), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL Energy Supply and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

**Table of Contents**

The following table details the award limits under each of the plans.

| Plan    | Annual Grant Limit<br>Total As<br>% of<br>Outstanding |  |  | Annual Grant Limit<br>For Individual Participants<br>Performance Based Awards |   |
|---------|---|--|--|---|---|
|         | Total Plan<br>Award<br>Limit<br>(Shares)              | PPL Common Stock<br>On First<br>Day of<br>Each Calendar Year | Annual Grant<br>Limit<br>Options<br>(Shares) | For<br>awards<br>denominated in<br>shares<br>(Shares)                         | For awards denominated<br>in denominated in<br>cash<br>(in dollars) |
| ICP (a) | 15,769,431  | 2%   | 3,000,000                                    |   |   |
| SIP     | 10,000,000  |  | 2,000,000                                    | 750,000   | \$ 15,000,000   |
| ICPKE   | 14,199,796  | 2%   | 3,000,000                                    |   |   |

(a) Applicable to outstanding awards granted from January 27, 2006 to January 26, 2012. During 2012, the total plan award limit was reached and the ICP was replaced by the SIP.

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

**Restricted Stock and Restricted Stock Units**

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement. The shares are subject to forfeiture or accelerated payout under plan provisions for termination, retirement, disability and death of employees. Restricted shares vest fully, in certain situations, as defined by each of the Plans.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a vesting period, generally three years.

The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restricted stock and restricted stock units vest fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted for PPL Energy Supply was:

| <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------|-------------|-------------|
| \$31.70     | \$30.42     | \$28.29     |

F-30

**Table of Contents**

Restricted stock and restricted stock unit activity for PPL Energy Supply for 2014 was:

|                                | <b>Restricted<br/>Shares/Units</b> | <b>Weighted-<br/>Average Grant<br/>Date Fair Value<br/>Per Share</b> |
|--------------------------------|------------------------------------|--|
| Nonvested, beginning of period | 1,343,404                          | \$ 28.71   |
| Transferred                    | 70,298                             | 27.43  |
| Granted                        | 465,238                            | 31.70  |
| Vested                         | (395,740)                          | 26.19  |
| Forfeited                      | (25,300)                           | 30.54  |
| Nonvested, end of period       | 1,457,900                          | 30.13  |

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for PPL Energy Supply for the years ended December 31 was:

| <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------|-------------|-------------|
| \$10        | \$7         | \$6         |

**Performance Units**

Performance units are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareholder return during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareholder return of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee, in which case the total performance units remain outstanding and are eligible for vesting through the conclusion of the performance period.

Beginning in 2014, the fair value of performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. The fair value of performance units granted in 2013 and 2012 is recognized as compensation expense on a straight-line basis over the three-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.



The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

**Table of Contents**

The weighted-average assumptions used in the model were:

|                           | 2014    | 2013    | 2012    |
|---------------------------|---------|---------|---------|
| Risk-free interest rate   | 0.75%   | 0.36%   | 0.30%   |
| Expected stock volatility | 15.80%  | 15.50%  | 19.30%  |
| Expected life             | 3 years | 3 years | 3 years |

The weighted-average grant date fair value of performance units granted for PPL Energy Supply was:

| 2014    | 2013    | 2012    |
|---------|---------|---------|
| \$34.35 | \$34.29 | \$31.40 |

Performance unit activity for PPL Energy Supply for 2014 was:

|                                | Performance<br>Units | Weighted<br>Average Grant<br>Date Fair Value<br>Per Share |
|--------------------------------|----------------------|---|
| Nonvested, beginning of period | 170,609              | \$ 32.22  |
| Transferred                    | 27,656               | 32.12   |
| Granted                        | 138,601              | 34.35   |
| Vested                         | (45,374)             | 29.11   |
| Nonvested, end of period       | 291,492              | 33.71   |

The total fair value of performance units vesting for the year ended December 31, 2014 was insignificant for PPL Energy Supply.

**Stock Options**

PPL's CGNC eliminated the use of stock options and changed its long-term incentive mix to 60% performance units and 40% performance-contingent restricted stock units, resulting in 100% performance-based long-term incentive mix for equity awards granted beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2014, become exercisable in equal installments over a three-year service period beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary. The CGNC and CLC have discretion to accelerate the exercisability of the options, except that the exercisability of an option issued under the ICP may not be accelerated unless the individual remains employed by PPL or a subsidiary for one year from the date of grant. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans. The fair value of options granted is recognized as compensation expense on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of options granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant.

The fair value of each option granted is estimated using a Black-Scholes option-pricing model. PPL uses a risk-free interest rate, expected option life, expected volatility and dividend yield to value its stock options. The risk-free interest rate reflects the yield for a U.S. Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behavior. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility

**Table of Contents**

assumption. PPL uses a mix of historic and implied volatility to value awards. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price. The assumptions used in the model were:

|                           | <b>2013</b> | <b>2012</b> |
|---------------------------|-------------|-------------|
| Risk-free interest rate   | 1.15%       | 1.13%       |
| Expected option life      | 6.48 years  | 6.17 years  |
| Expected stock volatility | 18.50%      | 20.60%      |
| Dividend yield            | 5.00%       | 5.00%       |

The weighted-average grant date fair value of options granted for PPL Energy Supply was:

| <b>2013</b> | <b>2012</b> |
|-------------|-------------|
| \$2.19      | \$2.51      |

Stock option activity for PPL Energy Supply for 2014 was:

|                                      | <b>Number<br/>of<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>Per<br/>Share</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contracted<br/>Term<br/>(years)</b> | <b>Aggregate<br/>Total<br/>Intrinsic<br/>Value</b> |
|--------------------------------------|----------------------------------|--|---|--|
| Outstanding at beginning of period   | 2,845,336                        | \$ 30.47   |   |  |
| Transferred                          | 458,800                          | 30.47  |   |  |
| Exercised                            | (559,120)                        | 28.79  |   |  |
| Outstanding at end of period         | 2,745,016                        | 30.84  | 5.6   | \$ 17  |
| Options exercisable at end of period | 2,166,150                        | 31.24  | 5.0   | 13   |

Substantially all stock option awards are expected to vest.

**Compensation Expense**

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards for PPL Energy Supply was as follows:

| <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------|-------------|-------------|
| \$33        | \$27        | \$23        |

The income tax benefit related to above compensation expense for PPL Energy Supply was as follows:

| <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------|-------------|-------------|
| \$14        | \$11        | \$10        |

At December 31, 2014, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, performance units and stock option awards for PPL Energy Supply was:

| <b>Unrecognized<br/>Compensation<br/>Expense</b> | <b>Weighted-<br/>Average<br/>Period for<br/>Recognition</b> |
|--|---|
| \$13   | 1.8 years   |

F-33

**Table of Contents****7. Retirement and Postemployment Benefits****Defined Benefits**

The majority of PPL Energy Supply's subsidiaries employees are eligible for pension benefits under noncontributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans (which are sponsored by PPL Services). Effective January 1, 2012, PPL Services' primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL Services' primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The majority of PPL Montana employees are eligible for pension benefits under a cash balance pension plan. Effective January 1, 2012, that plan was closed to newly hired salaried employees. Effective September 1, 2014, that plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan.

Employees of certain of PPL Energy Supply's mechanical contracting companies are eligible for benefits under multiemployer plans sponsored by various unions.

PPL Energy Supply and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL Energy Supply's subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. Postretirement benefits under the PPL Montana Retiree Health Plan are paid from company assets.

The following table provides the components of net periodic defined benefit costs for PPL Energy Supply's pension and other postretirement benefit plans for the years ended December 31.

|  | Pension Benefits |      |      | Other Postretirement Benefits |      |      |
|--|------------------|------|------|-------------------------------|------|------|
|  | 2014             | 2013 | 2012 | 2014                          | 2013 | 2012 |
| <b>Net periodic defined benefit costs (credits):</b> |                  |      |      |                               |      |      |
| Service cost   | \$ 5             | \$ 7 | \$ 6 |                               | \$ 1 | \$ 1 |
| Interest cost  | 9                | 8    | 7    | \$ 1                          |      | 1    |
| Expected return on plan assets                       | (11)             | (10) | (9)  |                               |      |      |
| Amortization of:                                     |                  |      |      |                               |      |      |
| Actuarial (gain) loss                                | 2                | 3    | 2    |                               |      |      |
| Curtailment charges (credits)                        |                  |      |      | (1)                           |      |      |
| Net periodic defined benefit costs (credits)         | \$ 5             | 8    | \$ 6 | \$                            | \$ 1 | \$ 2 |

**Other Changes in Plan Assets and Benefit Obligations****Recognized in OCI:**

|  |       |         |       |      |        |        |
|--|-------|---------|-------|------|--------|--------|
| Curtailments   |       |         |       | \$ 1 |        |        |
| Net (gain) loss  | \$ 26 | \$ (15) | \$ 16 | (1)  | \$ (1) |        |
| Prior service cost (credit)                                    |       |         |       |      | (3)    | \$ (1) |
| Amortization of:   |       |         |       |      |        |        |
| Actuarial gain (loss)  | (2)   | (3)     | (2)   |      |        |        |
| Total recognized in OCI  | 24    | (18)    | 14    |      | (4)    | (1)    |
| Total recognized in net periodic defined benefit costs and OCI | \$ 29 | \$ (10) | \$ 20 | \$   | \$ (3) | \$ 1   |

F-34

**Table of Contents**

Actuarial loss of \$4 million related to PPL Energy Supply's pension plan is expected to be amortized from AOCI into net periodic defined benefit costs in 2015.

The following net periodic defined benefit costs (credits) were charged to operating expense by PPL Energy Supply, excluding amounts charged to construction and other non-expense accounts.

| Pension Benefits |      |      | Other Postretirement Benefits |      |      |
|------------------|------|------|-------------------------------|------|------|
| 2014             | 2013 | 2012 | 2014                          | 2013 | 2012 |
| \$39             | \$45 | \$37 | \$3                           | \$6  | \$6  |

In the table above, amounts include costs for the specific plans PPL Energy Supply's subsidiary sponsors and the following allocated costs of defined benefit plans sponsored by PPL Services, based on PPL Energy Supply's subsidiaries' participation in those plans, which management believes are reasonable:

| Pension Benefits |      |      | Other Postretirement Benefits |      |      |
|------------------|------|------|-------------------------------|------|------|
| 2014             | 2013 | 2012 | 2014                          | 2013 | 2012 |
| \$34             | \$38 | \$31 | \$3                           | \$5  | \$5  |

PPL Energy Supply adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for its defined benefit pension and other postretirement benefit plans at December 31, 2014. In addition, PPL Energy Supply updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for its defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies. The use of the new base tables and improvement scale resulted in an increase to defined benefit pension and other postretirement benefit obligations, an increase to future expense and a decrease in funded status.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

|                               | Pension Benefits |       | Other Postretirement Benefits |       |
|-------------------------------|------------------|-------|-------------------------------|-------|
|                               | 2014             | 2013  | 2014                          | 2013  |
| Discount rate                 | 4.28%            | 5.18% | 3.81%                         | 4.51% |
| Rate of compensation increase | 4.03%            | 3.94% | 4.03%                         | 3.94% |

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31.

|                                    | Pension Benefits |       |       | Other Postretirement Benefits |       |       |
|------------------------------------|------------------|-------|-------|-------------------------------|-------|-------|
|                                    | 2014             | 2013  | 2012  | 2014                          | 2013  | 2012  |
| Discount rate                      | 5.18%            | 4.25% | 5.12% | 4.51%                         | 3.77% | 4.60% |
| Rate of compensation increase      | 3.94%            | 3.95% | 4.00% | 3.94%                         | 3.95% | 4.00% |
| Expected return of plan assets (a) | 7.00%            | 7.00% | 7.00% | N/A                           | N/A   | N/A   |



- (a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

**Table of Contents**

The following table provides the assumed health care cost trend rates for the years ended December 31:

|  | 2014 | 2013 | 2012 |
|--|------|------|------|
| <b>Health care cost trend rate assumed for next year</b>                                 |      |      |      |
| obligations  | 7.2% | 7.6% | 8.0% |
| cost   | 7.6% | 8.0% | 8.5% |
| <b>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</b> |      |      |      |
| obligations  | 5.0% | 5.0% | 5.5% |
| cost   | 5.0% | 5.5% | 5.5% |
| <b>Year that the rate reaches the ultimate trend rate</b>                                |      |      |      |
| obligations  | 2020 | 2020 | 2019 |
| cost   | 2020 | 2019 | 2019 |

A one percentage point change in the assumed health care costs trend rate assumption would not have been significant to PPL Energy Supply's other postretirement benefit plan in 2013.

The funded status of PPL Energy Supply's plans at December 31 was as follows:

|   | <b>Pension Benefits</b> |                | <b>Other Postretirement Benefits</b> |                |
|---|-------------------------|----------------|--------------------------------------|----------------|
|   | <b>2014</b>             | <b>2013</b>    | <b>2014</b>                          | <b>2013</b>    |
| <b>Change in Benefit Obligation</b>                         |                         |                |                                      |                |
| Benefit Obligation, beginning of period                     | \$ 163                  | \$ 176         | \$ 12                                | \$ 17          |
| Service cost  | 5                       | 7              |                                      | 1              |
| Interest cost   | 9                       | 8              | 1                                    |                |
| Plan amendments   |                         |                |                                      | (4)            |
| Actuarial (gain) loss                                       | 38                      | (23)           | (1)                                  | (1)            |
| Curtailments  |                         |                | (1)                                  |                |
| Gross benefits paid   | (5)                     | (5)            | (1)                                  | (1)            |
| <b>Benefit Obligation, end of period</b>                    | <b>210</b>              | <b>163</b>     | <b>10</b>                            | <b>12</b>      |
| <b>Change in Plan Assets</b>                                |                         |                |                                      |                |
| Plan assets at fair value, beginning of period              | 147                     | 149            |                                      |                |
| Actual return on plan assets                                | 22                      | 3              |                                      |                |
| Employer contributions                                      | 6                       |                | 1                                    | 1              |
| Gross benefits paid   | (5)                     | (5)            | (1)                                  | (1)            |
| <b>Plan assets at fair value, end of period</b>             | <b>170</b>              | <b>147</b>     |                                      |                |
| <b>Funded Status, end of period</b>                         | <b>\$ (40)</b>          | <b>\$ (16)</b> | <b>\$ (10)</b>                       | <b>\$ (12)</b> |
| <b>Amounts recognized in the Balance Sheets consist of:</b> |                         |                |                                      |                |
| Current liability   |                         |                | \$ (1)                               | \$ (1)         |

Edgar Filing: Talen Energy Corp - Form S-1/A

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Noncurrent liability                            | \$ (40) | \$ (16) | (9)     | (11)    |
| Net amount recognized, end of period            | \$ (40) | \$ (16) | \$ (10) | \$ (12) |
| <b>Amounts recognized in AOCI (pre-tax)</b>     |         |         |         |         |
| <b>consist of:</b>                              |         |         |         |         |
| Prior service cost (credit)                     |         |         | \$ (4)  | \$ (5)  |
| Net actuarial (gain) loss                       | \$ 59   | \$ 34   |         | 1       |
| Total   | \$ 59   | \$ 34   | \$ (4)  | \$ (4)  |
| <b>Total accumulated benefit obligation for</b> |         |         |         |         |
| <b>defined benefit pension plans</b>            |         |         |         |         |
|   | \$ 210  | \$ 163  |         |         |

F-36

**Table of Contents**

PPL Energy Supply's pension plan had projected and accumulated benefit obligations in excess of the fair value of plan assets at December 31, 2014 and 2013.

In addition to the plans it sponsors, PPL Energy Supply and its subsidiaries are allocated a portion of the funded status and costs of the defined benefit plans sponsored by PPL Services based on their participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Energy Supply resulted in liabilities at December 31 as follows:

|                               | <b>2014</b> | <b>2013</b> |
|-------------------------------|-------------|-------------|
| Pension                       | \$ 259      | \$ 96       |
| Other postretirement benefits | 34          | 35          |

PPL Energy Supply's mechanical contracting subsidiaries make contributions to over 70 multiemployer pension plans, based on the bargaining units from which labor is procured. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If PPL Energy Supply's mechanical contracting subsidiaries choose to stop participating in some of their multiemployer plans, they may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability.

PPL Energy Supply identified the Steamfitters Local Union No. 420 Pension Plan, EIN/Plan Number 23-2004424/001 as the only significant plan to which contributions are made. Contributions to this plan by PPL Energy Supply's mechanical contracting companies were \$5 million for 2014, 2013 and 2012. At the date the financial statements were issued, the Form 5500 was not available for the plan year ending in 2014. Therefore, the following disclosures specific to this plan are being made based on the Form 5500s filed for the plan years ended December 31, 2013 and 2012. PPL Energy Supply's mechanical contracting subsidiaries were not identified individually as greater than 5% contributors on the Form 5500s. However, the combined contributions of the four subsidiaries contributing to the plan had exceeded 5%. The plan had a Pension Protection Act zone status of red, without utilizing an extended amortization period, as of December 31, 2013 and 2012. In addition, the plan is subject to a rehabilitation plan and surcharges have been applied to participating employer contributions. The expiration date of the collective-bargaining agreement related to those employees participating in this plan is September 18, 2016. There were no other plans deemed individually significant based on a multifaceted assessment of each plan. This assessment included review of the funded/zone status of each plan and PPL Energy Supply's potential obligations under the plan and the number of participating employers contributing to the plan.

PPL Energy Supply's mechanical contracting subsidiaries also participate in multiemployer other postretirement plans that provide for retiree life insurance and health benefits.

Edgar Filing: Talen Energy Corp - Form S-1/A

The table below details total contributions for PPL Energy Supply to all multiemployer pension and other postretirement plans, including the plan identified as significant above. The contribution amounts fluctuate each year based on the volume of work and type of projects undertaken from year to year.

|                                    | <b>2014</b>  | <b>2013</b>  | <b>2012</b>  |
|------------------------------------|--------------|--------------|--------------|
| Pension Plans                      | \$ 40        | \$ 36        | \$ 31        |
| Other Postretirement Benefit Plans | 33           | 32           | 28           |
| <b>Total contributions</b>         | <b>\$ 73</b> | <b>\$ 68</b> | <b>\$ 59</b> |

F-37

**Table of Contents****Plan Assets Pension Plans**

PPL's primary legacy pension plan and the pension plan in which employees of PPL Montana participate are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines on a plan basis, as well as the weighted average of such guidelines, as of the end of 2014 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

|                             | 2014        | 2013        | 2014 Target Asset Allocation<br>Weighted<br>Average | PPL<br>Plans |
|-----------------------------|-------------|-------------|---|--------------|
| <b>Growth Portfolio</b>     | 51%         | 59%         | 52%   | 52%          |
| Equity securities           | 26%         | 30%         |   |              |
| Debt securities (a)         | 13%         | 17%         |   |              |
| Alternative investments     | 12%         | 12%         |   |              |
| <b>Immunizing Portfolio</b> | <b>47%</b>  | <b>39%</b>  | <b>46%</b>  | <b>46%</b>   |
| Debt securities (a)         | 44%         | 40%         |   |              |
| Derivatives                 | 3%          | (1%)        |   |              |
| <b>Liquidity Portfolio</b>  | <b>2%</b>   | <b>2%</b>   | <b>2%</b>   | <b>2%</b>    |
| <b>Total</b>                | <b>100%</b> | <b>100%</b> | <b>100%</b>   | <b>100%</b>  |

(a) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes. PPL Montana, a subsidiary of PPL Energy Supply, has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$170 million and \$147 million at December 31, 2014 and 2013 represents an interest of approximately 4% and 3% in the Master Trust.

**Table of Contents**

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

|  | December 31, 2014             |          |          |         | December 31, 2013             |          |          |         |
|--|-------------------------------|----------|----------|---------|-------------------------------|----------|----------|---------|
|  | Fair Value Measurements Using |          |          |         | Fair Value Measurements Using |          |          |         |
|  | Total                         | Level 1  | Level 2  | Level 3 | Total                         | Level 1  | Level 2  | Level 3 |
| <b>PPL Services Corporation</b>  |                               |          |          |         |                               |          |          |         |
| <b>Master Trust</b>  |                               |          |          |         |                               |          |          |         |
| Cash and cash equivalents  | \$ 246                        | \$ 246   |          |         | \$ 120                        | \$ 120   |          |         |
| Equity securities:   |                               |          |          |         |                               |          |          |         |
| U.S.:  |                               |          |          |         |                               |          |          |         |
| Large-cap  | 432                           | 114      | \$ 318   |         | 480                           | 134      | \$ 346   |         |
| Small-cap  | 145                           | 145      |          |         | 137                           | 137      |          |         |
| International  | 615                           |          | 615      |         | 630                           | 163      | 467      |         |
| Commingled debt  | 818                           |          | 818      |         | 749                           | 13       | 736      |         |
| Debt securities:   |                               |          |          |         |                               |          |          |         |
| U.S. Treasury and U.S. government sponsored agency                     |                               |          |          |         |                               |          |          |         |
| Residential/commercial backed securities                               | 2                             |          | 2        |         | 12                            |          | 11       | \$ 1    |
| Corporate  | 1,109                         |          | 1,088    | \$ 21   | 963                           |          | 940      | 23      |
| International government   | 8                             |          | 8        |         | 7                             |          | 7        |         |
| Other  | 9                             |          | 9        |         | 24                            |          | 24       |         |
| Alternative investments:   |                               |          |          |         |                               |          |          |         |
| Commodities  | 90                            |          | 90       |         | 108                           |          | 108      |         |
| Real estate  | 148                           |          | 148      |         | 134                           |          | 134      |         |
| Private equity   | 104                           |          |          | 104     | 80                            |          |          | 80      |
| Hedge funds  | 223                           |          | 223      |         | 210                           |          | 210      |         |
| Derivatives:   |                               |          |          |         |                               |          |          |         |
| Interest rate swaps and swaptions                                      | 92                            |          | 92       |         | (49)                          |          | (49)     |         |
| Other  | 12                            |          | 12       |         | 12                            |          | 12       |         |
| Insurance contracts  | 33                            |          |          | 33      | 37                            |          |          | 37      |
| PPL Services Corporation Master Trust assets, at fair value            | 4,809                         | \$ 1,211 | \$ 3,440 | \$ 158  | 4,271                         | \$ 1,130 | \$ 3,000 | \$ 141  |
| Receivables and payables, net (a)                                      | (41)                          |          |          |         |                               |          |          |         |
| 401(h) account restricted for other postretirement benefit obligations | (136)                         |          |          |         | (115)                         |          |          |         |
| <b>Total PPL Services Corporation Master Trust pension assets</b>      | <b>\$ 4,632</b>               |          |          |         | <b>\$ 4,156</b>               |          |          |         |

(a)



Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

F-39

**Table of Contents**

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2014 is as follows:

|   | <b>Residential/<br/>commercial<br/>backed<br/>Securities</b> | <b>Corporate<br/>debt</b> | <b>Private<br/>Equity</b> | <b>Insurance<br/>contracts</b> | <b>Total</b> |
|---|--|---------------------------|---------------------------|--------------------------------|--------------|
| Balance at beginning of period                      | \$ 1   | \$ 23                     | \$ 80                     | \$ 37                          | \$ 141       |
| Actual return on plan assets                        |  |                           |                           |                                |              |
| Relating to assets still held at the reporting date | (1)  | (1)                       | 19                        | 1                              | 18           |
| Relating to assets sold during the period           |  | (1)                       |                           |                                | (1)          |
| Purchases, sales and settlements                    |  |                           | 5                         | (5)                            |              |
| Balance at end of period                            | \$   | \$ 21                     | \$ 104                    | \$ 33                          | \$ 158       |

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2013 is as follows:

|   | <b>Residential/<br/>commercial<br/>backed<br/>Securities</b> | <b>Corporate<br/>debt</b> | <b>Private<br/>Equity</b> | <b>Insurance<br/>contracts</b> | <b>Other<br/>debt</b> | <b>Total</b> |
|---|--|---------------------------|---------------------------|--------------------------------|-----------------------|--------------|
| Balance at beginning of period                      | \$ 1   | \$ 27                     | \$ 75                     | \$ 42                          | \$ 1                  | \$ 146       |
| Actual return on plan assets                        |  |                           |                           |                                |                       |              |
| Relating to assets still held at the reporting date |  |                           | 3                         | 2                              |                       | 5            |
| Relating to assets sold during the period           |  | 5                         |                           |                                |                       | 5            |
| Purchases, sales and settlements                    |  | (9)                       | 2                         | (7)                            |                       | (14)         |
| Transfers from level 3 to level 2                   |  |                           |                           |                                | (1)                   | (1)          |
| Balance at end of period                            | \$ 1   | \$ 23                     | \$ 80                     | \$ 37                          | \$                    | \$ 141       |

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. These investments are classified as Level 2, except for exchange-traded funds, which are classified as Level 1 based on quoted prices in active markets. The fair value measurements for Level 2 investments are based on firm quotes of net asset values per share, which are not considered obtained from a quoted price in an active market. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations and exchange traded funds.

