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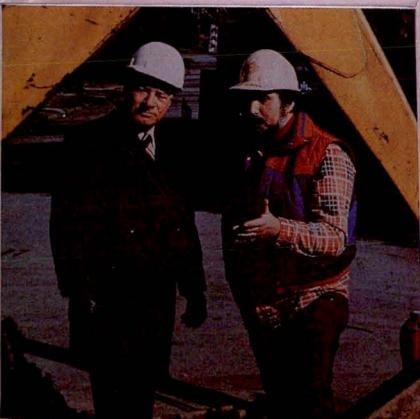
# Philadelphia Electric Company



## Annual Report 1979

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# Corporate Objectives

Philadelphia Electric Company has five clear corporate objectives which are the building blocks of the entire organization. The objectives are:

## **Reliable Service**

To provide customers with reliable service at reasonable rates.

## **Financial Strength**

To be financially strong and pay investors a fair return on their investment.

## **Employee Relations**

To be fair to employees and offer opportunities for personal growth and increased productivity.

## **Communications**

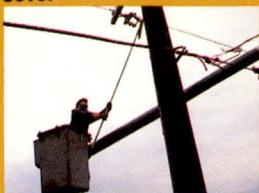
To communicate so others can better understand the role of the Company and the challenges it faces.

## **Corporate Citizenship**

To contribute to the common good of the community and utility industry.

PE's formal corporate objectives program began in 1975. Each year departments of the Company develop plans for meeting these corporate objectives. Management uses these plans as a basis for measuring accomplishments.

### Cover



PE lineman Allen Turberville installing fuse with "hotstick." Reliability of service is not the responsibility of any one person, nor of one Company department. It is the contribution of every PE man and woman at work.



Linda Gordy of Stock Transfer displays stock certificate. The support and loyalty of shareholders make up the main framework for the Company's financial strength.



Gas Operations Vice President Marty Gavet discusses gas line installation with George Prescott. The performance of employees is the Company's greatest asset.



Neil McDermott of Corporate Communications and Action News reporter Rob Jennings. PE communicates through the media to create better understanding of the Company's role in providing energy.



PE President and Chief Executive Officer Lee Everett was the Chairman of the 1980 campaign of United Way of Southeastern Pennsylvania. The Company and its employees take an active role in providing leadership for communities.

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## To Our Shareholders:

1979 was another year with both "Good News" and "Bad News" for the Company. Common stock earnings were \$1.86 per share, primarily because most of the "Bad News" adversely affected our ability to earn a reasonable return.

Specifically, the "Bad News" we've been wrestling with this year has been:

- Double-digit inflation, that increased most of our costs.
- Record high interest rates, which had a significant impact on earnings.
- Nearly doubled prices for oil that substantially raised electric and steam rates to our customers and added costs to the Company.
- Low sales growth, because of the weakness in both our national and regional economies and appropriate reductions in energy use by our customers.
- The Three Mile Island accident that was a severe setback for the nation's nuclear power program. We've covered this subject in some detail in a special section on page 14.

But, there was "Good News" too, highlighted by:

- The resumption of gas sales at a record-breaking rate. This was brought about by greatly increased supplies of natural gas to the Company because of the deregulation of natural gas prices, which are still substantially below the equivalent price of heating oil to home heating customers.
- The continued excellent performance of our Peach Bottom nuclear units, that saved our customers \$210 million in fuel charges. The total plant saved the nation 27 million barrels of oil.

- The completion of a PUC-mandated management audit by Cresap, McCormick & Paget, an independent firm of management experts, that gave the Company high marks in all key areas and made valuable suggestions for improving some of our operations. We're diligently following up their recommendations.
- A continuation of our construction activities to replace old oil burning plants and to prepare for increases in future energy use.
- A vigorous pursuit of much-needed rate increases before the PUC, to offset the impact of inflation on operating costs and to earn a fair return for our shareholders. We were granted a \$2.9 million annual increase in steam rates October 1, 1979, and a \$10.7 million annual increase in gas rates January 5, 1980; and we are pursuing an electric rate increase that should be decided by the PUC this spring.

While we are not satisfied with our earnings performance, we feel we made the best of a difficult year, primarily because of the excellent response of our fine organization to the adverse circumstances we had to contend with in 1979. Your Company has a strong capital base, it has a group of dedicated employees, and it is looking forward to the new decade with confidence.

This year's report is organized around the Company's "Corporate Objectives." These objectives form

the cornerstone of the Company's system of "Management by Objectives," which is a key element in a management tool we use to analyze our problems, plan for improvement, and measure our results each year. Our five "Corporate Objectives" serve to focus all of our activities in the right direction.

We have also included information, beginning on page 24, which estimates what inflation is doing to the Company's financial statements. It highlights in a quantitative way what we already knew, that we must receive more timely rate increases if we are to offset inflation, improve our earnings, and attract the new capital we need to continue to serve our customers' needs.

While 1979 won't go down in our "memory banks" as a good year, it was a year of progress. We are in a stronger position today to improve future results than we were at the beginning of the year.

We are grateful for the loyalty and support of our shareholders, and pledge to you our continued dedication.

February 25, 1980



R.F. Elliston  
Chairman of the Board



J.L. Everett  
President and Chief Executive Officer



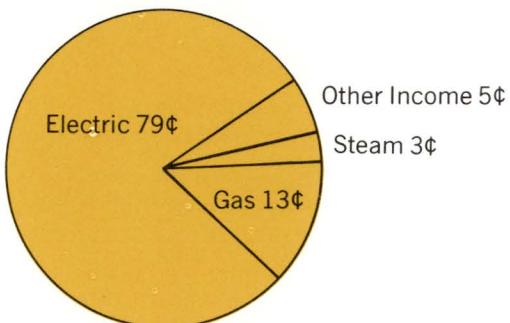
J.R. Dunlap  
Executive Vice President and Chief Operating Officer

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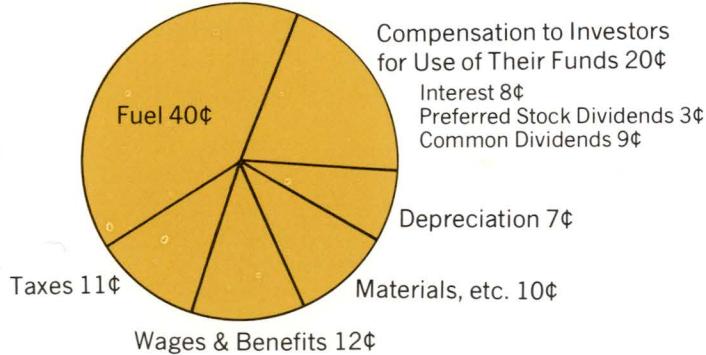
## Financial Highlights

	1979	1978	Percent Change
Operating Revenues .....	\$1,578,505,000	\$1,456,758,000	8%
Operating Expenses .....	\$1,332,706,000	\$1,215,110,000	10%
Taxes Charged to Operations .....	\$ 185,731,000	\$ 194,728,000	(5%)
Operating Income .....	\$ 245,799,000	\$ 241,648,000	2%
Earnings Applicable to Common Stock .....	\$ 149,698,000	\$ 141,349,000	6%
Earnings per Average Common Share .....	\$1.86	\$1.87	(1%)
Cash Dividends Paid per Common Share .....	\$1.80	\$1.80	—
Average Shares of Common Stock Outstanding .....	80,529,000	75,391,000	7%
Construction Expenditures .....	\$ 429,336,000	\$ 411,716,000	4%
Total Assets .....	\$5,241,260,000	\$4,850,625,000	8%

Where the Income Dollar Came From



Where the Income Dollar Went



## The Company

The Company's predecessors provided electric service starting in 1881. The current Company, incorporated in Pennsylvania in 1929, is an operating utility providing electric, gas and steam service in southeastern Pennsylvania and providing, through its subsidiaries, electric service in two counties in northeastern Maryland. General Office: 2301 Market Street, P.O. Box 8699, Philadelphia, Pennsylvania 19101.

The total area served by the Company and subsidiaries covers 2,475 square miles, with a population of 3,700,000. The City of Philadelphia represents only 5 percent of this total area.

## Annual Meeting

The annual meeting of the shareholders of the Company will be held on April 9, 1980, at eleven a.m. in the Crystal Ballroom, Benjamin Franklin Hotel, Ninth and Chestnut Streets, Philadelphia, Pennsylvania.

Shareholders of record at the close of business February 22, 1980 are entitled to vote at this meeting.

Notice of the meeting, proxy statement and proxy will be mailed under separate cover. Prompt return of the proxies will be appreciated.

# Providing Reliable Service

**"To provide customers with reliable service at reasonable rates."**

## Meeting Customers' Needs

In 1979, Philadelphia Electric Company met all of its customers' energy needs. Electric sales were the highest in the Company's 98-year history. And, gas sales were again on the upswing as additional supplies of gas enabled us to resume adding new customers.

Electric sales were 28 billion kilowatt-hours, 1 percent higher than 1978. One of the factors contributing to this low growth is customer conservation.

During the summer, the Company experiences the greatest demand for electricity because of air conditioning usage. The biggest challenge for 1979 came on August 1, when the peak hourly demand was 5,641,000 kilowatts.

Gas sales increased 5 percent over 1978. For the first time since 1972, the Company was able to connect new customers desiring gas. This marks an upswing in PE's gas business which has been accelerated by high oil costs, encouraging customers to make an economic selection of gas.

## Maintaining High Reliability

Providing high quality electric service to 1.3 million customers is a formidable job. In 1979, PE's enviable record of reliability continued. On the average, uninterrupted service was maintained 99.99% of the year. Storms, cars hitting poles, trees falling on wires and equipment failure prevented the achievement of 100 percent reliability.

To provide reliable service, the Company must work constantly to prevent service interruptions. PE has a well-constructed system which is properly maintained. It is equally important to restore service

quickly if it is interrupted. Philadelphia Electric is ready to respond to problems with a well-trained work force and the most modern equipment.

The Company realizes it cannot rest on its long record of reliability. It is determined to keep up with the changes of customers, technology, and working methods. And, it must always fight higher costs.

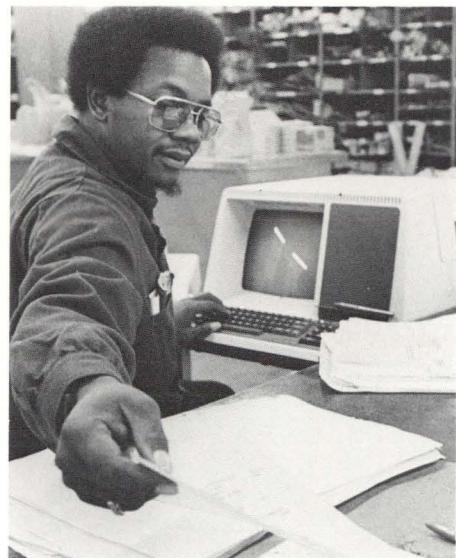
## Keeping Costs Down With Nuclear Power

Philadelphia Electric Company's goal is to provide this reliable service at the lowest possible cost to customers. One reason for using nuclear power is the relative low cost of fuel, which is less than one tenth the cost of heavy oil.

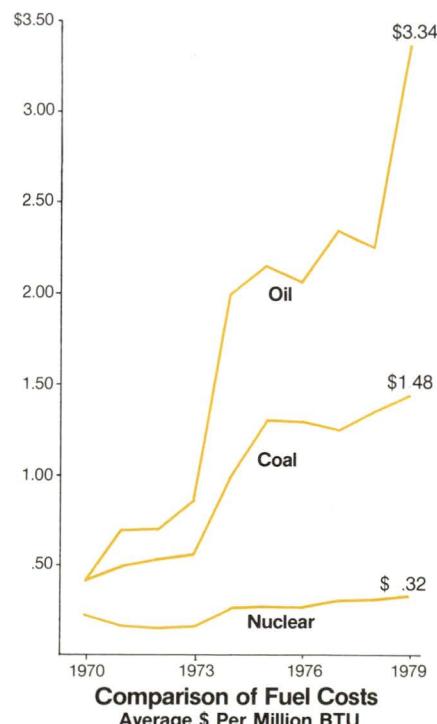
Nuclear plants continue to provide a substantial economic benefit for customers. During 1979, 24 percent of PE's electric power was generated by nuclear units which saved PE's customers \$240 million in fuel charges.

