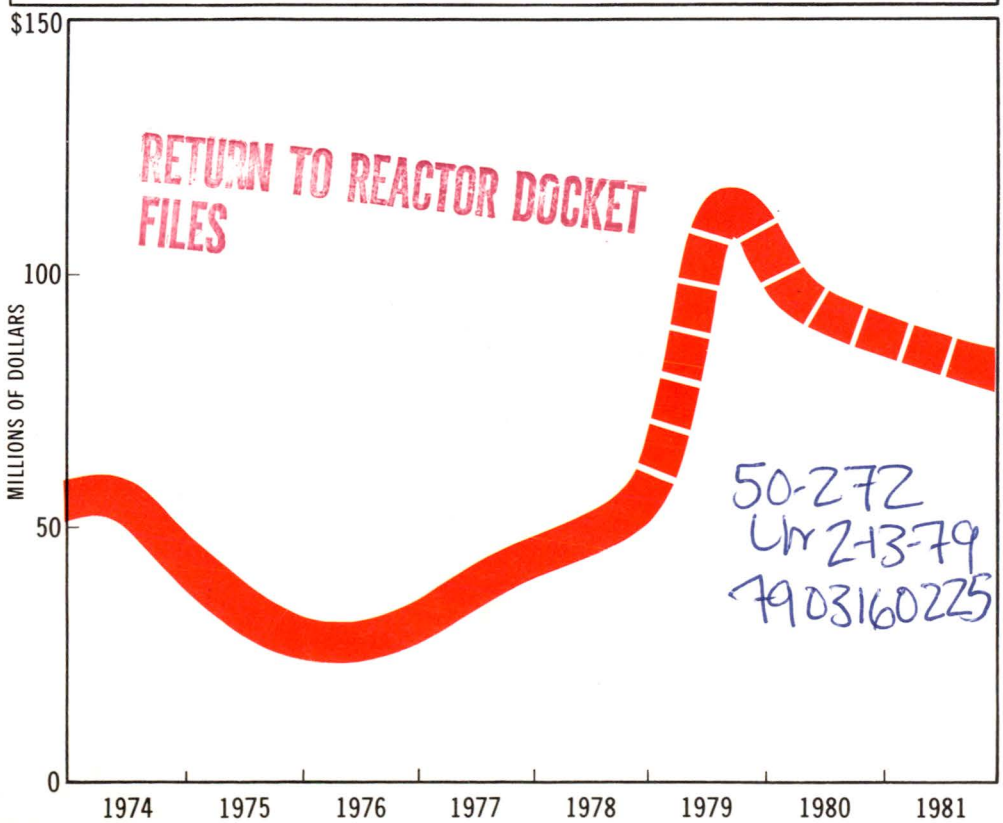
Atlantic Electric

SERVING A MILLION PEOPLE IN SOUTHERN NEW JERSEY

A Year of Challenge
A Year of Decision
A Year of Progress

CASH CONSTRUCTION REQUIREMENTS



ANNUAL REPORT FOR THE YEAR 1978

A Year of Challenge

A Year of Decision

A Year of Progress

A summary of remarks of John D. Feehan at the 1978 Annual Meeting of Shareholders:

In order to meet Atlantic City Electric Company's projected load growth rate in electrical demand over the next 10 to 15 years (as well as replace worn-out facilities) the Company must make substantial commitments and expenditures for new facilities. New generating facilities to which we are already committed include shares of Salem Unit #2, scheduled for service in 1979, and Hope Creek Units #1 and #2, scheduled for service in 1984 and 1986. The rescheduling of Atlantic Generating Station Units #1 and #2 to 1988 and 1990,* requires that we seek other generating capacity in the mid-80's to meet our needs. We are considering a number of possible approaches to meet this capacity requirement and after extensive study expect to make a decision this year. This is one of three critical decisions which must be made this year, 1978, a Year of Decision.

The second critical decision has to be made by New Jersey's energy regulators. The critical decision they must make is a commitment to increase production of energy. Both the State and Federal energy regulators must ultimately conclude that conservation, essential as it is, cannot do the job alone and that we should get on with increased energy production from such conventional sources as coal and uranium.

The third critical decision lies with the New Jersey Board of Public Utilities. Based on a clear recognition that additional electrical facilities are needed in New Jersey, the Board of Public Utilities must make a critical decision. They have to decide that electric utilities must be allowed to earn a fair return on their investment in the energy needs of this State. They must recognize that their objectives, their mandates, are exactly the same as Atlantic Electric's.

These matters are discussed in the President's and Chairman's Letter to Shareholders and in the special section appearing on pages 11 through 13 of this Report.

*These Units were cancelled late in 1978.

Atlantic Electric
SERVING A MILLION PEOPLE
IN SOUTHERN NEW JERSEY

Results of Operations 1978-1974

	1978	1977	1976	1975	1974
Sales of Electricity (Billions of Kilowatt-hours)	5.275	4.979	4.664	4.378	4.376
Electric Operating Revenues (Millions)	$ 255.1	$ 235.0	$ 212.0	$ 199.1	$ 176.6
Net Income (Millions)	$ 30.1	$ 27.4	$ 30.8	$ 28.3	$ 27.0
Earnings per Share	$ 2.21	$ 2.06	$ 2.60	$ 2.41	$ 2.54
Dividends Paid per Share	$ 1.67	$ 1.62	$ 1.56	$ 1.51	$ 1.50
Gross Additions to Utility Plant (Millions)	$ 58.1	$ 48.7	$ 41.7	$ 46.7	$ 71.2
Generating Capacity (Kilowatts)	1,414,700	1,414,700	1,334,700	1,334,700	1,278,700
Utility System Peak Load (Kilowatts)	1,177,400	1,176,000	1,030,300	1,069,400	1,004,400
Average Annual Residential Kilowatt-hour Use	7,951	7,653	7,320	7,018	6,982
Electrically Heated Dwelling Units (Year-end)	48,778	45,389	42,878	41,026	38,146
Customer Service Installations (Year-end)	362,131	352,205	343,147	336,105	330,758

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Advance Notice

The 1979 Annual Meeting of Shareholders will be held Tuesday, April 24, 1979, at the Company's Data Processing Center, Black Horse Pike and Fire Road, near Pleasantville, New Jersey. A Notice of Meeting will be mailed in March to those shareholders entitled to vote.

Mr. Alfred C. Linkletter, Chairman of the Board of Directors and Mr. John D. Feehan, President and Chief Executive Officer.

To Our Shareholders

Our cover and the contents of this 1978 Annual Report portray and describe our theme of "A Year of Challenge, A Year of Decision, A Year of Progress." We are pleased to report that substantial progress was made in a number of key financial areas and in other phases of operations of the Company in 1978.

Earnings available for Common Stock rebounded to $2.2 per share from the $2.06 earned in 1977. Reflecting our progress and our sensitivity to the critical needs of shareholders, your Board of Directors increased the quarte dividend twice in 1978, bringing it to a new level of 43½¢ per share for a total increase of 3¢ per quarter. Thus, the n rate is equivalent to $1.74 on an annual basis.

In addition to progress in earnings and dividends, most other parameters improved in 1978:

- Kilowatt-hour sales grew
- Load factor improved
- Bond coverage improved
- Fuel cost declined
- Nuclear generation increased
- System kilowatt-hour losses declined

One of the most significant developments in 1978, was improved regulatory climate in New Jersey. After a totally inadequate rate decision in January 1978, the aggressive actions of the Company resulted in a more appropriate ra increase in the Summer of 1978.

Yes, we made progress in 1978, in many areas; but, at t same time, the customer fared very well. Our customers enjoyed reliable electricity at reasonable cost. Atlantic Electric has demonstrated its ability to provide electricity over the years. We have coped with oil embargoes, ice storms and coal strikes, and we are prepared to handle ne challenges including developments in the world supplies oil. We are very proud of this performance.

Atlantic Electric has delivered this reliable energy at remarkably stable rates. During 1976, the average cost pe kilowatt-hour to a residential customer rose only 2% ove 1975. 1977's average rose only 3% over 1976, and the ave rate for 1978 rose only 3% over the prior year's average. three-year performance was substantially less than the ra of inflation. It is remarkable but seldom remarked about because all classes of customers are using more electric energy every year and the resultant higher bills mask the facts regarding the stability of the unit costs of electricit

In this Year of Decision, Atlantic Electric has made m

of its critical decisions with regard to providing generating capacity for the next 10 to 15 years and is currently in the process of implementing those decisions. Additional capacity over and above our current commitments will come from a number of units being constructed by neighboring utilities. Negotiations are currently underway with those utilities.

Atlantic Electric could only proceed to implement its critical decisions of 1978 if there were agreement on the part of State regulators that additional electrical facilities are needed for Southern New Jersey. Every indication is that the State authorities do concur in the need for additional facilities and it is anticipated that the Board of Public Utilities (BPU) will formalize that decision.

In addition, your management determined that it would only proceed to implement its critical decisions if there were assurances that the BPU would in fact allow reasonable rates of return to finance such a costly capital program. On the basis of our latest rate decision and the official order approving our latest financing, we are confident that the New Jersey BPU recognizes that electric utilities must be allowed to earn a fair return on their investment in the energy needs of New Jersey.

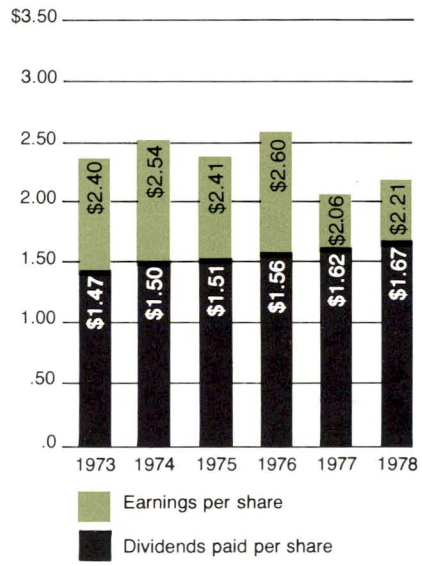
Your Company has made progress in the challenging year of 1978. It has made many of its critical decisions. We expect to show further improvement in 1979, and we expect to make progress on our program to meet the needs of the future. We expect to do this in a reliable fashion with reasonable rates and we expect and insist that it will be done while providing a fair return to the shareholder.

For the Board of Directors

A. C. Linkletter
Chairman of the Board

J. D. Feehan
President

Earnings and Dividends
(Per Share of Common Stock)



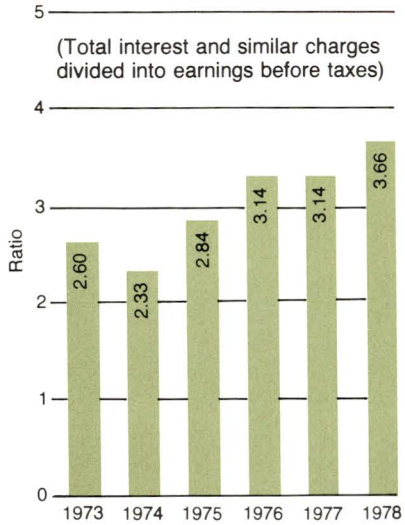
For Atlantic Electric, 1978 was a year of challenge, a year of decision and a year of progress. We were challenged with providing electric energy to our 362,000 customers in Southern New Jersey in an economy continuing to suffer from inflation. We made important decisions concerning our customers' future energy requirements and their economic impact on our Company . . . and, most importantly, we made progress in several key areas in 1978.

In addition to our customary review of the Company's operations for the year, we have included additional discussion of some of the most significant challenges experienced and decisions and areas of progress that we made this year. This special section begins on page 11.

The Area We Serve

A most pleasing aspect of Southern New Jersey is its fascinating diversity. Pleasant communities, productive farms, important industrial and commercial complexes, unique pinelands and popular resort areas, coupled with a proximity to such major cities as Philadelphia and New York, are a few of the assets that make this 2,700 square mile area so attractive. Atlantic Electric and its predecessor companies have been a responsible and responsive force in the development of Southern New Jersey for almost 100 years . . . a relationship which has been very beneficial to both the Company and its customers.

Times Fixed Charges Earned
(Before Income Taxes)



Our Shareholders

We recently completed our first year as record-keeping and dividend disbursing agent for the holders of Common and Preferred Stock; those services were previously performed by banks. Dividends for the year totaling $17,960,000 and $6,149,000 were paid to the holders of Common and Preferred Stock, respectively. We also served as Administrator of the very successful Dividend Reinvestment and Stock Purchase Plan which resulted in the issuance and sale of an additional 126,680 shares of Common Stock of the Company to existing shareholders and employees, and provided an additional $2,690,000 of equity in the Company. Therefore, we believe our goal of providing improved and expanded service to our shareholders was accomplished quite successfully in 1978 and we look forward to further improvements in this area in 1979. At year-end, Atlantic Electric had 44,490 holders of Common Stock and 2,305 holders of Preferred Stock.

Earnings and Dividends

At the beginning of this Report, we mentioned progress. One of our most significant areas of progress in 1978 was our growth in earnings which increased to $2.21 per share of Common Stock outstanding compared with $2.06 per share in 1977 on fewer average shares outstanding. We were able to achieve this level of earnings due to higher revenues permitted by the rate increases granted to Atlantic Electric in January and July, additional revenues from increased kilowatt-hour sales and our continuing efforts to hold the line on expenses over which we have some control. Nevertheless, operating expenses continued to climb; operation and maintenance expenses were up $5.8 million; taxes increased $8.7 million and depreciation expense increased $2.2 million. A noteworthy area of progress in 1978 is that the dividend rate on shares of Common Stock was increased twice by the Board of Directors. Effective with the October 16, 1978 dividend payment, the Board increased the dividend rate to 43½¢ per share, an increase of 4.8% over the dividend of 41½¢ per share which had become effective with the April 15, 1978 dividend payment and which represented a 2.5% increase over the previous rate. With the increased dividend, the dividend rate is now equivalent to $1.74 on an annual basis. The total dividend paid on a share of Atlantic Electric Common Stock in 1978 was $1.67.