---

**Table of Contents**

Investments in commodities represent ownership of units of a commingled fund that is invested as a long-only, unleveraged portfolio of exchange-traded futures and forward contracts in tangible commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. The fund has daily liquidity with a specified notification period. The fund's fair value is based upon a unit value as calculated by the fund's trustee.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of ten years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$55 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in three hedge fund of funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the hedge fund of funds include long/short equity, market neutral, distressed debt, and relative value. Generally, shares may be redeemed within 65 to 95 days with prior written notice. The funds are subject to short term lockups and have limitations on the amount that may be withdrawn based on a percentage of the total net asset value of the fund, among other restrictions. All withdrawals are subject to the general partner's approval. The fair value for two of the funds has been estimated using the net asset value per share and the third fund's fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap) which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

**Plan Assets    Other Postretirement Benefit Plans**

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and

F-41

**Table of Contents**

therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts and the target allocation, by asset class, at December 31 are detailed below.

| Asset Class                   | Percentage of plan assets |      | Target Asset Allocation |
|-------------------------------|---------------------------|------|-------------------------|
|                               | 2014                      | 2013 | 2014                    |
| U.S. Equity securities        | 49%                       | 55%  | 45%                     |
| Debt securities (a)           | 49%                       | 41%  | 50%                     |
| Cash and cash equivalents (b) | 2%                        | 4%   | 5%                      |
| Total                         | 100%                      | 100% | 100%                    |

(a) Includes commingled debt funds and debt securities.

(b) Includes money market funds.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

|  | December 31, 2014                   |         |         |         | December 31, 2013                   |         |         |         |
|--|-------------------------------------|---------|---------|---------|-------------------------------------|---------|---------|---------|
|  | Fair Value Measurements Using Total | Level 1 | Level 2 | Level 3 | Fair Value Measurements Using Total | Level 1 | Level 2 | Level 3 |
| Money market funds                             | \$ 9                                | 9       |         |         | \$ 12                               | \$ 12   |         |         |
| U.S. Equity securities:                        |                                     |         |         |         |                                     |         |         |         |
| Large-cap                                      | 169                                 |         | \$ 169  |         | 182                                 |         | \$ 182  |         |
| Commingled debt                                | 136                                 |         | 136     |         | 100                                 |         | 100     |         |
| Debt securities:                               |                                     |         |         |         |                                     |         |         |         |
| Municipalities                                 | 33                                  |         | 33      |         | 36                                  |         | 36      |         |
| Total VEBA trust assets, at fair value         | 347                                 | \$ 9    | \$ 338  |         | 330                                 | \$ 12   | \$ 318  |         |
| Receivables and payables, net (a)              | 1                                   |         |         |         | 1                                   |         |         |         |
| 401(h) account assets                          | 136                                 |         |         |         | 115                                 |         |         |         |
| Total other postretirement benefit plan assets | \$ 484                              |         |         |         | \$ 446                              |         |         |         |

(a)

Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a high level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

**Table of Contents**

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made weekly on these funds.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

**Expected Cash Flows Defined Benefit Plans**

The PPL Montana pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL Montana contributed \$32 million to its pension plan in January 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the PPL Energy Supply plans.

|           | <b>Pension</b> | <b>Other<br/>Postretirement</b> |
|-----------|----------------|---------------------------------|
| 2015      | \$ 5           | \$ 1                            |
| 2016      | 7              | 1                               |
| 2017      | 7              | 1                               |
| 2018      | 8              | 2                               |
| 2019      | 9              | 2                               |
| 2020-2024 | 58             | 9                               |

**Savings Plans**

Substantially all employees of PPL's domestic subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans by PPL Energy Supply were:

| <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------|-------------|-------------|
| \$14        | \$12        | \$12        |

**Employee Stock Ownership Plan**

PPL sponsors, and PPL Energy Supply participates in, a non-leveraged ESOP in which employees, excluding those of PPL Montana and the mechanical contractors, are enrolled on the first day of the month following eligible employee status. Dividends paid on ESOP shares are treated as ordinary dividends by PPL. Under existing income tax laws, PPL is permitted to deduct the amount of those dividends for income tax purposes and to contribute the resulting tax savings (dividend-based contribution) to the ESOP.

The dividend-based contribution, which is discretionary, is used to buy shares of PPL's common stock and is expressly conditioned upon the deductibility of the contribution for federal income tax purposes. Contributions to the ESOP are allocated to eligible participants' accounts as of the end of each year, based 75% on shares held in existing participants' accounts and 25% on the eligible participants' compensation.



For 2014 and 2013, PPL Energy Supply did not record compensation expense related to the ESOP as no contribution was made. Compensation expense for ESOP contributions was insignificant in 2012. This amount was offset by the dividend-based contribution tax savings and had no impact on PPL Energy Supply's earnings.

**Table of Contents****Separation Benefits**

Certain PPL Energy Supply subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

See Note 4 for a discussion of separation benefits related to the anticipated spinoff of PPL Energy Supply and Note 9 for a discussion of separation benefits related to the one-time voluntary retirement window offered to certain bargaining unit employees as part of the new three-year labor agreement with IBEW local 1600. Separation benefits were not significant in 2013 and 2012.

**8. Jointly Owned Facilities**

At December 31, 2014 and 2013, the Balance Sheets reflect the owned interests in the facilities listed below.

|                          | Ownership Interest | Electric Plant | Other Property | Accumulated Depreciation | Construction Work in Progress |
|--------------------------|--------------------|----------------|----------------|--------------------------|-------------------------------|
| <b>December 31, 2014</b> |                    |                |                |                          |                               |
| Generating Plants        |                    |                |                |                          |                               |
| Susquehanna              | 90.00%             | \$ 4,746       |                | \$ 3,591                 | \$ 117                        |
| Conemaugh                | 16.25%             | 330            |                | 141                      | 2                             |
| Keystone                 | 12.34%             | 213            |                | 102                      | 2                             |
| Merrill Creek Reservoir  | 8.37%              |                | \$ 22          | 15                       |                               |
| <b>December 31, 2013</b> |                    |                |                |                          |                               |
| Generating Plants        |                    |                |                |                          |                               |
| Susquehanna              | 90.00%             | \$ 4,686       |                | \$ 3,545                 | \$ 76                         |
| Conemaugh                | 16.25%             | 247            |                | 131                      | 63                            |
| Keystone                 | 12.34%             | 207            |                | 91                       | 2                             |
| Merrill Creek Reservoir  | 8.37%              |                | \$ 22          | 16                       |                               |

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

In addition to the interests mentioned above, at December 31, 2014 and 2013, PPL Montana had a 50% ownership interest in Colstrip Units 1 and 2 and a 30% ownership interest in Colstrip Unit 3. The book value of these assets was not significant. At December 31, 2014 and 2013, NorthWestern owned a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to

the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4, and is entitled to take up to the same percentage of the available generation from Units 3 and 4.

**Table of Contents****9. Commitments and Contingencies****Energy Purchases, Energy Sales and Other Commitments****Energy Purchase Commitments**

PPL Energy Supply enters into long-term energy and energy related contracts which include commitments to purchase:

| <b>Contract Type</b>       | <b>Maximum Maturity Date</b> |
|----------------------------|------------------------------|
| Fuels (a)                  | 2023                         |
| Limestone                  | 2030                         |
| Natural Gas Storage        | 2026                         |
| Natural Gas Transportation | 2032                         |
| Power, excluding wind      | 2021                         |
| RECs                       | 2021                         |
| Wind Power                 | 2027                         |

(a) PPL Energy Supply incurred pre-tax charges of \$29 million during 2012 to reduce its 2012 and 2013 contracted coal deliveries. These charges were recorded to Fuel on the Statement of Income.

**Energy Sales Commitments**

In connection with its marketing activities or hedging strategy for its power plants, PPL Energy Supply has entered into long-term power sales contracts that extend into 2020, excluding long-term renewable energy agreements that extend into 2038.

See Note 10 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

**Legal Matters**

PPL Energy Supply and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL Energy Supply and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

**Sierra Club Litigation**

In July 2012, PPL Montana received a Notice of Intent to Sue (Notice) for violations of the Clean Air Act at Colstrip Steam Electric Station (Colstrip) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwestern Energy and PacificCorp. The Notices allege certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements.

On March 6, 2013, the Sierra Club and MEIC filed a complaint against PPL Montana and the other Colstrip co-owners in the U.S. District Court, District of Montana, Billings Division. PPL Montana operates Colstrip on behalf of the co-owners. The complaint is generally consistent with the prior Notices and lists 39 separate claims for relief. All but three of the claims allege Prevention of Significant Deterioration (PSD) related violations under the federal Clean Air Act for various plant maintenance projects completed since 1992. For each such project or set of projects, there are separate claims for failure to obtain a PSD permit, for failure to obtain a Montana Air

F-45

---

**Table of Contents**

Quality Permit to operate after the project(s) were completed and for operating after completion of such project(s) without Best Available Control Technology . The remaining three claims relate to the alleged failure to update the Title V operating permit for Colstrip to reflect the alleged major modifications described in the other claims, allege that the previous Title V compliance certifications were incomplete because they did not address the major plant modifications, and that numerous opacity violations have occurred at the plant since 2007. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects.

In July 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act and, in September 2013, filed an amended complaint. The amended complaint dropped all claims regarding pre-2001 plant projects, as well as the plaintiffs Title V and opacity claims. It did, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip owners filed a motion to dismiss the amended complaint in October 2013. In May 2014, the court dismissed the plaintiffs independent Best Available Control Technology claims and their Prevention of Significant Deterioration (PSD) claims for three projects, but denied the owners motion to dismiss the plaintiffs other PSD claims on statute of limitation grounds. On August 27, 2014, the Sierra Club and MEIC filed a second amended complaint. This complaint includes the same causes of action articulated in the first amended complaint, but alleges those claims in regard to only eight projects at the plant between 2001 and 2013. On September 26, 2014, the Colstrip owners filed an answer to the second amended complaint. Discovery is ongoing. In January 2015, trial as to liability in this matter was rescheduled to November 16, 2015. A trial date with respect to remedies, if there is a finding of liability, has not been scheduled. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same, PPL Montana cannot predict the ultimate outcome of this matter at this time.

**Notice of Intent to File Suit**

On October 20, 2014, PPL Energy Supply received a notice letter from the Chesapeake Bay Foundation (CBF) alleging violations of the Clean Water Act and Pennsylvania Clean Streams Law at the Brunner Island generation plant. The letter was sent to PPL Brunner Island and the PADEP and is intended to provide notice of the alleged violations and CBF s intent to file suit in Federal court after expiration of the 60 day statutory notice period. Among other things, the letter alleges that PPL Brunner Island failed to comply with the terms of its National Pollutant Discharge Elimination System permit and associated regulations related to the application of nutrient credits to the facility s discharges of nitrogen into the Susquehanna River. The letter also alleges that PADEP has failed to ensure that credits generated from nonpoint source pollution reduction activities that PPL Brunner Island applies to its discharges meet the eligibility and certification requirements under PADEP s nutrient trading program regulations. If a court-approved settlement cannot be reached, CBF plans to seek injunctive relief, monetary penalties, fees and costs of litigation. PPL Energy Supply cannot predict the outcome of this matter.

**Proposed Legislation - Pacific Northwest**

In the first quarter of 2015, legislation was proposed in the State of Oregon to eliminate, over time, the sale of electricity in Oregon from coal-fired generating facilities, and in the State of Washington to provide a means of cost recovery to utility owners of coal-fired generating facilities who commit to retire such facilities. Both proposals are in their earliest stages of consideration and PPL and PPL Energy Supply cannot predict whether any legislation seeking to achieve the objectives of the Oregon or Washington legislation will be enacted. Were such legislation to be enacted as proposed, such laws, either individually or collectively, would not be expected to have a material adverse effect on PPL Energy Supply s financial condition or results of operation.



## Table of Contents

### **Regulatory Issues**

#### Potential Impact of Financial Reform Legislation

The Dodd-Frank Act amended the Commodity Exchange Act (CEA) to include provisions that impose regulatory reporting requirements for most over-the-counter derivative transactions, and in the future will require many such transactions to be executed through an exchange and to be centrally-cleared. The Dodd-Frank Act amendments to the CEA also provide that the U.S. Commodity Futures Trading Commission (CFTC) may impose collateral (margin) requirements for over-the-counter derivative transactions that are not cleared, as well as establish speculative position limits for nonfinancial commodity derivatives and regulatory capital requirements for certain types of entities that enter into non-cleared swaps. The CFTC and the banking regulators continue to finalize rules implementing the major provisions in the Dodd-Frank Act.

PPL Energy Supply is not required to register as either a swap dealer or a major swap participant under the new regulatory regime. Consequently, PPL Energy Supply is not subject to the extensive regulatory requirements applicable to such registered entities, including Business Conduct Standards and other complex requirements under CFTC regulations. Nonetheless, the Dodd-Frank Act and implementing regulations have imposed on PPL Energy Supply additional and costly compliance, recordkeeping, reporting and documentation requirements.

In the future, PPL Energy Supply may be required to post additional collateral (margin) for over-the-counter derivatives transactions that are not cleared. In addition, PPL Energy Supply could face significantly higher operating costs if it or its counterparties are subject to certain regulations implementing the Dodd-Frank Act which are expected to be finalized during 2015. On January 12, 2015, President Obama signed into law a broad legislative exemption from the margin requirements for non-cleared swaps to which a commercial end-user is a counterparty. While the specifics of this new legislative exemption must be reconciled with proposed but not yet finalized margin regulations, PPL Energy Supply does not anticipate being subject to direct regulatory margin requirements associated with its non-cleared swap transactions. Instead, PPL Energy Supply's swap counterparties likely will continue to require posting of collateral and other forms of credit support (subject to unsecured thresholds and industry-standard documentation) for certain of PPL Energy Supply's non-cleared swap activities.

Additionally, the regulatory burdens and costs that the Dodd-Frank Act regulations impose on market participants could limit PPL Energy Supply's non-cleared swap transactions, or could cause decreased liquidity in the over-the-counter swap markets, as the CFTC's speculative position limits rules for nonfinancial commodity derivatives are finalized and implemented, and as financial institutions and other market participants discontinue proprietary trading operations or dealing activity in certain swaps markets. Such increased costs and decreased liquidity could make it more difficult for PPL Energy Supply to successfully and cost-efficiently meet commercial risk hedging targets. PPL Energy Supply will continue to evaluate the Dodd-Frank Act provisions of the CEA, and implementing regulations, but could incur significant costs related to ongoing compliance with the law and regulations.

#### New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC (the Act). To create incentives for the development of new, in-state electricity generation facilities, the Act implemented a long-term capacity agreement pilot program (LCAPP). The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL Energy Supply believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be



economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group

## Table of Contents

(P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties filed appeals of the FERC's order. In February 2014, the U.S. Court of Appeals for the Third Circuit upheld FERC's order, and the decision has become final.

In February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Third Circuit (Third Circuit) by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey (the Appellants). In September 2014, the Third Circuit affirmed the District Court's decision. In December 2014, the Appellants filed a petition for certiorari before the U.S. Supreme Court.

## Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electricity generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court (District Court) in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In September 2013, the District Court issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit) by CPV Power Development, Inc. and the State of Maryland (the Appellants). In June 2014, the Fourth Circuit affirmed the District Court's opinion and subsequently denied the Appellants' motion for rehearing. In December 2014, the Appellants filed a petition for certiorari before the U.S. Supreme Court.

## Pacific Northwest Markets

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings

to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim

F-48

## Table of Contents

outstanding at December 31, 2014 by the City of Seattle for approximately \$50 million. Hearings before a FERC Administrative Law Judge (ALJ) regarding the City of Seattle's refund claims were completed in October 2013 and briefing was completed in January 2014. In March 2014, the ALJ issued an initial decision denying the City of Seattle's complaint against PPL Montana. The initial decision is pending review by the FERC.

Although PPL Energy Supply and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

## FERC Market-Based Rate Authority

In 1998, the FERC authorized PPL EnergyPlus to make wholesale sales of electricity and related products at market-based rates. In those orders, the FERC directed PPL EnergyPlus to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by PPL EnergyPlus, PPL Montana and most of PPL Generation's subsidiaries. In December 2013, PPL Energy Supply and these subsidiaries filed market-based rate updates for the Eastern and Western regions. In June 2014, the FERC accepted PPL Energy Supply's and its subsidiaries' updated market power analysis finding that they qualify for continued market-based rate authority in the Western region. In November 2014, the FERC accepted PPL Energy Supply's updated market power analysis finding that it qualifies for continued market-based rate authority in the Eastern region.

## Electricity Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

Certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL Energy Supply affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of geomagnetic disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. On May 16, 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability

Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as PPL Energy Supply, to develop and implement operational procedures to mitigate the effects of geomagnetic disturbances on the bulk-power system. This NERC proposed standard was filed by NERC with FERC for approval in January 2014, and was approved on June 19, 2014. The second

**Table of Contents**

type is to require owners and operators of the bulk-power system to assess certain geomagnetic disturbance events and develop and implement plans to protect the bulk-power system from those events. This proposal was filed by NERC with FERC for approval by January 22, 2015 and is pending consideration by FERC. PPL Energy Supply may be required to make significant expenditures in new equipment or modifications to its facilities to comply with the new requirements. PPL Energy Supply is unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

**Environmental Matters    Domestic**

Due to the environmental issues discussed below or other environmental matters, it may be necessary for PPL Energy Supply to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules.

AirCSAPR

The EPA's CSAPR addresses the interstate transport of fine particulates and ozone. In accordance with an October 2014 U.S. Court of Appeals decision, CSAPR establishes interstate allowance trading programs for sulfur dioxide and nitrogen oxide emissions from fossil-fueled plants in two phases: Phase 1 commenced in January 2015 and Phase 2 commences in 2017. Sulfur dioxide emissions are subject to an annual trading program and nitrogen oxide emissions are subject to annual and ozone season programs. Oral arguments pertaining to outstanding challenges to the EPA's CSAPR will be heard before the D.C. Circuit Court on February 25, 2015.

Although PPL Energy Supply does not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in impacts that are higher than anticipated.

*National Ambient Air Quality Standards*

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP is expected to finalize a rule in early 2015 requiring nitrogen oxide reductions for fossil-fueled plants. The EPA proposed to further strengthen the ozone standard in November 2014, which could lead to further nitrogen oxide reductions, particularly for PPL Energy Supply fossil-fueled plants within the OTR. The EPA is under court order to finalize the standard by October 1, 2015. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. The EPA recently sent a policy memo to state agencies to facilitate the development of these plans, including modeling data showing which states are contributing. The implementation of such plans could have an impact on the structure and stringency of CSAPR Phase 2 reductions (discussed above).

In 2010, the EPA finalized a new National Ambient Air Quality Standard for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working to finalize designations for other areas and in April 2014, the EPA proposed timeframes for completing these designations. PPL Energy Supply anticipates that some of the measures required for compliance with the CSAPR (as discussed above),

or the MATS, or the Regional Haze Rules (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain plants will help to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the

## **Table of Contents**

Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as the plant's operations were suspended and the plant was retired in March 2015. In addition, MDEQ recently submitted a request to the EPA for a determination that this area is in attainment. If the EPA agrees with this request, then the deadlines associated with non-attainment would be suspended.

In December 2012, the EPA issued final rules that tighten the annual National Ambient Air Quality Standard for fine particulates. The rules were challenged by industry groups, and in May 2014 the D.C. Circuit Court upheld them. On January 15, 2015, the EPA published a final rule establishing area designations under the standard. Non-attainment areas in Pennsylvania were identified. PPL Energy Supply plants in Pennsylvania are not expected to be required to make further reductions towards achieving attainment.

Until final rules are promulgated, non-attainment designations are finalized and state compliance plans are developed, PPL Energy Supply cannot predict the ultimate outcome of the new National Ambient Air Quality standards for ozone, sulfur dioxide and particulate matter.

### *MATS*

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, known as the MATS, with an effective date of April 16, 2012. The rule was challenged by industry groups and states and was upheld by the D.C. Circuit Court, in April 2014. On November 25, 2014, the U.S. Supreme Court granted a petition for review of the rule. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. PPL Energy Supply has received compliance extensions for certain plants.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the air pollution controls installed at Colstrip are required, the cost of which is not expected to be significant. The Operations will be suspended at the Corette plant by April 2015 and the plant is expected to be retired in August 2015 due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant asset group was determined to be impaired in December 2013. See Note 12 for additional information.

PPL Energy Supply is conducting in-depth reviews of the EPA's recent amendments to the final rule and certain proposed corrections, none of which are currently expected to be significant.

### *Regional Haze and Visibility*

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to make reasonable progress every decade through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze regulation has been the western U.S. As for the eastern U.S., the EPA had determined that region-wide reductions under the CSAPR trading program could, in most instances, be utilized under state programs to satisfy BART requirements for sulfur dioxide and nitrogen oxides. However, the EPA's determination is being challenged by environmental groups and others.





---

**Table of Contents**

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to do so. The EPA finalized the Federal Implementation Plan (FIP) for Montana in September 2012. The final FIP assumed no additional controls for Corette or Colstrip Units 3 and 4, but proposed stricter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply is meeting these stricter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette by April 2015 (see *MATS* discussion above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit, oral argument was heard in May 2014, and the parties are awaiting a decision.

*New Source Review (NSR)*

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants, but has received no further communications from the EPA since providing its responses. In January 2009, PPL Energy Supply and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. The companies responded to the EPA and the matter remains open. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. The EPA requests remain an open matter. In September 2012, PPL Montana received an information request from the MDEQ regarding Colstrip Unit 1 and other projects. MDEQ formally suspended this request on June 6, 2014 in consideration of pending litigation (see *Legal Matters Sierra Club Litigation* above). PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See *Legal Matters* above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL Energy Supply subsidiaries are found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, PPL Energy Supply would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be material.

*Climate Change*

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate carbon dioxide emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of carbon dioxide emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and on June 23, 2014 the U.S. Supreme Court ruled that the EPA has the authority to regulate carbon dioxide emissions under these provisions of the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in emissions of other

pollutants. As a result, any new sources or major modifications to an existing carbon dioxide source causing a net significant increase in carbon dioxide emissions must comply with BACT permit limits for carbon dioxide if it would otherwise be subject to BACT or lowest achievable emissions rate limits due to significant increases in other pollutants.