The Peach Bottom nuclear units continued to perform well. These two units operated at 80 percent of maximum possible output, surpassing the excellent 75 percent achieved in 1978.

The Salem No. 1 nuclear unit, which is operated by Public Service Electric and Gas Company of New Jersey, was out of service for 9 months in 1979 due to an extended maintenance outage in conjunction with its first refueling. Major work included repairs to the turbine blades, replacement of main condenser tubing, repair of concrete anchor bolts and modification of piping hanger supports to meet new NRC requirements.



Ronald Pugh of Stores Division receives material requirements from service buildings. With the aid of the new computer system, providing materials and supplies to operating forces is done at a lower cost and with greater efficiency.



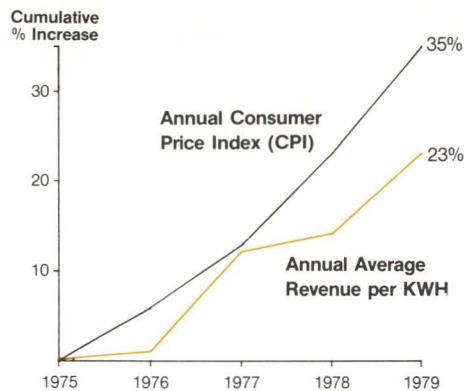
Although it is normal for large new plants to need work after their initial "shakedown" run, the length of this outage was a disappointment. PE owns 43% of the unit.

Construction of the Salem No. 2 unit is complete and it is scheduled for commercial operation in 1980. Licensing of this unit has been delayed due to the Nuclear Regulatory Commission's moratorium on issuing new licenses.

Construction progress continues at the Limerick nuclear generating station. When completed in the mid-1980's, this 2,110,000 kilowatt station will save the equivalent of more than 20 million barrels of oil each year.

### **Oil Costs Rise Significantly**

During 1979, the price of oil increased about 70%. Because of this price rise and its effect on the cost of energy purchased from neighboring utilities, the Company's total electric fuel and energy bill in 1979 rose to about \$570 million, an increase of \$150 million over the previous year. This significant rise in the largest element in PE's cost of doing business had two other effects. First, customer bills rose because of increases in the energy charge which enables the Company to recover actual fuel costs, without



**PE Electric Rates Have Increased Less Than the Consumer Price Index**

profit, but with a lag of 4 to 5 months. Second, it was necessary to borrow funds to finance the higher fuel costs pending collection from our customers. The interest on these borrowings, coming at a time when interest rates were at record high levels, decreased our earnings approximately 5 cents per share.

The need to recover higher costs, particularly higher fossil fuel costs, had a significant impact on the Company's rates in 1979. However, as illustrated on the chart above, the Company's average electric rate has increased less than the Consumer Price Index (CPI) during the past four years. And during the same four year period, the increase in the price of oil was almost double the CPI. This record demonstrates nuclear power's role in holding down customer costs.

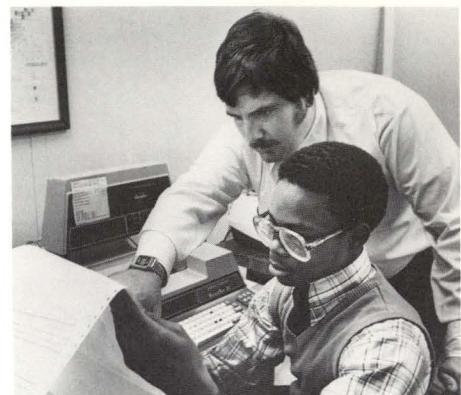
### **Gas Service Expanding**

As new gas supplies became available, the Company reopened gas sales to all classes of customers in 1979. New gas connections had been stopped by the PUC in 1972 because of dwindling reserves in the gas producing regions of the nation. Limited new residential sales were permitted in 1978 to replace customers lost through attrition.

With oil prices soaring, the reopening of gas sales was more than welcome to customers. During



Construction at PE's Limerick nuclear generating station continues. The plant is now 50% complete.



Allen Yahemsky, Electric Production, instructs Kirby Jones, a Pre-Engineering Exposure Program student, on the use of latest computer equipment accessible to a boiling water reactor core simulation program.



Barbara Ireland of Customers Service talks to a customer. PE is available to help customers and respond to their needs.



PE linemen in helicopter inspect transmission lines.

1979, gas heat was installed in the homes of 6,500 residential customers, and it is expected that in 1980, 8,000 additional residential gas heating customers will be added to the system. In addition, there has been significant load growth by existing commercial and industrial customers, and many



*Jim Malloy of Electric Transmission and Distribution updates statistics in the Storm Control Center during Hurricane David. When interruptions do occur, PE employees work to restore service in a minimum of time.*



*Ed Alwood, a Peach Bottom operator, at the plant's control panel.*

new customers in these classifications have been added to the system. Increased gas supplies have also permitted PE to make interruptible gas available to some large industrial and commercial customers.

Gas forecasts for the future are bright. Philadelphia Electric Company expects about a 7 percent increase in the amount of gas from existing suppliers in 1980. Also, the Company's exploration subsidiary's joint drilling ventures continue with success. Through 1979, the Company has participated in the drilling of 218 natural gas wells. To date, there have been 69 successful wells, an above-average record for the gas production industry.

#### **PUC Audit Gives PE High Marks for Reliable Service**

A management audit of Philadelphia Electric Company, ordered by the Pennsylvania Public Utility Commission and completed in 1979, reveals PE is doing a good job, especially where it counts most — in delivery of reliable and economical service to customers.

The audit conducted by the New York management consulting firm of Cresap, McCormick & Paget, was ordered by the PUC as a part of its new program to audit the state's major utilities to find ways of improving operating efficiency and cutting costs, thus insuring adequate service at the most reasonable rates possible.

The management audit verified that PE's rates compare very favorably with other major metropolitan areas. The audit reported that PE's revenues per kilowatt-hour have consistently been substantially lower than the average of five comparable east coast utilities. In 1978, PE's customer bills were about \$145 million lower than the average of the comparison group.

The audit identified 74 strengths and accomplishments of the Com-



*Robert Lenderman of Gas Operations takes monthly reading on a rectifier to determine that the cathodic protection system is functioning. The system prevents gas pipeline corrosion.*

pany and gives the Company particularly high marks for technical competence; service reliability; financial, construction and fuels management; employee capability and dedication.

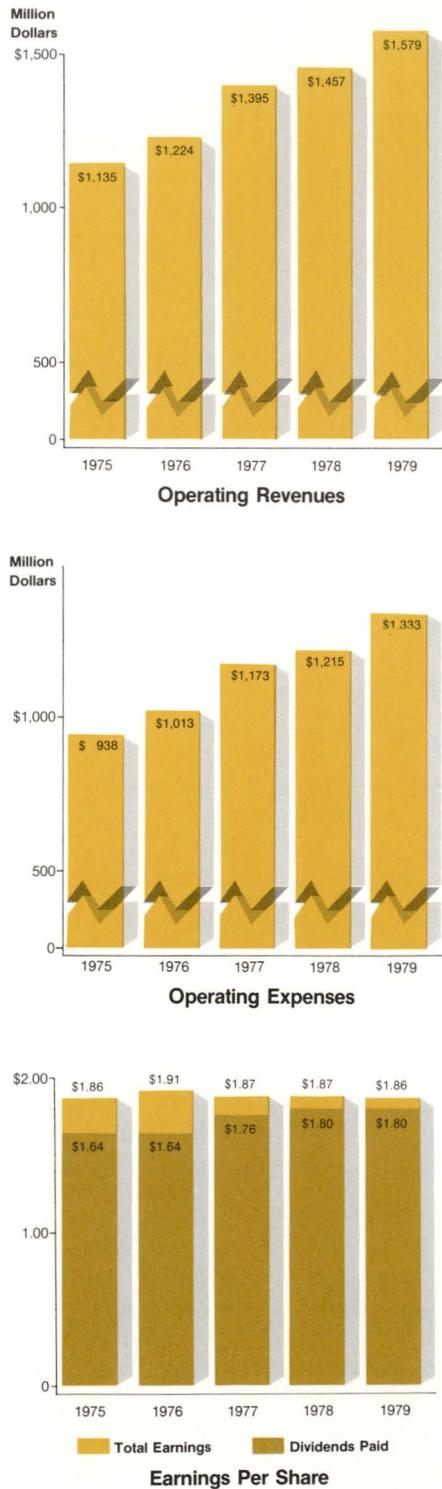
The audit also lists 58 opportunities for improvement. Among the major opportunities identified by the consultant are: improving the performance of the Eddystone coal-fired generating station, accelerating completion of the Limerick nuclear plant, pursuing cost reduction opportunities, particularly in personnel-related expenditures, greater unification of responsibilities in the area of customer service and improving the Company's relationship with the PUC.

The remaining recommendations are primarily in the areas of organizational changes, modification of various controls and procedures, and acceleration of the development of various work management systems.

In summary, the report shows PE is a well-managed Company doing a good job where it counts — in providing reliable service, the Company's number one objective.

# Building Financial Strength

**"To be financially strong and pay investors a fair return on their investment."**



## 1979 Financial Results

Common stock earnings were \$1.86 per share in 1979, 1 cent below the previous year. Average shares for 1979 were 80.5 million, an increase of 7 percent over the previous year. Common stock earnings were \$150 million, an increase of \$8 million over 1978.

The Company continued to pay dividends at \$1.80 per share, the same level paid since mid-1977 when the annual rate was increased from \$1.64.

Regular common stock dividends are an uninterrupted tradition for the Company since 1902.

1979 operating revenues were \$1.6 billion, or 8 percent over the previous year. Electric revenues increased \$87 million as a result of higher electric rates and a 1 percent increase in sales. Gas revenues increased \$32 million due to higher fuel revenues and a 5 percent increase in sales, and steam revenues increased \$3 million as a result of the higher fuel revenues.

Operating expenses increased 10 percent as a result of higher fuel costs, increased wages and higher depreciation.

Earnings per share in 1979 were adversely affected by these rising costs not offset by growth in sales, and by higher interest rates.

## Rate Increases

On July 27, 1979, the Company filed with the Pennsylvania Public Utility Commission (PUC) a request for an additional \$123 million (10%) in electric revenues. This rate request has been suspended by the PUC until April 25, 1980.

Hearings were completed on December 21, 1979, and a final order is expected prior to the end of April.

This rate increase request was necessary mainly because inflation continues to push up operating and maintenance expenses.

Between the last request for a rate increase in 1977 and this filing, the cost-of-living rose over 15 percent and is still rising. About \$90 million of the rate increase covers the higher costs of labor, depreciation, equipment, taxes, and supplies. The remaining portion of the increase is required to achieve a level of earnings that will continue to attract investors so the Company can replace and improve facilities and continue its record of reliable service.

In March 1979, the Company requested a \$15.4 million gas rate increase. In December, The Pennsylvania Public Utility Commission (PUC) approved a \$10.7 million increase which became effective on January 5, 1980 and affects all gas customers. This increase is only the second residential gas rate increase in the last twenty-six years.

In April 1979, a \$4.3 million steam rate increase request was filed with the PUC. The PUC approved \$2.9 million which became effective on October 1, 1979.

In December 1979, Conowingo Power Company filed a request for a \$4.2 million rate increase. The request has been suspended by the Maryland Public Service Commission pending an investigation.