Increases Recorded in the Number of Electrically Heated Homes, Kilowatt-hour Sales and Revenues

There were 8,100 new dwelling units connected to our lines during the year. Approximately 7,200 of those were single family dwelling units indicating a trend away from apartment-style living. As in prior years, the number of electrically-heated

Top- The interesting story describing the Company's new Conservation Van can be found under the heading "Conservation".

Bottom- Area residents, representing the various interests of our customers, meet regularly with Company Officers to discuss energy-related topics.

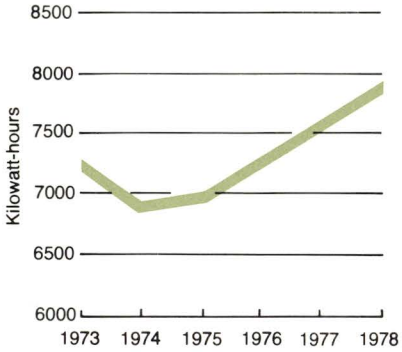
dwelling units in our Company's service area continued to increase. During 1978, 3,389 additional units were brought into service including 3,314 newly constructed homes and 75 units which were converted from other types of fuel. A significant part of the increase can be attributed to the increase in the number of electric heat pump installations in new homes. Heat pumps provide efficient winter and summer home comfort. There were 1,205 heat pump installations in 1978. Kilowatt-hour sales to residential customers increased 7% in 1978. Kilowatt-hour sales to commercial and industrial customers increased 7.3% and 2.5%, respectively, over 1977. Electric operating revenues in 1978 amounted to $255 million, up $20 million from the prior year.

Employees

Each of the 1,797 employees of Atlantic Electric is congratulated for the accomplishments of the Company in 1978. These employees, and many, many dedicated workers before them, have helped to make Atlantic Electric what it is today . . . a solid corporate citizen of Southern New Jersey.

Training is a very important part of each employee's career and the Company provides many useful and effective training programs. An example of this is the Apprentice Lineman Training Program which has trained approximately 119 employees since its inception in 1971. All employees are eligible for training through one or more of the Company's programs, including an Educational Assistance Program. Atlantic Electric also provides training in first aid treatment, Cardio-Pulmonary Resuscitation and other related areas for the employees and their families through evening courses available throughout the service area. Safety is an extremely important part of each employee's daily work routine. The Company has stringent safety regulations . . . for the benefit of each and every employee. Here again, an effort is made to reach employees and their families, by stressing that safety is a "family affair" and that good safety habits on the job begin with good safety habits at home.

Average Annual Residential Use Per Customer



Under the two-year agreement entered into by our Company and the International Brotherhood of Electrical Workers in December 1977, a general wage increase of 6.788% went into effect December 11, 1978. This increase, together with improved benefits, will add approximately $2.9 million to the Company's 1979 payroll costs.

A Speakers Bureau, comprised of 40 knowledgeable Atlantic Electric employees, made 200 presentations in 1978. These employees, usually on their own time, take the Company's "story" to various organizations within its service area who are interested in hearing the challenges facing our Company and the decisions being made in the face of these challenges.

Community Involvement

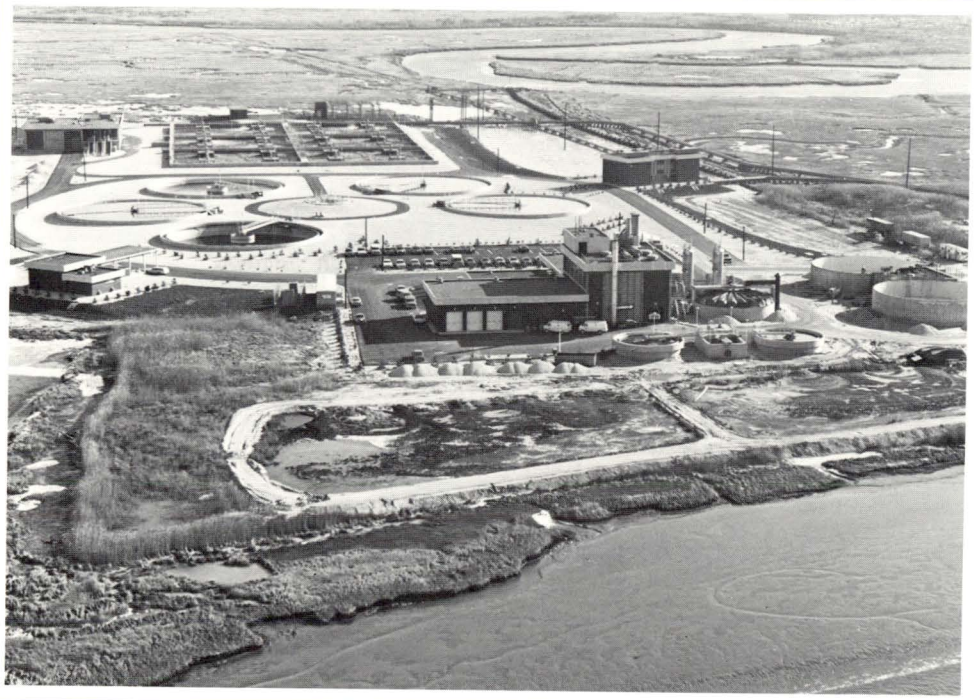
Atlantic Electric was pleased to receive the 1978 Atkins Award, given by the New Jersey Science Teachers Association for its efforts in energy education for youth in our service area. Among the achievements cited by the Association were the Science-Energy Conferences, the linemen electric safety program for schools, and the unique classroom question-and-answer phone conversations between students and President John Feehan.

The President's Energy Roundtable also has been of great importance in our efforts to gain Community involvement. The Roundtable aims to provide our consumers with an opportunity to serve as an informed customer advisory board to high level Company officials, and we are gaining valuable insight through this open exchange of viewpoints. Energy Roundtable discussions are held each month at various locations in the Company's service area, and cover a wide range of topics, no matter how controversial. Invitations are extended to a wide segment of area residents who are in some way representative of the various interests of our customer population. Atlantic Electric is especially grateful to those who participate in the Energy Roundtable and who are making it worthwhile.

Customer Service

The Company took several important steps to improve customer service in 1978. Among the improvements were the installation of modern automated mail and cash processing systems and a new centralized service order system and completion of centralization of customer inquiry facilities at the Data Processing Center.

The opening of the new Seabrook Brothers and Sons vegetable processing plant had a significant and favorable impact on Cumberland County agriculture in 1978.



The new treatment plant was completed in 1978 by the Atlantic County Sewerage Authority and will service this rapidly growing area.

The new cash processing system involves use of equipment which automatically and rapidly opens, processes and records customer payments received by mail and processes and records bill payments made at collection agencies. The system enables Atlantic Electric to update customers' accounts more promptly after receipt of the payment, improves employee productivity and enhances cash flow by enabling faster depositing of funds in the bank. Under the new service order system, orders authorizing service connects or disconnects are automatically prepared through use of the computer system. These orders were formerly hand written or typewritten; about 591,000 were prepared in 1978.

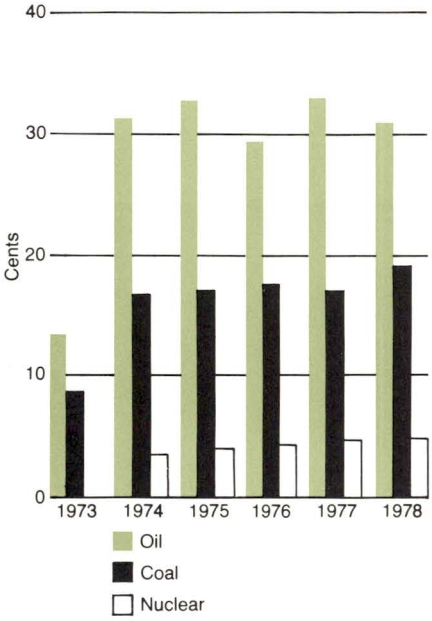
Conservation

The Company continues to provide its customers with factual data which will enable them to conserve energy and reduce or hold the line on energy costs. An energy conservation van (see the photo on page 5), completely outfitted by our Company, is used to provide up-to-date information on energy conserving devices and to display exhibits of such devices. Trained Company representatives operate the van, make presentations and answer customers' questions. In some locations, they utilize a video terminal linked directly to the Company's Data Processing Center to provide historic information of electric energy use by each customer and other required data. The van is displayed at various sites throughout our service area and has been warmly received by the public.

Also instituted in 1978 was an Energy Audit Program to enable customers to recognize those areas in their homes where energy conservation improvements could be made. Customers have the option of performing the audit themselves, or having a "personalized audit" performed by a Company representative for a nominal fee. Once the information is obtained and analyzed, the Company estimates, for the customer (1) the annual operating cost savings that should result from each improvement in insulating qualities and (2) the number of years it will take for the cost savings to pay back the total cost of the improvement. The suggested changes are then ranked, for the customer, in the order in which they should be performed from an economic standpoint.

A newspaper advertisement campaign, launched in the summer of 1978, was aimed at promoting conservation during periods of peak load, usually caused by heavy use of air conditioning equipment. The Company also encourages the use of energy efficient appliances and includes energy saving tips in the inserts mailed with monthly electric bills.

Average Cost of Fuels
(Cents per gallon or equivalent)