F-52

---

**Table of Contents**

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing GHG emissions in the U.S. in the range of 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing more restrictive energy efficiency standards. Additionally, the Climate Action Plan calls for the U.S. to prepare for the impacts of climate change. Requirements related to this could affect PPL Energy Supply and others in the industry as modifications may be needed to electricity delivery systems to improve the ability to withstand major storms in order to meet those requirements. As further described above, the EPA has proposed rules pursuant to this directive, which it expects to finalize in the second or third quarter of 2015. The EPA has also announced that it will be developing a federal implementation plan which would apply to any states that fail to submit an acceptable state implementation plan. The Administration's increase in its estimate of the social cost of carbon (which is used to calculate benefits associated with proposed regulations) from \$23.8 to \$38 per metric ton for 2015 may also lead to more costly regulatory requirements.

In January 2014, the EPA issued a revised proposal to regulate carbon dioxide emissions from new power plants. The revised proposal calls for separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new gas-fired plants could have a significant industry-wide impact.

The EPA has also issued proposed regulations addressing carbon dioxide emissions from existing power plants. The existing plant proposal contains state-specific rate-based reduction goals and guidelines for the development, submission and implementation of state plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying EPA's broad interpretation and definition of the Best System of Emission Reduction resulting in stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The regulation of carbon dioxide emissions from existing power plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

In June 2014, the EPA also proposed a regulation addressing carbon dioxide emissions from existing power plants that are modified or reconstructed. PPL Energy Supply, however, does not expect a significant impact from this rulemaking as there are no plans to modify or reconstruct their existing plants in a manner that would trigger the proposed requirements.

Based on the stringent GHG reduction requirements in the EPA's proposed rule for existing plants, and based on information gained from public input, the PADEP is no longer expecting to achieve all required GHG reductions by solely increasing efficiency at existing fossil-fuel plants and/or reducing their generation as set forth in the PADEP's April 10, 2014 white paper. On October 23, 2014, the Governor of Pennsylvania signed into law Act 175 of 2014, requiring the PADEP to obtain General Assembly approval of any state plan addressing GHG emissions under the EPA's GHG rules for existing plants. The law includes provisions to minimize the exposure to a federal implementation plan due to legislative delay.

The MDEQ, at the request of the Governor of Montana, has issued a white paper outlining possible regulatory scenarios to implement the EPA's proposed GHG rule for existing plants, including a combination of increasing energy efficiency at coal-fired plants, adding more low- and zero-carbon generation, and carbon sequestration at Colstrip. The white paper was made public in September 2014 and the MDEQ has held public meetings to present the white paper and gather comments. Legislation is also being drafted which would require legislative approval of any related plan formulated by MDEQ. PPL and PPL Energy Supply cannot predict the outcome of this legislation.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained

F-53

## Table of Contents

claims brought on the basis of these theories of liability, the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the Second Circuit and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA.

In 2014, PPL Energy Supply's power plants emitted approximately 26 million tons of carbon dioxide. All tons are U.S. short tons (2,000 pounds/ton).

### *Renewable Energy Legislation*

In Pennsylvania, a co-sponsorship memo is being circulated with the stated intent of introducing legislation increasing AEPS solar and Tier 1 targets. PPL Energy Supply cannot predict the outcome of this legislative effort.

In New Jersey, a bill (S-1475) has been introduced to increase the current Renewable Portfolio Standard (RPS) to 30% from Class I sources by 2020. The chairman of the Senate Environmental Committee convened a workgroup to look at further changes to New Jersey's RPS law to enable New Jersey to meet emissions goals established in the state's Global Warming Response Act. A bill (S-2444) was subsequently introduced to mandate that 80% of New Jersey's electricity be generated from renewable resources by 2050. PPL Energy Supply cannot predict the outcome of this legislation.

PPL Energy Supply believes there are financial, regulatory and operational uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL Energy Supply cannot predict the effect on its competitive plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

### Water/Waste

#### *Coal Combustion Residuals (CCRs)*

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the RCRA. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. On December 19, 2014, the EPA issued its pre-publication version of the rule regulating coal combustion residuals (CCRs), imposing extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and are not closed. Under the rule the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, with some restrictions. The CCR Rule will become effective six months after publication in the Federal Register with publication expected in early 2015. This self-implementing rule requires posting of compliance documentation on a publically accessible website and is enforced through citizen suits. This new separate federal rule is expected to create conflicts with the existing state rules, permits, and compliance orders from the individual states. PPL Energy Supply expects that its plants using surface impoundments for management and disposal of CCRs or the past management of CCRs and continued use to manage waste waters will be most impacted by this rule. The rule's specific closure requirements for

CCR impoundments and landfills may require increases to AROs for these facilities at PPL Energy Supply's coal-fired plants.

F-54

---

**Table of Contents**

PPL Energy Supply cannot predict how this rule will impact its facilities, but the financial and operational impact could be significant.

*Seepages and Groundwater Infiltration – Pennsylvania and Montana*

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL Energy Supply plants. PPL Energy Supply has completed or is completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to respond to notices of violations and implement assessment or abatement measures, where required or applicable. A range of reasonably possible losses cannot currently be estimated.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana’s Major Facility Siting Act (MFSA) that sought review of the AOC by Montana’s Board of Environmental Review (BER) on behalf of the Sierra Club, the MEIC and the National Wildlife Federation. In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay which was granted by the court in May 2014. PPL Montana and the MDEQ responded to the amended petition and filed partial motions to dismiss in July 2014, which were both denied in October 2014. Discovery is ongoing, and a bench trial is set for April 2016.

*Clean Water Act 316(b)*

The EPA’s final 316(b) rule for existing facilities became effective on October 14, 2014, and regulates cooling water intake structures and their impact on aquatic organisms. States are allowed considerable authority to make site-specific determinations under the rule. The rule requires existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure’s impact on aquatic organisms pulled through a plant’s cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would likely require additional technology to comply with the rule. Only Brunner Island units are expected to be impacted. PPL Energy Supply is evaluating compliance strategies but does not presently expect the compliance costs to be material.

*Effluent Limitations Guidelines (ELGs) and Standards*

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA’s proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities if finalized as proposed. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed



above. The proposal contains alternative approaches, some of which could significantly impact PPL Energy Supply's coal-fired plants. The final regulation is expected to be issued by the third or fourth quarter of 2015. At the present time, PPL Energy Supply is unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

F-55

## Table of Contents

Pending finalization of the ELGs, certain states (including Pennsylvania) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

### *Waters of the United States (WOTUS)*

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers (Army Corps) published a proposed rule defining WOTUS that could greatly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The EPA plans to make certain changes to the proposed regulation based on comments received. The U.S. House and Senate are considering legislation to block this regulation. Until a final rule is issued, PPL Energy Supply cannot predict the outcome of the pending rulemaking.

### *Other Issues*

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all or some PCB-containing equipment. The EPA is planning to propose the revised regulations in 2015. PCBs are found, in varying degrees, in all of PPL Energy Supply's operations. PPL Energy Supply cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on its facilities, but the costs could be significant.

A subsidiary of PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, a Consent Order and Agreement (COA) with the PADEP was signed, allowing the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. PPL is in negotiations with the agency at this time. PPL Energy Supply cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have on their facilities, but the costs could be significant.

### Superfund and Other Remediation

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary was pumping mine water at two former mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. In December 2013, PPL Generation subsidiaries reached an agreement of sale for one of the two pumping mine sites and the passive wetlands treatment system at the third site. These sales were finalized in the fourth quarter of 2014 and responsibilities were transferred to the new owner. PPL Generation subsidiaries will no longer be responsible for operating and maintaining these two sites. At December 31, 2014, PPL Energy Supply had accrued a discounted liability of \$19 million to cover the costs of pumping and treating groundwater at the remaining mine site for 50 years. PPL Energy Supply discounted this liability based on a risk-free rate of 8.41% at the time of the mine closure. Expected undiscounted payments are estimated to be insignificant for each of the years 2015 through 2019, and \$93 million for work after 2019.

From time to time, PPL Energy Supply undertakes remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and

**Table of Contents**

other third parties alleging impacts from PPL Energy Supply's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on PPL Energy Supply's operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for PPL Energy Supply.

**Other****Nuclear Insurance**

The Price-Anderson Act is a United States Federal law governing liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any U.S. licensed nuclear facility. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. At December 31, 2014, the liability limit per incident is \$13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act, as amended, PPL Susquehanna could be assessed up to \$255 million per incident, payable at \$38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. At December 31, 2014, facilities at the Susquehanna plant are insured against property damage losses up to \$2.0 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. This maximum assessment is \$46 million.

**Labor Union Agreement**

In May 2014, PPL Energy Supply's bargaining agreement with its largest IBEW local expired. PPL Energy Supply finalized a new three-year labor agreement with IBEW local 1600 in May 2014 and the agreement was ratified in early June 2014.

As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. The benefits offered under this provision are consistent with the standard separation program benefits for bargaining unit employees. At December 31, 2014, the following total separation benefits were recorded.

|                                  |              |
|----------------------------------|--------------|
| Pension Benefits                 | \$ 11        |
| Severance Compensation           | 6            |
| <b>Total Separation Benefits</b> | <b>\$ 17</b> |

Number of Employees

105

The separation benefits are included in Other operation and maintenance on the Statement of Income. The liability for pension benefits is included in Accrued pension obligations on the Balance Sheet at December 31, 2014. All of the severance compensation was paid in 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL Energy Supply.

F-57

**Table of Contents****Guarantees and Other Assurances**

In the normal course of business, PPL Energy Supply enters into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

The table below details guarantees provided as of December 31, 2014. Exposure represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for Indemnifications for sales of assets. The total recorded liability at December 31, 2014 was \$13 million for PPL Energy Supply.

|  | <b>Exposure at<br/>December 31,<br/>2014</b> | <b>Expiration<br/>Date</b> |
|--|--|----------------------------|
| Letters of credit issued on behalf of affiliates | 25(a)  | 2015 2016                  |
| Indemnifications for sales of assets             | 1,150(b)                                     | 2016 2025                  |

- (a) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL.
- (b) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration date noted is based on those cases in which the agreements provide for specific limits. The exposure at December 31, 2014 includes amounts related to the sale of the Montana Hydroelectric facilities. See Note 4 for additional information related to the sale.

PPL Energy Supply provides other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

**10. Related Party Transactions****PLR Contracts/Purchase of Accounts Receivable**

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. The sales between PPL EnergyPlus and PPL Electric are included in the Statements of Income as Unregulated wholesale energy to affiliate by PPL Energy Supply.

Under the standard Default Service Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric when: (a) the market price of electricity to be delivered by PPL EnergyPlus

**Table of Contents**

exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. As a result of the downgrade of PPL Energy Supply, as guarantor, PPL Energy Plus no longer has an established credit limit. At December 31, 2014, PPL EnergyPlus was not required to post collateral.

See Note 1 for information on sales of accounts receivable by PPL EnergyPlus to PPL Electric.

At December 31, 2014, PPL Energy Supply had a net credit exposure of \$25 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

**Support Costs**

PPL Services provides PPL Energy Supply with administrative, management and support services. Where applicable, the costs of these services are charged to PPL Energy Supply as direct support costs. General costs that cannot be directly attributed to a specific affiliate are allocated and charged to the respective affiliates, including PPL Energy Supply, as indirect support costs. PPL Services uses a three-factor methodology that includes the affiliates' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs.

PPL Services charged the following amounts for the years ended December 31, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

|              | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|--------------|-------------|-------------|-------------|
| <b>Other</b> | \$ 218      | \$ 218      | \$ 212      |

See Note 1 for discussions regarding the intercompany tax sharing agreement) and intercompany allocations of stock-based compensation expense. See Note 7 for discussions regarding intercompany allocations associated with defined benefits.

**11. Other Income (Expense) net**

Other Income (Expense) net for 2014, 2013 and 2012 for PPL Energy Supply was primarily earnings on securities in NDT funds.

**12. Fair Value Measurements and Credit Concentration**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/ or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The



fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2014 and 2013, there were no transfers between Level 1 and Level 2. See Note 1 for information on the levels in the fair value hierarchy.

**Table of Contents****Recurring Fair Value Measurements**

The assets and liabilities measured at fair value were:

|  | December 31, 2014 |          |          |         | December 31, 2013 |         |          |         |
|--|-------------------|----------|----------|---------|-------------------|---------|----------|---------|
|  | Total             | Level 1  | Level 2  | Level 3 | Total             | Level 1 | Level 2  | Level 3 |
| <b>Assets</b>                            |                   |          |          |         |                   |         |          |         |
| Cash and cash equivalents                | \$ 352            | \$ 352   |          |         | \$ 239            | \$ 239  |          |         |
| Restricted cash and cash equivalents (a) | 193               | 193      |          |         | 85                | 85      |          |         |
| Price risk management assets:            |                   |          |          |         |                   |         |          |         |
| Energy commodities                       | 1,318             | 6        | \$ 1,171 | \$ 141  | 1,188             | 3       | \$ 1,123 | \$ 62   |
| Total price risk management assets       | 1,318             | 6        | 1,171    | 141     | 1,188             | 3       | 1,123    | 62      |
| NDT funds:                               |                   |          |          |         |                   |         |          |         |
| Cash and cash equivalents                | 19                | 19       |          |         | 14                | 14      |          |         |
| Equity securities                        |                   |          |          |         |                   |         |          |         |
| U.S. large-cap                           | 611               | 454      | 157      |         | 547               | 409     | 138      |         |
| U.S. mid/small-cap                       | 89                | 37       | 52       |         | 81                | 33      | 48       |         |
| Debt securities                          |                   |          |          |         |                   |         |          |         |
| U.S. Treasury                            | 99                | 99       |          |         | 95                | 95      |          |         |
| U.S. government sponsored agency         | 9                 |          | 9        |         | 6                 |         | 6        |         |
| Municipality                             | 76                |          | 76       |         | 77                |         | 77       |         |
| Investment-grade corporate               | 42                |          | 42       |         | 38                |         | 38       |         |
| Other                                    | 3                 |          | 3        |         | 5                 |         | 5        |         |
| Receivables (payables), net              | 2                 |          | 2        |         | 1                 | (1)     | 2        |         |
| Total NDT funds                          | 950               | 609      | 341      |         | 864               | 550     | 314      |         |
| Auction rate securities (b)              | 8                 |          |          | 8       | 16                |         |          | 16      |
| Total assets                             | \$ 2,821          | \$ 1,160 | \$ 1,512 | \$ 149  | \$ 2,392          | \$ 877  | \$ 1,437 | \$ 78   |
| <b>Liabilities</b>                       |                   |          |          |         |                   |         |          |         |
| Price risk management liabilities:       |                   |          |          |         |                   |         |          |         |
| Energy commodities                       | \$ 1,217          | \$ 5     | \$ 1,182 | \$ 30   | \$ 1,070          | \$ 4    | \$ 1,028 | \$ 38   |
| Total price risk management liabilities  | \$ 1,217          | \$ 5     | \$ 1,182 | \$ 30   | \$ 1,070          | \$ 4    | \$ 1,028 | \$ 38   |

(a)

Edgar Filing: Talen Energy Corp - Form S-1/A

Current portion is included in Restricted cash and cash equivalents and long-term portion is included in Other noncurrent assets on the Balance Sheets.

(b) Included in Other investments on the Balance Sheets.

F-60

**Table of Contents**

A reconciliation of net assets and liabilities classified as Level 3 for the years ended December 31 is as follows:

|  | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |                         |        |
|--|---|-------------------------|--------|
|  | Energy Commodities, net   | Auction Rate Securities | Total  |
| <b>2014</b>                              |   |                         |        |
| Balance at beginning of period           | \$ 24   | \$ 16                   | \$ 40  |
| Total realized/unrealized gains (losses) |   |                         |        |
| Included in earnings                     | (32)  |                         | (32)   |
| Included in OCI (a)                      |   | 1                       | 1      |
| Purchases                                | (6)   |                         | (6)    |
| Sales                                    | 67  | (9)                     | 58     |
| Settlements                              | 50  |                         | 50     |
| Transfers into Level 3                   | 7   |                         | 7      |
| Transfers out of Level 3                 | 1   |                         | 1      |
| Balance at end of period                 | \$ 111  | \$ 8                    | \$ 119 |
| <b>2013</b>                              |   |                         |        |
| Balance at beginning of period           | \$ 22   | \$ 13                   | \$ 35  |
| Total realized/unrealized gains (losses) |   |                         |        |
| Included in earnings                     | (5)   |                         | (5)    |
| Sales                                    | (2)   |                         | (2)    |
| Settlements                              | (3)   |                         | (3)    |
| Transfers into Level 3                   | 10  | 3                       | 13     |
| Transfers out of Level 3                 | 2   |                         | 2      |
| Balance at end of period                 | \$ 24   | \$ 16                   | \$ 40  |

(a) Energy Commodities, net are included in Qualifying derivatives and Auction Rate Securities are included in Available-for-sale securities on the Statements of Comprehensive Income.

**Table of Contents**

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

|  |       | <b>December 31, 2014</b>            |  |                 |
|--|-------|-------------------------------------|--|-----------------|
|  |       | <b>Significant Unobservable</b>     |  |                 |
| <b>Fair Value, net Asset (Liability)</b> |       | <b>Range (Weighted Average) (a)</b> |  |                 |
| <b>Valuation Technique</b>               |       | <b>Input(s)</b>                     |  |                 |
| <b>Energy commodities</b>                |       |                                     |  |                 |
| Natural gas contracts (b)                | \$ 59 | Discounted cash flow                | Proprietary model                                  | 11% 100% (52%)  |
|  |       |                                     | used to calculate forward prices                   |                 |
| Power sales contracts (c)                | (1)   | Discounted cash flow                | Proprietary model                                  | 9.1% 100% (59%) |
|  |       |                                     | used to calculate forward prices                   |                 |
| FTR purchase contracts (d)               | 3     | Discounted cash flow                | Historical settled                                 | 100% (100%)     |
|  |       |                                     | prices used to model forward prices                |                 |
| Heat Rate Options (e)                    | 50    | Discounted cash flow                | Proprietary model                                  | 23% 51% (45%)   |
|  |       |                                     | used to calculate forward prices                   |                 |
| Auction rate securities (f)              | 8     | Discounted cash flow                | Modeled from SIFMA Index                           | 51% 69% (63%)   |
| <b>December 31, 2013</b>                 |       |                                     |  |                 |
| <b>Fair Value, net Asset (Liability)</b> |       | <b>Range (Weighted Average) (a)</b> |  |                 |
| <b>Valuation Technique</b>               |       | <b>Input(s)</b>                     |  |                 |
| <b>Energy commodities</b>                |       |                                     |  |                 |
| Natural gas contracts (b)                | \$ 36 | Discounted cash flow                | Proprietary model used to calculate forward prices | 10% 100% (86%)  |
| Power sales contracts (c)                | (12)  | Discounted cash flow                | Proprietary model used to calculate forward prices | 100% (100%)     |
| Auction rate securities (f)              | 16    | Discounted cash flow                | Modeled from SIFMA Index                           | 10% 80% (63%)   |

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs.
- (b) As the forward price of natural gas increases/(decreases), the fair value of purchase contracts increases/(decreases). As the forward price of natural gas increases/(decreases), the fair value of sales contracts (decreases)/increases.
- (c) As forward market prices increase/(decrease), the fair value of contracts (decreases)/increases. As volumetric assumptions for contracts in a gain position increase/(decrease), the fair value of contracts increases/(decreases). As volumetric assumptions for contracts in a loss position increase/(decrease), the fair value of the contracts (decreases)/increases.

**Table of Contents**

- (d) As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) The proprietary model used to calculate fair value incorporates market heat rates, correlations and volatilities. As the market implied heat rate increases/(decreases), the fair value of the contracts increases/(decreases).
- (f) The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the years ended December 31 were reported in the Statements of Income as follows:

|  | Energy Commodities, net      |         |                           |       |      |       |                  |      |
|--|------------------------------|---------|---------------------------|-------|------|-------|------------------|------|
|  | Unregulated Wholesale Energy |         | Unregulated Retail Energy |       | Fuel |       | Energy Purchases |      |
|  | 2014                         | 2013    | 2014                      | 2013  | 2014 | 2013  | 2014             | 2013 |
| Total gains (losses) included in earnings  | \$ (77)                      | \$ (36) | \$ 23                     | \$ 25 | \$ 3 | \$ 22 | \$ 3             |      |
| Change in unrealized gains (losses) relating to positions still held at the reporting date | 50                           | (23)    | 37                        | 24    |      | (4)   | 1                |      |
| <u>Price Risk Management Assets/Liabilities</u>  | <u>Energy Commodities</u>    |         |                           |       |      |       |                  |      |

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative contracts, which are valued using the market approach and are classified as Level 1. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. Energy commodity contracts include forwards, futures, swaps, options and structured transactions and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and other standard industry models. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Level 3 contracts are valued using PPL proprietary models which may include significant unobservable inputs such as delivery at a location where pricing is unobservable, delivery dates that are beyond the dates for which independent quotes are available, volumetric assumptions, implied volatilities, implied correlations and market implied heat rates. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2014 and 2013 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract

becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.



**Table of Contents****NDT Funds**

The market approach is used to measure the fair value of equity securities held in the NDT funds.

The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets.

The fair value measurements of investments in commingled equity funds are classified as Level 2. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/ dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data.

**Auction Rate Securities**

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The probability of realizing losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfers during 2013 was the change in discount rates and SIFMA Index.

Auction rate securities are valued by PPL's treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

**Nonrecurring Fair Value Measurements**

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments.

|  | <b>Carrying<br/>Amount (a)</b> | <b>Level 3<br/>Fair Value</b> | <b>Loss (b)</b> |
|--|--------------------------------|-------------------------------|-----------------|
| Kerr Dam Project (c):                  |                                |                               |                 |
| March 31, 2014                         | \$ 47                          | \$ 29                         | \$ 18           |
| Corette plant and emission allowances: |                                |                               |                 |
| December 31, 2013                      | \$ 65                          |                               | \$ 65           |

- (a) Represents carrying value before fair value measurement.
- (b) The loss on the Kerr Dam Project was recorded in Income (Loss) from Discontinued Operations (net of income taxes) on the Statement of Income. The loss on the Corette plant and emission allowances was recorded in Other operation and maintenance on the Statement of Income.
- (c) The Kerr Dam Project was included in the sale of the Montana Hydroelectric facilities and the assets were removed from the Balance Sheet. See Note 4 for additional information.

F-64

**Table of Contents**

The significant unobservable inputs used in and the quantitative information about the nonrecurring fair value measurement of assets and liabilities classified as Level 3 are as follows:

|   | <b>Fair Value, net<br/>Asset (Liability)</b> | <b>Valuation<br/>Technique</b> | <b>Significant Unobservable Input (s)</b>                          | <b>Range (Weighted<br/>Average)</b> |
|---|--|--------------------------------|--|-------------------------------------|
| <b>Kerr Dam Project:</b>                      |  |                                |  |                                     |
| March 31, 2014                                | \$ 29  | Discounted cash flow           | Proprietary model used to calculate plant value                    | 38%(38%)                            |
| <b>Corette plant and emission allowances:</b> |  |                                |  |                                     |
| December 31, 2013                             |  | Discounted cash flow           | Long-term forward price curves and capital expenditure projections | 100%(100%)                          |

**Kerr Dam Project**

PPL Montana previously held a joint operating license issued for the Kerr Dam Project. The license extends until 2035 and, between 2015 and 2025, the Confederated Salish and Kootenai Tribes of the Flathead Nation (the Tribes) have the option to purchase, hold and operate the Kerr Dam Project. The parties submitted the issue of the appropriate amount of the conveyance price to arbitration in February 2013. In March 2014, the arbitration panel issued its final decision holding that the conveyance price payable by the Tribes for the Kerr Dam Project is \$18 million. As a result of the decision, PPL Energy Supply performed a recoverability test on the Kerr Dam Project and recorded an impairment charge. PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows (a PPL proprietary model) to assess the fair value of the Kerr Dam Project. Assumptions used in the PPL proprietary model were the conveyance price, forward energy price curves, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the Kerr Dam Project to be \$29 million at March 31, 2014. The Kerr Dam Project was included in the sale of the Montana Hydroelectric facilities and the assets were removed from the Balance Sheet. See Note 4 for additional information.