The Salem No. 2 nuclear generating unit, constructed and operated by Public Service Electric and Gas Company of New Jersey, is expected to be placed in commer-

cial operation after the Nuclear Regulatory Commission lifts its moratorium on new licenses. The Company owns a 43 percent share of the unit (about 474,000 kilowatts). Since demand is growing at a lower rate than expected, PE's present system generating capacity is adequate to meet customers' needs. Therefore, in April 1979, the Company reached an agreement with Jersey Central Power and Light Company, a subsidiary of General Public Utilities Corporation, to sell the output of Salem No. 2 to Jersey Central at least through 1984. During the term of the agreement, PE's customers will not be charged for any costs related to Salem No. 2. Revenues from Jersey Central are expected to cover the unit's operating and capital costs and provide a return for investors until the plant is needed on the PE system.

### Financing Program

1979 construction expenditures were \$429 million. Internal sources of funds, which are primarily depreciation, deferred taxes and investment tax credits, provided \$169 million. Internal sources help the Company to hold down financing costs for construction and provide energy at a lower cost to customers.

The 1979 financing program began in April when the Company sold 4 million shares of common stock through a public offering. Also in April, \$50 million of bank notes were issued. This was the remaining portion of a \$100 million 7-year term bank loan arranged in 1978. In May, the Company arranged a \$50 million 8-year term loan, using the proceeds to refund a portion of an existing loan.

In October, \$100 million of first and refunding mortgage bonds due 2005 were sold at a coupon rate of 12½ percent.

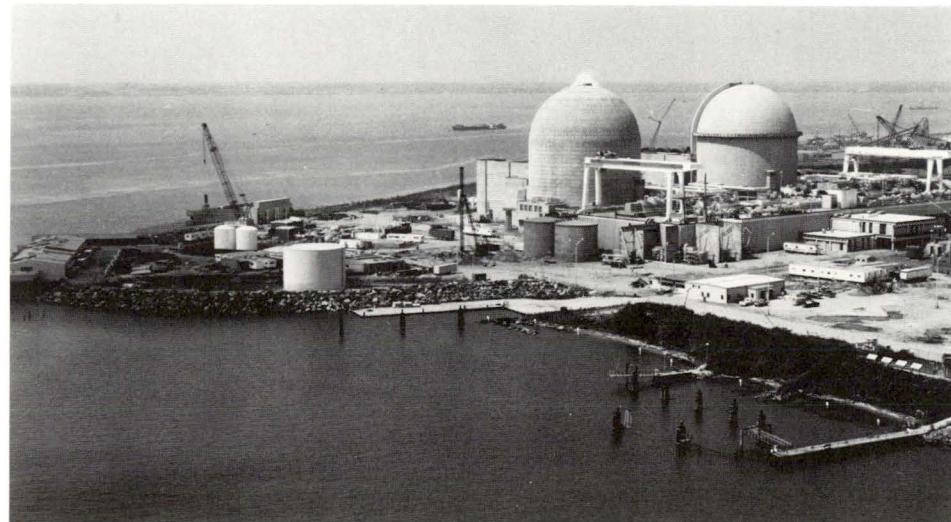
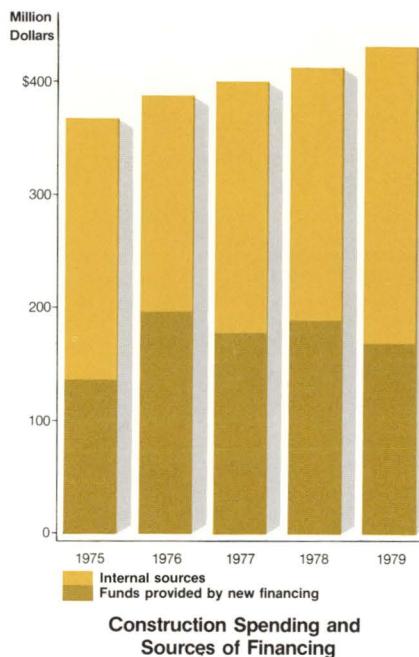
During 1979, over 2 million shares of common stock were issued through our Dividend Reinvestment and Employee Stock Purchase Plans. The continued success of these plans demonstrates the shareholders' and employees' confidence in the Company.

For 1980, construction expenditures including acquisition of nuclear fuel are expected to be \$610 million, \$180 million above the 1979 level. Approximately \$190 million will be provided by internal sources.

To finance the remainder of the 1980 construction program and to refund \$128 million of maturing long-term debt, approximately \$550 million of new financings will be required. Bonds, Preferred Stock and Common Stock, including sales through the Dividend Reinvestment and Employee Stock Purchase Plans will be issued, subject to market conditions.

However, the Company's ability to issue additional mortgage bonds and preferred stock in 1980 has

been severely limited because the Company's income has not kept pace with the higher interest rates which now prevail. This situation increases the need for timely and substantial rate relief now pending before the PUC.



The Company owns 43 percent of Salem nuclear generating station's two units.

## Employee Relations

**"To be fair to employees and offer opportunities for personal growth and increased productivity."**



Beth Kelly, Financial Division, operates the word processing system. Most of the Company's documents pertaining to rate increase filings and securities registrations are stored in the computer memory.



Joellen Coyle, Customer Accounts, operating the remittance sorting system. Use of this system enables the Company to expedite and reduce handling of checks sent in by the customers.



Managerial personnel attending management development program class.

### Our Efficient Work Force

Philadelphia Electric employees are dedicated to searching for and finding better ways to do their jobs. They have succeeded so well that the Company work force today is about the same as it was 20 years ago, while serving some 237,000 more electric and 48,000 more gas customers. In the same period, energy sales have doubled. Similarly, 20 years ago it took 9 employees to serve each 1,000 customers. Today, it requires only 7.

Better productivity results from two elements: improved technology and the efforts of men and women to use the tools furnished to them to do a good job in an efficient way. PE has both.

Most important is that PE people realize the need to help control costs. They are willing to put forth efforts and ideas to help the Company operate more efficiently. Through the Employee Suggestion System, PE people share in the savings that result from improved working conditions. Savings of \$230,000 resulted from employee suggestions in 1979. Suggestions have included equipment modifications, inventions and ideas for modifying working methods. PE's Employee Suggestion System, which was founded in 1909, is the second oldest suggestion system in the country.

Turnover among PE people is low and more than 88 percent of employees have been with the Company five years or longer. More than 2,200 of the 9,400 employees have more than 25 years of company experience. Low turnover reflects good morale and is an asset to the Company. The Company is proud of this high degree of motivation and loyalty. PE people have met the challenges facing the Company.

### Affirmative Action Is A Continuing Objective

In 1979, the Company made significant progress in increasing the number of minorities and women throughout the labor force. PE is in compliance with the Equal Opportunity consent decree signed in 1973 and has met the targets for 1979. The goal of the affirmative action program is to have the proportion of minorities in PE's work force equal to that in the labor market throughout the Company's 2,475-square-mile service territory. The Company continues to recruit females and minorities, as well as the handicapped. In fact, PE has become an industry leader in the employment and training of the handicapped.

### Training To Keep Up With Technology And New Challenges

The Company's training efforts are aimed primarily at keeping employees abreast of their changing job requirements and preparing them for advancement to new responsibilities when the opportunity occurs.

Both on-the-job training techniques and Company-sponsored classes are used. Training is aimed at meeting the specific needs of employees. Employee training needs are undergoing rapid change as the Company strives to use the latest technology. To meet this training challenge, the Company has been innovative in establishing training programs. These include programs for nuclear plant operators, linemen, meter readers, customer service personnel, and many other occupations.

During 1979, an in-depth development program for management/supervisory employees continued. Since 1976, 1,800 have undergone training to improve and upgrade managerial skills. It is the aim of Philadelphia Electric to provide managerial personnel with the tools to develop to the fullest extent of their capabilities.

The Company encourages employees to enroll in classes at local educational institutions by paying tuition expenses for job-related courses.

#### Safety Is A Way Of Life

Safety is more than a program at Philadelphia Electric. It is a way of life. Observance of safety rules both on-the-job and at home is emphasized at every level of the organization. Consequently, PE men and women are able to keep accidents on-the-job to a minimum, and bring good safety habits into their family and community lives.



President Everett congratulates Martin J. Westerman, who was named "1978 Suggestor of the Year."



Edwin Breeser of Electric Production gives instructions on working in containment areas at nuclear power plants.



John Roberts and Larry Murray of Commercial Operations use the Company's new video training equipment.



PE meter readers visit all of the 1.3 million customers each month. Here, Linda Campbell reads a meter on one of the coldest days in February.



Employees receiving training at the Company's Fire School.

## Communications

**"To communicate so others can better understand the role of the Company and the challenges it faces."**



Jim Griffin and Dave Schanzer of Finance and Accounting Department respond to shareholder questions.



Joe Paquette, PE's Chief Financial Officer, discusses our electric rate increase request with Dick Sheeran, of Channel 3's Eyewitness news.

### Responding To Customers' Concerns

Utilities these days are in the public eye more than ever before. Criticism of rates continues at a high level. Rate increases, which are a direct result of the overall problem of inflation, are the main concern of customers. And environment and nuclear issues have created significant communication challenges for the Company.

A logical consequence of this high visibility has been to step up the corporate communications program. PE did just that. The Company uses the envelopes holding customers' bills to insert leaflets to explain rate increases, safety and energy conservation tips.

The Speakers Bureau was given increased attention because of its importance as a way to talk face to face with the community.

In 1979, the Speakers Bureau gave 930 presentations before more than 100,000 persons. Nearly 37,000 visited the Limerick Atomic Information Center. And about 37,000 visited the Peach Bottom Atomic Information Center. The Company sponsored educational programs for 60,000 students. More than 240,000 visited the Muddy Run Recreation Park.

### Communicating With Investors

PE communicates with investors every day — by face to face contact, through telephone or written correspondence.

The annual meeting provides an opportunity for management to discuss its achievements with shareholders. In 1978, this face to face

communications approach was expanded by holding regional shareholders' meetings. Two regional shareholders' meetings were held in the Fall of 1979. The Company looks forward to continuing this contact in 1980.

Daily contact with investors occurs at the shareholder information office located at the Company's general offices. A staff is available to assist investors and provide information, both in person and by telephone. The Company is always pleased to answer questions and provide information.

In addition to direct contact with investors, PE keeps the financial community updated on the Company's progress through meetings, publications and detailed information mailed to security analysts, stockbrokers, and institutional investors.

### Around The Clock Communications With The Media

Philadelphia Electric Company operates 24 hours a day. And so do the media. PE keeps the



Larry Eckman of Corporate Communications explains to students the reasons for building Limerick Generating Station. In 1979, 37,000 visited the Limerick Atomic Information Center.

media up-to-date and responds to their needs day and night. The media are especially important because they offer both opportunities to initiate stories and to respond promptly to issues of current concern.

PE's communications efforts are extensive. In 1979, the Company issued 440 news releases, had 330 radio interviews, and 185 television spots. Philadelphia Electric Company continues to work diligently through the media — newspapers, radio and TV stations — in attempting to reach those who want to hear the Company's story.

### Informing Employees

Well-informed employees have long been recognized as one of the Company's greatest assets. Public understanding of the Company and its challenges is enhanced when employees have the ability to communicate effectively. Management has given a high priority to informing employees. Employees receive daily, bi-weekly and monthly communications concerning the Company and its operations. And, throughout the year, informational meetings give employees an opportunity to exchange ideas and ask questions.



Through PE's Hispanic Council, PE can discuss energy concerns with Spanish-speaking customers.



Charles Martin of Corporate Communications assists shareholder in asking a question at regional shareholder meeting at Archbishop Ryan High School. Regional shareholder meetings give management an opportunity to discuss the challenges facing the Company.