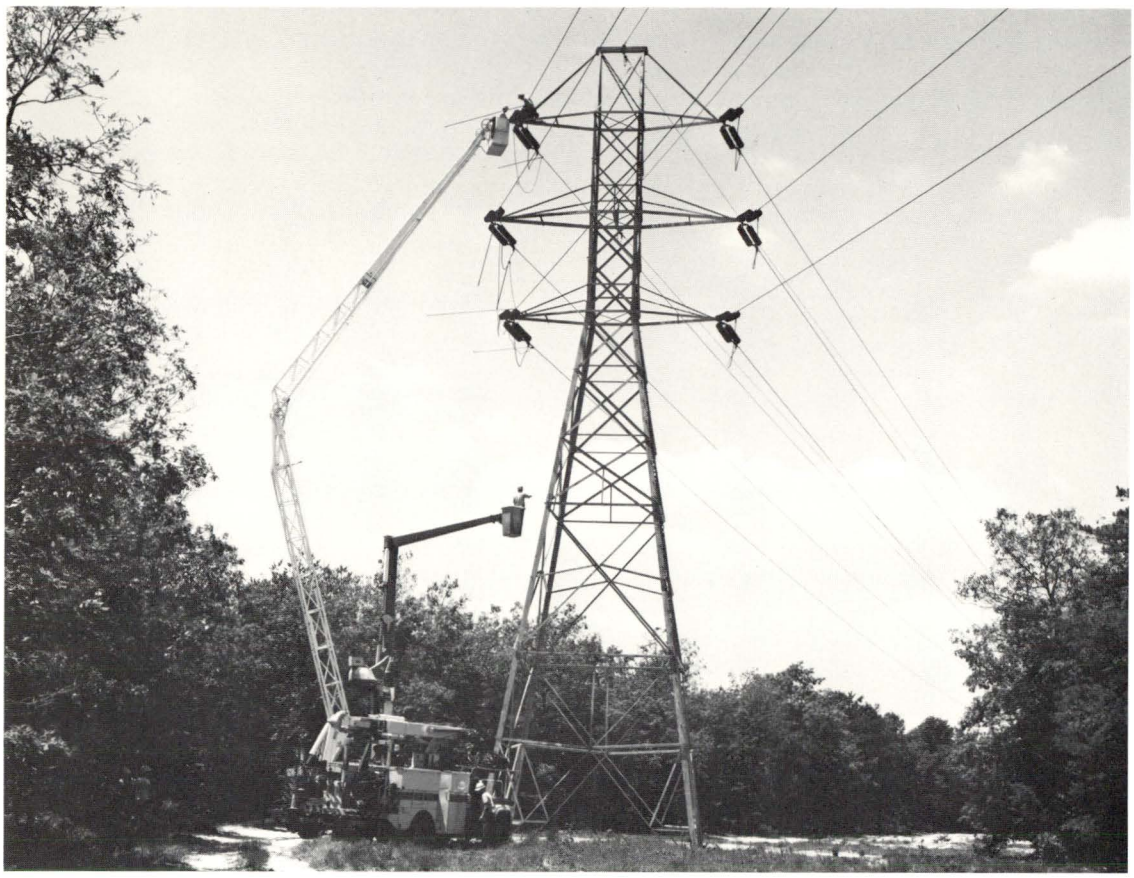


Rate Matters

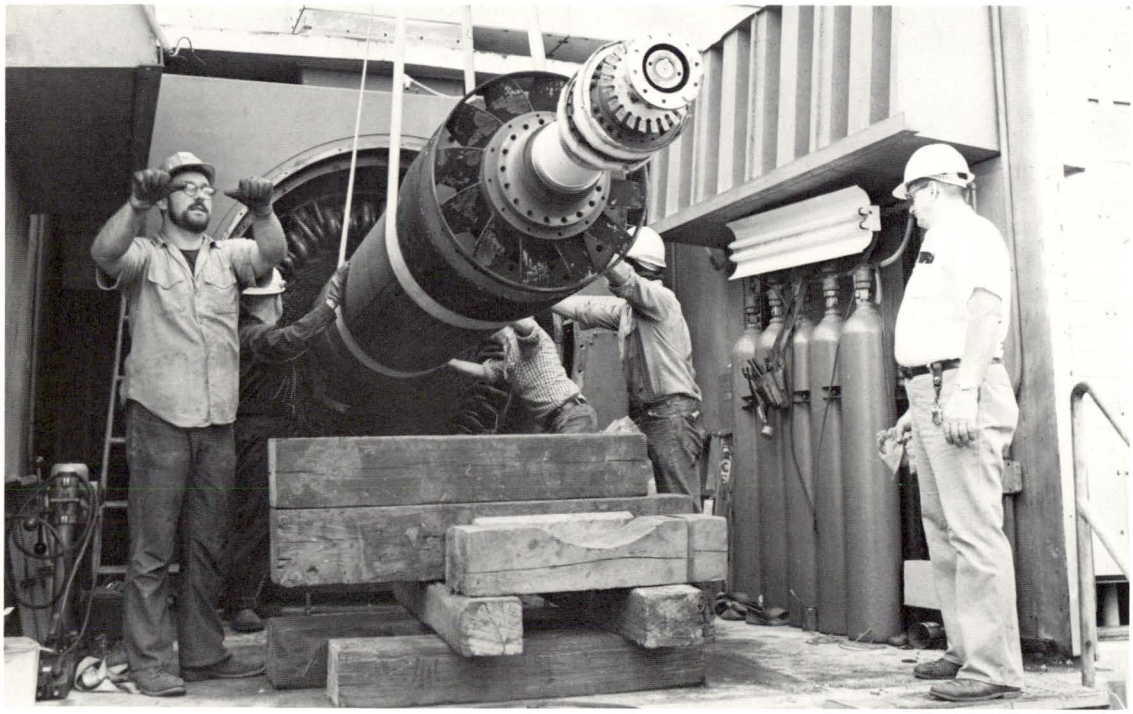
As reported in our 1977 Annual Report to Shareholders, Atlantic Electric was granted an $8 million rate increase on January 27, 1978 following hearings on the $16.5 million request filed by our Company in February, 1977. The Company filed a court appeal of the rate decision in the Superior Court of the State of New Jersey and, in March 1978, filed a new request for $35.7 million of rate relief. The inadequacy of the $8 million increase is reflected in the fact that, while kilowatt-hour sales increased appreciably, earnings in the first half of 1978 were considerably less than in the corresponding period of 1977—67¢ per share of Common Stock vs. 92¢ per share.

On July 13, 1978, the New Jersey Board of Public Utilities (BPU) granted the Company a $14.8 million rate increase and ordered that the rate case remain open until September 30, 1979 to allow the BPU to consider the balance of the original $35.7 million request. In March of 1979, the Company will file additional data with the BPU in support of our request for the remaining $20.9 million. Recognizing the additional rate relief, our Company withdrew its court appeal in connection with the earlier request for $16.5 million. The Company believes that the national Wage and Price Standards, issued by President Carter's Council on Wage and Price Stability, will not impact the Company's electric rates during 1979 nor should it have an impact on the amount of any rate increase which may be granted in 1979.

Prior to May 1, 1978, the Company's fuel adjustment clause allowed us to recover the costs associated with the consumption of fossil fuels in the generation of electricity. Effective May 1, 1978, the BPU authorized the Company to convert to a levelized energy adjustment clause which provides for the recovery of the cost of all fuels as well as purchase and



Company linemen replacing insulators and hardware on the Deepwater-Lewis 138 KV transmission line.



Maintenance of a combustion turbine.

interchange costs. The new energy adjustment is based on an estimate of future fuel and interchange costs and is effective for 12 month periods. At the end of a 12 month period, a reconciliation of actual and estimated costs is made with appropriate adjustments applied to the subsequent period. As a result of this, our customers will enjoy a slight reduction in the 1979 energy adjustment made possible by a credit from lower-than-anticipated energy costs in the preceding period. In addition, the current levelized energy adjustment clause has been modified to provide about 94% of energy cost recovery through base rates, with the remainder being recovered in the energy adjustment portion. While this transfer of cost recovery from the adjustment to the base rate schedule serves to reduce the adjustment charge, full recovery of energy costs is still provided.

Financing

The sale of 1,000,000 shares of Common Stock was completed in January, 1979, the proceeds from this sale to be applied to the Company's ongoing construction program and for the payment of a portion of the Company's outstanding short-term loans incurred in connection with its construction program. It is expected that additional financing will be required later in the year in connection with additional construction expenditures and for the redemption of $3 million of long-term securities that will mature in June.

Fuel and Fuel Costs

Coal and oil prices, which increased in the second half of the year, had very little impact on the operations of the Company in 1978 . . . in fact, the average cost of fuel used by the Company decreased about 6%. The principal reason for this decrease is that increased costs of coal and oil were offset by the larger number of kilowatt-hours produced by nuclear fuel at lower cost than those produced by fossil fuels. Fuel costs would have been $12 million higher had the Company been required to burn oil at B. L. England Generating Station, rather than coal. However, as an example of our "fuel-flexibility", the Company converted Unit No. 1 at England Station to oil during the national coal miners' strike in early 1978 when coal was not readily available.

Because we were able to produce 24% of the electric energy used by our customers in 1978 with nuclear fuel, rather than oil, an additional $25.4 million was saved for our customers. Another important fact is that due to the availability of our nuclear units, the amount of oil imported into the country was reduced by 104 million gallons in 1978. We estimate that 27% of our customers' electric needs will be supplied by nuclear fuel in 1979.

Fuel prices are expected to increase in 1979 primarily due to recent increases in oil prices by OPEC, coal miners' contract settlements and strip-mining regulations anticipated to be implemented in early 1979.

The Environment and the Cost of its Protection

In our letter to shareholders dated January 15, 1979, we reported the Company has obtained authority to burn coal with a sulphur content of 3.5% in two Units at B. L. England Generating Station until November 11, 1983, and may apply for a five year renewal of this authorization anytime after November 11, 1982. This was made possible by a decision of the Environmental Protection Agency, approving revisions to the New Jersey State Implementation Plan for the attainment and maintenance of air quality standards. With this Agency's ruling, the Company must proceed with the replacement of the existing electrostatic precipitators on the two Units. Installation should be completed by June 1, 1981 bringing each Unit into compliance with particulate emission standards. As has been stated, protection of our environment is a costly matter. The expense of installing precipitators is estimated to be $18.6 million. However, the 3.5% sulphur content coal is readily available and less expensive than other fuels which would have to be used if the new precipitators were not installed. The total cost of using this coal over the next five years will be less than if we had to use oil; and the resultant economies should more than offset the cost of installing the precipitators.

We expect to finance the precipitator installation through the issuance of Pollution Control Revenue Bonds late in 1979 or early 1980. Since the interest received by the purchasers of those bonds would not be taxable for Federal income tax purposes, the Company obtains the economic benefit of a lower than usual interest rate.

The Corporate Objective of Atlantic Electric

To provide safe and reliable electric energy to Southern New Jersey at the lowest reasonable cost with acceptable environmental impact while providing a fair return to the owners (the shareholders) for their investment in this Company.

As a shareholder of Atlantic Electric, you should know how the Board of Directors, Officers, various levels of management and employees work as a team to see that various segments of the corporate objective are achieved. As in any large, publicly-owned business enterprise, important decisions must be made, on a regular basis, on behalf of the shareholders and the customers.

In his remarks to shareholders at the Annual Meeting of Shareholders, President Feehan stated that there were three critical decisions affecting the Company in 1978 . . . one decision would be the sole responsibility of the Company and the other two decisions would have to be made by regulatory agencies of the State of New Jersey. The appropriate quotes from Mr. Feehan's remarks have been included on the inside of the front cover of this Report.

The Company's Decision

The Company's decision relates to the substantial commitments and expenditures that have been made and new commitments which must be made for new generating capacity facilities and other energy facilities that the Company will require over the next 10 to 15 years.

Your Company had previously entered into agreements with Public Service Electric and Gas Company which would entitle the Company to a 10% ownership interest in four floating nuclear generating units proposed to be constructed by Public Service. Decisions by Public Service to delay and ultimately cancel plans to construct the units required that Atlantic Electric accelerate its plans for additional generating capacity to meet its needs through the 1980's.

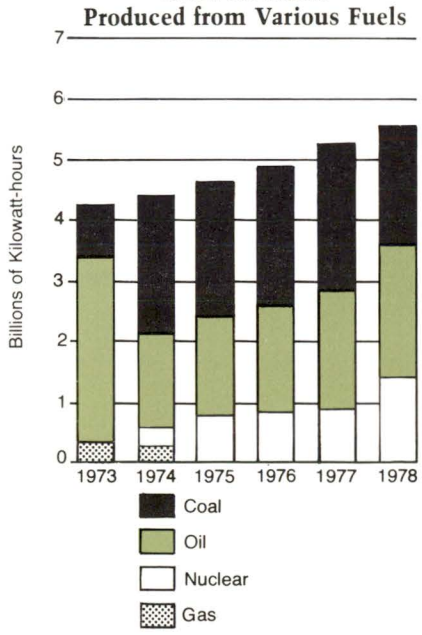
Studies to determine the amount of generating and other facilities required and the associated cost estimates were completed in 1978.

The initial phase of the decision-making process involved the Officers and their staffs gathering and analyzing extensive information and preparing and presenting studies to the Board of Directors regarding:

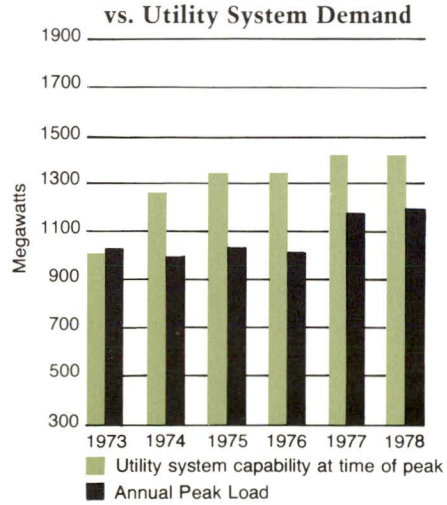
(1) Forecasts of growth in demand and energy requirements of customers and reserve generating capacity required.
(2) The amount of additional generating capacity, transmission, distribution and related service facilities required to be constructed.
(3) Economic evaluations of various capacity options available.
(4) Estimated amount of securities required to finance the cost of the most viable options.
(5) Prospective financial results.
(6) Impact on customers and shareholders.

This initial phase of the process was developed and completed in about one year. The studies and revisions of the data were presented for consideration at a number of meetings of the Energy, Operations and Research Committee of the Board of Directors and at regular meetings of the Board.

Kilowatt-hours Produced from Various Fuels



Electric Generating Capacity vs. Utility System Demand



In September 1978, after careful review, the Board authorized the Officers to proceed with plans which would enable the Company to participate in a 10% ownership of Unit No. 1 of the Forked River Nuclear Generating Station. This unit, scheduled for operation in 1983, is being constructed by Jersey Central Power & Light Company at a site along the coast a few miles north of the boundary line of the service areas of the two companies. The Company's ownership interest is expected to be 112,000 kilowatts and action is being taken to obtain the required regulatory approvals and to prepare appropriate agreements to formalize the Company's participation in the project. Officers also are negotiating arrangements which would enable the Company to contract for approximately 300,000 kilowatts of capacity from several other nuclear fueled units of other utility companies. Such "unit capacity purchases" over a period of many years would be in lieu of ownership. During 1979 the Company expects to enter into agreements which would provide for the Company's base load generating capacity requirements during the next ten years. Additional internal combustion turbine units for use during times of peak demand will be installed as required.

Decisions made many years ago provided additional capacity for use in the 1980's. The 1,115,000 kilowatt Unit No. 2 of the Salem Nuclear Generating Station is scheduled for service in 1979 and will provide the Company with 83,000 kilowatts of capacity. Two 1,100,000 kilowatt Units of the Hope Creek Nuclear Generating Station are under construction near the Salem Station; Unit No. 1 is scheduled for service in 1984 and Unit No. 2 in 1986. The Company's total ownership interest in the two Units will be 107,000 kilowatts.

Through 1978, as indicated on the chart on the cover of this Report, cash construction requirements have been held to a level below the all-time peak reached in 1973. Also, as shown, those requirements are expected to increase substantially over the near term. Cash construction expenditures by the Company during 1978 and the amount expended in each principal category are as follows:

Millions of Dollars	Reason for expenditure
$23.6	Construction of new production facilities.
26.4	Construction of additional substations, improvement and extension of transmission and distribution systems and general plant.
2.7	Purchase of nuclear fuel.
$52.7	Total*

*In addition, allowance for funds used during construction amounted to $5.5 million.

It is estimated that cash construction requirements will amount to $115 million during 1979 including some expenditures in connection with the expected participation in the Forked River Station. About 32% of the requirements are expected to be generated internally through retained earnings, depreciation accruals and similar items.

Providing for Load Growth

Responsibility for the second critical decision rests with New Jersey's energy regulators. They must make a decision that Atlantic Electric does indeed need to add new facilities to meet growing load. It is anticipated that the New Jersey Board of Public Utilities will soon acknowledge the reasonableness of the load forecasts of Atlantic Electric and concur in the need to provide for additional generating capacity in the years ahead. Such a decision is an essential ingredient in providing for and financing such needed facilities. Timely approval of rate increases to help finance these facilities is a logical extension of that decision.