The assets were valued by the PPL Energy Supply Financial Department, which reports to the President of PPL Energy Supply. Accounting personnel, who report to the CFO, interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

**Corette Plant and Emission Allowances**

During the fourth quarter 2013, PPL Montana recorded an impairment loss on the Corette plant and related emission allowances. In connection with the completion of its 2013 annual business planning process that included revised long-term power and gas price assumptions and other factors, PPL Energy Supply altered its expectations regarding the probability that the Corette plant would operate subsequent to initially placing it in long-term reserve status and determined the carrying amount for Corette was no longer recoverable. As a result, PPL Energy Supply performed an internal analysis using an income approach based on discounted cash flows to assess the fair value of the Corette asset group. Assumptions used in the fair value assessment were forward energy prices, expectations for demand for energy in Corette's market and expected operation and maintenance and capital expenditures that were consistent with assumptions used in the business planning process and a market participant discount rate. Through this analysis, PPL Energy Supply determined the fair value of the asset group to be negligible. PPL Energy Supply now expects to retire the Corette plant in August 2015.

The assets were valued by the PPL Energy Supply Financial Department, which reports to the President of PPL Energy Supply. Accounting personnel, who report to the CFO, interpreted the analysis to appropriately classify the assets in the fair value hierarchy.

F-65

**Table of Contents****Financial Instruments Not Recorded at Fair Value**

The carrying amount of long-term debt on the Balance Sheets and its estimated fair value is set forth below. The fair value was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of PPL Energy Supply. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

|                | <b>December 31,<br/>2014</b> |                       | <b>December 31,<br/>2013</b> |                       |
|----------------|------------------------------|-----------------------|------------------------------|-----------------------|
|                | <b>Carrying<br/>Amount</b>   | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b>   | <b>Fair<br/>Value</b> |
| Long-term debt | \$ 2,218                     | \$ 2,204              | \$ 2,525                     | \$ 2,658              |

The carrying value of short-term debt (including notes between affiliates), when outstanding, approximates fair value due to the variable interest rates associated with the short-term debt and is classified as Level 2.

**Credit Concentration Associated with Financial Instruments**

Contracts are entered into with many entities for the purchase and sale of energy. When NPNS is elected, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 13 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

At December 31, 2014, PPL Energy Supply had credit exposure of \$708 million from energy trading partners, excluding exposure from related parties and the effects of netting arrangements, reserves and collateral. As a result of netting arrangements, reserves and collateral, PPL Energy Supply's credit exposure was reduced to \$374 million. The top ten counterparties including their affiliates accounted for \$164 million, or 44%, of these exposures. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 95% of the top ten exposures. The remaining counterparty is rated below investment grade, but is current on its obligation. See Note 10 for information regarding PPL Energy Supply's related party credit exposure.

**13. Derivative Instruments and Hedging Activities****Risk Management Objectives**

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics.

**Market Risk**

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure and interest rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

F-66

**Table of Contents**

The table below summarizes the market risks that affect PPL Energy Supply.

|  |   |
|--|---|
| Commodity price risk (including basis and volumetric risk) | X |
| Interest rate risk:  |   |
| Debt issuances   | X |
| Defined benefit plans                                      | X |
| NDT securities   | X |
| Equity securities price risk:                              |   |
| Defined benefit plans                                      | X |
| NDT securities   | X |

X = PPL Energy Supply actively mitigates market risks through its risk management programs described above.

*Commodity price risk*

PPL Energy Supply is exposed to commodity price risk for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities.

*Interest rate risk*

PPL Energy Supply and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances.

PPL Energy Supply and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

*Equity securities price risk*

PPL Energy Supply and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.

**Credit Risk**

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL Energy Supply is exposed to credit risk from in-the-money commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers, financial institutions, other wholesale customers and retail customers.

The majority of PPL Energy Supply's credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts.

PPL Energy Supply and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL Energy Supply and its subsidiaries may request additional credit

F-67



## **Table of Contents**

assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit. See Note 12 for credit concentration associated with energy trading partners.

### **Master Netting Arrangements**

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$11 million and \$9 million at December 31, 2014 and 2013.

PPL Energy Supply did not post any cash collateral under master netting arrangements at December 31, 2014 and 2013.

See **Offsetting Derivative Instruments** below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

### **Commodity Price Risk (Non-trading)**

Commodity price risk, including basis and volumetric risk, is among PPL Energy Supply's most significant risks due to the level of investment that PPL Energy Supply maintains in its competitive generation assets, as well as the extent of its marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its unregulated wholesale and unregulated retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 6,644 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,252 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL Energy Supply enters into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts are non-derivatives or NPNS is elected and therefore they are not reflected in the financial statements until delivery. PPL Energy Supply segregates its non-trading activities into two categories: cash flow hedges and economic activity as discussed below.

### **Cash Flow Hedges**

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. Certain cash flow hedge positions were designated during 2013 and the unamortized portion remained in AOCI because the original forecasted transaction is still expected to occur. There were no active cash flow hedges at

F-68

**Table of Contents**

December 31, 2014 and 2013. At December 31, 2014, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$19 million for PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For 2014 and 2013, there were no reclassifications, while in 2012, such reclassifications were insignificant.

For 2014, 2013 and 2012, hedge ineffectiveness associated with energy derivatives was insignificant.

**Economic Activity**

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or because hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity also includes the ineffective portion of qualifying cash flow hedges (see Cash Flow Hedges above). The derivative contracts in this category that existed at December 31, 2014 range in maturity through 2019.

Examples of economic activity may include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally capped at the price at which the generating unit would be dispatched and therefore does not expose PPL Energy Supply to uncovered market price risk.

The unrealized gains (losses) for economic activity for the years ended December 31 were as follows.

|                              | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|------------------------------|-------------|-------------|-------------|
| Operating Revenues           |             |             |             |
| Unregulated wholesale energy | \$ 325      | \$ (721)    | \$ (311)    |
| Unregulated retail energy    | 29          | 12          | (17)        |
| Operating Expenses           |             |             |             |
| Fuel                         | (27)        | (4)         | (14)        |
| Energy purchases             | (327)       | 586         | 442         |

**Commodity Price Risk (Trading)**

PPL Energy Supply has a proprietary trading strategy which is utilized to take advantage of market opportunities primarily in its geographic footprint. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in losses if prices do not move in the manner or direction anticipated. Net energy trading margins, which are included in Unregulated wholesale energy on the Statements of Income, were \$75 million for 2014 and insignificant for 2013 and 2012.



**Table of Contents****Commodity Volumes**

At December 31, 2014, the net volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

|          | Unit of Measure | Volumes (a)  |             |           |            |
|----------|-----------------|--------------|-------------|-----------|------------|
|          |                 | 2015         | 2016        | 2017      | Thereafter |
| Power    | MWh             | (39,946,543) | (4,999,532) | 741,005   | 3,426,579  |
| Capacity | MW-Month        | (6,604)      | (249)       | 6         | 3          |
| Gas      | MMBtu           | 136,349,655  | 42,144,483  | 5,804,511 | 8,969,760  |
| FTRs     | MW-Month        | 2,803        |             |           |            |
| Oil      | Barrels         | 421,019      | 374,334     | 251,670   | 60,000     |

(a) Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

**Accounting and Reporting**

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL Energy Supply include certain full-requirement sales contracts, other physical purchase and sales contracts and certain retail energy and physical capacity contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met and designated as such. PPL Energy Supply has many physical and financial commodity purchases and sales contracts that economically hedge commodity price risk but do not receive hedge accounting treatment. As such, realized and unrealized gains (losses) on these contracts are recorded currently in earnings. Generally each contract is considered a unit of account and PPL Energy Supply presents gains (losses) on physical and financial commodity sales contracts in Unregulated wholesale energy or Unregulated retail energy and (gains) losses on physical and financial commodity purchase contracts in Fuel or Energy purchases on the Statements of Income. Certain of the economic hedging strategies employed by PPL Energy Supply utilize a combination of financial purchases and sales contracts which are similarly reported gross as an expense and revenue, respectively, on the Statements of Income. PPL Energy Supply records realized hourly net sales or purchases of physical power with PJM in its Statements of Income as Unregulated wholesale energy if in a net sales position and Energy purchases if in a net purchase position.

See Note 1 for additional information on accounting policies related to derivative instruments.

**Table of Contents**

The following tables present the fair value and location of derivatives not designated as hedging instruments recorded on the Balance Sheets.

|   | December 31, 2014 |             | December 31, 2013 |             |
|---|-------------------|-------------|-------------------|-------------|
|   | Assets            | Liabilities | Assets            | Liabilities |
| <b>Current:</b>                               |                   |             |                   |             |
| Price Risk Management Assets/Liabilities (a): |                   |             |                   |             |
| Commodity contracts                           | \$ 1,079          | \$ 1,024    | \$ 860            | \$ 750      |
| Total current                                 | 1,079             | 1,024       | 860               | 750         |
| <b>Noncurrent:</b>                            |                   |             |                   |             |
| Price Risk Management Assets/Liabilities (a): |                   |             |                   |             |
| Commodity contracts                           | 239               | 193         | 328               | 320         |
| Total noncurrent                              | 239               | 193         | 328               | 320         |
| Total derivatives                             | \$ 1,318          | \$ 1,217    | \$ 1,188          | \$ 1,070    |

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI.

| Derivative Relationship | Derivative Gain<br>(Loss)<br>Recognized in<br>OCI (Effective<br>Portion) | Location of Gain<br>(Loss)<br>Recognized in<br>Income | Gain<br>(Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective<br>Portion) | Gain<br>(Loss)<br>Recognized in Income<br>on<br>Derivative<br>(Ineffective<br>Portion<br>and<br>Amount<br>Excluded<br>from<br>Effectiveness<br>Testing) |
|-------------------------|--|---|---|---|
|                         |  |   |   |   |
| <b>2014</b>             |  |   |   |   |
| Cash Flow Hedges:       |  |   |   |   |
| Commodity contracts     |  | Unregulated<br>wholesale energy                       | \$ 1  |   |
|                         |  | Energy purchases                                      | 31  |   |
|                         |  | Depreciation  | 2   |   |
|                         |  |   | 8   |   |

Discontinued  
operations

|       |  |    |    |  |  |
|-------|--|----|----|--|--|
| Total |  | \$ | 42 |  |  |
|-------|--|----|----|--|--|

**2013**

Cash Flow Hedges:

|                     |                                 |    |     |    |   |
|---------------------|---------------------------------|----|-----|----|---|
| Commodity contracts | Unregulated<br>wholesale energy | \$ | 240 | \$ | 1 |
|---------------------|---------------------------------|----|-----|----|---|

|  |                  |  |      |  |  |
|--|------------------|--|------|--|--|
|  | Energy Purchases |  | (58) |  |  |
|--|------------------|--|------|--|--|

|  |              |  |   |  |  |
|--|--------------|--|---|--|--|
|  | Depreciation |  | 2 |  |  |
|--|--------------|--|---|--|--|

|  |                            |  |    |  |  |
|--|----------------------------|--|----|--|--|
|  | Discontinued<br>operations |  | 23 |  |  |
|--|----------------------------|--|----|--|--|

|       |  |    |     |    |   |
|-------|--|----|-----|----|---|
| Total |  | \$ | 207 | \$ | 1 |
|-------|--|----|-----|----|---|

F-71

**Table of Contents**

| Derivative Relationship | Derivative Gain<br>(Loss)<br>Recognized<br>in<br>OCI<br>(Effective<br>Portion) | Location of Gain<br>(Loss)<br>Recognized in Income | Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective<br>Portion) | Gain (Loss)<br>Recognized in Income<br>on<br>Derivative<br>(Ineffective<br>Portion<br>and Amount<br>Excluded<br>from<br>Effectiveness<br>Testing) |
|-------------------------|--|--|--|---|
| <b>2012</b>             |  |  |  |   |
| Cash Flow Hedges:       |  |  |  |   |
| Commodity contracts     | \$ 114   | Unregulated wholesale energy                       | \$ 838   | \$ (1)  |
|                         |  | Energy purchases                                   | (136)  | (2)   |
|                         |  | Depreciation                                       | 2  |   |
|                         |  | Discontinued operations                            | 50   |   |
| <b>Total</b>            | <b>\$ 114</b>  |  | <b>\$ 754</b>  | <b>\$ (3)</b>   |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss)<br>Recognized in<br>Income on Derivatives | 2014            | 2013         | 2012          |
|---|---|-----------------|--------------|---------------|
| Commodity contracts                               | Unregulated wholesale energy                                      | \$(1,353)       | \$ (99)      | \$ 1,182      |
|   | Unregulated retail energy   | 30              | 25           | 30            |
|   | Fuel  | (30)            | 2            |               |
|   | Energy purchases  | 1,013           | 130          | (965)         |
|   | Discontinued operations   | 6               | 14           | 17            |
| <b>Total</b>                                      |   | <b>\$ (334)</b> | <b>\$ 72</b> | <b>\$ 264</b> |

**Offsetting Derivative Instruments**

PPL Energy Supply or certain of its subsidiaries have master netting arrangements or similar agreements in place including derivative clearing agreements with futures commission merchants (FCMs) to permit the trading of cleared derivative products on one or more futures exchanges. The clearing arrangements permit an FCM to use and apply any property in its possession as a set off to pay amounts or discharge obligations owed by a customer upon default of the customer and typically do not place any restrictions on the FCM's use of collateral posted by the customer. PPL Energy Supply and its subsidiaries also enter into agreements pursuant to which they trade certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to setoff amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.



PPL Energy Supply has elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

|                          | Assets Eligible for Offset |                        |                          |        | Liabilities Eligible for Offset |                                |                 |        |
|--------------------------|----------------------------|------------------------|--------------------------|--------|---------------------------------|--------------------------------|-----------------|--------|
|                          | Gross                      | Derivative Instruments | Cash Collateral Received | Net    | Gross                           | Derivative Instruments Pledged | Cash Collateral | Net    |
| <b>December 31, 2014</b> |                            |                        |                          |        |                                 |                                |                 |        |
| Energy Commodities       | \$ 1,318                   | \$ 1,060               | \$ 10                    | \$ 248 | \$ 1,217                        | \$ 1,060                       | \$ 58           | \$ 99  |
| <b>December 31, 2013</b> |                            |                        |                          |        |                                 |                                |                 |        |
| Energy Commodities       | \$ 1,188                   | \$ 912                 | \$ 7                     | \$ 269 | \$ 1,070                        | \$ 912                         | \$ 1            | \$ 157 |

**Table of Contents****Credit Risk-Related Contingent Features**

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL Energy Supply or certain of its subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL Energy Supply's obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with adequate assurance features.

At December 31, 2014, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

|  |       |
|--|-------|
| Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features      | \$ 98 |
| Aggregate fair value of collateral posted on these derivative instruments  | 106   |
| Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a) (b) | 26    |

- (a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.  
 (b) During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. Amounts related to PPL Energy Supply represent net liability positions subject to further adequate assurance features.

**14. Goodwill and Other Intangible Assets****Goodwill**

The change in carrying amount of goodwill for the year ended December 31, 2014 was due to goodwill allocated to the Montana hydroelectric generating facilities which were sold in November 2014. See Note 4 for additional information.



**Table of Contents****Other Intangible Assets**

The gross carrying amount and the accumulated amortization of other intangible assets were:

|                                      | December 31, 2014     |                          | December 31, 2013     |                          |
|--------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                      | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| <b>Subject to amortization:</b>      |                       |                          |                       |                          |
| Land and transmission rights         | \$ 17                 | \$ 14                    | \$ 17                 | \$ 14                    |
| Emission allowances/RECs (a)         | 10                    |                          | 11                    |                          |
| Licenses and other (b)               | 270                   | 19                       | 295                   | 39                       |
| <b>Total subject to amortization</b> | <b>\$ 297</b>         | <b>\$ 33</b>             | <b>\$ 323</b>         | <b>\$ 53</b>             |

- (a) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.
- (b) Other includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 4 for additional information on the COLA. Current intangible assets are included in Other current assets and long-term intangible assets are presented as Other intangibles on the Balance Sheets.

Amortization expense for the years ended December 31, excluding consumption of emission allowances/RECs of \$24 million, \$23 million, and \$12 million in 2014, 2013, and 2012 was as follows:

|                      | 2014 | 2013 | 2012 |
|----------------------|------|------|------|
| Amortization expense | \$ 4 | \$ 5 | \$ 9 |

Amortization expense and consumption of emission allowances/RECs is expected to be insignificant in future years.

**15. Asset Retirement Obligations**

PPL Energy Supply has recorded AROs to reflect various legal obligations associated with the retirement of long-lived assets, the most significant of which relates to the decommissioning of the Susquehanna nuclear plant. Assets in the NDT funds are legally restricted for the purpose of settling this ARO. See Notes 12 and 16 for additional information on the nuclear decommissioning trust funds. Other AROs recorded relate to various environmental requirements for coal piles, wash basins and other waste basin retirements.

PPL Energy Supply has recorded several conditional AROs, the most significant of which is related to the removal and disposal of asbestos-containing material. In addition to the AROs that were recorded for asbestos-containing material, PPL Energy Supply identified other asbestos-related obligations, but was unable to reasonably estimate their fair values. PPL Energy Supply management was unable to reasonably estimate a settlement date or range of

settlement dates for the remediation of all of the asbestos-containing material at certain of the generation plants. If economic events or other circumstances change that enable PPL Energy Supply to reasonably estimate the fair value of these retirement obligations, they will be recorded at that time.

PPL Energy Supply also identified legal retirement obligations associated with the retirement of a reservoir that could not be reasonably estimated due to an indeterminable settlement date.

**Table of Contents**

The changes in the carrying amounts of AROs were as follows.

|   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| ARO at beginning of period                        | \$ 404      | \$ 375      |
| Accretion expense                                 | 32          | 29          |
| Obligations incurred                              | 13          | 6           |
| Changes in estimated cash flow or settlement date | (16)        | 1           |
| Obligations settled                               | (8)         | (7)         |
| ARO at end of period                              | \$ 425      | \$ 404      |

Substantially all of the ARO balances are classified as noncurrent at December 31, 2014 and 2013.

See Note 9 for information on CCRs regulation that could require the recording of additional AROs in 2015.

**16. Available-for-Sale Securities**

Securities held by the NDT funds and auction rate securities are classified as available-for-sale.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

|                           | <b>December 31, 2014</b>  |                                       |  |                       | <b>December 31, 2013</b>  |                                       |  |                       |
|---------------------------|---------------------------|---------------------------------------|--|-----------------------|---------------------------|---------------------------------------|--|-----------------------|
|                           | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <b>NDT funds:</b>         |                           |                                       |  |                       |                           |                                       |  |                       |
| Cash and cash equivalents | \$ 19                     |                                       |  | \$ 19                 | \$ 14                     |                                       |  | \$ 14                 |
| Equity securities         | 283                       | \$ 417                                |  | 700                   | 265                       | \$ 363                                |  | 628                   |
| Debt securities           | 218                       | 11                                    |  | 229                   | 217                       | 7                                     | \$ 3                                   | 221                   |
| Receivables/payables, net | 2                         |                                       |  | 2                     | 1                         |                                       |  | 1                     |
| Total NDT funds           | \$ 522                    | \$ 428                                |  | \$ 950                | \$ 497                    | \$ 370                                | \$ 3                                   | \$ 864                |
| Auction rate securities:  | \$ 8                      |                                       |  | \$ 8                  | \$ 17                     |                                       | \$ 1                                   | \$ 16                 |

See Note 12 for details on the securities held by the NDT funds.

There were no securities with credit losses at December 31, 2014 and 2013.

The following table shows the scheduled maturity dates of debt securities held at December 31, 2014.

|                | <b>Maturity<br/>Less<br/>Than<br/>1 Year</b> | <b>Maturity<br/>1-5<br/>Years</b> | <b>Maturity<br/>6-10 Years</b> | <b>Maturity<br/>in Excess<br/>of 10 Years</b> | <b>Total</b> |
|----------------|--|-----------------------------------|--------------------------------|---|--------------|
| Amortized cost | \$ 10  | \$ 87                             | \$ 64                          | \$ 65   | \$ 226       |
| Fair value     | 10   | 89                                | 67                             | 71  | 237          |

F-75

**Table of Contents**

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities.

|   | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|-------------|
| Proceeds from sales of NDT securities (a) | \$ 154      | \$ 144      | \$ 139      |
| Other proceeds from sales                 | 9           |             | 3           |
| Gross realized gains (b)                  | 23          | 17          | 29          |
| Gross realized losses (b)                 | 10          | 7           | 21          |

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

**NDT Funds**

Amounts previously collected from PPL Electric's customers for decommissioning the Susquehanna nuclear plant, less applicable taxes, were deposited in external trust funds for investment and can only be used for future decommissioning costs. To the extent that the actual costs for decommissioning exceed the amounts in the nuclear decommissioning trust funds, PPL Susquehanna would be obligated to fund 90% of the shortfall.

**17. Accumulated Other Comprehensive Income (Loss)**

The after-tax changes in AOCI by component for the years ended December 31 were as follows.

|                                   | Unrealized gains (losses)            |                           | Defined benefit plans     |                             | Total  |
|-----------------------------------|--------------------------------------|---------------------------|---------------------------|-----------------------------|--------|
|                                   | Available-<br>for-sale<br>securities | Qualifying<br>derivatives | Prior<br>service<br>costs | Actuarial<br>gain<br>(loss) |        |
| <b>December 31, 2011</b>          | \$ 90                                | \$ 606                    | \$ (16)                   | \$ (193)                    | \$ 487 |
| OCI                               | 22                                   | (395)                     | 6                         | (72)                        | (439)  |
| <b>December 31, 2012</b>          | \$ 112                               | \$ 211                    | \$ (10)                   | \$ (265)                    | \$ 48  |
| Amounts arising during the year   | 67                                   |                           | 2                         | 71                          | 140    |
| Reclassifications from AOCI       | (6)                                  | (123)                     | 4                         | 14                          | (111)  |
| Net OCI during the year           | 61                                   | (123)                     | 6                         | 85                          | 29     |
| <b>December 31, 2013</b>          | \$ 173                               | \$ 88                     | \$ (4)                    | \$ (180)                    | \$ 77  |
| Amounts arising during the period | 35                                   |                           | 8                         | (120)                       | (77)   |
| Reclassifications from AOCI       | (6)                                  | (25)                      | 3                         | 5                           | (23)   |
| Net OCI during the year           | 29                                   | (25)                      | 11                        | (115)                       | (100)  |



|                          |        |       |      |          |         |
|--------------------------|--------|-------|------|----------|---------|
| <b>December 31, 2014</b> | \$ 202 | \$ 63 | \$ 7 | \$ (295) | \$ (23) |
|--------------------------|--------|-------|------|----------|---------|

F-76

**Table of Contents**

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2014 and 2013. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 7 for additional information.

| Details about AOCI                        | PPL Energy Supply |        | Affected Line Item on the Statements of Income |
|---|-------------------|--------|--|
|   | 2014              | 2013   |  |
| Available-for-sale securities             | \$ 13             | \$ 10  | Other Income (Expense) net                     |
| Total Pre-tax                             | 13                | 10     |  |
| Income Taxes                              | (7)               | (4)    |  |
| Total After-tax                           | 6                 | 6      |  |
| <b>Qualifying derivatives</b>             |                   |        |  |
| Energy commodities                        | 1                 | 240    | Unregulated wholesale energy                   |
|   | 31                | (58)   | Energy purchases                               |
|   | 8                 | 23     | Discontinued operations                        |
|   | 2                 | 2      | Other  |
| Total Pre-tax                             | 42                | 207    |  |
| Income Taxes                              | (17)              | (84)   |  |
| Total After-tax                           | 25                | 123    |  |
| <b>Defined benefit plans</b>              |                   |        |  |
| Prior service costs                       | (4)               | (7)    |  |
| Net actuarial loss                        | (9)               | (24)   |  |
| Total Pre-tax                             | (13)              | (31)   |  |
| Income Taxes                              | 5                 | 13     |  |
| Total After-tax                           | (8)               | (18)   |  |
| Total reclassifications during the period | \$ 23             | \$ 111 |  |

**18. New Accounting Guidance Pending Adoption****Reporting of Discontinued Operations**

In April 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that changes the criteria for determining what should be classified as a discontinued operation and also changes the related presentation and disclosure requirements. A discontinued operation may include a component of an entity or a group of components of an entity, or a business activity.