Octavia Jones Spencer of PE's Speakers Bureau discusses uses of electricity with students.



Joe McKenna, left, of Business Services talks with customer. The new Fairmont Hotel opened in 1979.



Customers Service representatives use computer terminals to help in answering customer inquiries. As many as 4,000 calls are handled each day at the Main Office location.

## Corporate Citizenship

**"To contribute to the common good of the community and utility industry."**



Susan Campbell is one of over 100 PE employees that responded to the Red Cross emergency appeal for blood after a train collision.



Edward Pearl of Electric Transmission and Distribution Department visits a local hospital, bringing laughter and gifts to the children.

### Employees Active In Community

Philadelphia Electric Company strives, both through individuals and as a Company, to be a good citizen of local communities. Some 112 employees held positions of responsibility during 1979 in local government, while thousands of others actively participated in the affairs of local civic, school and church organizations. Employees played leadership roles in a variety of charitable fund drives. The Company encourages employees to be active in functions that help the communities in which they live.

### Employees Give \$572,000 To United Way

Philadelphia Electric employees contributed \$572,000 to the 1980 United Way Campaign — a new record high for the Company campaign. Employees have participated in the United Way and other charitable campaigns for over 50 years. Not only do PE employees contribute to this worthwhile effort, they assist in running it. This year PE president Lee Everett headed the Southeastern Pennsylvania campaign and PE was a leader in starting its employee campaign early. United Way is one of the many ways PE people help people within the community.



The 1979 Variety Club Telethon was considered one of the most successful telethons held by the club. The Independent Group Association with full cooperation by the Company recruited about 200 PE employees to volunteer for the event.

### Employees Are Blood Donors

In 1979, PE employees donated 1,600 pints of blood to the American Red Cross. Twice each year, the Red Cross sets up a blood donor center at Company headquarters while the Bloodmobile reaches employees throughout the system. Pre-arranged appointments permit an orderly operation of the event — an event PE employees view as an opportunity to help others in need.

### PE Gets Andy Award For Area Development Publication

The Company recently received an Andy award presented by the Advertising Club of New York for the area development insert which was a part of our 1977 annual report. The award is symbolic of the effort put forth by the Company in developing the service territory.

The exceptional construction activity in Center City Philadelphia indicates the confidence exhibited in the City's future. Company representatives work closely with City and community leaders in the effort to attract new business to the City. Similar efforts are made throughout the service territory.

### Developing Technology

Philadelphia Electric Company is a leader in the utility industry. As a major electric, gas and steam utility, the Company supports the efforts of trade associations. PE employees provide leadership in these associations and contribute to research and development projects undertaken to improve the industry.

## **Customers' Use of Energy**

Recognizing the importance of an adequate energy supply for the economic health of our area, the Company began advocating the wise use of energy — increasing efficiency and eliminating waste — long before the oil embargo of 1973 created a national awareness of this need.

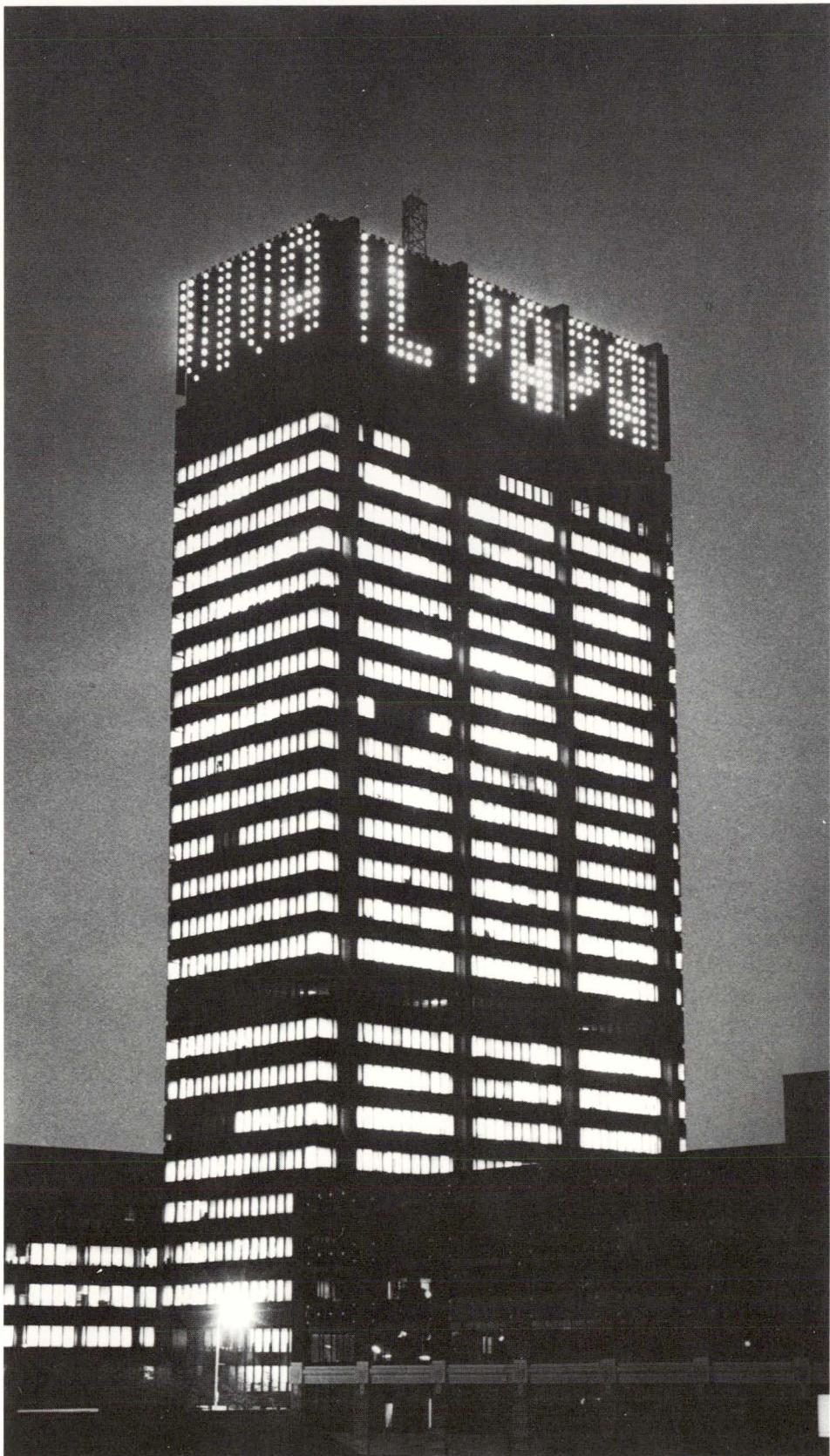
Penny Saver ads at the beginning of the seventies won national recognition for educating customers on the wise use of appliances.

The push to inform customers on the value of managing energy use and reducing oil imports has been intensifying for ten years.

In 1979, a Committee on Energy Marketing and Purchase (CEMAP) arranged the first interconnection of a windmill-generator on the PE system at Creamery, Pennsylvania. Year-round testing continued on 13 residential solar water heating installations and several commercial solar-heat storage systems.

Efforts to help the nation reduce its dependency on oil paid off in the success of the heat-pump program. Electric heat pumps, which are more efficient than conventional heating systems, are being installed in half of new residential construction units.

As a result of the heat pump success, and coupled with the fact that ten percent of new homes are heated with electric resistance heat and 30 percent with gas, only about ten percent of new housing is being committed to oil heat, a marked shift from previous years' experience.



*PE helped illuminate Pope John Paul II's visit to Philadelphia with the centuries-old greeting, "Long Live the Pope."*

## Special Report: The Accident at Three Mile Island

On March 28, 1979 a serious accident occurred at the Three Mile Island (TMI) nuclear power plant in Middletown, Pennsylvania, owned by General Public Utilities Corporation. Many investigations into the design, operation, and regulation of nuclear power plants followed. In addition to the governmental investigations such as the Kemeny Commission and the Nuclear Regulatory Commission's (NRC) Special Inquiry Group, the electric utility industry, through its Electric Power Research Institute, has established the Nuclear Safety Analysis Center (NSAC) to analyze in depth the TMI accident.

### NRC "Lessons Learned"

The Nuclear Regulatory Commission's review of the design and operation of all nuclear power plants, and the emergency response capabilities for coping with accidents, developed thirty-one recommendations for implementation in the immediate or near term. These short term recommendations deal with plant design, operations and emergency preparedness.

The Nuclear Regulatory Commission's review is continuing and more recommendations will be made. These long term recommendations will deal with operator training and qualification and the licensing process.

The utility industry has established the Institute for Nuclear Power Operations (INPO), which will set and maintain uniformly high standards for operator training and qualification throughout the industry and act as an accrediting agency for these programs.

### PE Review

PE set up its own task force to review independently the TMI experience and to make recommendations for improving the safety of the Peach Bottom and Limerick plants. While concluding that operations are extremely safe, the task force made twenty-two recommendations for improving operations.

Seventeen of these recommendations proved to be similar to the Nuclear Regulatory Commission's recommendation for which implementation was required. The five internal recommendations not addressed by the Nuclear Regulatory Commission have been or are in the process of being implemented.

### Implementing Changes

Implementing both the NRC's recommenda-

tions and PE's internal recommendations has required, and will continue to require, a large commitment of manpower. The ultimate cost of implementing the short term recommendations, and the full scope and cost of the long term recommendations from the NRC are still unknown; however, it is estimated \$30 million may be required to cover plant modifications at the Peach Bottom and Salem stations in the next few years.

PE has always insisted on providing the best training possible for its nuclear reactor operators. Peach Bottom No. 1, PE's first nuclear plant, had its own simulator which was used to train and retrain operating personnel throughout the operating lifetime of the unit. PE uses simulator facilities extensively in training operators for Peach Bottom No. 2 and No. 3, and well over a year ago, the Company decided to build its own simulator and training center at Limerick, which is now underway.

As a further step in strengthening the Company's nuclear program, Vincent S. Boyer has been elected Senior Vice President, Nuclear Power. Mr. Boyer will be responsible for coordinating all of the Company's nuclear-related activities. Mr. Boyer was the Superintendent of the Company's first nuclear power plant. He is a past President of the American Nuclear Society and was Philadelphia's "1979 Engineer of the Year." John S. Kemper, 52, will succeed Mr. Boyer as Vice President of Engineering and Research. Mr. Kemper also has considerable experience in the Company's nuclear program.

### Future of Nuclear Power

The TMI accident was the most serious to date in the nuclear industry in economic terms, but resulted in no injuries or fatalities. In the words of the Kemeny Commission, "We conclude that the most serious health effect of the accident was severe mental stress, which was short-lived."

Nuclear power has had an enviable record of safety and reliability. PE is convinced the changes produced in the TMI aftermath will improve upon the nuclear power industry's performance in providing a much-needed source of energy for the country. PE has taken the "lessons learned" at TMI seriously, and its confidence in the future of nuclear technology is as strong as ever.

# Financial Section

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## Report of Auditors

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To Shareholders and the Board of Directors  
Philadelphia Electric Company  
Philadelphia, Pennsylvania

We have examined the consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1979 and 1978, and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. 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 consolidated financial statements referred to above (pages 17 to 27) present fairly the financial position of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Girard Plaza  
Philadelphia, Pennsylvania  
February 8, 1980

COOPERS & LYBRAND

# Management Discussion and Analysis of the Consolidated Statements of Income

**In General —** The revenue growth of recent years has been accompanied by substantial increases in operating costs and carrying charges on increased investment in plant and equipment. Any future increases in such costs and charges may be expected to affect future net income and earnings per average share adversely unless periodic rate relief is obtained to offset them. In addition, sluggish economic conditions in the Company's service area are continuing to have an adverse effect on operating results.