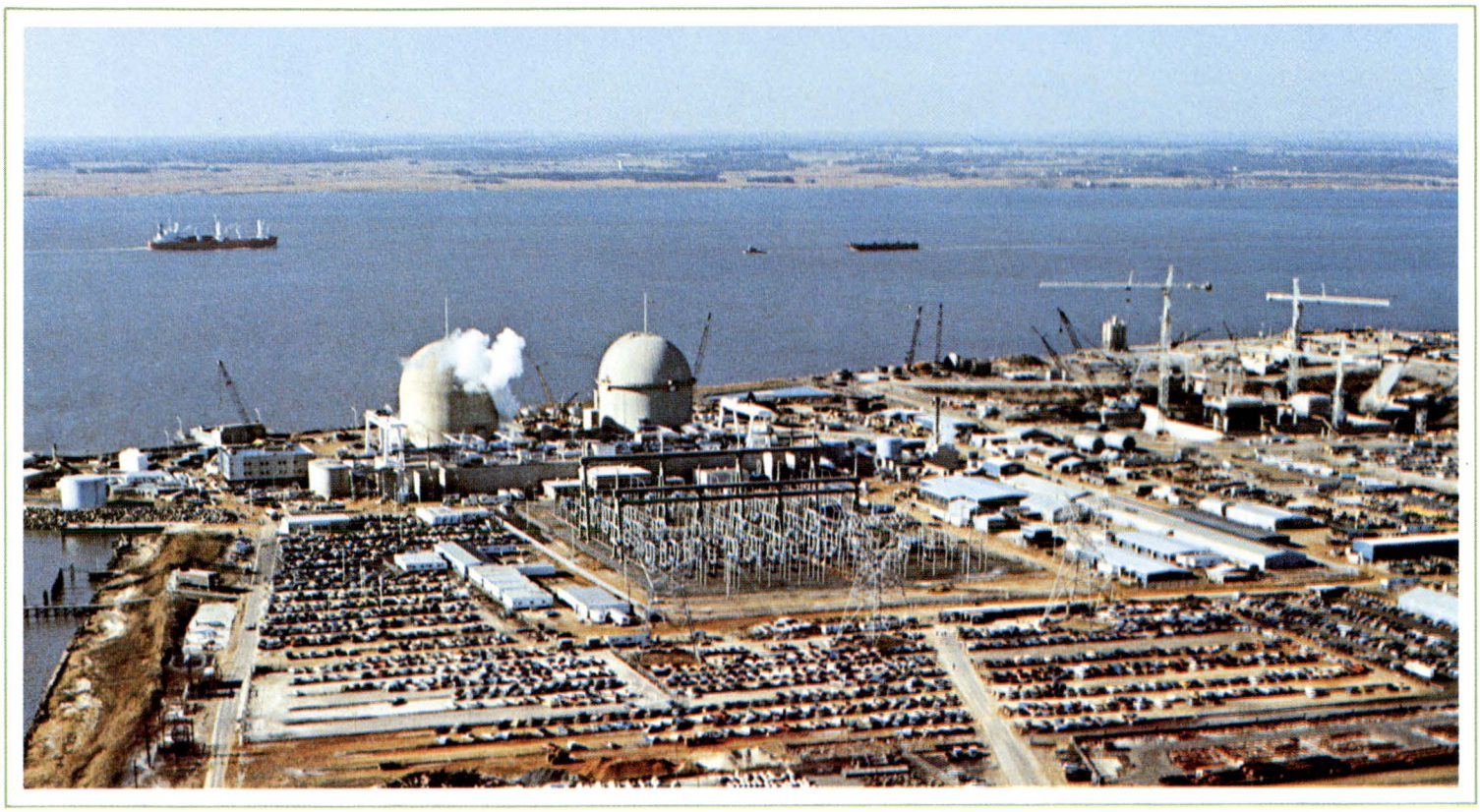
The New Jersey Board of Public Utilities

The third critical decision resided with the New Jersey Board of Public Utilities. President Feehan, in his Annual Meeting address, asked that Board to recognize that their objectives and their mandates are exactly the same as Atlantic Electric's. He urged them to decide that electric utilities must be allowed to earn a fair return on their investment in the energy needs of the State of New Jersey. Such a decision would permit sufficient rates . . . and would allow us to achieve a fair return so that our shareholders would not be shortchanged. Under the heading Rate Matters on page 8 of this Report we discussed the failure of the Board of Public Utilities to provide adequate and timely rate relief to the Company in its January 1978 rate order. However, in July, they approved additional rate relief for the Company and allowed the Company's rate case to remain open until September 30, 1979 so that consideration could be given to the balance of the Company's request. This is the responsiveness that is needed if we are to be allowed to earn a fair return on your investment.

Progress

We are pleased that substantial progress was made during 1978 toward achieving the long-range objectives of the three critical decisions. The magnitude and effects of the decisions will be more evident in future years and we believe the decisions will demonstrate that all of those involved—customers, regulators, shareholders, the Board of Directors and Officers and other employees of the Company—are deeply committed to the continuing achievement of "The Corporate Objective of Atlantic Electric".

Atlantic Electric
SERVING A MILLION PEOPLE IN SOUTHERN NEW JERSEY



To the left—Salem Nuclear Station Units #1 and #2.
To the right—Construction proceeds on Hope Creek Nuclear Generating Station.

Statements of Income and Retained Earnings

	Year Ended December 31,				
	1978	1977	1976	1975	1974
OPERATING REVENUES—ELECTRIC (Note 9)	$255,058,230	$234,994,695	$212,027,442	$199,079,150	$176,611,265
OPERATING EXPENSES:					
Fuel (Note 1)	84,735,367	82,734,593	69,233,774	71,644,673	73,167,066
Interchange	2,170,833	3,735,245	4,819,194	2,855,059	5,862,224
Power Production—Operation and Maintenance	20,716,349	17,781,985	13,497,991	10,267,348	11,360,196
Other Operation and Maintenance	31,718,407	29,262,922	26,333,575	24,631,477	21,729,600
Depreciation (Note 1)	21,614,195	19,368,780	17,394,673	16,846,038	12,946,590
Taxes Other Than Federal Income Taxes	31,999,525	29,069,476	26,341,778	23,394,142	17,832,852
Federal Income Tax Expense (Notes 1 and 3)	18,955,719	13,188,156	11,495,656	8,689,091	(1,629,889)
Total Operating Expenses	211,910,395	195,141,157	169,116,641	158,327,828	141,268,639
OPERATING INCOME	43,147,835	39,853,538	42,910,801	40,751,322	35,342,626
OTHER INCOME:					
Allowance for Funds Used During Construction (Note 1):					
Debt and Equity (Prior to January 1, 1977)	—	—	7,456,612	7,229,745	10,567,696
Equity (After December 31, 1976)	3,237,675	3,906,318	—	—	—
Miscellaneous Non-Operating Income Less Income Deductions	112,469	(24,754)	385,583	516,755	187,428
Other Income-Net	3,350,144	3,881,564	7,842,195	7,746,500	10,755,124
INCOME BEFORE INTEREST CHARGES	46,497,979	43,735,102	50,752,996	48,497,822	46,097,750
INTEREST CHARGES:					
Interest on Long-Term Debt	18,179,251	18,489,133	18,948,850	18,403,404	15,288,146
Amortization of Debt Expense and Premium—Net	40,076	62,993	52,023	25,335	(8,237)
Interest on Short-Term Debt	229,712	433,725	800,563	1,694,322	3,746,663
Other Interest Expense	287,981	162,104	155,864	95,026	61,159,
Total Interest Charges	18,737,020	19,147,955	19,957,300	20,218,087	19,087,731
Allowance for Funds Used During Construction-Debt, after December 31, 1976 (Note 1)	(2,302,801)	(2,771,148)	—	—	—
Net Interest Charges	16,434,219	16,376,807	19,957,300	20,218,087	19,087,731
NET INCOME	30,063,760	27,358,295	30,795,696	28,279,735	27,010,019
RETAINED EARNINGS AT BEGINNING OF YEAR	88,600,852	84,027,439	74,165,678	65,764,596	56,756,492
	118,664,612	111,385,734	104,961,374	94,044,331	83,766,511
DIVIDENDS DECLARED:					
Cumulative Preferred Stock	6,240,751	5,549,678	5,483,936	5,483,936	4,471,602
Common Stock (per share 1978-1974, $1.70, $1.62, $1.58, $1.52 and $1.50)	18,371,494	17,235,204	15,449,999	14,394,717	13,530,313
Total Dividends Declared	24,612,245	22,784,882	20,933,935	19,878,653	18,001,915
RETAINED EARNINGS AT END OF YEAR	$ 94,052,367	$ 88,600,852	$ 84,027,439	$ 74,165,678	$ 65,764,596
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	10,790,977	10,629,930	9,747,012	9,470,073	8,973,400
EARNINGS PER SHARE OF COMMON STOCK (Note 5)	$2.21	$2.06	$2.60	$2.41	$2.54

See Notes to Financial Statements

Statements of Changes in Financial Position

	Year Ended December 31,				
	1978	1977	1976	1975	1974
SOURCE OF FUNDS					
Funds from Operations:					
Net Income	$ 30,063,760	$27,358,295	$30,795,696	$28,279,735	$ 27,010,019
Principal Non-Cash Charges (Credits) to Income:					
Depreciation	21,614,195	19,368,780	17,394,673	16,846,038	12,946,590
Amortization of Nuclear Fuel	1,376,147	1,037,980	—	—	—
Allowance for Funds Used During Construction	(5,540,476)	(6,677,466)	(7,456,612)	(7,229,745)	(10,567,696)
Federal Income Taxes-Deferred-Net	8,115,670	7,866,279	4,697,375	3,962,654	574,254
Investment Tax Credit Adjustments—Net	4,963,094	2,850,249	6,419,859	3,735,421	(602,731)
Other—Net	(199,869)	(166,944)	132,117	471,723	(59,950)
Total Funds from Operations	60,392,521	51,637,173	51,983,108	46,065,826	29,300,486
Funds from Outside Sources:					
Long-Term Debt	—	15,000,000	2,500,000	51,500,000	5,000,000
Sale of Common Stock	5,023,199	3,349,523	20,790,854	—	7,595,804
Sale of Preferred Stock	—	10,000,000	—	—	29,826,200
Capital Stock Purchase Plan	792	24,446	—	—	—
Increase in Short-Term Debt	—	—	—	—	24,800,000
Total Funds from Outside Sources	5,023,991	28,373,969	23,290,854	51,500,000	67,222,004
Hope Creek Transfer—Net	—	—	3,262,031	—	—
Other Sources—Net	1,251,428	22,750	(126,801)	(793,301)	1,206,182
Total Source of Funds	$ 66,667,940	$80,033,892	$78,409,192	$96,772,525	$ 97,728,672
APPLICATION OF FUNDS					
Gross Additions to Utility Plant	$ 58,072,808	$48,733,032	$41,701,515	$46,744,820	$ 71,219,796
Allowance for Funds Used During Construction	(5,540,476)	(6,677,466)	(7,456,612)	(7,229,745)	(10,567,696)
Property Abandonment Costs (Note 8)	(4,888,393)	—	—	—	—
Net	47,643,939	42,055,566	34,244,903	39,515,075	60,652,100
Dividends on Preferred Stock	6,240,751	5,549,678	5,483,936	5,483,936	4,471,602
Dividends on Common Stock	18,371,494	17,235,204	15,449,999	14,394,717	13,530,313
Retirement and Maturity of Long-Term Debt	228,000	15,400,000	10,592,000	15,125,000	255,000
Conversion of Preferred Stock	1,729,300	512,000	25,000	—	—
Decrease in Short-Term Debt	—	—	13,650,000	23,650,000	—
Property Abandonment Costs (Note 8)	4,888,393	—	—	—	—
Investments in Subsidiary Companies	135,414	(2,802,950)	1,161,473	894,446	478,761
Increase (Decrease) in Working Capital	(12,569,351)	2,084,394	(2,198,119)	(2,290,649)	18,340,896
Total Application of Funds	$ 66,667,940	$80,033,892	$78,409,192	$96,772,525	$ 97,728,672
NET INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL*					
Current Assets:					
Cash and Cash Items	$ (3,334,033)	$ 2,253,616	$ (993,958)	$ (2,812,009)	$ 4,780,609
Accounts Receivable	3,905,991	94,824	1,366,882	157,868	3,815,287
Fuel	753,023	3,388,800	(2,082,246)	2,391,684	6,294,209
Materials and Supplies	1,449,818	1,028,650	68,915	(70,487)	1,311,103
Prepayments	242,633	319,558	134,299	207,626	313,270
Other	—	(3,262,031)	3,262,031	(2,106,348)	2,106,348
Total	3,017,432	3,823,417	1,755,923	(2,231,666)	18,620,826
Current Liabilities:					
Accounts Payable	983,464	(193,576)	2,526,763	(1,633,447)	(2,727,265)
Taxes Accrued	4,601,407	3,661,828	336,836	252,268	438,683
Interest Accrued	32,398	35,621	(291,120)	(32,377)	373,440
Levelized Energy Clause	4,989,174	—	—	—	—
Other	4,980,340	(1,764,850)	1,381,563	1,472,539	2,195,072
Total	15,586,783	1,739,023	3,954,042	58,983	279,930
Net Increase (Decrease) in Working Capital	$(12,569,351)	$ 2,084,394	$ (2,198,119)	$ (2,290,649)	$ 18,340,896