A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results when any of the following occurs: (1) The component of an entity or group of components of an entity meets the criteria to be classified as held for sale, (2) The component of an entity or group of components of an entity is disposed of by sale, or (3) The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

For public business entities, this guidance should be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within the annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted.

## Table of Contents

PPL Energy Supply adopted this guidance effective January 1, 2015. The new guidance will impact the amounts presented as discontinued operations on the Statements of Income and will enhance the related disclosure requirements.

### Accounting for Revenue from Contracts with Customers

In May 2014, the FASB issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods beginning after December 15, 2016 and interim periods within those years. Early adoption is not permitted. PPL Energy Supply will adopt this guidance effective January 1, 2017.

PPL Energy Supply is currently assessing the impact of adopting this guidance, as well as the transition method it will use.

### Reporting Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued accounting guidance which will require management to assess, for each interim and annual period, whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued.

When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management is required to disclose information that enables users of the financial statements to understand the principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern and management's evaluation of the significance of those conditions or events. If substantial doubt about the entity's ability to continue as a going concern has been alleviated as a result of management's plan, the entity should disclose information that allows the users of the financial statements to understand those plans. If the substantial doubt about the entity's ability to continue as a going concern is not alleviated by management's plans, management's plans to mitigate the conditions or events that gave rise to the substantial doubt about the entity's ability to continue as a going concern should be disclosed, as well as a statement that there is substantial doubt the entity's ability to continue as a going concern within one year after the date the financial statements are issued.

For all entities, this guidance should be applied prospectively within the annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted.

PPL Energy Supply will adopt this guidance for the annual period ending December 31, 2016. The adoption of this guidance is not expected to have a significant impact on PPL Energy Supply.

### Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued guidance that clarifies how current accounting guidance should be interpreted when evaluating the economic characteristics and risks of a host contract of a hybrid financial instrument issued in the form of a share. This guidance does not change the current criteria for determining

F-78

## **Table of Contents**

whether separation of an embedded derivative feature from a hybrid financial instrument is required. Entities are still required to evaluate whether the economic risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria.

An entity should consider the substantive terms and features of the entire hybrid financial instrument, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract to determine whether the host contract is more akin to a debt instrument or more akin to an equity instrument. An entity should assess the relative strength of the debt-like and equity-like terms and features when determining how to weight those terms and features.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and should be applied using a modified retrospective method for existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year the guidance is adopted. Early adoption is permitted. Retrospective application is permitted but not required.

PPL Energy Supply will adopt this guidance on January 1, 2016. PPL Energy Supply is currently assessing this guidance, which is not expected to have a significant impact on PPL Energy Supply.

## **Income Statement Presentation of Extraordinary and Unusual Items**

In January 2015, the FASB issued accounting guidance that eliminates the concept of extraordinary items, which requires an entity to separately classify, present in the income statement and disclose material events and transactions that are both unusual and occur infrequently. The requirement to report material events or transactions that are unusual or infrequent as a separate component of income from continuing operations has been retained, as has the requirement to separately present the nature and financial effects of each event or transaction in the income statement as a separate component of continuing operations or disclose them within the notes to the financial statements. The scope of these requirements has been expanded to include items that are both unusual and occur infrequently.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted provided that an entity applies the guidance from the beginning of the fiscal year of adoption. The guidance may be applied either retrospectively or prospectively.

PPL Energy Supply will adopt this guidance on January 1, 2016. The adoption of this guidance is not expected to have a significant impact on PPL Energy Supply.

**Table of Contents**

**Report of Independent Auditors**

To the Board of Directors of RJS Generation Holdings LLC

We have audited the accompanying consolidated financial statements of RJS Generation Holdings LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, changes in members' interest and cash flows for the year then ended. We have also audited the accompanying combined financial statements of RJS Generation Holdings LLC and its subsidiaries, which comprise the combined balance sheet as of December 31, 2013, and the related combined statements of operations, changes in members' interest and cash flows for the years ended December 31, 2013 and 2012.

***Management's responsibility for the consolidated and combined financial statements***

Management is responsible for the preparation and fair presentation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on the consolidated and combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated and combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RJS Generation Holdings LLC and its subsidiaries at December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also in our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of RJS Generation Holdings LLC and its subsidiaries at December 31, 2013, and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

Austin, Texas

March 17, 2015

F-80



**Table of Contents****RJS Generation Holdings LLC and Subsidiaries****Consolidated and Combined Balance Sheets (in millions)**

|  | <b>December 31,</b> |                 |
|--|---------------------|-----------------|
|  | <b>2014</b>         | <b>2013</b>     |
| <b>Assets</b>  |                     |                 |
| Current assets   |                     |                 |
| Cash and cash equivalents                                    | \$ 30               | \$ 141          |
| Restricted cash  | 1                   | 45              |
| Accounts receivable  | 34                  | 63              |
| Inventory  | 193                 | 112             |
| Prepaid expenses   | 13                  | 25              |
| Derivative asset   | 26                  | 21              |
| Other current assets   | 14                  | 18              |
| <b>Total current assets</b>                                  | <b>311</b>          | <b>425</b>      |
| Property, plant and equipment, net                           | 1,411               | 1,464           |
| Intangible assets, net                                       | 17                  | 19              |
| Deferred financing costs, net                                | 30                  | 26              |
| Derivative asset   | 3                   | 13              |
| Prepaid expense  | 26                  | 21              |
| Other long-term assets                                       |                     | 13              |
| <b>Total assets</b>  | <b>\$ 1,798</b>     | <b>\$ 1,981</b> |
| <b>Liabilities and Members Interest</b>                      |                     |                 |
| Current liabilities  |                     |                 |
| Accounts payable   | \$ 50               | \$ 55           |
| Accrued liabilities  | 60                  | 30              |
| Current maturities of notes payable and lines of credit      | 8                   | 20              |
| Derivative liability   | 43                  | 5               |
| Emissions liability  | 72                  |                 |
| Other current liabilities                                    | 1                   | 3               |
| <b>Total current liabilities</b>                             | <b>234</b>          | <b>113</b>      |
| Notes payable and lines of credit, net of current maturities | 1,275               | 1,204           |
| Asset retirement and environmental obligations               | 20                  | 19              |
| Derivative liability   | 20                  |                 |
| Emissions liability  |                     | 40              |
| <b>Total liabilities</b>                                     | <b>1,549</b>        | <b>1,376</b>    |
| Members interest   | 249                 | 605             |
| <b>Total liabilities and members interest</b>                | <b>\$ 1,798</b>     | <b>\$ 1,981</b> |

*The accompanying notes are an integral part of these consolidated and combined financial statements.*

F-81

**Table of Contents****RJS Generation Holdings LLC and Subsidiaries****Consolidated and Combined Statements of Operations (in millions)**

|  | <b>December 31,</b> |             |             |
|--|---------------------|-------------|-------------|
|  | <b>2014</b>         | <b>2013</b> | <b>2012</b> |
| <b>Revenues</b>  |                     |             |             |
| Power revenues   | \$ 1,211            | \$ 955      | \$ 320      |
| Realized settlements on commodity derivative contracts   | (102)               | 62          | 72          |
|  | 1,109               | 1,017       | 392         |
| Unrealized (loss) gain on commodity derivative contracts | (64)                | (38)        | 61          |
| Total revenues   | 1,045               | 979         | 453         |
| <b>Expenses</b>  |                     |             |             |
| Fuel and other variable costs                            | 577                 | 543         | 188         |
| Operations and maintenance                               | 225                 | 189         | 67          |
| General and administrative                               | 80                  | 62          | 30          |
| Depreciation, amortization and accretion                 | 90                  | 92          | 74          |
| Taxes other than income taxes                            | 21                  | 28          | 14          |
| Other income   | (3)                 | (2)         | (2)         |
| Total expenses   | 990                 | 912         | 371         |
| Operating income   | 55                  | 67          | 82          |
| Interest expense   | (74)                | (67)        | (49)        |
| Loss on extinguishment of debt                           | (36)                | (27)        |             |
| Net (loss) income  | \$ (55)             | \$ (27)     | \$ 33       |

*The accompanying notes are an integral part of these consolidated and combined financial statements.*

**Table of Contents****RJS Generation Holdings LLC and Subsidiaries****Consolidated and Combined Statements of Changes in Members Interest (in millions)**

|  | <b>Total members<br/>interest</b> |
|--|-----------------------------------|
| <b>Balance at December 31, 2011</b>                | \$ 627                            |
| Capital contribution upon acquisition (See Note 4) | 238                               |
| Capital contributions                              | 17                                |
| Capital distributions                              | (2)                               |
| Net income   | 33                                |
| <b>Balance at December 31, 2012</b>                | 913                               |
| Capital contributions                              | 2                                 |
| Capital distributions                              | (283)                             |
| Net loss   | (27)                              |
| <b>Balance at December 31, 2013</b>                | 605                               |
| Capital contributions (See Note 13)                | 15                                |
| Capital distributions                              | (316)                             |
| Net loss   | (55)                              |
| <b>Balance at December 31, 2014</b>                | \$ 249                            |

*The accompanying notes are an integral part of these consolidated and combined financial statements.*

**Table of Contents****RJS Generation Holdings LLC and Subsidiaries****Consolidated and Combined Statements of Cash Flows (in millions)**

|  | December 31, |         |       |
|--|--------------|---------|-------|
|  | 2014         | 2013    | 2012  |
| <b>Cash flows from operating activities</b>                                      |              |         |       |
| Net (loss) income  | \$ (55)      | \$ (27) | \$ 33 |
| Adjustments to reconcile net income to net cash provided by operating activities |              |         |       |
| Depreciation, amortization and accretion   | 90           | 92      | 74    |
| Unrealized loss (gain) on derivative contracts                                   | 64           | 38      | (61)  |
| Unrealized loss (gain) on interest rate risk management                          | 1            |         | (10)  |
| Amortization of contracts acquired   |              | (11)    |       |
| Gain on the sales of assets  | (1)          |         |       |
| Amortization of deferred financing costs and original issue discount             | 5            | 6       | 7     |
| Loss on the extinguishment of debt   | 36           | 23      |       |
| Non-cash compensation expense  | 15           |         |       |
| Changes in assets and liabilities  |              |         |       |
| Accounts receivable  | 29           | (18)    | (28)  |
| Inventory  | (81)         | 15      | (16)  |
| Prepaid expenses   | 8            | 15      | (9)   |
| Other assets   | 17           |         |       |
| Accounts payable and accrued liabilities   | 25           | 10      | 21    |
| Other current liabilities  | (2)          | 1       | 2     |
| Emissions liability  | 32           | 25      | 1     |
| Net cash provided by operating activities  | 183          | 169     | 14    |
| <b>Cash flows from investing activities</b>                                      |              |         |       |
| Acquisition of net assets  |              |         | (374) |
| Proceeds from sales of assets  | 5            |         |       |
| Capital expenditures including advance payments                                  | (44)         | (44)    | (12)  |
| Insurance proceeds received  | 6            | 1       | 2     |
| Transfer from (to) restricted cash accounts                                      | 44           | 10      | (13)  |
| Net cash provided by (used in) investing activities                              | 11           | (33)    | (397) |
| <b>Cash flows from financing activities</b>                                      |              |         |       |
| Payments of financing costs  | (34)         | (28)    | (7)   |
| Termination of interest rate swaps   | (2)          | (26)    |       |
| Proceeds from working capital facility   | 63           | 21      | 13    |
| Repayment of working capital facility  | (38)         | (29)    | (13)  |
| Proceeds from issuance of notes payable  | 1,250        | 1,223   | 172   |
| Payments of notes payable  | (1,228)      | (893)   | (34)  |
| Contributions from members (See Note 13)   |              | 2       | 255   |

Edgar Filing: Talen Energy Corp - Form S-1/A

|   |       |        |       |
|---|-------|--------|-------|
| Distributions to members  | (316) | (283)  | (2)   |
| Net cash (used in) provided by financing activities             | (305) | (13)   | 384   |
| Net (decrease) increase in cash and cash equivalents            | (111) | 123    | 1     |
| <b>Cash and cash equivalents</b>                                |       |        |       |
| Beginning of year   | 141   | 18     | 17    |
| End of year   | \$ 30 | \$ 141 | \$ 18 |
| <b>Supplemental disclosure of cash flow information</b>         |       |        |       |
| Cash paid for interest  | \$ 40 | \$ 62  | \$ 53 |
| Cash paid for taxes   |       |        |       |
| <b>Supplemental disclosure of non-cash investing activities</b> |       |        |       |
| Property and equipment in accounts payable                      | \$    | \$ 3   | \$ 2  |
| <b>Supplemental disclosure of non-cash financing activities</b> |       |        |       |
| Notes payable issued to finance insurance premiums              | \$ 8  | \$ 7   | \$ 9  |

*The accompanying notes are an integral part of these consolidated and combined financial statements.*

---

**Table of Contents**

**RJS Generation Holdings LLC and Subsidiaries**

**Notes to Consolidated and Combined Financial Statements**

**For the years ended December 31, 2014, 2013 and 2012**

**1. Background**

On June 10, 2014, Riverstone Holdings LLC and PPL Energy Supply, LLC announced a merger to create one of the largest independent power producers in North America. Under the terms of the agreement, at closing, PPL Corporation ( PPL ) will spin off PPL Energy Supply, LLC, the parent company of PPL Generation, LLC, and PPL EnergyPlus, LLC, to the shareholders of PPL and then immediately combine that business with the electricity generation businesses owned by investment funds that are managed by Riverstone Holdings LLC and its affiliates (the Riverstone Funds ) to form Talen Energy Corporation ( Talen Energy ). The transaction is subject to various regulatory approvals and customary closing conditions and is expected to close sometime in the second quarter of 2015. Upon closing, PPL's shareowners will own 65% of Talen Energy and the Riverstone Funds will own 35%. PPL will have no continuing ownership in Talen Energy.

In conjunction with the merger transaction, Raven Power Holdings LLC ( Raven ), C/R Energy Jade, LLC ( Jade ) and Sapphire Power Holdings LLC ( Sapphire ) formed RJS Generation Holdings LLC ( RJS Power ) to facilitate the combination of all the electric generation assets owned by Raven, Jade and Sapphire into one legal entity.

On July 10, 2014, the following occurred:

Raven contributed Raven Power Finance LLC and Raven Power Group LLC (collectively Raven Power ), together with all of their net assets, to an indirect wholly owned subsidiary of RJS Power,

Jade contributed C/R Topaz Power Holdings, LLC, Topaz Power Group, LLC, and Topaz Power Property Management II, LP (collectively Topaz Power ), together with all of their net assets, to an indirect wholly owned subsidiary of RJS Power,

Sapphire contributed Sapphire Power Finance LLC, Morris Energy Operations Company, LLC, and Morris Energy Management, LLC (collectively Sapphire Power ), together with all of their net assets, to an indirect wholly owned subsidiary of RJS Power,

Raven Power, Topaz Power and Sapphire Power refinanced their existing indebtedness (See Note 8). The power portfolio engages in the wholesale sale of power, capacity, and ancillary services to power pools in 5 states, including key regions of Texas, the Northeast, and the Mid-Atlantic serving the Electric Reliability Council of Texas ( ERCOT ), PJM Interconnection, L.L.C. ( PJM ), and the New England Interconnection ( ISO-NE ). The fleet consists of a diverse group of fossil generation totaling approximately 5,300 megawatts of base, intermediate, and peaking power plants fueled by a variety of fuels such as natural gas, coal, and fuel oil.

The combined financial statements for 2013 and 2012 include the financial statements of the following companies (herein referred to jointly as RJS Power or the Company ). These companies became wholly owned consolidated subsidiaries of RJS Generation Holdings, LLC on July 10, 2014 as discussed above.

F-85



**Table of Contents*****Topaz Power Holdings, LLC***

Topaz Power Holdings, LLC, a Delaware limited liability company, and its subsidiaries ( TPH ), is an independent power producer and, as of December 31, 2014, owns the following generating assets all located in Texas (the Topaz Facilities ):

| Facility           | Location | Nameplate capacity (MW) | Type                   | Market |
|--------------------|----------|-------------------------|------------------------|--------|
| Barney M. Davis    | Texas    | 335                     | Gas conventional steam | ERCOT  |
| Barney M. Davis    | Texas    | 657                     | Gas combined cycle     | ERCOT  |
| Laredo WLE, LP     | Texas    | 191                     | Gas peakers            | ERCOT  |
| Nueces Bay WLE, LP | Texas    | 664                     | Gas combined cycle     | ERCOT  |

***Topaz Power Group, LLC***

Topaz Power Group, LLC ( TPG ), a Delaware limited liability company, has service agreements in place with TPH. The services include staffing, operation and maintenance of the facilities as well as oversight of capital improvements, accounting, planning and budgeting services.

***Topaz Power Property Management, II LP***

Topaz Power Property Management II, LP ( Topaz Property Management ), a Texas limited partnership owns and manages water rights in the state of Texas.

***Sapphire Power Finance LLC***

Sapphire Power Finance LLC, a Delaware limited liability company, and its subsidiaries ( SPF ), is an independent power producer and owns the following generating assets in the northeastern United States ( Sapphire Facilities ):

| Facility     | Location      | Nameplate capacity (MW) | Type             | Capacity Zone |
|--------------|---------------|-------------------------|------------------|---------------|
| Bayonne      | New Jersey    | 173                     | CCGT Dual Fuel   | PJM PS North  |
| Camden       | New Jersey    | 173                     | CCGT Dual Fuel   | PJM PSEG      |
| Newark Bay   | New Jersey    | 152                     | CCGT Dual Fuel   | PJM PS North  |
| Pedricktown  | New Jersey    | 140                     | CCGT Dual Fuel   | PJM EMAAC     |
| Elmwood Park | New Jersey    | 90                      | CCGT Dual Fuel   | PJM PS North  |
| York         | Pennsylvania  | 52                      | CCGT             | PJM MAAC      |
| Dartmouth    | Massachusetts | 74                      | CCGT Dual Fuel   | ISO NE ROP    |
| Dartmouth    | Massachusetts | 23                      | Peaker Dual Fuel | ISO NE ROP    |

***Morris Energy Operations Company, LLC***

Morris Energy Operations Company, LLC ( MOPCO ), a Delaware limited liability company, has service agreements in place with SPF. The services include staffing, operation and maintenance of the facilities.

***Morris Energy Management Company, LLC***

Morris Energy Management Company, LLC ( MEMCO ), a Delaware limited liability company, has a management service agreement in place with SPF. The management services provided under the agreement include, oversight of capital improvements, accounting, planning and budgeting services.

F-86

**Table of Contents*****Raven Power Finance LLC***

Raven Power Finance LLC, a Delaware limited liability company, and its subsidiaries ( RPF ) is an independent power producer and owns the following generating assets:

| <b>Facility</b>   | <b>Location</b> | <b>Nameplate capacity (MW)</b> | <b>Type</b>     | <b>Capacity Zone</b> |
|-------------------|-----------------|--------------------------------|-----------------|----------------------|
| Brandon Shores    | Maryland        | 1,273                          | Coal            | PJM-SWMAAC           |
| Charles P. Crane  | Maryland        | 385                            | Coal            | PJM-SWMAAC           |
| Charles P. Crane  |                 |                                | Combustion      |                      |
|                   | Maryland        | 14                             | turbine         | PJM-SWMAAC           |
| Herbert A. Wagner | Maryland        | 440                            | Coal            | PJM-SWMAAC           |
| Herbert A. Wagner | Maryland        | 523                            | Steam Dual Fuel | PJM-SWMAAC           |
| Herbert A. Wagner |                 |                                | Combustion      |                      |
|                   | Maryland        | 13                             | turbine         | PJM-SWMAAC           |

RPF was formed on August 13, 2012 by Raven. On November 30, 2012, RPF acquired three predominately coal-fired power generating facilities consisting of Brandon Shores, Charles P. Crane and Herbert A. Wagner (collectively referred to as the Raven Facilities ) from Constellation Power Source Generation, Inc. (See Note 4).

***Raven Power Group LLC***

Raven Power Group LLC ( RPG ), a Delaware limited liability company, has service agreements in place with RPF. The services provided include staffing, operation and maintenance of the facilities as well as oversight of capital improvements, accounting, planning and budgeting services.

**2. Significant business risk*****Risk within the power industry***

The Company is subject to business risks within the power industry. These risks could cause future results to differ from historical results and include: (1) legislative and regulatory initiatives regarding deregulation, regulation, or restructuring of the electric utility industry; (2) the extent and timing of the entry of additional competition in the market in which the Company operates; (3) state, federal, and other rate regulations in the areas in which the Company does business; (4) changes in or application of environmental and other laws and regulations to which the Company is subject; (5) changes in market conditions, including developments in energy and commodity supply, volume and pricing; (6) weather and other natural phenomena; (7) the direct or indirect effects on the Company's business resulting from the financial difficulties of competitors of the Company, including but not limited to, the effects on liquidity in the trading and power industry and the views of the capital markets regarding the energy or trading industry; (8) risks associated with the operation of power plants including unscheduled outages and (9) the expiration or termination of the Company's power sales agreements.

***Concentrations of credit risk***

Financial instruments that potentially subject the Company to concentrations of credit risk include cash and cash equivalents, restricted cash, accounts receivable and derivative contracts. We believe the credit risk in cash and cash

equivalents is limited because we maintain our cash in major U.S. banks and the terms of these deposits are on demand. From time to time, cash amounts in U.S. banks may exceed the FDIC insured limit. Historically, we have not incurred losses related to these deposits.

Credit risk is inherent in our normal commercial activities and relates to the risk of loss resulting from nonperformance of contractual obligations by counterparties. Although not always possible, we seek to enter into contracts that permit netting of receivables and payables with a given counterparty. We also enter into contracts that enable us to obtain collateral from a given counterparty as well as to terminate upon occurrence of certain events of default.

---

**Table of Contents**

The management of RJS Power establishes acceptable levels of counterparty credit limits within guidelines established by the board of directors. Credit risk exposure and the financial condition of counterparties are monitored periodically. If any of our counterparties fail to perform their contractual obligations, we might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then current market prices. In these events, we might incur additional costs in addition to the amounts owed to us by the counterparty.