The Company estimates that 99% of the \$1.80 per share dividend paid to common shareholders in 1979 represents a return of capital which is not taxable as dividend income for Federal Income Tax purposes. This percentage is substantially higher than the prior year because of the significant increase in fuel and interchange expenses which were incurred in 1979 but deferred because they are not expected to be billed to customers until 1980.

## Operating Revenue

**Electric —** An electric operating revenue increase of \$46.7 million in 1978 over 1977 principally reflects higher rates. The \$87.5 million increase in 1979 over 1978 reflects both higher rates and recovery of higher fuel costs. Sales of electricity increased 1 percent in 1979 over 1978.

**Gas —** Gas operating revenue increases of \$14.7 million in 1978 over 1977 and \$31.6 million in 1979 over 1978 principally reflect the recovery of higher fuel costs. Sales of gas increased 5 percent in 1979 over 1978 due to the sale of interruptible gas which was not available in 1978.

## Fuel and Energy Interchange Expense

In 1978 fuel and energy interchange expense was \$1.4 million below 1977 due to the 69 percent increase in nuclear generation replacing high-cost interchange purchases and higher Company sales to the interchange as a result of the nationwide coal strike. In 1979, fuel and energy interchange expense was \$87.8 million above 1978 due primarily to higher fuel costs and higher interchange purchases. Deferred fuel expenses increased \$98.1 million in 1979 over 1978.

## Other Operation and Maintenance Expenses

Other operation and maintenance expenses have increased in 1978 and 1979 due to inflation and growth in utility plant.

## Depreciation

Increases in depreciation in 1978 and 1979 reflect additions to new plant in service.

## Taxes on Income

1978 income taxes were slightly above 1977 income taxes. In 1979, income taxes were \$19.8 million less than in 1978 due to the lower federal tax rate, the flow-through of state deferred taxes and lower taxable income which was caused by higher deductions for operating and maintenance expenses, interest charges and depreciation.

As a result of lower taxable income in 1979, the Company was able to use only \$0.6 million of Investment Tax Credits compared to \$35.1 million in 1978. About \$39.0 million of Investment Tax Credits available in 1979 will be carried forward for use through 1986.

Income Tax Credits, net, have increased in 1978 and 1979 as a result of higher Allowance for Borrowed Funds Used During Construction.

## Taxes, Other than Income

Taxes, Other than Income, have increased due to increases in revenue, which is subject to a gross receipts tax, higher capital stock, realty and social security taxes.

## Allowance for Funds Used During Construction (AFUDC)

The increase in AFUDC for 1978 over 1977 and 1979 over 1978 resulted from a higher cost of capital for construction and higher construction work in progress.

## Interest Charges

Interest charges on long-term debt increased in 1978 over 1977 and 1979 over 1978 because of higher costs of money and the sale of additional issues of debt. Interest charges on short-term debt were essentially the same in 1978 as 1977, but increased by \$4.9 million in 1979 over 1978 due to higher interest rates and higher short term debt.

**Consolidated Statements of Income**  
 Philadelphia Electric Company and Subsidiary Companies

	For the Year Ended December 31	
	<b>1979</b>	<b>1978</b>
	(Thousands of Dollars)	
<b>Operating Revenues</b>		
Electric .....	\$1,311,891	\$1,224,404
Gas .....	221,135	189,522
Steam .....	45,479	42,832
	<b>Total Operating Revenues</b>	<b>1,578,505</b>
		<b>1,456,758</b>
<b>Operating Expenses</b>		
Fuel and Energy Interchange .....	661,724	573,905
Other Operation Expense .....	247,152	220,543
Maintenance .....	117,491	109,407
Depreciation .....	120,608	116,527
Taxes on Income .....	79,055	98,896
Taxes, Other than Income .....	106,676	95,832
	<b>Total Operating Expenses</b>	<b>1,332,706</b>
		<b>1,215,110</b>
<b>Operating Income</b> .....	<b>245,799</b>	<b>241,648</b>
<b>Other Income</b>		
Allowance for Other Funds Used During Construction .....	46,008	37,617
Income Tax Credits, net .....	33,884	26,355
Other, net .....	1,710	4,605
	<b>Total Other Income</b>	<b>81,602</b>
		<b>68,577</b>
<b>Income Before Interest Charges</b> .....	<b>327,401</b>	<b>310,225</b>
<b>Interest Charges</b>		
Long-Term Debt .....	192,990	176,290
Short-Term Debt .....	7,315	2,454
Allowance for Borrowed Funds Used During Construction .....	(67,375)	(53,380)
	<b>Net Interest Charges</b>	<b>132,930</b>
		<b>125,364</b>
<b>Net Income</b> .....	<b>194,471</b>	<b>184,861</b>
<b>Preferred Stock Dividends</b> .....	<b>44,773</b>	<b>43,512</b>
<b>Earnings Applicable to Common Stock</b> .....	<b>\$ 149,698</b>	<b>\$ 141,349</b>
<b>Average Shares of Common Stock Outstanding (Thousands)</b> .....	<b>80,529</b>	<b>75,391</b>
<b>Earnings Per Average Common Share (Dollars)</b> .....	<b>\$ 1.86</b>	<b>\$ 1.87</b>
<b>Dividends Per Common Share (Dollars)</b> .....	<b>\$ 1.80</b>	<b>\$ 1.80</b>

See notes and schedules to financial statements.

**Consolidated Balance Sheets**  
 Philadelphia Electric Company and Subsidiary Companies

	December 31	
	<b>1979</b>	<b>1978</b>
<b>ASSETS</b>		(Thousands of Dollars)
<b>Utility Plant, at original cost</b>		
In Service		
Electric .....	\$3,655,729	\$3,580,178
Gas .....	296,658	289,954
Steam .....	53,477	52,434
Common, used in all services .....	<u>118,176</u>	<u>117,639</u>
	<u>4,124,040</u>	<u>4,040,205</u>
Less: Accumulated Depreciation .....	<u>1,144,119</u>	<u>1,053,284</u>
Net Utility Plant in Service .....	<u>2,979,921</u>	<u>2,986,921</u>
Construction Work in Progress .....	<u>1,619,806</u>	<u>1,345,931</u>
Nuclear Fuel, at amortized cost .....	<u>141,655</u>	<u>116,320</u>
	<u>4,741,382</u>	<u>4,449,172</u>
<b>Nonutility Property and Other Investments</b> .....	<u>47,431</u>	<u>29,963</u>
<b>Current Assets</b>		
Cash and Temporary Cash Investments .....	10,592	38,644
Accounts Receivable		
Customers .....	210,732	151,718
Other .....	20,165	71,812
Deferred Fuel Expense .....	<u>83,512</u>	<u>4,227</u>
Materials and Supplies, at average cost		
Fuel (coal, oil and gas) .....	74,432	60,535
Operating and Construction .....	35,569	32,769
Prepayments .....	<u>4,567</u>	<u>4,270</u>
	<u>439,569</u>	<u>363,975</u>
<b>Deferred Debits</b> .....	<u>12,878</u>	<u>7,515</u>
<b>Total</b>	<u><u>\$5,241,260</u></u>	<u><u>\$4,850,625</u></u>

See notes and schedules to financial statements.

**LIABILITIES**

	December 31	
	<b>1979</b>	<b>1978</b>
	(Thousands of Dollars)	

**Capitalization**

## Common Shareholders' Equity

Common Stock—See Schedule, Page 27 .....	<b>\$1,239,647</b>	\$1,139,659
Other Paid-In Capital .....	2,203	1,968
Retained Earnings .....	338,154	333,649
	<b>1,580,004</b>	1,475,276

## Preferred Stock—See Schedule, Page 27

Series Without Mandatory Redemption Requirements .....	372,472	372,472
Series With Mandatory Redemption Requirements .....	206,851	210,900
	<b>2,241,890</b>	2,173,226

## Long-Term Debt—See Schedule, Page 26 .....

	<b>4,401,217</b>	4,231,874
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**Current Liabilities**

## Short-Term Debt

Bank Loans .....	35,350	4,650
Commercial Paper .....	49,837	11,569
Current Maturities of Long-Term Debt .....	127,790	52,934
Accounts Payable .....	111,176	106,864
Taxes		
Accrued .....	22,046	23,881
Deferred .....	43,086	20,650
Interest Accrued .....	58,143	50,958
Dividends Declared .....	22,248	13,409
Other .....	13,899	7,977
	<b>483,575</b>	292,892

**Deferred Credits**

Accumulated Deferred Income Taxes .....	202,815	177,286
Accumulated Deferred Investment Tax Credits .....	135,294	138,421
Other .....	18,359	10,152
	<b>356,468</b>	325,859
	<b>Total</b>	<b>\$5,241,260</b>
		\$4,850,625

See notes and schedules to financial statements.

# Consolidated Statements of Retained Earnings

## Philadelphia Electric Company and Subsidiary Companies

	For the Year Ended December 31	
	1979	1978
Balance, January 1 .....	\$333,649	\$328,699
Net Income .....	<u>194,471</u>	<u>184,861</u>
	<u><u>528,120</u></u>	<u><u>513,560</u></u>
Cash Dividends Declared		
Preferred Stock .....	44,760	43,877
Common Stock .....	<u>144,984</u>	<u>135,687</u>
Expenses of Capital Stock Issues .....	<u>222</u>	<u>347</u>
	<u><u>189,966</u></u>	<u><u>179,911</u></u>
Balance, December 31 .....	<u><u>\$338,154</u></u>	<u><u>\$333,649</u></u>

## Consolidated Statements of Changes in Financial Position

### Source of Funds

Net Income .....	\$194,471	\$184,861
Charges (Credits) Not Affecting Funds		
Depreciation and Amortization .....	123,066	122,116
Deferred Income Taxes, net .....	<u>44,854</u>	<u>39,340</u>
Investment Tax Credits, net of Amortization .....	<u>(3,019)</u>	<u>31,717</u>
Allowance for Other Funds Used During Construction .....	<u>(46,008)</u>	<u>(37,617)</u>
	<b>Total from Operations</b>	<b>313,364</b>
	<b>Total from Operations</b>	<b>340,417</b>

### Sale of

Long-Term Debt .....	200,000	150,000
Preferred Stock .....	—	50,000
Common Stock .....	<u>99,988</u>	<u>32,975</u>
Increase in Short-Term Debt .....	<u>68,968</u>	<u>1,344</u>
	<b>Total from Financings</b>	<b>368,956</b>
	<b>Total</b>	<b>\$682,320</b>
	<b>Total</b>	<b>\$574,736</b>

### Use of Funds

Expenditures for Utility Plant .....	\$421,615	\$405,606
Allowance for Other Funds Used During Construction (Deduction) .....	<u>(46,008)</u>	<u>(37,617)</u>
Dividends on Preferred and Common Stock .....	189,744	179,564
Increase (Decrease) in Deferred Fuel Expense .....	<u>79,285</u>	<u>(18,781)</u>
Retirement of Long-Term Debt .....	<u>56,169</u>	<u>31,422</u>
Increase (Decrease) in Other Items of Working Capital .....	<u>(28,114)</u>	<u>5,436</u>
Other, net .....	<u>9,629</u>	<u>9,106</u>
	<b>Total</b>	<b>\$682,320</b>
	<b>Total</b>	<b>\$574,736</b>

See notes and schedules to financial statements.

# Notes to Financial Statements

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## 1. Significant Accounting Policies

**General.** All utility subsidiary companies of Philadelphia Electric Company are wholly-owned and are included in the consolidated financial statements. Non-utility subsidiaries, which are not significant, are included in investments and accounted for by the equity method. The accounts are maintained in accordance with the uniform system of accounts prescribed by the regulatory authorities having jurisdiction.

**Revenues.** Revenues are recorded in the accounts upon billing to the customer. Rate increases are billed from dates authorized or permitted to become effective by regulatory authorities. Due to the cycle billing there is an amount of unbilled revenue at the end of any period.