*Excludes Short-Term Debt, Notes and Current Maturities of Long-Term Debt

See Notes to Financial Statements

Balance Sheets

Assets

	December 31, 1978	1977
ELECTRIC UTILITY PLANT (Note 1):		
In Service:		
Production	$328,562,940	$324,354,058
Transmission	120,361,924	106,353,003
Distribution	226,656,661	210,656,415
General	16,763,949	15,821,460
Total	692,345,474	657,184,936
Less Accumulated Depreciation	169,361,346	151,570,215
Net	522,984,128	505,614,721
Construction Work in Progress	97,538,323	86,700,308
Nuclear Fuel	12,589,450	9,384,164
Less Accumulated Amortization	2,414,127	1,037,980
Net	10,175,323	8,346,184
Electric Utility Plant—Net	630,697,774	600,661,213
INVESTMENTS:		
Investment in Subsidiary Companies, at Equity (Note 4)	3,080,692	2,955,832
Land Purchase Contracts	793,767	638,231
Other	561,510	499,645
Total Investments	4,435,969	4,093,708
CURRENT ASSETS:		
Cash (Note 6)	3,657,228	4,993,103
Temporary Cash Investments	—	2,700,000
Special Deposits and Working Funds	1,037,727	335,886
Accounts Receivable:		
Utility Services	17,408,975	15,123,741
Miscellaneous	3,010,775	1,390,018
Allowance for Doubtful Accounts	(200,000)	(200,000)
Fuel (at average cost)	19,024,525	18,271,502
Materials and Supplies (at average cost)	9,745,736	8,295,918
Prepayments	2,268,989	2,026,355
Total Current Assets	55,953,955	52,936,523
DEFERRED DEBITS:		
Property Abandonment Costs (Notes 1 and 8)	4,888,393	—
Unamortized Debt Expense (Note 1)	1,878,072	2,028,635
Other	2,007,484	2,894,087
Total Deferred Debits	8,773,949	4,922,722
Total Assets	$699,861,647	$662,614,166

See Notes to Financial Statements

Atlantic Electric
SERVING A MILLION PEOPLE IN SOUTHERN NEW JERSEY

Liabilities and Shareholders' Equity

	December 31, 1978	December 31, 1977
SHAREHOLDERS' EQUITY (Note 2):		
Cumulative Preferred Stock	$ 87,824,745	$ 89,554,045
Common Stock, Par Value $3:		
Authorized Shares, 14,000,000		
Outstanding Shares 1978—10,916,308; 1977—10,702,557	32,748,924	32,107,671
Premium on Common Stock	107,077,739	102,695,631
Total Common Stock	139,826,663	134,803,302
Capital Stock Purchase Plan	25,238	24,446
Capital Stock Expense (not being amortized)	(1,832,061)	(1,848,177)
Retained Earnings	94,052,367	88,600,852
Total Shareholders' Equity	319,896,952	311,134,468
LONG-TERM DEBT (Note 12)	286,780,526	290,120,223
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	3,000,000	—
Accounts Payable	5,030,531	4,047,067
Customer Deposits	2,819,544	2,915,418
Taxes Accrued	10,617,636	6,016,229
Interest Accrued	3,596,892	3,564,494
Dividends Declared	6,291,753	5,784,550
Levelized Energy Clause (Note 1)	4,989,174	—
Other	8,103,279	3,534,269
Total Current Liabilities	44,448,809	25,862,027
DEFERRED CREDITS:		
Customer Advances for Construction	726,347	597,960
Accumulated Deferred Investment Tax Credits (Notes 1 and 3)	20,184,796	15,221,703
Accumulated Deferred Income Taxes (Notes 1 and 3)	26,421,898	18,306,228
Operating Reserves	739,500	990,000
Other Deferred Credits	662,819	381,557
Total Deferred Credits	48,735,360	35,497,448
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
Total Liabilities and Shareholders' Equity	$699,861,647	$662,614,166

See Notes to Financial Statements

Notes to Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES:
REGULATION—The accounting and rates of the Company are subject to the requirements of the Board of Public Utilities of the State of New Jersey (BPU) and in certain respects to the Federal Energy Regulatory Commission (FERC).

ELECTRIC UTILITY PLANT—Property is stated at original cost (cost to the person first devoting the plant to public service). Generally the plant is subject to a first mortgage lien. The cost of property additions, including jointly-owned plant, replacement of units of property and betterments, is capitalized. Included in additions is an Allowance for Funds Used During Construction (AFDC) which is defined in the applicable regulatory systems of accounts as the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. In February, 1977, FERC issued an order relating to AFDC and revising the Uniform System of Accounts. Such order was effective January 1, 1977, and provides a formula for determining the maximum allowable AFDC rate. In addition, the order requires the segregating of AFDC into two component parts; borrowed funds (debt) and other funds (equity). Since January 1, 1977, the debt component has been included in the Interest Charges section of the Statement of Income as a credit, while the equity component continues to remain as a credit to Other Income. The Company has not reclassified AFDC into its debt and equity components for periods prior to January 1, 1977, since prior periods would not be comparable and the FERC order did not require reclassification. AFDC has been calculated using a rate of 8% for all years reported. The 1978 and 1977 rate is less than the maximum allowed under the FERC formula.

LEVELIZED ENERGY COSTS–Effective May 1, 1978, the Company, at the direction of the BPU, adopted a Levelized Energy Adjustment Clause which utilizes estimated prospective energy costs based on an eight-month period for 1978 (changed to a twelve-month period beginning January 1, 1979). Under this Clause, the recovery of such energy costs is made through levelized monthly charges over the period of projection. Any under or over recoveries are deferred in balance sheet accounts as a current asset or current liability as appropriate. Such deferrals are reflected in the Income Statement in the period they are recovered.

DEPRECIATION AND MAINTENANCE—The Company provides for depreciation on the basis of the estimated service lives of depreciable property on a straight-line basis. Depreciation applicable to nuclear plant provides for estimated cost of dismantling or decommissioning. The overall composite rate of depreciation was approximately 3.3% for 1978 and 1977, 3.2% for 1976 and 1975 and 3.0% for 1974. In addition to the provisions for depreciation, income is charged with the cost of labor, material, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient condition. Accumulated depreciation is charged with the cost of depreciable property units retired, together with removal costs less salvage and other recoveries.

DEBT EXPENSE AND PREMIUM—Debt issuance expense and premium are being amortized over the lives of the issues to which they pertain. In conformity with allowed BPU ratemaking accounting, all gains or losses relating to reacquired debt are recognized currently.

NUCLEAR FUEL—The Company's amortization of the Salem nuclear fuel is based on a rate using the number of units of thermal energy produced over the estimated total thermal units to be produced during the life of the fuel, plus a factor representing the estimated future costs (storage and disposal) for the disposition of spent nuclear fuel.

Nuclear fuel requirements for Peach Bottom Units No. 2 and 3 are being provided by the operating company for Peach Bottom through a fuel purchase contract. Presently, such costs are calculated using a zero net salvage value. The Company is responsible for payment of its proportionate interest (7.51%) of the cost of the fuel consumed and of certain operating costs and interest expense during the term of the contract. All nuclear fuel costs are charged to Fuel Expense. The Company's share of other costs of the nuclear stations are charged to operations and maintenance as appropriate.

FEDERAL INCOME TAXES—Deferred Federal Income Taxes are provided in amounts equal to the tax effect of the difference between tax depreciation computed on depreciable property added after 1973 using accelerated methods under the ADR System and the straight-line method using asset guideline periods. Tax reductions relating to the differences between book depreciation and straight-line asset guideline depreciation are reflected in Federal Income Tax Expense currently as allowed by the ratemaking policy of the BPU. In addition, the Company provides deferred Federal Income Taxes relating to the use of the repair allowance provisions of ADR (See Note 3). Investment tax credits are deferred on the balance sheet and are restored to income over the life of the related property.

PENSION PLAN—The Company and Deepwater, referred to in Note 4, have in effect a noncontributory insured retirement annuity plan covering all regular employees. The cost of the plan, determined under the aggregate cost actuarial method was as follows:

	Company Cost* Including Construction	Amount Charged to Construction	Deepwater Cost
1978	$3,529,000	$799,000	$573,000
1977	3,076,000	678,000	498,000
1976	2,544,000	582,000	414,000
1975	2,164,000	510,000	362,000
1974	2,069,000	518,000	392,000

*Excludes Deepwater

Based on an actuarial study as of December 31, 1977, the vested benefits computed under the Plan were in excess of pension fund assets by approximately $519,000. The Company's Plan is in compliance with the Employee Retirement Income Act of 1974.

PROPERTY ABANDONMENT COSTS—Property Abandonment Costs are deferred and amortized over periods prescribed by the BPU (See Note 8).

NOTE 2: CAPITAL STOCK:

CUMULATIVE PREFERRED STOCK, Par Value $100 Authorized 799,979 Shares	December 31, 1978	December 31, 1977	Current Redemption Price Per Share	Refunding Restricted Prior to (A)
Issued and Outstanding Series:				
4% Series—77,000 Shares	$ 7,700,000	$ 7,700,000	$105.50	
4.10% Series—72,000 Shares	7,200,000	7,200,000	101.00	
4.35% Series—15,000 Shares	1,500,000	1,500,000	101.00	
4.35% 2nd Series—36,000 Shares	3,600,000	3,600,000	101.00	
4.75% Series—50,000 Shares	5,000,000	5,000,000	101.00	
5% Series—50,000 Shares	5,000,000	5,000,000	100.00	
5⅞% Convertible Series—(B)				
77,316 Shares (1978)	7,731,600			
94,609 Shares (1977)		9,460,900	103.00	
7.52% Series—100,000 Shares	10,000,000	10,000,000	106.77	
8.40% Series—100,000 Shares (C)	10,000,000	10,000,000	115.00	Feb. 1, 1979
9.96% Series—200,000 Shares (D)	20,000,000	20,000,000	108.56	Aug. 1, 1984
Total Cumulative Preferred Stock	77,731,600	79,460,900		
PREFERRED STOCK, No Par				
Authorized 2,000,000 Shares				
Issued and Outstanding:				
$8.25 Series (Cumulative)—100,000 Shares issued December 22, 1977 (E)	10,000,000	10,000,000	108.04	Nov. 1, 1987
	87,731,600	89,460,900		
Premium on Preferred Stock	93,145	93,145		
Total Preferred Stock	$87,824,745	$89,554,045		

Preference Stock, without par value, 3,000,000 Shares authorized, none outstanding.

(A) Prior to the date specified, no shares may be redeemed through certain refunding operations.

(B) The 5⅞% Convertible Series is convertible (subject to adjustment in certain events) into Common Stock at the rate of 3.5 shares of Common Stock for each share of Preferred (270,608 shares of authorized Common Stock are reserved for the conversion of the Series at December 31, 1978).

(C) On February 1, 1985, and annually thereafter, 4,000 shares of the 8.40% Series must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share. At the option of the Company, an additional 4,000 shares may be redeemed on any sinking fund date, without premium, up to 32,000 shares in the aggregate.

(D) On August 1, 1979, and annually thereafter, 8,000 shares of the 9.96% Series must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share. At the option of the Company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium, up to 40,000 shares in the aggregate.

(E) On November 1, 1983, and annually thereafter, 2,500 shares of the 8.25% No Par Preferred Stock Series must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share. At the option of the Company, an additional number of shares, not to exceed 2,500 may be redeemed, on any sinking fund date, without premium.

COMMON STOCK—Issues of common stock in 1978 and 1977 consisted of the following:

	1978	1977
	Shares	
Dividend Reinvestment and Stock Purchase	126,680	102,417
Employee Stock Ownership Plan	26,547	25,848
Conversion of Preferred Stock	60,524	17,920
Total	213,751	146,185

Premium on Common Stock was credited in 1978 and 1977 with the amounts of $4,382,108 and $2,995,157, respectively, representing the excess of proceeds over the par value of shares of Common Stock issued, sold and converted. At December 31, 1978, the Company had reserved 135,479 shares of Common Stock under its Dividend Reinvestment and Stock Purchase Plan which became effective in 1976 and 197,605 shares of Common Stock under its Employee Stock Ownership Plan which became effective in 1977.

On January 31, 1979, the Company sold 1,000,000 shares of Common Stock. The net proceeds from the sale amounted to approximately $19,300,000.

NOTE 3: FEDERAL INCOME TAXES:
Federal income tax expense applicable to current operations is less than the amount computed by applying the statutory rate on book income subject to tax for the following reasons:

	Year Ended December 31,				
	1978	1977	1976	1975	1974
Net Income	$30,063,760	$27,358,295	$30,795,696	$28,279,735	$27,010,019
Federal Income Tax Expense (as below)	19,063,489	14,129,924	11,824,751	8,771,731	(1,597,278)
Book Income Subject to Tax	$49,127,249	$41,488,219	$42,620,447	$37,051,466	$25,412,741
Income Tax at Statutory Rate (48%)	$23,581,080	$19,914,345	$20,457,815	$17,784,704	$12,198,115
Less:					
Excess of Tax over Book Depreciation (flow-through portion)	666,164	1,788,210	3,655,710	3,844,262	6,445,455
Allowance for Funds Used During Construction	2,659,429	3,205,184	3,579,174	3,470,278	5,051,773
Capitalized Overheads	927,399	796,260	729,801	744,889	654,060
Investment Tax Credits—Used	610,064	378,974	288,882	426,347	143,993
Other	(345,465)	(384,207)	379,497	527,197	1,500,112
Total Federal Income Tax Expense	$19,063,489	$14,129,924	$11,824,751	$ 8,771,731	$ (1,597,278)

Federal income tax expense is comprised of the following:

Federal Income Tax Currently Payable	$ 5,414,276	$ 1,850,404	$ 378,422	$ 991,016	$ (1,601,412)
Deferred Taxes (as below)	8,115,670	7,866,279	4,697,375	3,962,654	574,254
Investment Tax Credit—Earned	6,035,837	3,850,447	6,708,741	4,161,768	(458,738)
Investment Tax Credit—Used	(610,064)	(378,974)	(288,882)	(426,347)	(143,993)
Federal Income Tax Expense	18,955,719	13,188,156	11,495,656	8,689,091	(1,629,889)
Federal Income Tax—Other Income	107,770	941,768	329,095	82,640	32,611
Total Federal Income Tax Expense	$19,063,489	$14,129,924	$11,824,751	$ 8,771,731	$ (1,597,278)

The provision for Deferred Federal income taxes, net, results from the following timing differences:

Liberalized Depreciation	$ 3,925,175	$ 4,137,707	$ 3,264,227	$ 2,256,100	$ 690,000
Repair Allowance	2,993,962	4,062,510	1,920,000	1,845,016	—
Amortization—Accelerated Depreciation and Repair Allowance	(391,052)	(314,738)	(246,852)	(138,462)	(115,746)
Property Abandonment Costs	1,467,345	—	—	—	—
Other	120,240	(19,200)	(240,000)	—	—
Total Deferred Federal Income Taxes—Net	$ 8,115,670	$ 7,866,279	$ 4,697,375	$ 3,962,654	$ 574,254

Investment tax credit earned in 1978 and 1977 includes $462,679 and $621,224, respectively, representing the Company's use of the additional investment tax credit available under the Tax Reduction Act of 1975. The 1978 amount, plus employee contributions of $143,000, was used to purchase 26,547 shares of the Company's Common Stock, while the 1977 amount was used to purchase 25,848 shares (see Note 2).