We obtain insurance from carriers who meet certain rating requirements, monitor events in the insurance industry, and review the financial security of our carriers. Should a carrier experience a downgrade in rating, we may elect to choose other insurance providers and may not be able to recover premiums should a default occur.

**3. Basis of presentation and significant accounting policies*****Principles of combination and consolidation***

These consolidated and combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ). The consolidated and combined financial statements include the accounts of the eight affiliated companies discussed in Note 1 and their wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in the combination of affiliates for 2013 and 2012, and the consolidation of wholly-owned subsidiaries for 2014.

***Unconsolidated variable interest entities***

Raven Power has agreements with three special purpose entities that qualify as variable interest entities ( VIEs ) in accordance with Financial Accounting Standards Board Accounting Standards Codification section 810-10, Consolidation Variable Interest Entities (ASC 810-10), for which we are not the primary beneficiary. The purpose of these entities is to install and operate special equipment on the Raven Facilities coal plant sites that will be used to treat the coal to reduce emissions when the coal is burned in the power plants. These entities qualify as VIEs because we are the sole supplier of coal to the entities and it is not economical for the entities to obtain a supply of coal from any other source. Accordingly, the entities are effectively dependent upon us as the sole supplier of coal and the entities would not be able to generate any economic returns without the coal that we supply. However, Raven Power is not the primary beneficiary of these entities because Raven Power does not control the most significant activity of the entities which is the successful application of the proprietary formula and techniques for treating the coal to reduce emissions. Other than the long-term agreements to supply coal, Raven Power has not provided any material financial or other support to these VIEs during the years ended December 31, 2014, 2013 and the period August 13, 2012 to December 31, 2012, and does not intend to provide any funding or other support to these entities in the future. The maximum exposure to loss associated with these entities amounts to the outstanding receivable balance at any given time, which fluctuates within a range of approximately \$0.1 million up to \$0.4 million based on the amount of coal refined each month.

***Reclassification***

Certain amounts reported in prior periods have been reclassified to conform to the current year presentation.

***Use of estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of

contingent assets and liabilities at the date of the financial statements.

Our material estimates include the valuation of derivative instruments, valuation of acquired assets and liabilities, valuation of asset retirement obligations, estimated useful lives used in computing depreciation expense and impairment evaluations for long-lived assets. Due to the inherent uncertainties in the process of making these estimates, actual results may vary from these estimates and the effects may be material. Management believes the estimates and assumptions used are reasonable.

F-88

**Table of Contents*****Revenue recognition***

Power revenues include sales of generated electricity, capacity revenues, and other ancillary services which are sold through contracts directly with the regional transmission organization or independent system operator (PJM, ISO-NE or ERCOT) or other third parties. Revenue for the sale of electricity is recognized upon transmission and delivery to the customer at the contractual price. Revenue from capacity and other ancillary service contracts are recognized when contractually earned at the negotiated contract price. Energy sales, capacity revenues, and services revenues are recorded on a gross basis for third-party contracts and on a net basis for sales directly and indirectly to PJM, ISO-NE or ERCOT.

***Derivative instruments and hedging activities***

All derivative instruments are recognized as either assets or liabilities in the Company's consolidated and combined balance sheets at fair value. The accounting for changes in fair value (i.e. unrealized gains and losses) of a derivative instrument depend on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For derivatives that do not qualify for hedge accounting under the hedge accounting guidelines or the hedge accounting designation has not been elected, the gain or loss is recognized in the current period. As of December 31, 2014 and 2013, the Company's derivative instruments either do not qualify for hedge accounting under the hedge accounting guidelines or the hedge accounting designation has not been elected (see Note 10).

***Cash and cash equivalents***

Cash and cash equivalents consists of all demand deposits and funds invested in highly liquid investments with an original maturity of three months or less.

***Restricted Cash***

Restricted cash consists primarily of funds held to satisfy certain depository requirements of the Company's credit agreements and funds held that are restricted in their use. Restricted cash serves to fund future major maintenance, potential outage losses, and debt service reserves.

Restricted cash includes the following (in millions):

|   | <b>December 31,</b> |              |
|---|---------------------|--------------|
|   | <b>2014</b>         | <b>2013</b>  |
| Major maintenance account - Raven Power           | \$                  | \$ 20        |
| Debt service reserve account - Topaz Power        |                     | 19           |
| Environmental remediation escrow - Topaz Power    | 1                   | 1            |
| Cash collateral - letters of credit - Raven Power |                     | 5            |
|   | <b>\$ 1</b>         | <b>\$ 45</b> |

***Allowance for doubtful accounts***

Accounts receivable are stated at the actual billed amount less an allowance for doubtful accounts, if necessary. At December 31, 2014 and 2013, there were no allowances made for doubtful accounts.

***Inventories***

Inventories consist of fuel stock (primarily coal and fuel oil), emission allowances, materials and operating supplies and are valued at the lower of weighted average cost or market.

As certain facilities generate electricity, a liability is recorded for the anticipated cost of any emission allowances required as a result of burning fossil fuels. Emission allowances are recorded as inventory when acquired by the Company. When emission allowances are used to settle obligations, the inventory and the liability are removed from the Company's consolidated and combined balance sheets.



## **Table of Contents**

### ***Property, plant and equipment***

Property, plant and equipment items are recorded at original cost or fair value at the date of acquisition, net of accumulated depreciation. Repair costs and major maintenance, including planned major maintenance, are generally expensed as incurred except for replacement equipment and related installation services that meet our capitalization criteria.

Depreciation expense is computed using the straight-line method over the asset's estimated original useful lives commencing when assets, or major components thereof, are either placed in service or acquired, as appropriate. Generally, upon the normal or early retirement of assets, the costs and related accumulated depreciation of such assets are removed from the Company's consolidated and combined balance sheets with the difference recorded as depreciation expense in the current period.

Property, plant and equipment are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. A resulting impairment loss is highly dependent on the underlying assumptions. There were no impairments recognized for the years ended December 31, 2014, 2013, and 2012.

### ***Environmental costs***

The Company evaluates environmental expenditures periodically and records liabilities when it is probable that the Company is liable for the costs and the liability can be reasonably estimated. Liabilities recorded are based on experience, assessment of the current situation, and the technology currently available for use in remediation. The recorded costs are periodically adjusted as estimates are revised and remediation proceeds. Environmental liabilities are reflected on the consolidated and combined balance sheets as a component of asset retirement and environmental obligations. Environmental expenditures are expensed as part of operations and maintenance expense on the consolidated and combined statements of operations.

### ***Intangible assets***

An intangible asset is recorded when specific rights and contracts are acquired. We amortize purchased intangible assets with finite lives over the estimated economic life of the assets.

Intangible assets determined to have indefinite lives are not amortized, but rather are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that such intangible assets have finite lives and should be amortized over their useful lives.

### ***Asset retirement obligations***

The Company records all known asset retirement obligations in the period for which the liability's fair value can be reasonably estimated. On an ongoing basis, the liability is accreted to its present value and the capitalized costs are depreciated over the useful life of the related asset.

As of December 31, 2014 and 2013, our asset retirement obligation liabilities were \$20 million and \$19 million, respectively, primarily relating to actions required in the event of demolition or decommissioning of specific components of the generating facilities.

*Leases*

All lease transactions are evaluated for proper treatment and are classified as an operating lease or capital lease. Operating leases are charged to rent expense over the life of the lease agreement. Capital leases are capitalized as part of property, plant and equipment and depreciated over the useful life of the asset or the lease term, whichever is shorter. At December 31, 2014 and 2013, the Company did not have any leases classified as capital leases.

F-90

**Table of Contents*****Deferred financing costs***

Deferred financing costs are costs incurred in connection with obtaining financing. These costs are deferred and amortized over the term of the related debt using the effective interest method. For the years ended December 31, 2014, 2013 and 2012, the Company amortized deferred financing cost of \$5 million, \$4 million and \$7 million, respectively, as interest expense in the consolidated and combined statements of operations.

***Income taxes***

All legal entities included in the consolidated and combined financial statements are limited liability companies or partnerships and have elected to be treated as disregarded entities for federal tax purposes. No provision for federal income taxes has been made in the consolidated and combined financial statements as the taxable income or loss is reported on the separate tax returns of the individual members or partners. There were no deferred tax assets or liabilities recorded as of December 31, 2014 and 2013.

***New accounting standards***

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, ( ASU 2014-09 ) which provides updated, comprehensive revenue recognition guidance for contracts with customers, including a new principles-based five step framework that eliminates much of the industry-specific guidance in current accounting literature. Under ASU 2014-09, revenue recognition is based on a core principle that companies recognize revenue in an amount consistent with the consideration it expects to be entitled to in exchange for the transfer of goods or services. The standards update also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of recognized revenue. This guidance will be effective for the Company in the year ended December 31, 2018, with early adoption not permitted. The Company is currently evaluating the impact of this standards update on the Company's consolidated and combined financial statements.

**4. Acquisition*****Raven Power***

On November 30, 2012, Raven acquired the Raven Facilities and certain associated assets and liabilities from Constellation Power Source Generation, Inc. for cash consideration of \$383 million (the Acquisition ). The Acquisition was funded by \$238 million in equity contributions from Riverstone Global Energy & Power Fund V, L.P. and partially by debt issued by Raven Power (see Note 8). Of the consideration paid, \$374 million was allocated to assets and liabilities recorded on the accounts of Raven Power and \$9 million was allocated to the fair value of acquired barges recorded on the accounts of Raven Power BargeCo LLC ( Raven BargeCo ), which is not owned by Raven Power and is not included in these consolidated and combined financial statements. The Acquisition was accounted for as a business combination and the purchase price has been allocated as follows based on the estimated fair value of the assets acquired and the liabilities assumed at the date of acquisition (in millions):

|                                      |       |
|--------------------------------------|-------|
| Accounts receivable and other assets | \$ 41 |
| Materials and supplies inventory     | 10    |
| Fuel stock                           | 72    |
| Plant and equipment                  | 243   |

Edgar Filing: Talen Energy Corp - Form S-1/A

|  |        |
|--|--------|
| Land   | 39     |
| Intangible assets                              | 18     |
| Accounts payable and other current liabilities | (23)   |
| Fuel supply agreements                         | (14)   |
| Asset retirement obligations                   | (12)   |
| Total net assets acquired by Raven Power       | \$ 374 |

F-91

**Table of Contents**

The acquisition date fair value of the tangible and intangible assets acquired and liabilities assumed was determined using a combination of cost, market and income approaches.

The expected or actual settlement amounts of acquired accounts receivable, other current assets, accounts payable and other current liabilities were used to estimate fair value under the market approach due to the short-term nature of these instruments. Materials and supplies inventory was valued using a replacement cost approach adjusted to reflect obsolescence.

Raven Power estimated the fair value of the acquired land, fuel stock and fuel supply agreements based on a market approach using current market pricing. The fair value of the acquired fuel supply agreements was recorded on an individual basis in other assets and other liabilities and was amortized over the remaining term of the agreements as the fuel was delivered. For the year ended December 31, 2013 and the period August 13, 2012 to December 31, 2012, Raven Power increased the cost of delivered fuel by approximately \$11 million and \$3 million, respectively, for fuel delivered under the acquired fuel supply agreements. At December 31, 2013, the fair value recorded for acquired fuel supply agreements has been fully amortized.

The fair value of plant and equipment, intangible assets, other long-term assets and asset retirement obligations was determined using income based discounted cash flow models which incorporated management's estimates and assumptions regarding future operations at the acquisition date.

A bargain purchase gain of approximately \$2 million and acquisition costs of approximately \$9 million associated with the Acquisition were recorded on the accounts of Raven and were not allocated to Raven Power.

**5. Inventory**

Inventory consist of the following (in millions):

|                     | <b>December 31,</b> |             |
|---------------------|---------------------|-------------|
|                     | <b>2014</b>         | <b>2013</b> |
| Fuel stock          | \$ 81               | \$ 66       |
| Material & supplies | 34                  | 29          |
| Emission allowances | 78                  | 17          |
| Total Inventory     | \$ 193              | \$ 112      |

**6. Property, plant and equipment**

Property, plant and equipment includes the following (in millions):

|  | <b>Estimated<br/>useful lives<br/>(years)</b> | <b>December 31,</b> |             |
|--|---|---------------------|-------------|
|  |   | <b>2014</b>         | <b>2013</b> |

Edgar Filing: Talen Energy Corp - Form S-1/A

|   |   |    |          |          |
|---|---|----|----------|----------|
| Electric generation facilities (in-service) | 1 | 62 | \$ 1,696 | \$ 1,656 |
| Land  |   |    | 44       | 44       |
| Advance payments for equipment              |   |    |          | 12       |
|   |   |    | 1,740    | 1,712    |
| Accumulated depreciation                    |   |    | (329)    | (248)    |
| Property, plant and equipment, net          |   |    | \$ 1,411 | \$ 1,464 |

For the years ended December 31, 2014, 2013 and 2012, the Company recorded depreciation expense of \$88 million, \$90 million and \$73 million, respectively.

F-92

**Table of Contents****7. Intangible assets**

The components of intangible assets consist of the following (in millions):

|                           | <b>December 31, 2014</b>             |                                     |                       |
|---------------------------|--------------------------------------|-------------------------------------|-----------------------|
|                           | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net<br/>assets</b> |
| Contractual rights permit | \$ 17                                | \$ (2)                              | \$ 15                 |
| Contractual rights leases | 1                                    |                                     | 1                     |
| Water rights.             | 1                                    |                                     | 1                     |
| <b>Total</b>              | <b>\$ 19</b>                         | <b>\$ (2)</b>                       | <b>\$ 17</b>          |

|                           | <b>December 31, 2013</b>             |                                     |                       |
|---------------------------|--------------------------------------|-------------------------------------|-----------------------|
|                           | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net<br/>Assets</b> |
| Contractual rights permit | \$ 17                                | \$ (1)                              | \$ 16                 |
| Contractual rights leases | 1                                    |                                     | 1                     |
| Water rights              | 2                                    |                                     | 2                     |
| <b>Total</b>              | <b>\$ 20</b>                         | <b>\$ (1)</b>                       | <b>\$ 19</b>          |

The estimated aggregate amortization expense for each of the five succeeding years is as follows (in millions):

|                     |              |
|---------------------|--------------|
| 2015                | \$ 1         |
| 2016                | 1            |
| 2017                | 1            |
| 2018                | 1            |
| 2019                | 1            |
| 2020 and thereafter | 11           |
|                     | <b>\$ 16</b> |

For the years ended December 31, 2014, 2013 and 2012, the Company recorded amortization expense of \$1 million, \$1 million and \$3 million, respectively. Amortization expense related to contractual rights-power contracts was recorded in revenue, and amortization expense related to contractual rights leases and contractual rights permit was recorded in operations and maintenance expense in the consolidated and combined statements of operations.

On December 31, 2014, Topaz Power sold a portion of its water rights to an unrelated third party for \$3 million and recorded a gain on the sale of assets of \$2 million within other income in the consolidated and combined statements of operations. At December 31, 2014 the unamortized book value of the remaining water rights was \$1 million.





**Table of Contents****8. Notes payable and lines of credit**

The Company's debt outstanding at December 31, 2014 and 2013, was as follows (in millions):

|  | <b>December 31,</b> |                 |
|--|---------------------|-----------------|
|  | <b>2014</b>         | <b>2013</b>     |
| 2019 Senior Notes                              | \$ 1,250            | \$              |
| Credit Facility                                | 25                  |                 |
| Topaz Senior Secured Notes                     |                     | 599             |
| Sapphire 2013 Senior Secured Notes             |                     | 247             |
| Raven 2013 Senior Secured Notes                |                     | 371             |
| Insurance notes payable                        | 8                   | 7               |
| <b>Total notes payable and lines of credit</b> | <b>1,283</b>        | <b>1,224</b>    |
| Less: current maturities                       | 8                   | 20              |
|  | <b>\$ 1,275</b>     | <b>\$ 1,204</b> |

**2019 Senior Notes**

On July 10, 2014, RJS Power Holdings LLC, a wholly owned subsidiary of the Company, completed a private placement to eligible purchasers of an aggregate principal amount of \$1,250 million of its 5.125% senior notes due July 15, 2019 (the 2019 Senior Notes). The 2019 Senior Notes were issued under and are governed by an indenture dated July 10, 2014, between RJS Power Holdings LLC, The Bank of New York Mellon, as trustee, and the Company's subsidiaries named therein as guarantors (the Indenture). The 2019 Senior Notes were sold to investors at a purchase price of 100% of the aggregate principal amount of the 2019 Senior Notes with net proceeds from the sale of approximately \$1,216 million (after deducting offering fees and expenses). The proceeds were used to repay outstanding borrowings and for general corporate purposes. The 2019 Senior Notes are initially guaranteed on a senior unsecured basis by RJS Power LLC, a wholly owned indirect subsidiary of the Company. Interest on the 2019 Senior Notes is paid semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2015. The 2019 Senior Notes are senior unsecured obligations of RJS Power Holdings LLC and rank equally with all of its current and future senior indebtedness.

Prior to the occurrence of a Merger Event as defined below, the Indenture, among other restrictions, limits the ability of the RJS Power Holdings LLC and its subsidiaries to (1) incur or guarantee additional indebtedness; (2) pay dividends on, make other distributions in respect of, or repurchase or redeem capital stock or units; (3) prepay, redeem or repurchase certain junior indebtedness; (4) issue preferred stock or similar equity securities; (5) make loans and investments; (6) sell assets; (7) incur or permit to exist liens on assets to secure indebtedness; (8) enter into transactions with affiliates; (9) create or designate subsidiaries as unrestricted subsidiaries; (10) enter into agreements restricting RJS Power Holdings LLC's ability or the ability of any of its subsidiaries to pay dividends or make other distributions or engage in other transactions with RJS Power Holdings LLC or any restricted subsidiaries; and (11) consolidate, merge or sell all or substantially all of its assets. The Indenture permits RJS Power Holdings LLC to incur additional indebtedness under Credit Facilities (as defined in the Indenture) not to exceed the sum of \$150 million and 7.5% of the total assets of RJS Power Holdings LLC as shown on its most recent consolidated balance sheet. The Indenture limits RJS Power Holdings LLC's ability to incur additional indebtedness in excess of the amount discussed above, including borrowings under its revolving credit facility, unless RJS Power Holdings LLC meets the fixed charge coverage ratio test. The fixed charge coverage ratio test requires that after giving effect to the incurrence

of additional debt, the ratio of RJS Power Holdings LLC's adjusted Consolidated Cash Flow (as defined in the Indenture) to its adjusted Fixed Charges (as defined in the Indenture) over the trailing four fiscal quarters will be at least 2.0 to 1.0. The Indenture permits RJS Power Holdings LLC to pay dividends or make distributions in an aggregate amount from the issue date of the 2019 Senior Notes not to exceed \$125 million. The Indenture restricts RJS Power Holdings LLC's ability to pay further dividends or make further distributions unless no event of default has occurred and

**Table of Contents**

RJS Power Holdings LLC would, at the time of the payment and after giving pro forma effect thereto as if such payment had been made at the beginning of the trailing four fiscal-quarters have been permitted to incur at least \$1.00 of additional indebtedness pursuant to the fixed charge coverage ratio test described above. As of December 31, 2014, RJS Power Holdings LLC was in compliance with all debt covenants.

Under the indenture governing the 2019 Senior Notes, a Merger Event occurs upon the merger, consolidation, or certain equivalent combinations, of substantially all of the businesses and operations of the Company with substantially all of the businesses and operations of Energy Supply, subject to certain conditions. Upon the occurrence of a Merger Event, (1) the restrictive covenants in the indenture governing the 2019 Senior Notes will cease to apply and will be replaced with less restrictive covenants substantially similar to the covenants in the indenture governing Energy Supply's senior notes and (2) all guarantees with respect to the notes will be automatically released.

From and after the first interest payment date following a Merger Ratings Event, the interest rate will decrease to a rate of 4.625% per annum. The Merger Ratings Event will occur if, on the date of the occurrence of the Merger Event or, if later, on the date that Moody's and S&P first publicly issue corporate ratings for the successor issuer of the notes, the corporate ratings of such successor issuer of the notes are at least (i) Ba2 from Moody's and BB- from S&P or (ii) Ba3 from Moody's and BB from S&P, in each case with a stable or better outlook.

The 2019 Senior Notes are not redeemable until July 15, 2016. On or after July 15, 2016, RJS Power Holdings LLC may redeem all or a part of the 2019 Senior Notes, from time to time, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest on the notes redeemed, if any, up to but excluding the redemption date, if redeemed during the twelve-month beginning July 15th of the years indicated below:

| <b>Year</b>         | <b>Percentage</b> |
|---------------------|-------------------|
| 2016                | 102.563%          |
| 2017                | 101.281%          |
| 2018 and thereafter | 100.000%          |

**Credit Facility**

Concurrently with the issuance of the 2019 Senior Notes, RJS Power Holdings LLC entered into a senior secured revolving credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and other lenders and issuing banks party thereto (the Credit Facility). The Credit Facility will mature in five years and provide for aggregate revolving commitments in an amount equal to \$150 million, all of which will be available for the issuance of letters of credit. Borrowings under the Credit Facility may be paid down and reborrowed and bear interest at LIBOR plus 2.50%, as adjusted pursuant to terms of the Credit Facility, or 1.50% above the Alternate Base Rate, as defined in the Credit Facility. The annual commitment fee on the unused portion of the Credit Facility is 0.50%. In addition, RJS Power Holdings LLC will pay letter of credit fees on the aggregate face amount of outstanding letters of credit plus a fronting fee to the issuing banks.

RJS Power Holdings LLC's obligations under the Credit Facility are guaranteed by RJS Power LLC, a direct wholly owned subsidiary of RJS Power Holdings LLC, and by our operating subsidiaries. The Credit Facility will be secured by a first lien on substantially all assets of the Company.

The Credit Facility contains customary financial and other covenants, including a leverage covenant which precludes RJS Power Holdings LLC from allowing the aggregate outstanding exposure on the Credit Facility, as of the last day of the applicable four quarter period, to exceed 25% of the aggregate commitments under the Credit Facility if the

leverage ratio exceeds 6.0 to 1.0. RJS Power Holdings LLC has the right to cure any breach of this leverage ratio covenant by obtaining certain equity commitments in an amount necessary to meet the

## **Table of Contents**

leverage ratio test. RJS Power Holdings LLC may only use this cure right six times during the life of the facility. In addition, RJS Power Holdings LLC is subject to covenants, including but not limited to, restrictions on its ability to incur additional indebtedness, dispose of material assets or properties, make certain restricted payments, engage in transactions with affiliates, and create liens on properties.

As of December 31, 2014, the Credit facility had an outstanding balance of \$25 million, a \$2 million outstanding letter of credit, and additional borrowing capacity of \$123 million.

### ***Topaz Senior Secured Notes and Working Capital Facility***

On February 26, 2013, Topaz Power completed a private placement offering to eligible purchasers of an aggregate principal amount of \$610 million of its senior secured notes (the Topaz Senior Secured Notes ) at a purchase price of 99.0% of the principal amount and obtained a \$30 million working capital facility (the Topaz Working Capital Facility ). In conjunction with the issuance of the Topaz Senior Secured Notes, the Company incurred approximately \$12 million in fees and associated costs. The net proceeds from the sale of the Topaz Senior Secured Notes were used to pay the aggregate principal and interest on the then-outstanding indebtedness of Topaz Power.

The Topaz Working Capital Facility had a maturity date of February 26, 2017 and accrued interest at a variable rate. Accrued interest and a commitment fee at the rate of 0.5% per annum for all unutilized portions of the Topaz Working Capital Facility were paid quarterly.