The 1978 financial statements reflect recoupment revenue of \$34,571,000 which was authorized by the Pennsylvania Public Utility Commission in December 1978 and billed to customers in 1979.

**Fuel Expense.** For financial reporting purposes the Company defers that portion of fuel expense which is recoverable under energy adjustment clauses until it is subsequently billed. For income tax purposes, fuel expense is considered an expense when incurred.

The Company both leases and owns nuclear fuel for use in its nuclear generating stations. Such fuel costs are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to the estimated total thermal units to be produced over the life of the fuel. Such charges are computed on the basis of a zero net salvage value (assuming reprocessing facilities will be available for spent fuel as needed). If such reprocessing facilities are not available, the Company would incur additional costs to dispose of spent fuel. The Company believes that any such additional costs would be recoverable through adjustments of rates charged to its customers.

**Depreciation.** For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on a straight-line basis. No provision is presently provided for the potential decommissioning cost of the nuclear plants. The Company believes that any such additional costs, which may be significant, would be recoverable through adjustments of rates charged to its customers. The annual depreciation provisions, expressed as a percent of average depreciable utility plant in service, were approximately 3.11% for 1979 and 2.99% for 1978.

**Income Taxes.** Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory authorities for rate-making purposes.

Investment tax credits, other than credits resulting from contributions to the Tax Reduction Act Stock Ownership Plan for employees which do not affect income, are deferred and amortized by credits to income over the estimated useful life of the related utility plant.

**Allowance for Funds Used During Construction (AFUDC).** AFUDC is a non-cash item which is defined in the applicable regulatory system of accounts as "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used." AFUDC is recorded as a charge to construction work in progress (CWIP), and the equivalent credits are to "Interest Charges" for the gross cost of borrowed funds and to "Other Income" for the cost of equity funds, less income tax credits arising from interest charges capitalized, which are also included in "Other Income." For income tax purposes, AFUDC is not included in taxable income nor is the depreciation of capitalized AFUDC a tax-deductible expense. The rate used for capitalizing AFUDC, which averaged 7.45% in 1979 and 7.20% in 1978, is computed under a method prescribed by the regulatory authorities which provides for its application to a CWIP base which includes prior AFUDC and which provides for semi-annual compounding. The rate is a "net after-tax rate" whereby the current income tax reductions arising from interest charges associated with debt used to finance construction, \$34,754,000 in 1979 and \$28,346,000 in 1978, are recorded in "Other Income."

**Retirement Plan.** The Company has a non-contributory trusted retirement plan applicable to all regular employees. Pension costs include normal cost for the year and amortization of unfunded prior service costs, over ten to twenty-year periods (see Note 5). Approximately 80% of such costs were charged to operating expense and 20%, associated with construction labor, to the cost of new utility plant.

**Gas Exploration and Development Costs.** The Company has invested in several joint ventures for exploring and drilling for gas. In accordance with the accounting practice prescribed by the Federal Energy Regulatory Commission these costs are capitalized under the full cost method. Such costs are charged to operations commensurate with the use of gas arising from these ventures. Non-utility property and other investments at December 31, 1979 and 1978, include capitalized costs of \$25,488,000 and \$14,496,000, respectively.

## 2. Taxes on Income

	<b>1979</b>	1978
	(Thousands of Dollars)	
Included in operating expenses:		
Current income taxes		
Federal .....	<b>\$29,844</b>	\$15,710
State .....	<b>7,376</b>	12,129
Total .....	<b>37,220</b>	27,839
Deferred income taxes, net		
Federal .....	<b>41,058</b>	34,484
State .....	<b>3,796</b>	4,856
Total .....	<b>44,854</b>	39,340
Investment tax credits, net of amortization		
Federal .....	<b>(3,019)</b>	31,717
Total		
Federal .....	<b>67,883</b>	81,911
State .....	<b>11,172</b>	16,985
Total .....	<b>\$79,055</b>	\$98,896
Included in other income:		
Current income taxes		
Federal .....	<b>(27,021)</b>	(21,189)
State .....	<b>(6,863)</b>	(5,166)
Total .....	<b>(\$33,884)</b>	\$(26,355)
Total income tax provisions:		
Federal .....	<b>40,862</b>	60,722
State .....	<b>4,309</b>	11,819
Total .....	<b>\$45,171</b>	\$72,541

Investment tax credits of \$605,000 have been realized as a reduction of federal income taxes currently payable in 1979. Approximately \$39,000,000 of investment tax credits available in 1979 have not been realized due to the limitations based on taxable income. These credits may be used to reduce federal income taxes in future years through 1986. Investment tax credits in the amount of \$35,118,000 were realized in 1978.

Investment tax credits consist of (a) the basic credits allowable of 10% plus (b) an additional credit of 1½% (\$4,005,000 in 1978, none realized in 1979) allowed the Company to offset federal income tax. Since such additional amount was passed on to the employees of the Company in the form of Philadelphia Electric Company common stock, such additional credit had no effect on net income.

Effective July 1, 1978, the Pennsylvania Public Utility Commission disallowed the normalization of state income tax deferrals associated with the use of accelerated depreciation for tax purposes.

The aforementioned income tax provisions differ from amounts computed by applying the Federal statutory tax rate to adjusted income before income taxes for the following reasons:

	<b>1979</b>	1978
	(Thousands of Dollars)	
Net income .....		
	<b>\$194,471</b>	\$184,861
Total income tax provisions .....	<b>45,171</b>	72,541
Income before income taxes .....	<b>239,642</b>	257,402
Deduct — allowances for funds used during construction (non-taxable) .....	<b>(113,383)</b>	(90,997)
Adjusted income before income taxes .....	<b>\$126,259</b>	\$166,405
Income taxes on above at Federal statutory rate (46% in 1979, 48% in 1978) .....	<b>\$58,079</b>	\$79,874
Increase (decrease) due to:		
Excess of tax depreciation over book depreciation not normalized .....	<b>(2,987)</b>	(2,210)
State income tax, net of Federal income tax benefits ....	<b>2,327</b>	6,146
Taxes and pension costs capitalized but expensed for tax purposes .....	<b>(6,382)</b>	(5,407)
Amortization of investment tax credits previously deferred .....	<b>(3,624)</b>	(3,401)
Other, net .....	<b>(2,242)</b>	(2,461)
Total income tax provisions	<b>\$45,171</b>	\$72,541
Provision for income taxes as a percent of:		
Income before income taxes ....	<b>18.8%</b>	28.2%
Adjusted income before income taxes .....	<b>35.8%</b>	43.6%
Provisions for deferred income taxes consist of the following tax effects of timing differences between tax and book income:		
	<b>1979</b>	1978
	(Thousands of Dollars)	
Depreciation and amortization .....	<b>\$26,981</b>	\$32,849
Recoupment revenue .....	<b>(18,462)</b>	18,462
Deferred fuel expense .....	<b>40,899</b>	(10,029)
Other .....	<b>(4,564)</b>	(1,942)
	<b>\$44,854</b>	\$39,340

## 3. Taxes, Other than Income

	<b>1979</b>	1978
	(Thousands of Dollars)	
Gross receipts .....		
	<b>\$67,385</b>	\$62,115
Capital Stock .....	<b>17,030</b>	15,102
Realty .....	<b>8,819</b>	6,873
Other, principally social security .....	<b>13,442</b>	11,742
	<b>\$106,676</b>	\$95,832

#### **4. Short-Term Debt**

The average short-term borrowings during 1979 aggregated \$54,466,725 at an average rate of 12.72% and during 1978 aggregated \$20,356,000 at an average rate of 10.55%. The average rates are computed on a daily basis. The maximum short-term borrowings outstanding were \$135,525,000 in 1979 and \$60,484,000 in 1978. The average rate of interest on short-term borrowings was 15.11% for bank loans and 14.00% for commercial paper at December 31, 1979, and 11.31% for bank loans and 10.20% for commercial paper at December 31, 1978. As of December 31, 1979 the Company had informal lines of credit with banks aggregating \$214,875,000. The Company generally does not have formal compensating balance arrangements with these banks. The Company maintains deposits with banks for working funds for normal operations.

#### **5. Retirement Plan Costs**

Retirement plan costs, which are funded as accrued, aggregated \$25,713,000 in 1979 and \$21,396,000 in 1978. Based on the most recent available actuarial report as of January 1, 1979, the unfunded liability of the plan amounted to approximately \$24,000,000 and the actuarially computed vested benefits exceeded the actuarial value of the plan assets by approximately \$9,000,000.

Included in the aforementioned unfunded liability is approximately \$17,000,000, relating to the cost of an early retirement amendment to the plan effective in 1978, which amount is being amortized over a ten-year period beginning in 1979.

#### **6. Jointly-Owned Electric Utility Plant**

The Company's ownership interests in jointly-owned utility plant, excluding nuclear fuel, at December 31, 1979 were as follows:

Production Plant	Participating Interest	Company's Share of Utility Plant, Net
Peach Bottom	42.49%	\$302,317,000
Salem	42.59%	\$676,716,000
Keystone	20.99%	\$ 31,900,000
Conemaugh	20.72%	\$ 43,220,000
Transmission Plant	21% to 43%	\$ 62,254,000

The Company's participating interests are financed with Company funds and when placed in service all operations are accounted for as if such participating interests were wholly-owned facilities.

#### **7. Commitments and Contingencies**

The Company has incurred substantial commitments in connection with its construction program. Construction expenditures are estimated to be \$610,000,000 for 1980 and \$1,886,000,000 for 1981-1983. These estimates, which are based on current circumstances, are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors.

The nuclear plant facilities under construction require numerous permits and licenses culminating in an operating license for a facility. The Company cannot be assured that such operating licenses will be issued at completion of the facilities. Subsequent to the nuclear incident at Three Mile Island, the Nuclear Regulatory Commission

(NRC) declared a moratorium on the issuance of operating licenses for nuclear plants pending further study.

The Price-Anderson Act places a "Limit of Liability" of \$560,000,000 on each licensed nuclear facility for public liability claims that could arise from a nuclear incident involving any licensed facility in the nation. The Company and its co-owners of the Peach Bottom and Salem Stations have insured for this exposure by purchasing private insurance in the maximum available amount of \$160,000,000, and the remainder is currently provided by indemnity agreements with the NRC. However, since August 1977, the indemnity by the NRC has decreased and in the event of a nuclear incident, the Company, to the extent of its ownership participation (42.5%), could be assessed \$5,000,000 per incident for each licensed reactor, subject to a maximum of \$10,000,000 per licensed reactor in any one year in the event of more than one incident. The Company is currently a participant in three licensed reactors; therefore, its maximum assessment would be \$6,375,000 per incident with a maximum amount of \$12,750,000 in any one year.

For damage to the nuclear plant facilities which could arise from an incident at the Peach Bottom Station, the Company and its co-owners have private insurance up to \$300,000,000; for the Salem Station, the Company through the operator of the Station is a member of Nuclear Mutual Limited (NML) which provides for coverage up to \$300,000,000. In the event of losses at any plants insured by NML, the Company may be subject to an additional premium assessment of approximately \$13,000,000. The Company is a self-insurer, to the extent of its ownership interests, for any property loss in excess of the aforementioned amounts of insurance coverage.

The Company's proportionate share of a commitment to purchase nuclear fuel for the Peach Bottom Station as of December 31, 1979 was \$59,383,000. An independent fuel company has been authorized to acquire and own up to a maximum of \$200,000,000 of nuclear fuel at any one time and has contracted to sell the energy therefrom to the Company, as the operator of the Station.

The minimum rental commitments under all noncancelable agreements aggregated \$188,296,000 at December 31, 1979. Annual rental commitments are estimated to be \$30,036,000 for 1980; \$30,514,000 for 1981; \$27,184,000 for 1982; \$24,323,000 for 1983; and \$7,772,000 for 1984. Rentals charged to operating expenses were \$41,659,000 in 1979 and \$36,232,000 in 1978.