NOTE 4: INVESTMENT IN SUBSIDIARY COMPANIES:
The Company's investment in Deepwater Operating Company (Deepwater), a wholly-owned subsidiary which operates generating and process steam units owned by the Company was $2,301,000 at December 31, 1978 and 1977. The assets of Deepwater consist almost wholly of working capital in which the equity of the Company is fairly represented by its investment in Deepwater. The net production costs of Deepwater (after deducting charges to E. I. duPont deNemours & Company) are charged to the Company. These costs are included in the Company's accounts classified as to operation, maintenance and taxes.

The Company also has an investment in Atlantic Housing, Inc. (Housing), a wholly-owned subsidiary, which amounted to $779,692 at December 31, 1978. At December 31, 1978, Housing had $2,124,157 invested in land and mortgages of which $1,780,032 is invested as a 20% undivided interest as tenant in common in a future generating station and industrial site. This site is subject to a mortgage of which the Company at December 31, 1978 is liable for the payment of $660,000 principal amount and interest under a suretyship agreement.

NOTE 5: EARNINGS PER SHARE:
Earnings per share of Common Stock has been computed by dividing net income less applicable preferred stock dividend requirements ($6,253,193 in 1978, $5,484,691 in 1977, $5,483,936 in 1976, $5,483,936 in 1975 and $4,233,384 in 1974) by the average common shares outstanding during the year.

NOTE 6: SHORT-TERM BORROWINGS AND COMPENSATING BALANCES:

The Company had arrangements for short-term borrowings as follows:

	1978	1977
Maximum amount of short-term borrowings outstanding at any month end during the year	$7,000,000	$9,600,000
Average amount outstanding during the year	1,687,000	5,619,000
Average interest rate on above	7.9%	5.8%
Weighted average interest rate on short-term borrowings outstanding during the year:		
Notes Payable to Banks	8.5%	6.8%
Commercial Paper	7.9%	5.7%

The unused lines of credit available at December 31, 1978 and 1977 were $40,000,000 and $50,000,000, respectively. Demand deposits maintained with lending banks, certain of which are deemed to constitute compensating balances, are not legally restricted. Based on lines of credit available at December 31, 1978 and 1977 respectively, such compensating balances approximated $1,550,000 and $2,000,000.

NOTE 7: LEASES:
Rents, principally charged to operations, were respectively: $2,430,000, $3,380,000, $3,500,000, $3,600,000 and $3,805,000 for the years 1974 to 1978.

Certain of the Company's leases which meet the conditions for capitalization under the criteria established by FASB No. 13 and ASR No. 225 are accounted for as operating leases in accordance with ratemaking treatment. Such leases, if capitalized, would have increased the Company's assets and liabilities by approximately $17,700,000 and would not have had a material impact on the Company's net income.

Future minimum rental commitments under noncancelable leases as of December 31, 1978 are approximately as follows:

	Capital	Operating	Total
1979—	$ 2,400,000	$550,000	$ 2,950,000
1980—	2,400,000	500,000	2,900,000
1981—	2,400,000	400,000	2,800,000
1982—	2,400,000	300,000	2,700,000
1983—	2,400,000	300,000	2,700,000
Total Thereafter—	24,800,000	800,000	25,600,000

The total minimum rental commitments for capital leases as of December 31, 1978 are applicable to combustion turbine generating units (69%), fuel storage facilities (19%) and general plant (12%). Minimum rental commitments for operating leases are applicable to steam production (55%) and general plant (45%).

NOTE 8: COMMITMENTS AND CONTINGENCIES:
Construction expenditures, including nuclear fuel but excluding production plant, are estimated at $45,000,000 for 1979. Commitments for the construction of production plant amount to approximately $96,000,000 of which it is estimated that $33,000,000 will be expended in 1979.

The Price-Anderson Act places a liability limit of $560 million on each licensed nuclear generating unit for public liability claims that could arise from a nuclear incident. In the event of any such incident, all owners of nuclear generating units licensed to operate would be required to contribute toward satisfaction of such claims. The operators of the Peach Bottom and Salem Stations, have partially insured for this exposure by purchasing private insurance in the maximum available amount of $140 million per reactor. The remainder ($420 million) is provided by a combination of a mandatory program of retrospective premiums to be assessed against owners of nuclear reactors after a nuclear incident (up to $5 million per incident but not more than $10 million in any calendar year, for each licensed nuclear reactor in the United States) and by indemnity agreements with the Nuclear Regulatory Commission. Accordingly, in the event of a nuclear incident involving any licensed nuclear reactor in the United States which was not covered by private insurance, the Company could be assessed, based on the three nuclear reactors now in service, a maximum amount equal to its ownership participation or approximately $1.1 million for any such incident but not more than $2.2 million in any year.

In September 1978, the Company reached agreement in principle with Jersey Central Power & Light Company (Jersey Central) contemplating that the Company would acquire a 10% interest in the Forked River Generating Station, subject to terms and conditions to be negotiated and necessary regulatory authorizations. Negotiations of the terms of such acquisition are continuing, it being presently contemplated that an ownership interest in the Forked River Station would be transferred to the Company in 1979. The estimated construction expenditures for a 10% interest in the Forked River Station are approximately $99 million, of which it is expected that $75 million would be expended through 1981 ($37 million in 1979). These amounts exclude nuclear fuel costs and allowance for funds used during construction. In addition, the construction expenditures for a 10% interest in EHV transmission facilities required in connection with the Forked River Station are estimated to be $7.7 million, excluding allowance for funds used during construction, all of which would be expended through 1981.

Further, the Company is discussing with other electric utilities purchases of power from specific nuclear generating units presently under construction.

The Company also planned to participate with a 10% ownership in four 1,150 megawatt off-shore nuclear units planned for operation between 1988 and 1995. These units, to be located off the New Jersey Shore,Northeast of Atlantic City, were to be constructed in Florida by Offshore Powers Systems (OPS) and were to be operated by Public Service Electric and Gas Company (Public Service). On December 19, 1978, Public Service announced it had elected to cancel its contract with OPS for the four units. The Company's investment in off-shore nuclear generating units at December 31, 1978 was $4,161,400, including allowance for funds used during construction of $1,104,431. Effective June 1, 1978, the Company discontinued providing an allowance for funds used during construction on this project. The Company, on December 27, 1978, advised the BPU that in its current rate case it would request authorization from the BPU to amortize all costs, including allowance for funds used during construction, associated with the project over 20 years commencing on the effective date of the next rate order of the BPU (See Note 9). Accordingly, in December, the Company transferred these costs on the balance sheet from Construction Work in Progress to Property Abandonment Costs.

NOTE 9: RATE INCREASES:
During the period indicated below, rate increases have been approved by the BPU designed to increase annual revenues from electric service, based in each case on the applicable test year, as follows:

Date of Petition	Amount Requested (Millions)	Date Effective	Amount Approved (Millions)	Increase In Revenue	Test Year
August, 1975	$28.0	Feb. 5, 1976	$ 9.3	4.7%	1975
Feb., 1977 ..	16.5	Jan. 27, 1978	8.0	3.8	1976
Mar., 1978 ..	35.7	July 19, 1978	14.8(a)	6.2	1978

(a) Initial amount

The Company has placed in effect the rates which result in an increase in annual revenue of $14.8 million effective July 19, 1978. The BPU Order approving this rate increase stipulated that all issues in the request of the Company filed in March remain open. The Company has accepted an extension of the statutory time period for reaching a decision on the part of the BPU from December 31, 1978 to September 30, 1979. The Company also has withdrawn the appeal of the BPU's decision granting the $8 million increase which was effective January 27, 1978. The proceedings under the rate request of March, 1978 will continue early in 1979 for determination regarding the balance of the request outstanding. No assurance can be given that the additional rate increase will be approved. However, the effective date of any order in accordance with the BPU Order granting the July 19, 1978 increase is expected to be October 1, 1979.

NOTE 10: QUARTERLY FINANCIAL RESULTS (UNAUDITED):
Quarterly financial data which reflects all adjustments (normal recurring accruals) necessary in the opinion of the Company for a fair presentation of such amounts is as follows:

Quarter	Operating Revenues	Operating Income	Net Income	Earnings For Common Stock	Earnings Per Share
	Thousands of Dollars				
1977					
1st	$ 57,935	$ 8,956	$ 6,179	$ 4,812	$ .45
2nd	52,338	9,025	6,325	4,959	.47
3rd	70,320	14,083	10,746	9,380	.88
4th	54,402	7,790	4,108	2,723	.25
	$234,995	$39,854	$27,358	$21,874	$2.06*
1978					
1st	$ 60,575	$ 8,603	$ 5,274	$ 3,705	$ .35
2nd	58,198	8,240	4,991	3,422	.32
3rd	75,238	16,708	13,374	11,811	1.09
4th	61,047	9,597	6,425	4,873	.45
	$255,058	$43,148	$30,064	$23,811	$2.21

The revenues of the Company are subject to seasonal fluctuations due to increased sales and higher residential rates during the summer months.

*The individual quarters do not add to the total, due to the increasing average number of common shares outstanding at the end of each quarter.

NOTE 11: REPLACEMENT COSTS (UNAUDITED):
The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's Financial Statements. The Company's ability to maintain its productive capacity in the future will be contingent upon its ability to finance the needed additions. This, in turn, will depend on the Company's ability to obtain adequate and timely rate relief. In compliance with reporting requirements, estimated replacement cost information is disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

NOTE 12: LONG-TERM DEBT:
Long-Term Debt consists of:

	December 31, 1978	December 31, 1977
First Mortgage Bonds:		
2⅞% Series due (June 1) 1979	$ *	$ 3,000,000
2¾% Series due (July 1) 1980	4,600,000	4,600,000
2⅞% Series A due (Nov. 1) 1980	18,400,000	18,400,000
3¼% Series due (March 1) 1982	4,620,000	4,620,000
3¼% Series due (Jan. 1) 1983	4,050,000	4,050,000
9¼% Series due (May 1) 1983	35,000,000	35,000,000
3% Series due (March 1) 1984	5,000,000	5,000,000
3¼% Series due (March 1) 1985	10,000,000	10,000,000
4½% Series due (Jan. 1) 1987	10,000,000	10,000,000
3⅞% Series due (April 1) 1988	10,000,000	10,000,000
4½% Series due (April 1) 1989	5,000,000	5,000,000
4½% Series due (March 1) 1991	10,000,000	10,000,000
4½% Series due (July 1) 1992	15,000,000	15,000,000
4⅜% Series due (March 1) 1993	15,000,000	15,000,000
5⅛% Series due (Feb. 1) 1996	10,000,000	10,000,000
8⅞% Series due (Sept. 1) 2000	20,000,000	20,000,000
8% Series due (May 1) 2001	27,000,000	27,000,000
7½% Series due (April 1) 2002	20,000,000	20,000,000
7¾% Series due (June 1) 2003	30,000,000	30,000,000
7⅝% Pollution Control Series due (Jan. 1) 2005	6,500,000	6,500,000
6⅜% Pollution Control Series (a) due (Dec. 1) 2006	2,500,000	2,500,000
	$262,670,000	$265,670,000
Debentures:		
5¼% Sinking Fund Debentures due (Feb. 1) 1996	3,732,000	3,862,000
7¼% Sinking Fund Debentures due (May 1) 1998	3,902,000	4,000,000
	7,634,000	7,862,000
Notes:		
7.90% Notes due (Dec. 15) 1982	15,000,000	15,000,000
	285,304,000	288,532,000
Unamortized Premium (Note 1)	1,476,526	1,588,223
	$286,780,526	$290,120,223

*Classified as a current liability.

Deposits in sinking funds for retirement of debentures are required on February 1 of each year, from 1979 through 1995 for the 5¼% debentures, and on May 1 of each year from 1979 to 1997 for the 7¼% debentures, in amounts in each case sufficient to redeem $100,000 principal amount plus, at the election of the Company, up to an additional $100,000 principal amount in each year. At December 31, 1978, the Company had reacquired and cancelled $468,000 principal amount of the 5¼% debentures and $498,000 principal amount of the 7¼% debentures toward its requirements for 1979 and subsequent periods.

Annual sinking fund requirements of $1,246,700, in connection with certain first mortgage bonds outstanding, are being satisfied by certification of property additions as provided for in the related mortgage indentures.