The Topaz Power Senior Secured Notes required scheduled quarterly installment payments in an aggregate amount of 1% per annum of the outstanding beginning balance with any remaining advances repaid at the maturity date of the facility in 2020; required interest to be paid quarterly; and provided for the election of an interest rate at either a floating base rate plus a margin of 3.00% or at LIBOR plus a margin of 4.00%, but in no event was the elected interest rate lower than 1.25% plus the applicable margin. Cash paid for interest related to the Topaz Senior Secured Notes was approximately \$17 million and \$27 million for the year ended December 31, 2014 and 2013, respectively.

The aggregate principal balance of the Topaz Senior Secured Notes and outstanding balance of the Topaz Working Capital Facility were paid in full on July 10, 2014, in conjunction with the issuance of the 2019 Senior Notes. Remaining unamortized deferred financing costs of approximately \$10 million and unamortized debt discount of approximately \$5 million related to the Topaz Senior Secured Notes and Topaz Working Capital Facility were included in loss on extinguishment of debt in the consolidated and combined statements of operation.

### ***Sapphire 2013 Senior Secured Notes and Working Capital Facility***

On July 10, 2013, Sapphire Power completed a private placement offering to eligible purchasers of an aggregate principal amount of \$250 million of its senior secured notes (the Sapphire 2013 Senior Secured Notes ) at a purchase price of 99% of the principal amount and obtained a \$30 million working capital facility (the Sapphire 2013 Working Capital Facility ). The Company incurred approximately \$7 million in fees and associated costs related to the issuance of the Sapphire 2013 Senior Secured Notes and obtainment of commitments for the Sapphire 2013 Working Capital Facility. The net proceeds from the sale of the Sapphire 2013 Senior Secured Notes were used to pay the aggregate principal and interest on the then-outstanding indebtedness of Sapphire Power.

The Sapphire 2013 Working Capital Facility had a maturity date of July 10, 2018 and accrued variable interest at LIBOR plus a margin of 5.0%. Accrued interest and a commitment fee at the rate of 0.50% per annum for all unutilized portions of the Sapphire 2013 Working Capital Facility were paid quarterly. Cash paid for interest related to the Sapphire 2013 Working Capital Facility was approximately \$1 million and \$1 million for the years ended

December 31, 2014 and 2013, respectively. As of December 31, 2013, Sapphire Power had \$12 million in outstanding standby letters of credit (see Note 12) and additional borrowing capacity of \$18 million under the Sapphire 2013 Working Capital Facility.

---

**Table of Contents**

The Sapphire Senior Secured Notes had a maturity date of July 10, 2018 and required scheduled quarterly principal payments equal to 0.25% of the original principal amount with any remaining unpaid principal due at the maturity date. The Sapphire 2013 Senior Secured Notes also required interest to be paid quarterly and provided for the election of an interest rate at either a base rate or at LIBOR plus a margin of 5.0%, but in no event was the elected interest rate lower than 1.0% plus the applicable margin. Cash paid for interest related to the Sapphire 2013 Senior Secured Notes was approximately \$8 million and \$7 million for the years ended December 31, 2014 and 2013, respectively.

The aggregate principal balance of the Sapphire 2013 Senior Secured Notes and outstanding balance of the Sapphire 2013 Working Capital were paid in full on July, 10, 2014, in conjunction with the issuance of the 2019 Senior Notes. Remaining unamortized deferred financing costs of approximately \$5 million and unamortized debt discount of approximately \$2 million related to the Sapphire 2019 Senior Secured Notes and Sapphire Working Capital Facility were included in loss on extinguishment of debt in the consolidated and combined statements of operation.

***Raven 2013 Senior Secured Notes and Working Capital Facility***

On December 19, 2013, Raven Power completed a private placement offering to eligible purchasers of an aggregate principal amount of \$375 million of its senior secured notes due December 19, 2020 (the Raven 2013 Senior Secured Notes ) at a purchase price of 99% of the principal amount and obtained a \$40 million working capital facility (the Raven Working Capital Facility ). The Raven 2013 Senior Secured Notes and Raven Working Capital Facility were governed by the Credit and Guaranty Agreement dated December 19, 2013, between Raven Power, various lenders, and Deutsche Bank AG as Administrative Agent and Collateral Agent (the Raven 2013 Credit Agreement ). The Company incurred approximately \$10 million in fees and associated costs related to issuance of the Raven 2013 Senior Secured Notes. The net proceeds from the sale of the Raven 2013 Senior Secured Notes were primarily used to pay the aggregate principal and interest on the then-outstanding indebtedness of Raven Power and make a distribution of approximately \$201 million to its sole member.

The Raven Working Capital Facility had a maturity date of December 19, 2018, and accrued variable interest at LIBOR plus a margin. Accrued interest and a commitment fee at a rate of 0.50% per annum for all unutilized portions of the Raven Working Capital Facility were paid quarterly.

The Raven Power 2013 Senior Secured Notes require scheduled quarterly principal payments equal to 0.25% of the original principal amount with any remaining unpaid principal due at the maturity date. Additional mandatory prepayments were to be made annually in May of each year in an amount equal to the lesser of (i) 100% excess cash flow, as defined by the Raven 2013 Credit Agreement, or (ii) the amount required for Raven Power to reduce the outstanding principal of the Raven Power Senior Secured Notes to a predefined targeted debt balance. On April 9, 2014, Raven Power and the other parties to the Raven 2013 Credit Agreement agreed to amend the Raven 2013 Credit Agreement to allow for the prepayment of approximately \$53 million of principal and accrued interest thereon and an early distribution, as compared to the original Raven 2013 Credit Agreement, to its sole member of approximately \$105 million of excess cash flow generated by Raven Power in the first quarter of 2014. In conjunction with the early distribution of excess cash flow, Raven Power also made an allowed tax distribution to its sole member of approximately \$29 million. Raven Power incurred approximately \$2 million in prepayment fees and associated costs related to the amendment.

The Raven 2013 Senior Secured Notes also required interest to be paid quarterly and provided for the election of an interest rate at either a base rate or LIBOR plus a margin of 4.25%, but in no event was the elected interest rate lower than 1.00% plus the applicable margin.

The aggregate principal balance of the Raven 2013 Senior Secured Notes and outstanding balance of the Raven Working Capital Facility were paid in full on July 10, 2014, in conjunction with the issuance of the 2019 Senior Notes. Remaining unamortized deferred financing costs of approximately \$10 million and unamortized debt discount of approximately \$4 million related to the Raven 2013 Senior Secured Notes and Raven Working Capital Facility were included in loss on extinguishment of debt in the consolidated and combined statements of operation.

F-97



**Table of Contents*****Insurance notes payable***

The Company finances portions of its insurance premiums through financial institutions as unsecured debt with a term of less than twelve months. The notes bear interest at a fixed rate of 2.25% with principal and interest payments due in monthly installments.

***Annual debt maturities***

Contractual annual principal repayments or maturities of debt instruments as of December 31, 2014 are as follows (in millions):

|                     |                 |
|---------------------|-----------------|
| 2015                | \$ 8            |
| 2016                |                 |
| 2017                |                 |
| 2018                |                 |
| 2019                | 1,275           |
| 2020 and thereafter |                 |
| <b>Total debt</b>   | <b>\$ 1,283</b> |

**9. Asset retirement obligation**

The Company records asset retirement obligations ( ARO ) for actions legally required in the event of demolition or decommissioning of specific components of the generating facilities. The Company recorded the following activity related to the ARO liability for the years ended December 31, 2014 and 2013 (in millions):

|                              |       |
|------------------------------|-------|
| Balance at December 31, 2012 | \$ 17 |
| Accretion expense            | 2     |
| Liabilities settled          |       |
| Balance at December 31, 2013 | 19    |
| Accretion expense            | 1     |
| Liabilities settled          |       |
| Balance at December 31, 2014 | \$ 20 |

**10. Derivative instruments**

We are exposed to various market risks. These risks arise from the ownership of assets and operation of the business. We have a risk control framework designed to monitor, measure and define appropriate transactions to hedge and manage the risk in our existing portfolio of assets and contracts and to authorize new transactions. We believe we have effective procedures for evaluating and managing the risks to which we are exposed. Ultimate decisions are

made by the management of RJS Power within guidelines established by the board of directors. In addition, certain actions are limited under covenants contained within our credit agreements.

All of our derivative instruments are entered into by the respective subsidiaries of Raven Power, Topaz Power or Sapphire Power. Derivative instrument counterparties have been granted liens on certain of the respective assets of Raven Power, Topaz Power or Sapphire Power that are pari passu with the creditors under the Credit Facility. No additional cash collateral is required under the derivative instruments.

**Table of Contents**

The Company utilizes the following derivative instruments to mitigate the impact of changes in electricity prices, fuel prices and interest rates on the consolidated and combined operating results and cash flows:

***Heat Rate Call Options***

To reduce our exposure to fluctuations in the market price of electricity and fuel, we enter into derivative contracts including financially settled heat rate call options ( HRCOs ). HRCOs financially settle based on the differential between (i) a variable power price index at a predetermined location ( Index Price ), and (ii) an exercise price tied to the heat rate conversion factors of our plants and corresponding variable natural gas index ( Exercise Price ). The HRCOs require a counterparty to pay a premium in exchange for the right to exercise the option and receive an amount equal to the Index Price less the Exercise Price ( Option Exercise Amount ). The net amount of the option premium and the Option Exercise Amount paid to or received from the HRCO counterparty is recorded net in the realized settlements on commodity derivative contracts line item in the consolidated and combined statements of operations. If the Option Exercise Amount is greater than the premium received, it will result in a net realized loss on settlement. If the Option Exercise Amount is less than the premium received, it will result in a net realized gain on settlement.

***Power and Gas Swaps***

To reduce our exposure to fluctuations in the market price of electricity and fuel, we enter into derivative contracts including short-term financially settled swap agreements related to power and gas prices ( Power and Gas Swaps ). Power and Gas Swaps require payments to or from counterparties based upon the differential between a fixed price and variable index price for a predetermined contractual notional amount. The cash settlements received or paid by the Company on net settlement of the Power and Gas Swaps are recorded net in the realized settlements on commodity derivative contracts line item in the consolidated and combined statements of operations.

***Interest Rate Swaps***

To reduce our exposure to fluctuations in interest rates, we have previously utilized swap agreements related to interest rates that require payments to or from counterparties based upon the differential between a fixed interest rate and variable interest rate index for a predetermined contractual notional amount (the Interest Rate Swaps ).

All derivative contracts are recorded at fair value (see Note 11) and included in the consolidated and combined balance sheets as derivative assets and derivative liabilities. The following table summarizes the location of all derivative contracts in the consolidated and combined balance sheets at December 31 (in millions):

|                                  | <b>December 31, 2014</b>              |                                    |                                |                              |
|----------------------------------|---------------------------------------|------------------------------------|--------------------------------|------------------------------|
|                                  | <b>Heat<br/>Rate<br/>Call Options</b> | <b>Power and<br/>Gas<br/>Swaps</b> | <b>Interest Rate<br/>Swaps</b> | <b>Total<br/>Instruments</b> |
| Current derivative assets        | \$ 2                                  | \$ 24                              | \$                             | \$ 26                        |
| Long-term derivative assets      |                                       | 3                                  |                                | 3                            |
| <b>Total derivative assets</b>   | <b>2</b>                              | <b>27</b>                          |                                | <b>29</b>                    |
| Current derivative liabilities   | (43)                                  |                                    |                                | (43)                         |
| Long-term derivative liabilities | (20)                                  |                                    |                                | (20)                         |

|                                     |         |       |    |         |
|-------------------------------------|---------|-------|----|---------|
| Total derivative liabilities        | (63)    |       |    | (63)    |
| Net derivative assets (liabilities) | \$ (61) | \$ 27 | \$ | \$ (34) |

|  | <b>December 31, 2013</b>              |                                    |                                |                              |
|--|---------------------------------------|------------------------------------|--------------------------------|------------------------------|
|  | <b>Heat<br/>rate<br/>call options</b> | <b>Power and<br/>gas<br/>swaps</b> | <b>Interest rate<br/>swaps</b> | <b>Total<br/>instruments</b> |
| Current derivative assets                  | \$ 20                                 | \$ 1                               | \$                             | \$ 21                        |
| Long-term derivative assets                | 12                                    |                                    | 1                              | 13                           |
| <b>Total derivative assets</b>             | <b>32</b>                             | <b>1</b>                           | <b>1</b>                       | <b>34</b>                    |
| Current derivative liabilities             |                                       | (3)                                | (2)                            | (5)                          |
| Long-term derivative liabilities           |                                       |                                    |                                |                              |
| <b>Total derivative liabilities</b>        |                                       | <b>(3)</b>                         | <b>(2)</b>                     | <b>(5)</b>                   |
| <b>Net derivative assets (liabilities)</b> | <b>\$ 32</b>                          | <b>\$ (2)</b>                      | <b>\$ (1)</b>                  | <b>\$ 29</b>                 |

**Table of Contents**

In the consolidated and combined balance sheets and the table above, we offset the fair values of all derivative assets and liabilities with the same counterparty for which we have a master netting agreement in place and qualify for net presentation. Fair value accounting guidance and disclosures about offsetting assets and liabilities requires the fair value of derivative instruments to be shown in the notes to the financial statements on a gross basis, even when the derivative instruments are subject to a legally enforceable master netting agreement and qualify for net presentation in the balance sheet.

The following table presents information about our commodity derivative contracts that are netted on our consolidated and combined balances sheet as of December 31, 2014 and 2013, respectively (in millions):

|                              | <b>Gross Amounts of<br/>Recognized<br/>Assets/Liabilities</b> | <b>Gross Amounts<br/>Offset in<br/>the<br/>Balance<br/>Sheet</b> | <b>Net Amounts of<br/>Asset/Liabilities<br/>Presented in the<br/>Balance Sheet</b> |
|------------------------------|---|--|--|
| <b>December 31, 2014</b>     |   |  |  |
| Total derivative assets      | \$ 52   | \$ (23)  | \$ 29  |
| Total derivative liabilities | \$ (86)   | \$ 23  | \$ (63)  |
| <b>December 31, 2013</b>     |   |  |  |
| Total derivative assets      | \$ 37   | \$ (3)   | \$ 34  |
| Total derivative liabilities | \$ (8)  | \$ 3   | \$ (5)   |

All derivative contracts are considered economic hedges to our asset and interest rate portfolio, but either do not qualify for hedge accounting under the hedge accounting guidelines or the hedge accounting designation has not been elected. Changes in fair value and realized settlements on the Heat Rate Call Options and Power and Gas Swaps are recognized as separate components of revenues on the consolidated and combined statements of operations. Realized and unrealized gains and losses on the Interest Rate Swaps are recognized currently as interest expense on the consolidated and combined statements of operations. For the years ended December 31, 2014, 2013 and 2012, the Company recognized realized losses on the Interest Rate Swaps of \$3 million, \$3 million and \$17 million, respectively, and unrealized gains (losses) on Interest Rate Swaps of (\$1) million, \$0 million and \$10 million, respectively.

As of December 31, 2014, the maximum length of time the Company is hedging its exposure to the relationship of power prices to natural gas is three years.

At December 31, 2014, Raven Power had 3.6 million megawatt hours, of the 46.4 million megawatt hours of capacity available through the end of 2016, economically hedged using Power Swaps. At December 31, 2013, Raven Power had 1.9 million megawatt hours, of the 23.2 million megawatt hours of capacity available through the end of 2014, economically hedged using Power Swaps.

At December 31, 2014, Topaz Power had a HRCO in place to economically hedge 200 megawatts of capacity at the Nueces Bay generating facility. Additionally, Topaz Power had 1.3 million megawatt hours, out of an available 14.3 million megawatt hours available through the end of 2015, economically hedged using Power and Gas Swaps. At December 31, 2013, Topaz Power utilized HRCO s to economically hedge the full capacity of Barney Davis generating facility and 200 megawatts of capacity at Nueces Bay generating facility.

At December 31, 2014, Sapphire Power had substantially all the capacity of its generation facilities economically hedged using HRCOs with the exception of the York facility (52 nameplate megawatt capacity) and the Pedricktown facility (140 nameplate megawatt capacity). At December 31, 2013, Sapphire Power had all the capacity of its generation facilities hedged using HRCOs with the exception of the York facility (52 nameplate megawatt capacity).

As of December 31, 2014 and 2013, the aggregate notional amount of the Interest Rate Swaps was \$0 and \$447 million, respectively. All outstanding Interest Rate Swaps were terminated on July 10, 2014 in conjunction with the issuance of 2019 Senior Notes.

F-100

**Table of Contents****11. Fair value measurements**

Financial instruments are recorded based on fair value measurements in accordance with the authoritative guidance on fair value measurements and disclosures which emphasize that fair value is a market-based measurement and not an entity-specific measurement.

As defined within the authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by the authoritative guidance are as follows:

- |         |   |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities as of the reporting date.   |
| Level 2 | Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include Interest Rate Swaps and Power and Gas Swaps. |
| Level 3 | Pricing inputs include significant inputs that are generally less observable from objective sources.  |

These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and liabilities are classified in the entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect our estimate of the fair value of our assets and liabilities and their placement within the fair value hierarchy levels. The following table presents our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2014 and 2013, by level within the fair value hierarchy (in millions):

**Assets and liabilities with  
recurring fair value as of  
December 31, 2014**

Edgar Filing: Talen Energy Corp - Form S-1/A

|   | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|---------|-------|
| <b>Assets</b>                               |         |         |         |       |
| Cash, cash equivalents, and restricted cash | \$ 31   | \$      | \$      | \$ 31 |
| Heat rate call options                      |         |         | 2       | 2     |
| Power and gas swaps                         |         | 27      |         | 27    |
|   | \$ 31   | \$ 27   | \$ 2    | \$ 60 |
| <b>Liabilities</b>                          |         |         |         |       |
| Heat rate call options                      | \$      | \$      | \$ 63   | \$ 63 |
|   | \$      | \$      | \$ 63   | \$ 63 |

F-101



**Table of Contents**

|   | Assets and liabilities with<br>recurring fair value as of<br>December 31, 2013 |         |         |        |
|---|--|---------|---------|--------|
|   | Level 1  | Level 2 | Level 3 | Total  |
| <b>Assets</b>                               |  |         |         |        |
| Cash, cash equivalents, and restricted cash | \$ 186   | \$      | \$      | \$ 186 |
| Heat rate call options                      |  |         | 32      | 32     |
| Power and gas swaps                         |  | 1       |         | 1      |
| Interest rate swaps                         |  | 1       |         | 1      |
|   | \$ 186   | \$ 2    | \$ 32   | \$ 220 |
| <b>Liabilities</b>                          |  |         |         |        |
| Power and gas swaps                         | \$   | \$ 3    | \$      | \$ 3   |
| Interest rate swaps                         |  | 2       |         | 2      |
|   | \$   | \$ 5    | \$      | \$ 5   |

As of December 31, 2014, the Company's carrying amounts of cash and cash equivalents are representative of fair value because of the short-term nature of these instruments.

The Company uses industry-standard models that incorporate various assumptions, including quoted interest rates, quoted power and gas prices and time value, as well as other relevant economic measures to measure the value of the Interest Rate Swaps and Power and Gas Swaps.

The Company's Level 3 fair value derivative instruments consist of HRCOs where certain pricing inputs are unobservable. The Company utilizes models generated by third parties to determine the fair value of these instruments. The models utilize option parameters and market indices that closely approximate the delivery locations for power and gas under the HRCOs to generate a series of monthly options using a Black-Scholes genre option model. As a result of the nature of the inputs and their impact on the measurement of fair value, the instruments are categorized as Level 3 instruments. The valuation models incorporate historical correlation information and extrapolate available forward gas and power curve information to future periods. At each balance sheet date, we perform an analysis of all instruments subject to fair value measurement and include

in Level 3 all of those whose fair value is based on significant unobservable inputs.

The following table presents quantitative information for the unobservable inputs used in our most significant level 3 fair value measurements at December 31, 2014 and 2013:

| Quantitative Information about Level 3 Fair Value Measurements<br>December 31, 2014 |                        |                                   |       |
|---|------------------------|-----------------------------------|-------|
| Fair<br>Value,<br>Net<br>Asset<br>(Liability)                                       | Valuation<br>Technique | Significant<br>Unobservable Input | Range |

|                        |         |              |              |                 |
|------------------------|---------|--------------|--------------|-----------------|
| Heat rate call options | \$ (61) | Option Model | Power Prices | \$ 25-\$117/MWh |
|------------------------|---------|--------------|--------------|-----------------|

**Quantitative Information about Level 3 Fair Value Measurements  
December 31, 2013**

|                        | <b>Fair<br/>Value,<br/>Net<br/>Asset<br/>(Liability)</b> | <b>Valuation<br/>Technique</b> | <b>Significant<br/>Unobservable Input</b> | <b>Range</b>    |
|------------------------|--|--------------------------------|---|-----------------|
| Heat rate call options | \$ 32  | Option Model                   | Power Prices                              | \$ 27-\$180/MWh |

F-102

**Table of Contents**

The following table reconciles, for the years ended December 31, 2014 and 2013, the beginning and ending net balances for derivative instruments that are recognized at fair value in the consolidated and combined financial statements, using significant unobservable inputs:

|   | <b>Year Ended</b>   |             |
|---|---------------------|-------------|
|   | <b>December 31,</b> |             |
|   | <b>2014</b>         | <b>2013</b> |
| Fair value at beginning of period                                       | \$ 32               | \$ 66       |
| Total gains and losses recognized in earnings (realized and unrealized) | (96)                | 29          |
| Settlements   | 3                   | (63)        |
| Fair value at end of period   | \$ (61)             | \$ 32       |

There were no transfers in or out of Level 3 for the years ended December 31, 2014 and 2013.

The Company records debt instruments based on contractual terms, net of any applicable discount. The estimated fair value of the Company's senior secured notes and 2019 Senior Notes were based upon prevailing interest rates and current market pricing curves available to the Company as of December 31, 2014 and 2013, and is disclosed below (in millions).

|                     | <b>December 31, 2014</b>  |                                     | <b>December 31, 2013</b>  |                                     |
|---------------------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
|                     | <b>Carrying<br/>value</b> | <b>Estimated<br/>fair<br/>value</b> | <b>Carrying<br/>value</b> | <b>Estimated<br/>fair<br/>value</b> |
| Total notes payable | \$ 1,250                  | \$ 1,225                            | \$ 1,217                  | \$ 1,221                            |

The carrying value of the Company's insurance notes payable approximated fair value due to the short-term nature of these instruments.

**12. Commitments and contingencies*****Pipeline facility agreements***

Topaz Power has entered into two twenty-year pipeline facility agreements with a counterparty to ensure a reliable channel for the supply of high pressure gas to Barney M. Davis Units 1 and 2 and Nueces Bay Unit 7. The agreements have been accounted for as operating leases. The agreements call for annual payments over a ten year period and a reduced payment based on continued use beginning in the eighth year of the agreements. In each of the years ended December 31, 2014 and 2013, payments of \$5 million and \$6 million, respectively, were made under the agreements and have been included on the consolidated and combined balance sheets as current and noncurrent prepaid expenses. The total payments under the agreements are amortized ratably over the life of the agreement. The Company amortized \$3 million to expense for each of the years ended December 31, 2014, 2013 and 2012 and included the amounts in operations and maintenance expense on the consolidated and combined statement of operations. As of December 31, 2014, the maximum remaining term under the pipeline facility agreements is 15 years.