Certain leases, including the nuclear fuel contract, meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, but are not accounted for as such in accordance with the rate-making process. If such leases were capitalized, the amounts thereof would not have a material effect on assets, liabilities, or related expenses.

Actions have been filed in the U.S. District Court against the Company with respect to alleged discrimination in its employment or promotion practices. Counsel is of the opinion that the ultimate outcome of these actions would not have a material adverse effect on the financial position of the Company.

## 8. Segment Information:

	1979				1978			
	Electric	Gas	Steam	Total	Electric	Gas	Steam	Total
	(Thousands of Dollars)				(Thousands of Dollars)			
Operating revenues .....	\$1,311,891	\$221,135	\$45,479	\$1,578,505	\$1,224,404	\$189,522	\$42,832	\$1,456,758
Operating expenses, excluding depreciation	975,414	194,416	42,268	1,212,098	896,339	162,983	39,261	1,098,583
Depreciation .....	109,990	8,944	1,674	120,608	106,253	8,618	1,656	116,527
Total operating expenses .....	1,085,404	203,360	43,942	1,332,706	1,002,592	171,601	40,917	1,215,110
Operating income .....	\$ 226,487	\$ 17,775	\$ 1,537	\$ 245,799	\$ 221,812	\$ 17,921	\$ 1,915	\$ 241,648
Utility plant additions .....	\$ 401,674	\$ 19,490	\$ 451	\$ 421,615	\$ 395,271	\$ 10,010	\$ 325	\$ 405,606
December 31:								
Allocable assets:								
Net utility plant (*) ....	\$4,449,522	\$261,719	\$30,141	\$4,741,382	\$4,167,122	\$250,466	\$31,584	\$4,449,172
Materials and supplies	91,685	18,017	299	110,001	78,452	14,456	396	93,304
	\$4,541,207	\$279,736	\$30,440	\$4,851,383	\$4,245,574	\$264,922	\$31,980	4,542,476
Nonallocable assets .....				389,877				308,149
Total assets .....				\$5,241,260				\$4,850,625

(\*) Includes construction work in progress and allocated common utility property.

## 9. Quarterly Data (Unaudited):

The quarterly data shown below, in the opinion of the Company, includes all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of such amounts.

Quarter Ended	Operating Revenues	Net Income		Earnings Applicable to Common Stock		Average Shares Outstanding (Thousands)		Earnings Per Average Share (Dollars)		
		1979	1978	1979	1978	1979	1978	1979	1978	
(Thousands of Dollars)										
Mar 31	\$419,206	\$402,012	\$57,193	\$55,625	\$45,953	\$45,473	76,558	74,661	\$.60	\$.61
Jun 30	340,945	326,100	41,694	29,455	30,506	18,586	81,263	75,084	.37	.25
Sep 30	387,564	384,275	55,232	57,581	44,058	46,336	81,840	75,697	.54	.61
Dec 31	430,790	344,371	40,352	42,200	29,181	30,954	82,378	76,102	.35	.41

## 10. Supplementary Information to Disclose the Estimated Effects of Inflation for the Year Ended December 31, 1979 (Unaudited)

The following supplementary information is supplied to show the estimated effects of inflation because the Company is required to do so according to the Statement of Financial Accounting Standards No. 33 (FAS No. 33). The methods required to develop this information are approximate and complex and may not necessarily reflect the true effects of inflation on the Company. Under existing regulatory law, the Company is permitted to recover actual operating and capital costs incurred to serve customers and a reasonable return on investment, and the Company believes it will be allowed to recover cost increases caused by inflation as such increases are actually incurred.

**Effect of Inflation on Reported Income.** In adjusting the Consolidated Statements of Income, as shown below, only depreciation expense is required to be adjusted for the effect of inflation.

The "constant dollars" and "current costs" depreciation expenses were determined by applying the Company's depreciation rates to restated depreciable plant in service at December 31, 1979. Fuel inventories have not been restated from their original cost because the operation of fuel adjustment clauses permits the automatic recovery of fuel costs.

If the Company had to replace its entire utility plant at this time, the costs to do so would greatly exceed the original costs incurred when the facilities were built because of the cumulative effect of inflation. These plant replacement costs, net of accumulated depreciation, are estimated at \$7,542,000,000 as restated for "constant dollars" and \$8,581,000,000 as restated for "current costs." Under the "constant dollars" method, the Company is required to restate the original costs in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. The "current costs" method uses specific indices representing the Company's experienced cost of construction. Results from the two

methods differ because construction costs have increased more rapidly than consumer prices in general. In the Company's opinion, the "current costs" method is more appropriate for estimating the effect of

inflation on utility plant. Additional "current costs" data as required by FAS No. 33 is disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

**Consolidated Statements of Income Adjusted for Inflation  
for the Year Ended December 31, 1979 (Thousands of Dollars)**

	As Reported	As Adjusted For
	Constant Dollars (Average 1979 Dollars)	Current Costs (Average 1979 Dollars)
Operating Revenues .....	\$1,578,505	\$1,578,505
Depreciation .....	120,608	233,000
Other Operating Expenses .....	1,212,098	1,212,098
Operating Income .....	245,799	133,407
Other Income .....	81,602	81,602
Income Before Interest Charges and Preferred Stock Dividends .....	327,401	215,009
Interest Charges and Preferred Stock Dividends .....	177,703	177,703
Earnings Applicable to Common Stock .....	<u>\$149,698</u>	<u>\$37,306</u>
Earnings Per Average Share .....	<u>\$1.86</u>	<u>\$0.46</u>
		(\$0.08)

**Effects of Inflation on Shareholders' Equity.** During 1979 the effect of inflation on the Company's actual original cost of net utility plant amounted to \$559,000,000 which was not recovered because rates are based on depreciation of original cost plant. If the Company were required to charge the entire \$559,000,000 against income in 1979, earnings applicable to common stock would become a loss of \$409,302,000.

The effect of 1979's inflation (13.3%) on the value of the Company's debt and preferred stock is approximately \$384,000,000 which partially offsets the \$559,000,000 effect of inflation on utility plant.

If the Company had earned at the rate of inflation (13.3%) on its shareholders' equity in 1979, earnings would have been approximately \$200,000,000 compared with reported earnings of \$149,698,000. Thus, reported earnings applicable to common stock in 1979 were about \$50,000,000 below the level necessary to offset the impact of inflation on shareholders' equity.

**Adjustment of Selected Five Year Financial Information.** In order to reflect the impact of general inflation on selected financial information for each of the years 1975 through 1979, the following table shows actual data compared with data adjusted to "average 1979 dollars."

**Five Year Summary of Selected Financial Information Showing Adjustments to Reflect Inflation**

Development of Adjustment Factors	1975	1976	1977	1978	1979
Consumer Price Index					
Average During Year .....	161.2	170.5	181.5	195.4	217.4
Year End .....	166.3	174.3	186.1	202.9	229.9
Consumer Price Index Multiplier (217.4 ÷ year's index)					
A = Average .....	1.35	1.28	1.20	1.11	1.00
B = Year End .....	1.31	1.25	1.17	1.07	.95
<b>Actual and Adjusted Financial Information</b>					
Dividends Per Share					
Actual Paid .....	\$ 1.64	\$ 1.64	\$ 1.76	\$ 1.80	\$ 1.80
Adjusted (Actual x A) .....	2.21	2.10	2.11	2.00	1.80
Market Price Per Share					
Actual Year End .....	\$15.00	\$17.88	\$19.63	\$15.50	\$13.75
Adjusted (Actual x B) .....	19.65	22.35	22.97	16.59	13.06
Operating Revenues (thousands of dollars)					
Actual .....	\$1,134,810	\$1,224,141	\$1,394,762	\$1,456,758	\$1,578,505
Adjusted (Actual x A) .....	1,531,994	1,566,900	1,673,714	1,617,001	1,578,505
Common Shareholders' Equity (thousands of dollars)					
Actual Year End .....	\$1,222,815	\$1,325,670	\$1,437,202	\$1,475,276	\$1,580,004
Adjusted (Actual x B) .....	1,601,888	1,657,088	1,681,526	1,578,545	1,501,004

## Schedule of Long-Term Debt — December 31, 1979 and 1978

### Philadelphia Electric Company

First and Refunding Mortgage Bonds (A):

Series	Due		1979 (Thousands of Dollars)	1978
11%	1980		\$ 125,000	\$ 125,000
2 3/4%	1981		30,000	30,000
3 1/4%	1982		35,000	35,000
3 1/8%	1983		20,000	20,000
3 1/8%	1985		50,000	50,000
4 3/8%	1986		50,000	50,000
4 5/8%	1987		40,000	40,000
3 3/4%	1988		40,000	40,000
5%	1989		50,000	50,000
6 1/2%	1993		60,000	60,000
4 1/2%	1994		50,000	50,000
9%	1995		70,272	72,000
8 1/4%	1996		80,000	80,000
6 1/8%	1997		75,000	75,000
7 1/2%	1998		100,000	100,000
7 1/2%	1999		100,000	100,000
7 3/4%	2000		71,428	73,240
11%	2000		80,000	80,000
11 5/8%	2000		65,000	65,000
7 3/8%	2001		80,000	80,000
9 5/8%	2002		100,000	100,000
8 5/8%	2003		75,000	75,000
8 1/2%	2004		125,000	125,000
12 1/2%	2005 (Sold 1979)		100,000	—
9 1/8%	2006		100,000	100,000
6%	2007		23,500	23,500
8 5/8%	2007		75,000	75,000
9 1/8%	2008 (Sold 1978)		100,000	100,000
Total First and Refunding Mortgage Bonds			1,970,200	1,873,740
Notes Payable—Banks (B)	1979-87 (C)		225,000	175,000
Pollution Control Note	5.5% 1979-97		34,000	35,000
Debentures	12 3/4% 1981		100,000	100,000
Debentures	4.85% 1986		25,562	26,294
Unamortized Debt Discount and Premium, Net			( 5,892)	(5,571)
Total Philadelphia Electric Company			2,348,870	2,204,463

### Philadelphia Electric Power Company—a subsidiary:

Sinking Fund Debentures	4 1/2%	1995	.....	20,894	21,791
Unamortized Debt Discount			.....	(84)	(94)
Total Long-Term Debt (Annual interest requirements \$207,185,000)			.....	2,369,680	2,226,160
Current Maturities included in Current Liabilities (D)			.....	(127,790)	(52,934)
Long-Term Debt included in Capitalization			.....	<b>\$2,241,890</b>	<b>\$2,173,226</b>

- (A) Utility plant is subject to the lien of the Company's mortgage.
- (B) At interest rates ranging from prime rate to 112% of prime rate.
- (C) \$50,000,000 sold in 1979 and 1978; \$50,000,000 refinanced in 1979.
- (D) Long-term debt maturities in the period 1980-1984 are as follows: 1980—\$127,790,000; 1981—\$140,172,000; 1982—\$45,300,000; 1983—\$30,300,000; and 1984—\$85,300,000.