Accountants' Opinion

Deloitte Haskins & Sells
Certified Public Accountants

550 Broad Street
Newark, New Jersey 07102

Atlantic City Electric Company:
We have examined the balance sheets of Atlantic City Electric Company as of December 31, 1978 and 1977 and the related statements of income and retained earnings and of changes in financial position for each of the five years in the period ended December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1978 in conformity with generally accepted accounting principles applied on a consistent basis.

January 31, 1979

Deloitte Haskins & Sells

Management's Discussion and Analysis of the Statements of Income

The Statements of Income reflect the results of past operations and is not intended as any representation as to results of operations for any future period.

The following Summary reflects the year-to-year changes, increase or (decrease), in the principal items of the Statements of Income.

	Comparison of*			
	1978 and 1977		1977 and 1976	
Operating Revenues	$20,063	8.5%	$22,968	10.8%
Fuel	2,000	2.4	13,501	19.5
Interchange	(1,564)	(41.9)	(1,084)	(22.5)
Power Production—Operation and Maintenance	2,934	16.5	4,284	31.7
Other Operations and Maintenance	2,456	8.4	2,929	11.1
Depreciation	2,245	11.6	1,974	11.4
Taxes Other than Federal Income Taxes	2,930	10.1	2,727	10.4
Federal Income Tax Expense	5,768	43.7	1,693	14.8
Other Income—Net	(531)	(13.7)	(3,961)	(50.5)
Net Interest Charges	57	0.4	(3,580)	(17.9)

*Amounts stated in thousands.

OPERATING REVENUES—Increases are principally attributable to increases in energy sales in 1978 and 1977, rate increases in January and July of 1978 and increased energy clause revenues in 1977.

FUEL—The 1978 and 1977 increases are principally due to higher generation, which increased fuel consumption and to increasing fuel costs.

INTERCHANGE—The Company was a net importer of interchange energy in 1978 and 1977. Interchange reflects the net cost of energy interchanged to and from other utilities within the PJM. Decreases in interchange (credits) reflect the Company's ability to sell (export) interchange energy while increases in interchange (debits) reflect the Company's ability to acquire (import) such energy at a lower cost than if the Company had generated the energy.

POWER PRODUCTION—OPERATION AND MAINTENANCE—The increases in 1978 and 1977 are principally attributable to increased operational charges and major maintenance at our jointly-owned facilities and to higher operational and maintenance costs at our wholly-owned facilities.

OTHER OPERATION AND MAINTENANCE—Increases in 1978 and 1977 are due principally to higher transmission and distribution maintenance expenses and increased administration and general costs. The increased charges continue to result from inflationary pressures, including higher costs of material, supplies and wages.

DEPRECIATION—The increase in 1978 and 1977 is principally attributable to the Salem Nuclear Generating Unit being placed in service in June of 1977.

TAXES OTHER THAN FEDERAL INCOME TAX EXPENSE—These taxes are principally taxes on the Company's gross receipts. The increases in 1978 and 1977 are a direct result of increases in the Company's operating revenues. Also, in 1977, the Commonwealth of Pennsylvania enacted a gross receipts tax applicable to foreign utilities which own generating stations in the Commonwealth.

FEDERAL INCOME TAX EXPENSE—The increases in 1978 and 1977 are due principally to higher taxable income. Taxable income increased principally as a result of decreases in flow-through depreciation on pre-1974 additions.

OTHER INCOME—Other Income (principally Allowance for Funds Used During Construction (AFDC)) decreased in 1978 and 1977 primarily as a result of the exclusion of the debt portion of AFDC from Other Income (See Note 1 of Notes to Financial Statements) and the transfer of the Salem Nuclear Generating Unit into service in June, 1977.

NET INTEREST CHARGES–The increase in 1978 is principally due to a reduction in the debt portion of AFDC resulting from the Salem Nuclear Unit being placed in service in June, 1977. The decrease in 1977 is principally due to reductions in the amount of long and short term borrowings outstanding during 1977 and to the inclusion of the debt portion of AFDC (credit) as an element of Interest Charges (See Note 1 of Notes to Financial Statements).

Common Stock, Price Range and Dividends

The Common Stock of the Company is traded on the New York Stock Exchange (principal market) and the Philadelphia Stock Exchange. The reported high and low sales prices of the Common Stock on the New York Stock Exchange for each quarterly period during 1978 and 1977 are listed below:

	1978		1977		Dividends Paid Per Share	
	High	Low	High	Low	1978	1977
First Quarter	23	20	24⅜	21⅜	40½¢	40½¢
Second Quarter	22½	20⅛	24	21½	41½¢	40½¢
Third Quarter	23⅞	20⅞	24⅝	22¼	41½¢	40½¢
Fourth Quarter	21⅞	17⅝	23⅛	20⅜	43½¢	40½¢

Other Information for Investors

	1978	1977	1976	1975	1974
Number of holders of Common Stock (year-end)	44,490	43,826	42,516	39,279	39,054
Total cash dividends paid per share on Common Stock	$1.67	$1.62	$1.56	$1.51	$1.50
Pay-out ratio	76%	79%	60%	63%	59%
Book value per share (year-end)	$21.27	$20.71	$20.25	$19.34	$18.45
Price Earnings Ratio (year-end)	8	11	9	7	5
Times fixed charges earned (before income taxes)	3.66	3.14	3.14	2.84	2.33

For your convenience, we have provided below the proposed 1979 record dates and payable dates for holders of Common Stock of the Company.

Record Dates for Dividends on Common Stock	Payable Dates for Dividends on Common Stock
March 15, 1979	April 16, 1979
June 14, 1979	July 16, 1979
September 13, 1979	October 15, 1979
December 13, 1979	January 15, 1980

If you wish to correspond with the Company concerning shareholder related matters, please write to the following address:

Atlantic City Electric Company
Shareholder Records Department
1600 Pacific Avenue
Atlantic City, N.J. 08404

or telephone Area Code 609/645-4506 or 4507

TRANSFER AGENTS

For Common Stock
Irving Trust Company
1 Wall Street
New York, N.Y. 10015

First National Bank of South Jersey
Atlantic City, N.J. 08404

For Cumulative Preferred Stock
Chemical Bank
20 Pine Street
New York, N.Y. 10015

For Cumulative Convertible Preferred Stock
Irving Trust Company
New York, N.Y. 10015

REGISTRARS

For Common Stock
Irving Trust Company
1 Wall Street
New York, N.Y. 10015

Guarantee Bank
Atlantic City, N.J. 08404

For Cumulative Preferred Stock
Irving Trust Company
New York, N.Y. 10015

For Cumulative Convertible Preferred Stock
Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

SHARE LISTINGS

Common Stock of the Company is listed on the New York Stock Exchange and the Philadelphia Stock Exchange. The 5⅞% Cumulative Convertible Preferred Stock of the Company is listed on the New York Stock Exchange.

Record-keeping and Dividend Disbursing Agent
Atlantic City Electric Company.
See address on this page.

Statistical Review and Summary of Operations 1978-1968

Facilities for Service	1978	1977	1976	1975
Total Utility Plant (Thousands)	$ 802,473	$ 753,269	$ 710,343	$ 675,61
Gross Additions to Utility Plant (Thousands)	$ 58,072	$ 48,733	$ 41,702	$ 46,74
Pole Miles of Transmission and Distribution Lines	6,786	6,735	6,696	6,64
Generating Capacity (Kilowatts)[a]	1,414,700	1,414,700	1,334,700	1,334,70
Maximum Utility System Demand—Kw	1,177,400	1,176,000	1,030,300	1,069,40
Source of Energy (Thousands of Kwh)				
Net Generation	5,625,988	5,293,019	4,918,906	4,715,35
Purchased and Interchanged—Net	130,037	224,169	324,196	190,85
Total	5,756,025	5,517,188	5,243,102	4,906,20
Electric Sales (Thousands of Kwh)				
Residential	2,377,202	2,221,250	2,070,766	1,938,72
Commercial	1,586,097	1,478,559	1,392,029	1,346,21
Industrial	1,250,636	1,220,260	1,143,170	1,036,75
All Others	60,705	58,866	57,667	56,46
Total	5,274,640	4,978,935	4,663,632	4,378,16
Gross Revenue (Thousands of Dollars)				
Energy Sales				
Residential	$ 121,440	$ 109,818	$ 98,904	$ 90,95
Commercial	80,539	73,354	66,354	63,54
Industrial	42,185	40,885	36,438	34,97
All Others	5,973	5,631	5,406	4,88
Total	250,137	229,688	207,102	194,35
Other Electric Revenue	4,921	5,307	4,925	4,72
Total	$ 255,058	$ 234,995	$ 212,027	$ 199,07
Residential Electric Service (Average per Customer)				
Amount of Electricity used during the year (Kwh)	7,951	7,653	7,320	7,0
Amount paid for a year's service	$ 406.18	$ 378.36	$ 349.64	$ 329.
Price paid per Kilowatt-hour	5.11[e]	4.94[e]	4.78[e]	4.
Customer Service Locations—Electric (Year-End)	362,131	352,205	343,147	336,1
Population Served	990,000	961,000	937,000	915,0
Summary of Operations (Thousands of Dollars)				
Operating Revenues—Electric	$ 255,058	$ 234,995	$ 212,027	$ 199,0
Operating Expenses				
Fuel	84,735	82,735	69,234	71,6
Interchange	2,171	3,735	4,819	2,8
Power Production	20,716	17,782	13,498	10,2
Other Operating and Maintenance Expenses	31,719	29,263	26,333	24,6
Depreciation	21,614	19,369	17,395	16,8
Taxes	50,955	42,257	37,837	32,0
Total Operating Expenses	211,910	195,141	169,116	158,3
Operating Income	43,148	39,854	42,911	40,7
Other Income and Deductions—Net	3,350	3,881	7,842	7,7
Income before interest charges	46,498	43,735	50,753	48,4
Interest Charges—Net	16,434	16,377	19,957	20,2
Net Income	30,064	27,358	30,796	28,2
Dividends Paid or Accrued on Preferred Stock	6,253	5,485	5,484	5,4
Earnings for Common Stock	$ 23,811	$ 21,873	$ 25,312	$ 22,7
Average Shares of Common Stock Outstanding	10,790,977	10,629,930	9,747,012	9,470,0
Earnings Per Share of Common Stock	$2.21	$2.06	$2.60	$2.
Dividends Declared Per Share of Common Stock	$1.70	$1.62	$1.58	$1.
Dividends Paid on Common Stock (Cash)	$1.67	$1.62	$1.56	$1.

(a) Excludes capacity allocated to a large industrial customer.

Atlantic Electric
SERVING A MILLION PEOPLE IN SOUTHERN NEW JERSEY

1974	1973	1972	1971	1970	1969	1968
$ 637,250	$ 572,555	$ 511,274	$ 455,956	$ 404,364	$ 357,863	$ 324,561
$ 71,220	$ 67,864	$ 58,434	$ 54,151	$ 48,200	$ 35,306	$ 25,406
6,580	6,506	6,408	6,333	6,252	6,187	6,109
1,278,700	1,013,500	965,900	897,600	821,400	757,800	700,800
1,004,400	1,051,400	920,400	829,300	755,500	721,800	671,600
4,651,334	4,236,083	4,071,225	4,262,062	4,294,352	4,227,315	3,929,222
229,197	665,558	458,050	−74,395	−358,203	−566,932	−615,766
4,880,531	4,901,641	4,529,275	4,187,667	3,936,149	3,660,383	3,313,456
1,882,560	1,899,122	1,741,895	1,624,793	1,520,939	1,375,546	1,253,772
1,298,858	1,351,974	1,183,668	1,059,498	977,210	879,916	821,538
1,136,935	1,119,478	1,061,932	990,363	954,111	911,138	801,664
57,477	58,129	64,531	88,963	101,703	116,021	91,467
4,375,830	4,428,703	4,052,026	3,763,617	3,553,963	3,282,621	2,968,441
$ 78,512	$ 59,856	$ 51,544	$ 42,623	$ 36,979	$ 32,672	$ 29,850
55,713	42,804	35,868	28,648	23,933	20,584	18,912
33,565	22,008	19,350	16,529	13,036	11,303	9,738
4,207	3,861	3,763	3,919	3,795	3,753	3,302
171,997	128,529	110,525	91,719	77,743	68,312	61,802
4,614	4,365	4,128	3,687	3,648	3,731	3,688
$ 176,611	$ 132,894	$ 114,653	$ 95,406	$ 81,391	$ 72,043	$ 65,490
6,982	7,303	7,008	6,793	6,542	6,072	5,685
$ 291.21	$ 230.19	$ 207.37	$ 178.19	$ 159.06	$ 144.22	$ 135.34
4.17[e]	3.15[e]	2.96[e]	2.62[e]	2.43[e]	2.38[e]	2.38[e]
330,758	320,834	309,393	297,437	288,538	282,274	279,976
894,000	865,000	828,000	796,000	773,000	753,000	733,000
$ 176,611	$ 132,894	$ 114,653	$ 95,406	$ 81,391	$ 72,043	$ 65,490
73,167	37,144	29,944	28,705	22,457	15,691	13,057
5,862	8,155	3,979	(815)	(2,941)	(3,165)	(3,130)
11,360	8,810	8,060	6,686	5,111	5,074	3,971
21,730	21,119	19,388	17,462	15,692	14,194	13,123
12,946	11,749	11,190	10,355	9,632	9,043	7,892
16,203	16,616	15,359	10,603	11,129	12,292	12,748
141,268	103,593	87,920	72,996	61,080	53,129	47,661
35,343	29,301	26,733	22,410	20,311	18,914	17,829
10,755	8,745	6,647	5,164	3,520	1,773	1,097
46,098	38,046	33,380	27,574	23,831	20,687	18,926
19,088	15,129	13,297	11,641	9,276	6,302	6,226
27,010	22,917	20,083	15,933	14,555	14,385	12,700
4,233	2,652	2,456	1,900	1,900	1,900	1,672
$ 22,777	$ 20,265	$ 17,627	$ 14,033	$ 12,655	$ 12,485	$ 11,028
8,973,400	8,453,400	7,810,073	7,436,740	6,920,073	6,817,083	6,270,000
$2.54	$2.40	$2.26	$1.89	$1.83	$1.83	$1.76
$1.50	$1.4766	$1.4316	$1.37	$1.345	$1.31	$1.27
$1.50	$1.4688	$1.4144	$1.36	$1.34	$1.30	$1.26

This Annual Report has been prepared for the purpose of providing general and statistical information concerning the Company and not in connection with any sale, offer for sale or solicitation of an offer to buy any securities.