***Contractual service agreement (CSA)***

Topaz Power, on behalf of Barney M. Davis Unit 2 and Nueces Bay Unit 7, has entered into a contractual service agreement to provide an initial set of spare parts and perform all planned maintenance on the gas and steam turbines. The counterparty takes the risk of early parts fall-out (i.e., premature wear and tear) and will refurbish parts. Topaz Power is responsible for unplanned maintenance or collateral damage, but under the agreement, the vendor has an exclusive right to perform unplanned maintenance or collateral damage repair work. This commitment is payable quarterly over the next eight years based on the stated payment terms in the contracts at the time of execution and are subject to an annual inflationary adjustment. Topaz Power currently includes the quarterly payments required under the CSA as prepaid expenses or property, plant and equipment in the

F-103

**Table of Contents**

consolidated and combined balance sheets and recognizes the prepaid balance as expense when maintenance events occur or property, plant, and equipment as capital events occur. Topaz Power amortized \$10 million, \$10 million and \$1 million of the prepaid balance for the years ended December 31, 2014, 2013 and 2012, respectively. The amortization of the prepaid balance was recorded as operating and maintenance expense on the consolidated and combined statements of operations.

***Facility site and equipment leases***

The Company leases certain equipment and facility sites under non-cancelable leases with original lease terms ranging from 1 to 38 years.

Minimum future payments under these agreements subsequent to December 31, 2014 are as follows (in millions):

|                     | <b>Facility and<br/>equipment<br/>leases</b> | <b>Pipeline<br/>facilities<br/>agreement(1)</b> | <b>Contractual<br/>services<br/>agreements</b> |
|---------------------|--|---|--|
| 2015                | \$ 2   | \$ 6  | \$ 5   |
| 2016                | 2  | 6   | 18   |
| 2017                | 2  | 6   | 18   |
| 2018                | 1  | 3   | 5  |
| 2019                | 1  | 2   | 15   |
| 2020 and thereafter | 12   | 14  | 38   |
|                     | <b>\$ 20</b>                                 | <b>\$ 37</b>                                    | <b>\$ 99</b>                                   |

(1) Estimated based on projected factored fired hours and/or starts.

The Company had \$5 million, \$6 million and \$5 million of lease expense for the years ended December 31, 2014, 2013 and 2012, respectively.

***Collateral posting***

At December 31, 2014 and 2013, the Company had \$0 million and \$21 million, respectively, in letters of credit in lieu of depositing the cash required to meet debt service reserve account requirements in certain credit agreements. Additionally, as of December 31, 2014 and 2013, there were \$2 million and \$7 million, respectively, in letters of credit used as credit support with our counterparties for commodity procurement and construction projects.

***Legal and environmental matters***

The Company is from time to time involved in legal, environmental, regulatory, and other proceedings. Although the Company cannot predict the outcome of these proceedings, the Company believes that the effects on the consolidated and combined financial statements, if any, from the disposition of these matters will not have a material adverse effect on its consolidated and combined results of operations, financial condition or cash flows.

**13. Related party transactions**

***Topaz Power Management, LP***

The Company has service agreements in place with Topaz Power Management, LP ( TPM ), which is an affiliate of the Company. The services provided by TPM include asset management, accounting, budgeting, human resources, commercial/risk management and legal services. TPM charged the Company, for reimbursement of costs, approximately \$19 million, \$14 million and \$13 million for the years ended December 31, 2014, 2013 and 2012, respectively. These expenses were included in general and administrative expenses on the consolidated and combined statements of operations. As of December 31, 2014 and 2013, the Company had an affiliate payable balance of \$1 million, and an affiliate receivable balance of \$1 million, respectively.

F-104

**Table of Contents**

TPM also has agreements directly with the owners of the Company that allow TPM to participate in the profits of the Company if certain cash generation and distribution targets are met. Although the amounts paid under these agreements are not paid directly by the Company, the Company recognizes amounts paid under these agreements as non-cash capital contributions and non-cash compensation expense included in general and administrative expenses on the consolidated and combined statements of operations. During the years ended December 31, 2014, 2013 and 2012, the Company recognized \$15 million, \$0 and \$0, respectively, of non-cash capital contributions and non-cash compensation expense for profit participation payments made during those periods.

***Raven Power BargeCo LLC***

Raven Power has a service agreement in place with Raven BargeCo under which Raven BargeCo provides coal transportation services to the generation facilities. The agreement automatically renews each year until terminated by one of the parties. Raven BargeCo charged Raven Power \$1 million, \$2 million and \$0 for the years ended December 31, 2014, 2013 and 2012. The expenses were included in operations and maintenance expense in the consolidated and combined statements of operations. The affiliate accounts receivable balances on the consolidated and combined balance sheets were \$0 million and \$1 million at December 31, 2014 and 2013, respectively.

**Table of Contents****14. Segment reporting**

We have three reportable segments. The segment structure reflects how the companies included in these consolidated and combined financial statements are legally organized, financed and managed. Selected operating results and balance sheet accounts were as follows (in millions):

|   | Year ended December 31, 2014 |                |             |           | Total    |
|---|------------------------------|----------------|-------------|-----------|----------|
|   | Topaz Power                  | Sapphire Power | Raven Power | Corporate |          |
| Power revenues  | \$ 206                       | \$ 217         | \$ 788      | \$        | \$ 1,211 |
| Premiums and realized settlements on derivative contracts | 28                           | (26)           | (104)       |           | (102)    |
| Unrealized gain (loss) on derivative contracts            | (13)                         | (81)           | 30          |           | (64)     |
| <b>Total revenues</b>                                     | 221                          | 110            | 714         |           | 1,045    |
| Fuel and other variable costs                             | 130                          | 133            | 314         |           | 577      |
| <b>Gross margin</b>                                       | 91                           | (23)           | 400         |           | 468      |
| Operating expenses <sup>(1)</sup>                         | 74                           | 60             | 186         | 3         | 323      |
| Depreciation, amortization and accretion                  | 42                           | 16             | 32          |           | 90       |
| <b>Operating (loss) income</b>                            | (25)                         | (99)           | 182         | (3)       | 55       |
| Interest expense  | 18                           | 11             | 11          | 34        | 74       |
| Loss on early extinguishment of debt                      | 15                           | 7              | 14          |           | 36       |
| <b>Net (loss) income</b>                                  | \$ (58)                      | \$ (117)       | \$ 157      | (37)      | \$ (55)  |
| <b>Balance Sheet</b>                                      |                              |                |             |           |          |
| Cash and restricted cash                                  | \$ 18                        | \$ 7           | \$ 3        | \$ 3      | \$ 31    |
| Capital expenditures                                      | 15                           | 7              | 22          |           | 44       |
| <b>Total assets</b>                                       | 1,009                        | 227            | 521         | 41        | 1,798    |
| Notes payable and lines of credit                         |                              |                |             | 1,283     | 1,283    |

(1) Includes operations and maintenance, general and administrative, taxes other than income tax and other income

|   | Year ended December 31, 2013 |                |             |        |
|---|------------------------------|----------------|-------------|--------|
|   | Topaz Power                  | Sapphire Power | Raven Power | Total  |
| Power revenues  | \$ 222                       | \$ 156         | \$ 577      | \$ 955 |
| Premiums and realized settlements on derivative contracts | 57                           | 6              | (1)         | 62     |
| Unrealized loss on derivative contracts                   | (9)                          | (24)           | (5)         | (38)   |
| <b>Total revenues</b>                                     | 270                          | 138            | 571         | 979    |



Edgar Filing: Talen Energy Corp - Form S-1/A

|  |         |         |       |         |
|--|---------|---------|-------|---------|
| Fuel and other variable costs                    | 147     | 84      | 312   | 543     |
| <b>Gross margin</b>                              | 123     | 54      | 259   | 436     |
| Operating expenses <sup>(1)</sup>                | 74      | 47      | 156   | 277     |
| Depreciation, amortization and accretion         | 42      | 19      | 31    | 92      |
| <b>Operating income (loss)</b>                   | 7       | (12)    | 72    | 67      |
| Interest expense                                 | 35      | 18      | 14    | 67      |
| Loss on early extinguishment of debt             | 9       | 8       | 10    | 27      |
| <b>Net (loss) income</b>                         | \$ (37) | \$ (38) | \$ 48 | \$ (27) |
| <b>Balance Sheet</b>                             |         |         |       |         |
| Cash and restricted cash                         | \$ 94   | \$ 8    | \$ 84 | \$ 186  |
| Capital expenditures                             | 23      | 6       | 15    | 44      |
| <b>Total assets</b>                              | 1,161   | 265     | 555   | 1,981   |
| Notes payable and lines of credit <sup>(2)</sup> | 606     | 251     | 378   | 1,235   |

(1) Includes operations and maintenance, general and administrative, taxes other than income tax and other income

(2) Balance does not include the original issue discount presented net in notes payable balance in consolidated and combined balance sheet.

F-106

**Table of Contents**

|   | Year ended December 31, 2012 |                   |                |        |
|---|------------------------------|-------------------|----------------|--------|
|   | Topaz<br>Power               | Sapphire<br>Power | Raven<br>Power | Total  |
| Power revenues  | \$ 152                       | \$ 136            | \$ 32          | \$ 320 |
| Premiums and realized settlements on derivative contracts | 70                           | 2                 |                | 72     |
| Unrealized gain on derivative contracts                   | 24                           | 35                | 2              | 61     |
| <b>Total revenues</b>                                     | 246                          | 173               | 34             | 453    |
| Fuel and other variable costs                             | 86                           | 82                | 20             | 188    |
| <b>Gross margin</b>                                       | 160                          | 91                | 14             | 265    |
| Operating expenses <sup>(1)</sup>                         | 59                           | 40                | 10             | 109    |
| Depreciation, amortization and accretion                  | 43                           | 28                | 3              | 74     |
| <b>Operating income</b>                                   | 58                           | 23                | 1              | 82     |
| Interest expense  | 31                           | 17                | 1              | 49     |
| <b>Net income</b>   | \$ 27                        | \$ 6              | \$             | \$ 33  |

(1) Includes operations and maintenance, general and administrative, taxes other than income tax and other income

**15. Subsequent events**

The Company evaluated subsequent events through March 17, 2015, which is the date the financial statements were issued and has determined that there were no subsequent events to be reported.

**Table of Contents****PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth the estimated expenses payable by us in connection with the distribution of the securities registered hereby. All amounts are estimates except for the SEC registration fee and the stock exchange listing fee.

|                                  |                 |
|----------------------------------|-----------------|
| SEC Registration Fee             | \$ 530,902.28   |
| Stock Exchange Listing Fee       | \$ 250,000.00   |
| Printing Fees and Expenses       | \$ 1,000,000.00 |
| Accounting Fees and Expenses     | \$ 350,000.00   |
| Legal Fees and Expenses          | \$ 1,300,000.00 |
| Transfer Agent Fees and Expenses | \$ 120,000.00   |
| Miscellaneous                    | \$ 300,000.00   |
| Total                            | \$ 3,850,902.28 |

**Item 14. Indemnification of Directors and Officers.*****Delaware General Corporation Law***

Talen Energy Corporation and Talen Energy Holdings, Inc. are each incorporated under the laws of the state of Delaware.

Section 145(a) of the DGCL, provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

Section 145(b) of the DGCL provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement

of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

II-1

---

**Table of Contents**

Section 145(c) of the DGCL provides that to the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145 of the DGCL, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 145(e) of the DGCL provides that expenses, including attorneys' fees, incurred by an officer or director of the corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in Section 145 of the DGCL. Such expenses, including attorneys' fees, incurred by former directors and officers or other persons serving at the request of the corporation as directors, officers, employees or agents of another corporation, partnership, joint venture, trust or other enterprise may be so paid upon such terms and conditions, if any, as the corporation deems appropriate.

Section 145(g) of the DGCL specifically allows a Delaware corporation to purchase liability insurance on behalf of its directors and officers and to insure against potential liability of such directors and officers regardless of whether the corporation would have the power to indemnify such directors and officers under Section 145 of the DGCL.

Our Amended and Restated Certificate of Incorporation will contain provisions permitted under the DGCL relating to the liability of directors. These provisions will eliminate a director's personal liability for monetary damages resulting from a breach of fiduciary duty, except in circumstances involving:

any breach of the director's duty of loyalty;

acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law;

under Section 174 of the DGCL (unlawful dividends); or

any transaction from which the director derives an improper personal benefit.

Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws will require us to indemnify and advance expenses to our directors and officers to the fullest extent not prohibited by the DGCL and other applicable law, except in the case of a proceeding instituted by the director without the approval of our board of directors. Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws will provide that we are required to indemnify our directors and officers, to the fullest extent permitted by law, for all judgments, fines, settlements, legal fees and other expenses incurred in connection with pending or threatened legal proceedings because of the director's or officer's positions with us or another entity that the director or officer serves at our request, subject to various conditions, and to advance funds to our directors and officers to enable them to defend against such proceedings. To receive indemnification, the director or officer must have been successful in the legal proceeding or have acted in good faith and in what was reasonably believed to be a lawful manner in our best interest and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 102(b)(7) of the DGCL permits a Delaware corporation to include a provision in its certificate of incorporation eliminating or limiting the personal liability of directors to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. This provision, however, may not eliminate or limit a director's liability (1) for breach of the director's duty of loyalty to the corporation or its stockholders, (2) for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law, (3) under Section 174 of the DGCL, or (4) for any transaction from which the director derived an improper personal benefit. Our Amended and Restated Certificate of Incorporation will contain such a provision which provision will not eliminate or limit the liability of a director for any act or omission occurring prior to its effective date.

**Table of Contents**

***Indemnification Agreements***

Pursuant to the terms of the Transaction Agreement, we have agreed to indemnify (and maintain policies of directors and officers liability insurance for) certain parties to the Transactions, including all of our past or present directors or officers, for a period of at least six years following the closing of the Combination in respect of acts or omissions relating to the Transactions and occurring at or prior to the consummation of the Combination.

***Directors and Officers Liability Insurance***

Prior to the closing of the Transactions, we will obtain directors and officers liability insurance which insures against certain liabilities that our directors and officers may, in such capacities, incur.

**Item 15. Recent Sales of Unregistered Securities.**

In connection with Talen Energy's incorporation, on June 6, 2014, Talen Energy issued 1 share of its common stock, par value \$0.001 per share, to HoldCo in consideration of an aggregate capital contribution of \$0.001. This issuance was exempt from registration under the Securities Act of 1933 pursuant to Section 4(a)(2) thereof because the issuance did not involve any public offering of securities.

**Item 16. Financial Statements and Exhibits.**

(a) Exhibits.

The Exhibits to this Registration Statement on Form S-1 are listed in the Exhibit Index which follows the signature pages to this Registration Statement and is herein incorporated by reference.

(b) Financial Statement Schedules.

No financial statement schedules are included herein. All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable or the information is included in the consolidated financial statements and has therefore been omitted here.

**Item 17. Undertakings.**

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes that for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-3



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant, has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Allentown, Commonwealth of Pennsylvania, on April 30, 2015.

**TALEN ENERGY CORPORATION**

By: /s/ Paul A. Farr  
Name: Paul A. Farr  
Title: Director and Executive Vice  
President

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed on April 30, 2015 by the following persons in the capacities indicated.

| <b>Signature</b>                 | <b>Title</b>   |
|----------------------------------|--|
| /s/ Paul A. Farr<br>Paul A. Farr | Director and Executive Vice President (principal executive,<br>financial and accounting officer) |
| *<br>William H. Spence           | Director and President   |
| *<br>Robert J. Grey              | Director and Executive Vice President  |

\* By: /s/ Frederick C. Paine  
Name: Frederick C. Paine  
Title: Attorney-in-Fact

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant, has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Allentown, Commonwealth of Pennsylvania, on April 30, 2015.

TALEN ENERGY HOLDINGS, INC.

By: /s/ Paul A. Farr  
Name: Paul A. Farr  
Title: Director and Executive Vice  
President

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed on April 30, 2015 by the following persons in the capacities indicated.

| <b>Signature</b>                 | <b>Title</b>   |
|----------------------------------|--|
| /s/ Paul A. Farr<br>Paul A. Farr | Director and Executive Vice President (principal executive,<br>financial and accounting officer) |
| *<br>William H. Spence           | Director and President   |
| *<br>Robert J. Grey              | Director and Executive Vice President  |

\* By: /s/ Frederick C. Paine  
Name: Frederick C. Paine  
Title: Attorney-in-Fact

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Separation Agreement, dated as of June 9, 2014, among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC (incorporated by reference to Exhibit 2.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)                                  |
| 2.2                | Transaction Agreement, dated as of June 9, 2014, among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC and Raven Power Holdings LLC (incorporated by reference to Exhibit 2.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944)) dated June 12, 2014) |
| 2.3                | Amendment No. 1, dated as of October 23, 2014, to the Transaction Agreement, dated as of June 9, 2014, among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC and Raven Power Holdings LLC **   |
| 3.1                | Form of Amended and Restated Certificate of Incorporation of Talen Energy Corporation **  |
| 3.2                | Form of Amended and Restated Bylaws of Talen Energy Corporation **  |
| 3.3                | Form of Amended and Restated Certificate of Incorporation of Talen Energy Holdings, Inc. **   |
| 3.4                | Form of Amended and Restated Bylaws of Talen Energy Holdings, Inc. **   |
| 4.1                | Indenture, dated as of October 1, 2001, by PPL Energy Supply, LLC and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (incorporated by reference to Exhibit 4.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))  |
| 4.2                | Supplemental Indenture No. 2, dated as of August 15, 2004, to said Indenture (incorporated by reference to Exhibit 4(h)-4 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2004)   |
| 4.3                | Supplemental Indenture No. 3, dated as of October 15, 2005, to said Indenture (incorporated by reference to Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)   |
| 4.4                | Form of Note for PPL Energy Supply, LLC s \$300 million aggregate principal amount of 5.70% REset Put Securities due 2035 (REPSSM) (incorporated by reference to Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)  |
| 4.5                | Supplemental Indenture No. 4, dated as of May 1, 2006, to said Indenture (incorporated by reference to Exhibit 4(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)  |
| 4.6                | Supplemental Indenture No. 6, dated as of July 1, 2006, to said Indenture (incorporated by reference to Exhibit 4(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)   |
| 4.7                | Supplemental Indenture No. 7, dated as of December 1, 2006, to said Indenture (incorporated by reference to Exhibit 4(f)-10 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for   |

the year ended December 31, 2006)

- 4.8 Supplemental Indenture No. 8, dated as of December 1, 2007, to said Indenture (incorporated by reference to Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated December 20, 2007)

II-6

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 4.9                | Supplemental Indenture No. 9, dated as of March 1, 2008, to said Indenture (incorporated by reference to Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated March 14, 2008)   |
| 4.10               | Supplemental Indenture No. 10, dated as of July 1, 2008, to said Indenture (incorporated by reference to Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated July 21, 2008)  |
| 4.11               | Supplemental Indenture No. 11, dated as of December 1, 2011, to said Indenture (incorporated by reference to Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated December 16, 2011)  |
| 4.12               | Supplemental Indenture No. 12, dated as of February 12, 2013, to said Indenture (incorporated by reference to Exhibit 4.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated February 13, 2013)  |
| 4.13               | Series 2009A Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (incorporated by reference to Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)  |
| 4.14               | Series 2009B Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (incorporated by reference to Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)  |
| 4.15               | Series 2009C Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (incorporated by reference to Exhibit 4(c) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)  |
| 4.16               | Indenture, dated as of July 10, 2014, among RJS Power Holdings LLC, the guarantors party thereto and The Bank of New York Mellon, as Trustee **  |
| 4.17               | Third Supplemental Indenture, dated as of February 12, 2013, to Trust Indenture dated as of June 1, 1999, among PPL Ironwood, LLC, The Bank of New York Mellon, as Trustee and The Bank of New York Mellon, as Depositary Bank (incorporated by reference to Exhibit 10(hh) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013) |
| 5.1                | Opinion of Simpson Thacher & Bartlett LLP  |
| 8.1                | Opinion of Simpson Thacher & Bartlett LLP as to certain tax matters  |
| 10.1               | Employee Matters Agreement, dated as of June 9, 2014, among PPL Corporation, Talen Energy Corporation, C/R Energy Jade, LLC, Sapphire Power Holdings LLC and Raven Power Holdings LLC (incorporated by reference to Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)   |
| 10.2               | Form of Stockholders Agreement **  |
| 10.3.1             | Form of Transition Services Agreement with PPL Corporation   |
| 10.3.2             | Form of Transition Services Agreement with Topaz Power Management, LP  |
| 10.4               |  |

Edgar Filing: Talen Energy Corp - Form S-1/A

Credit Agreement among PPL Energy Supply, LLC, the lenders and arrangers party thereto and Citibank, N.A., as administrative agent \*\*

- 10.5 Form of Talen Energy Corporation 2015 Stock Incentive Plan \*\*
- 10.6 Form of Talen Energy Corporation Short-Term Incentive Plan \*\*
- 10.7 Form of Talen Energy Corporation Directors Deferred Compensation Plan \*\*

II-7

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.8               | Secured Energy Marketing and Trading Facility Common Agreement, dated as of November 1, 2010, among PPL EnergyPlus, LLC, PPL Energy Supply, LLC, PPL Brunner Island, LLC, PPL Montour, LLC, Wilmington Trust FSB, as Collateral Agent and the Secured Counterparties thereto. **  |
| 10.9               | Open-End Mortgage, Security Agreement and Fixture Filing from PPL Montour, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (incorporated by reference to Exhibit 10(w) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)  |
| 10.10              | Open-End Mortgage, Security Agreement and Fixture Filing from PPL Brunner Island, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (incorporated by reference to Exhibit 10(x) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)   |
| 10.11              | Guaranty of PPL Montour, LLC and PPL Brunner Island, LLC, dated as of November 3, 2010, in favor of Wilmington Trust FSB, as Collateral Agent, for itself as Beneficiary and for the Secured Counterparties described therein (incorporated by reference to Exhibit 10(y) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)                            |
| 10.12              | Amended and Restated Collateral Agency Agreement, dated as of February 12, 2013, among PPL Ironwood, LLC, The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, as Collateral Agent and The Bank of New York Mellon, as Depositary Bank (incorporated by reference to Exhibit 10(gg) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013) |
| 10.13              | Form of Talen Energy Corporation Executive Deferred Compensation Plan **  |
| 10.14              | Form of Talen Energy Corporation Supplemental Compensation Pension Plan **  |
| 21.1               | Subsidiaries of Talen Energy Corporation **   |
| 23.1               | Consent of Ernst & Young LLP  |
| 23.2               | Consent of PricewaterhouseCoopers LLP   |
| 23.3               | Consents of Simpson Thacher & Bartlett LLP (included in exhibits 5.1 and 8.1)   |
| 23.4               | Consent of Ralph C. Alexander to be named as a director nominee **  |
| 23.5               | Consent of Frederick M. Bernthal to be named as a director nominee **   |
| 23.6               | Consent of Philip G. Cox to be named as a director nominee **   |
| 23.7               | Consent of Edward J. Casey, Jr. to be named as a director nominee **  |
| 23.8               | Consent of Louise K. Goeser to be named as a director nominee **  |
| 23.9               | Consent of Stuart E. Graham to be named as a director nominee **  |
| 23.10              | Consent of Michael B. Hoffman to be named as a director nominee **  |
| 23.11              | Consent of Jeremy R. McGuire to be named as an officer nominee **   |
| 23.12              | Reserved  |
| 23.13              | Consent of Clarence J. Hopf, Jr. to be named as an officer nominee **   |

- 23.14 Consent of Timothy S. Rausch to be named as an officer nominee \*\*
- 23.15 Consent of James E. Schinski to be named as an officer nominee \*\*



**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 23.16              | Consent of Paul M. Breme to be named as an officer nominee **        |
| 23.17              | Consent of J. Matt Simmons, Jr. to be named as an officer nominee ** |
| 24.1               | Power of Attorney **   |

\* To be filed by amendment.

\*\* Previously filed.