Printed in U.S.A.

Officers

John D. Feehan
President and Chief Executive Officer

Richard M. Wilson
Senior Vice President

William S. Cowart, Jr.
Senior Vice President

Charles F. Morgan
Senior Vice President and Treasurer

David V. Boney
Vice President—
Customer and Community Services

John F. Born
Vice President—
Electric Operations

Frank J. Ficadenti
Vice President—
Engineering, Research and Development

Ernest D. Huggard
Vice President—
Control

Jerrold L. Jacobs
Vice President—
Production

Michael A. Jarrett
Vice President—
Corporate Services

Martin R. Meyer
Secretary and Assistant Treasurer

Joseph T. Kelly, Jr.
Assistant Vice President—
Rates and Regulations

William F. Symons
Assistant Vice President—
Personnel and Public Relations

Brian A. Parent
Assistant Treasurer and
Assistant Secretary

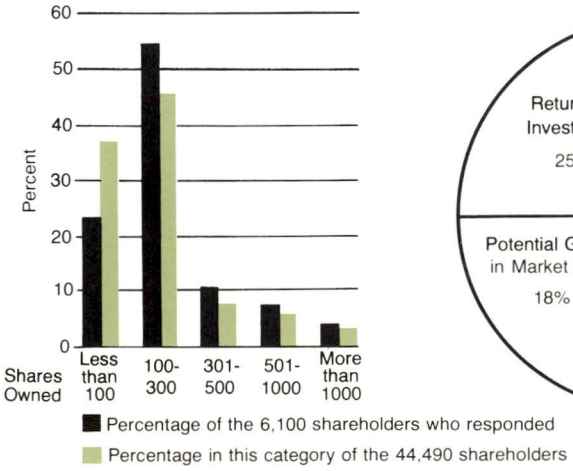
Joseph G. Salomone
Controller

Results of Shareholders' Survey

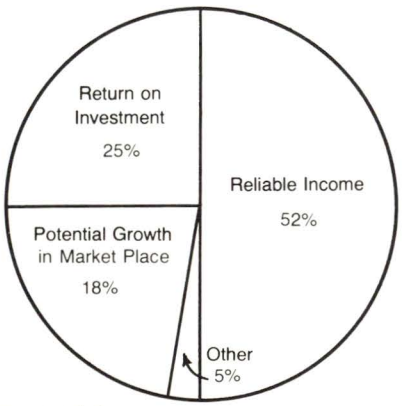
Atlantic Electric recently concluded its first shareholder survey. The survey attracted more than 6,100 responses, approximately 13.5% of the Company's owners of Common Stock. The number of responses was encouraging and indicates shareholders have recognized that they can assist in the achievement of the Company's goals by becoming more active on behalf of the Company. We are pleased that the responses came from a wide geographical area and believe the results of the survey accurately and fairly assessed the viewpoint of the total shareholder body in regard to the content of the questionnaire.

The data from the survey will be an important instrument in helping Atlantic Electric to continue to focus on the needs of its shareholders, to communicate more effectively with them and to continue to make their investment in the Company worthwhile. Additional data regarding the survey will be presented in future communications. Charts showing the most significant results are below:

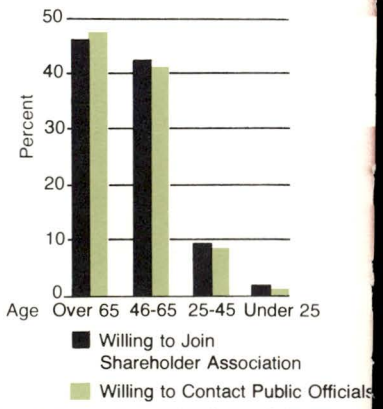
Percentage of Shareholders Responding
(In Share-Range Categories)



Reasons for Investing in Atlantic Electric Common Stock



Age Distribution of Those Willing to Participate
(By Joining the Shareholder Organization or Contacting Public Officials)



Note: This distribution closely parallels previous analyses of age distribution of all shareholders.

Dividend Reinvestment Program

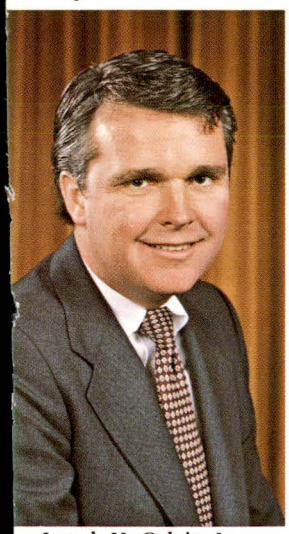
The Company continues to offer a Dividend Reinvestment and Stock Purchase Plan which enables shareholders and employees to automatically invest their cash dividends in Company Stock, and also make optional cash payments without paying brokerage commissions or service charges. More than 126,000 shares were purchased through the Plan in 1978 with proceeds to the Company in excess of $2.6 million. There were 7,625 participants in the Plan at year-end. To enroll, please contact our Shareholder Records Department. (See address on page 25.)

Directors

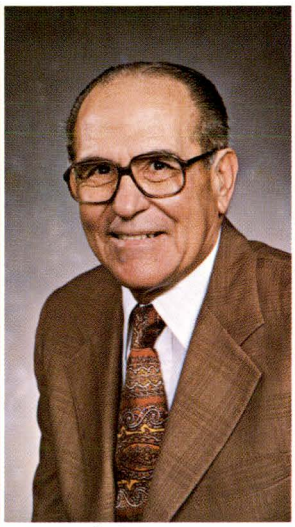
Eleanor S. Daniel
Self employed. Vice President and Director of several real estate corporations.

Richard M. Dicke
Counselor at Law. Senior Partner of the law firm of Simpson Thacher & Bartlett.

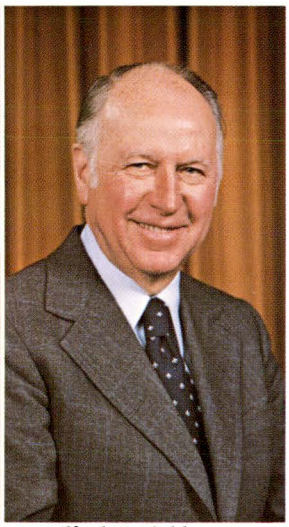
John D. Feehan
President and Chief Executive Officer of the Company.



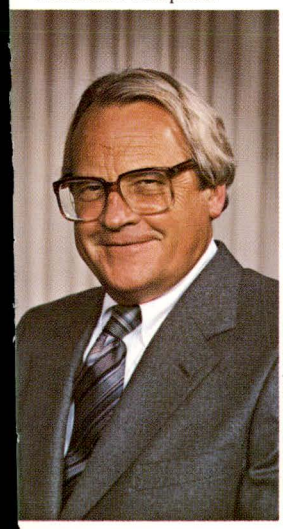
Joseph M. Galvin, Jr.
Executive Director and Chief Executive Officer of Salem County Memorial Hospital.



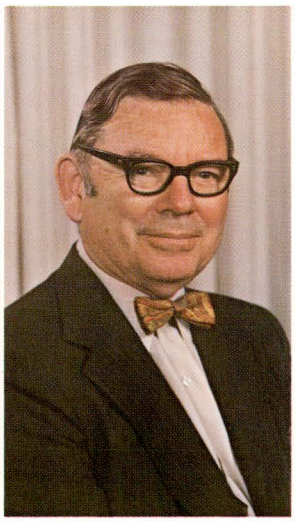
Mack C. Jones
Engineer. Retired.



Alfred C. Linkletter
Consultant. Chairman of the Board of Directors of the Company.



John M. Miner
Senior Vice President of Crocker National Bank.



Frank H. Wheaton, Jr.
President of Wheaton Industries.
Manufacturer of glass and plastic containers.

Richard M. Wilson
Senior Vice President of the Company.

Board of Directors Committee Listings

Mr. Linkletter, Chairman of the Board, serves as an ex-officio member of all committees and Mr. Feehan, President, serves as an ex-officio member of all committees except the Audit Committee.

Audit Committee
John M. Miner, Chairman
Eleanor S. Daniel
Joseph M. Galvin, Jr.
Mack C. Jones

Corporate Development Committee
Frank H. Wheaton, Jr., Chairman
Eleanor S. Daniel
Mack C. Jones
John M. Miner

Energy, Operations and Research Committee
Mack C. Jones, Chairman
Richard M. Dicke
Richard M. Wilson

Finance Committee
John M. Miner, Chairman
Eleanor S. Daniel
Richard M. Dicke
Mack C. Jones

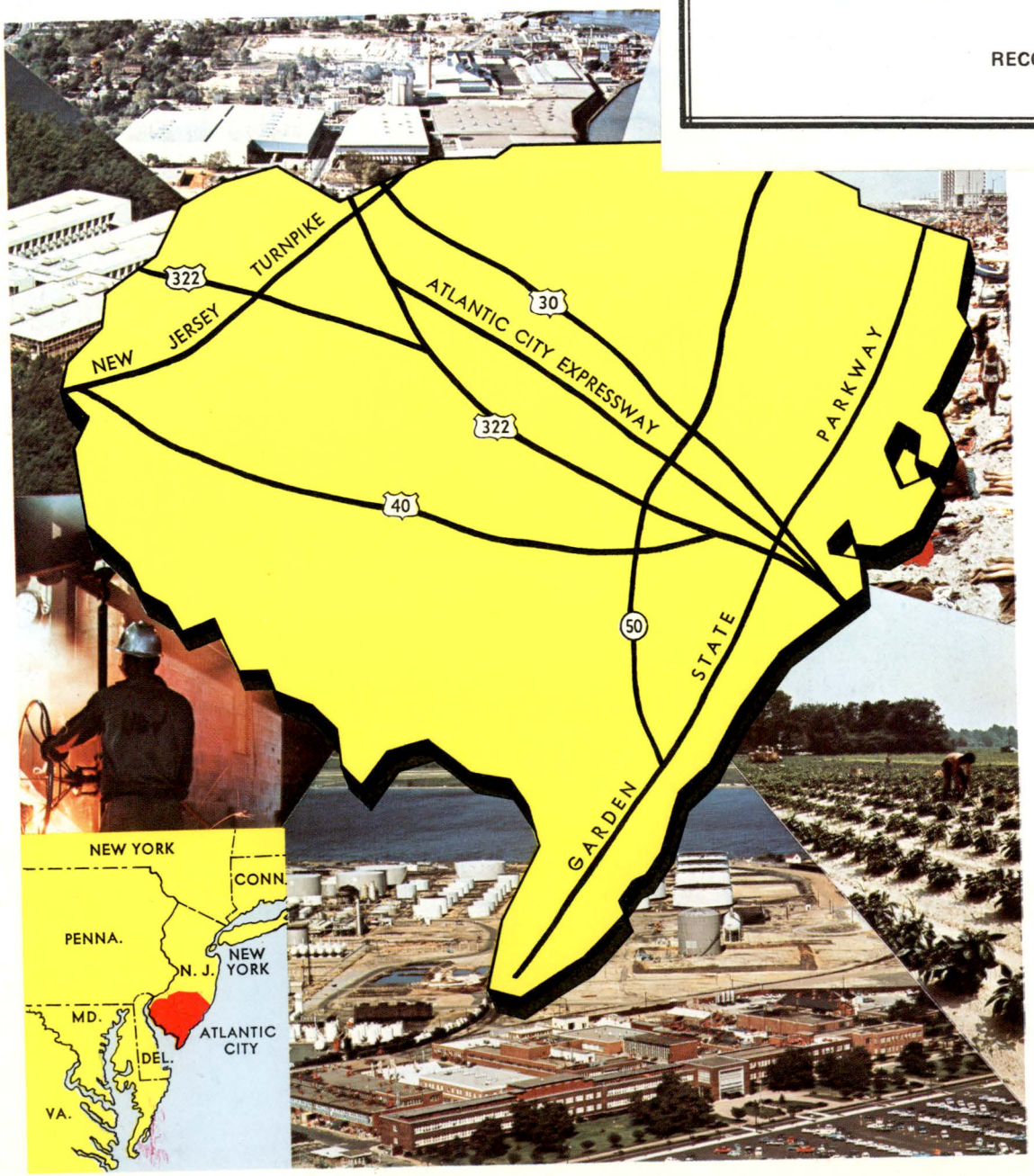
Pension and Insurance Committee
Richard M. Dicke, Chairman
John M. Miner
Frank H. Wheaton, Jr.
Richard M. Wilson

Personnel Committee
Richard M. Dicke, Chairman
Eleanor S. Daniel
Frank H. Wheaton, Jr.

Shareholder, Community and Government Relations
Eleanor S. Daniel, Chairman
Joseph M. Galvin, Jr.
Frank H. Wheaton, Jr.
Richard M. Wilson

Atlantic Electric
SERVING A MILLION PEOPLE
IN SOUTHERN NEW JERSEY

1600 PACIFIC AVE.,
ATLANTIC CITY, N.J. 08404



THE AREA WE SERVE . . .

One Third of the State of New Jersey