## Schedule of Capital Stock — December 31, 1979 and 1978

	Authorized	Number of Shares		Amount	
		Outstanding 1979	1978	1979 (Thousands of Dollars)	1978
<b>Common Stock</b> —no par (A) .....	<u>100,000,000</u>	<u>82,883,216</u>	<u>76,512,685</u>	<u>\$1,239,647</u>	<u>\$1,139,659</u>
<b>Preferred Stock</b> (\$100 par) cumulative:					
Series (without mandatory redemption requirements):	Current Redemption Price (B)				
9.50% .....	\$106.50	750,000	<b>750,000</b>	750,000	\$ 75,000
8.75% .....	107.00	650,000	<b>650,000</b>	650,000	65,000
7.85% .....	107.00	500,000	<b>500,000</b>	500,000	50,000
7.80% .....	105.50	750,000	<b>750,000</b>	750,000	75,000
7.75% .....	105.50	200,000	<b>200,000</b>	200,000	20,000
4.68% .....	104.00	150,000	<b>150,000</b>	150,000	15,000
4.4% .....	112.50	274,720	<b>274,720</b>	274,720	27,472
4.3% .....	102.00	150,000	<b>150,000</b>	150,000	15,000
3.8% .....	106.00	300,000	<b>300,000</b>	300,000	30,000
		<u>3,724,720</u>	<u>3,724,720</u>	<u>3,724,720</u>	<u>372,472</u>
Series (with mandatory redemption requirements):					
9.52% .....	109.52	500,000	<b>500,000(C)</b>	500,000(C)	50,000
8.75% (Sold 1978) .....	108.75	500,000	<b>500,000(D)</b>	500,000(D)	50,000
7.325% .....	105.57	750,000	<b>720,000(E)</b>	750,000(E)	72,000
7% .....	104.00	400,000	<b>348,510(F)</b>	359,000(F)	34,851
		<u>2,150,000</u>	<u>2,068,510</u>	<u>2,109,000</u>	<u>206,851</u>
Unclassified .....		<u>4,125,280</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Preferred Stock .....		<u>10,000,000</u>	<u>5,793,230</u>	<u>5,833,720</u>	<u>\$579,323</u>
					<u>\$583,372</u>

(A) At December 31, 1979 there were 1,281,861 shares reserved for issuance under stock purchase plans. Common Stock issued in 1979 and 1978 was as follows:

	Public Sales	Dividend Reinvestment Plan	Employee Purchase Plan	Tax Reduction Act Stock Ownership Plan	Total
1979—Shares	4,000,000	1,740,991	279,315	350,225	6,370,531
Proceeds	\$63,460,000	\$26,389,242	\$4,416,561	\$5,722,677	\$99,988,480
1978—Shares	—	1,433,489	215,198	239,481	1,888,168
Proceeds	—	\$24,852,000	\$3,871,000	\$4,252,000	\$32,975,000

- (B) Redeemable at the option of the Company at the indicated dollar amounts per share, plus accrued dividends.  
 (C) 20,000 shares to be redeemed annually at \$100 per share commencing May 1, 1981.  
 (D) 33,300 shares to be redeemed annually at \$100 per share commencing May 1, 1984.  
 (E) 30,000 shares are being redeemed annually at \$100 per share commencing May 1, 1979.  
 (F) 8,000 shares are being redeemed annually at \$100 per share. The Company purchased 10,490 shares in 1979 and 8,960 shares in 1978 for this purpose and at December 31, 1979 had applied 3,490 shares to future redemption requirements. The excess of the aggregate par value of such shares over the aggregate purchase price is reflected in Other Paid-In Capital (\$235,000 in 1979 and \$149,000 in 1978).

## Financial Statistics

	1979	1978	1977	1976	1975	1974	1969
<b>Summary of Earnings (Millions of dollars)</b>							
Operating Revenues (for details see pages 30 and 31) .....	\$1,578.5	\$1,456.8	\$1,394.8	\$1,224.1	\$1,134.8	\$1,011.7	\$440.5
<b>Operating Expenses</b>							
Fuel and Energy Interchange .....	661.7	573.9	575.3	480.7	457.8	439.2	110.0
Labor .....	209.3	195.0	179.2	161.9	152.2	134.0	93.9
Other Materials, Supplies and Services .....	155.4	135.0	121.4	88.9	72.6	73.4	32.2
Total Operation and Maintenance ..	1,026.4	903.9	875.9	731.5	682.6	646.6	236.1
Depreciation .....	120.6	116.5	107.8	98.0	91.2	77.8	49.3
Taxes .....	185.7	194.7	188.9	183.2	163.9	134.3	53.8
Total Operating Expenses .....	1,332.7	1,215.1	1,172.6	1,012.7	937.7	858.7	339.2
Operating Income .....	245.8	241.7	222.2	211.4	197.1	153.0	101.3
<b>Other Income</b>							
Allowance for Other Funds Used During Construction .....	46.0	37.6	36.2	30.1	23.3	25.3	—
Income Tax Credits, net .....	33.9	26.3	25.3	24.2	22.3	25.5	—
Other, net .....	1.7	4.6	3.5	2.6	2.0	0.3	0.1
Total Other Income .....	81.6	68.5	65.0	56.9	47.6	51.1	0.1
Income Before Interest Charges .....	327.4	310.2	287.2	268.3	244.7	204.1	101.4
<b>Interest Charges</b>							
Long-Term Debt .....	193.0	176.3	161.0	147.6	136.5	106.3	38.2
Short-Term Debt .....	7.3	2.5	2.6	3.6	7.9	14.2	6.8
Allowance for Borrowed Funds Used During Construction .....	(67.4)	(53.4)	(49.8)	(47.5)	(43.6)	(45.5)	(7.9)
Net Interest Charges .....	132.9	125.4	113.8	103.7	100.8	75.0	37.1
<b>Net Income</b> .....	194.5	184.8	173.4	164.6	143.9	129.1	64.3
<b>Preferred Stock Dividends</b> .....	44.8	43.5	40.7	39.0	36.0	33.7	5.9
<b>Earnings Applicable to Common Stock</b> ...	149.7	141.3	132.7	125.6	107.9	95.4	58.4
<b>Dividends on Common Stock</b> .....	145.0	135.7	124.9	107.7	95.4	86.4	48.8
<b>Earnings Retained</b> .....	\$ 4.7	\$ 5.6	\$ 7.8	\$ 17.9	\$ 12.5	\$ 9.0	\$ 9.6
<b>Earnings per Average Share (dollars)</b> .....	\$ 1.86	\$ 1.87	\$ 1.87	\$ 1.91	\$ 1.86	\$ 1.81	\$ 1.97
<b>Dividends per Common Share (dollars)</b> ...	\$ 1.80	\$ 1.80	\$ 1.76	\$ 1.64	\$ 1.64	\$ 1.64	\$ 1.64
<b>Common Stock Equity (Per Share)</b> .....	\$ 19.06	\$ 19.28	\$ 19.26	\$ 19.13	\$ 19.05	\$ 20.21	\$ 18.84
<b>Average Shares of Common Stock</b> <b>Outstanding (Millions)</b> .....	80.5	75.4	70.8	65.6	58.1	52.7	29.6

See page 16 for Discussion and Analysis of the Consolidated Statements of Income.

### NYSE—Composite Common Stock Prices, Earnings and Dividends by Quarters (Per Share)

	1979				1978			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price .....	\$15½	\$17	\$16½	\$17½	\$17¾	\$18¾	\$19	\$19¾
Low Price .....	\$13½	\$14¾	\$15½	\$15½	\$15	\$17	\$16¾	\$18¾
Earnings .....	35¢	54¢	37¢	60¢	41¢	61¢	25¢	61¢
Dividends .....	45¢	45¢	45¢	45¢	45¢	45¢	45¢	45¢

## Financial Statistics

### Summary of Financial Condition—December 31 (Millions of dollars)

		1979	1978	1977	1976	1975	1974	1969
<b>Assets</b>	Utility Plant, at Original Cost .....	<b>\$5,885.5</b>	\$5,502.5	\$5,121.1	\$4,747.2	\$4,445.6	\$4,123.9	\$2,188.6
	Less: Accumulated Depreciation .....	<b>1,144.1</b>	1,053.3	955.3	860.3	775.8	717.8	514.2
	Total Utility Plant .....	<b>\$4,741.4</b>	\$4,449.2	\$4,165.8	\$3,886.9	\$3,669.8	\$3,406.1	\$1,674.4
	Nonutility Property and Other Investments .....	<b>47.4</b>	30.0	27.4	13.2	12.3	12.7	5.0
	Current Assets							
	Cash and Temporary Investments .....	<b>10.6</b>	38.6	30.8	23.8	17.4	16.0	17.0
	Accounts Receivable .....	<b>230.9</b>	223.5	184.0	168.0	139.8	111.9	44.1
	Deferred Fuel Expense .....	<b>83.5</b>	4.2	-23.0	19.9	17.9	21.7	—
	Materials and Supplies .....	<b>110.0</b>	93.3	102.3	88.3	88.0	72.5	29.1
	Other .....	<b>4.6</b>	4.3	3.8	2.6	2.5	21.1	1.6
	Deferred Debits .....	<b>12.9</b>	7.5	10.9	14.7	13.8	6.0	4.9
	Total Assets .....	<b>\$5,241.3</b>	\$4,850.6	\$4,548.0	\$4,217.4	\$3,961.5	\$3,668.0	\$1,776.1
<b>Liabilities</b>	Common Stock .....	<b>\$1,239.6</b>	\$1,139.7	\$1,106.7	\$1,002.8	\$ 916.6	\$ 782.9	\$ 365.0
	Other Paid-In Capital .....	<b>2.2</b>	2.0	1.8	1.7	1.5	1.3	1.2
	Retained Earnings .....	<b>338.2</b>	333.6	328.7	321.2	304.7	293.7	235.4
	Common Shareholders' Equity .....	<b>1,580.0</b>	1,475.3	1,437.2	1,325.7	1,222.8	1,077.9	601.6
	Preferred Stock .....	<b>579.3</b>	583.4	534.2	535.1	485.9	486.4	127.5
	Long-Term Debt .....	<b>2,241.9</b>	2,173.2	2,078.3	1,936.4	1,776.9	1,597.7	848.8
	Total Capitalization .....	<b>4,401.2</b>	4,231.9	4,049.7	3,797.2	3,485.6	3,162.0	1,577.9
	Current Liabilities							
	Short-Term Debt .....	<b>85.2</b>	16.2	14.9	7.2	108.0	177.9	98.8
	Current Maturities Of Long-Term Debt .....	<b>127.8</b>	52.9	28.7	36.9	60.9	91.9	8.5
	Accounts Payable and Dividends Declared .....	<b>133.5</b>	120.3	92.4	83.9	80.1	78.8	34.0
	Taxes Accrued and Deferred .....	<b>65.1</b>	44.5	36.7	30.7	44.2	28.0	8.3
	Interest Accrued .....	<b>58.1</b>	51.0	48.6	43.2	37.8	30.5	10.9
	Other .....	<b>13.9</b>	7.9	4.1	4.6	3.5	3.8	1.9
	Deferred Credits .....	<b>356.5</b>	325.9	272.9	213.7	141.4	95.1	35.8
	Total Liabilities .....	<b>\$5,241.3</b>	\$4,850.6	\$4,548.0	\$4,217.4	\$3,961.5	\$3,668.0	\$1,776.1

## Operating Statistics

	1979	1978	1977	1976	1975	1974	1969
<b>ELECTRIC OPERATIONS</b>							
<b>Output</b> (millions of kilowatt-hours)							
Steam .....	<b>11,279</b>	13,160	11,468	13,385	12,814	16,649	20,020
Nuclear .....	<b>7,104</b>	7,769	4,596	4,937	4,387	1,745	130
Hydraulic .....	<b>2,155</b>	1,700	1,997	2,065	2,275	1,938	1,342
Pumped Storage Output .....	<b>1,270</b>	1,109	1,223	1,062	1,275	1,075	1,733
Pumped Storage Input .....	<b>(1,847)</b>	(1,606)	(1,761)	(1,506)	(1,785)	(1,515)	(2,395)
Purchase and Net Interchange .....	<b>9,180</b>	6,651	9,759	7,666	7,363	5,300	2,293
Internal Combustion .....	<b>454</b>	704	847	792	914	1,200	341
Other .....	—	—	716	36	—	1,016	5
Total Electric Output .....	<b>29,595</b>	29,487	28,845	28,437	27,243	27,408	23,469
<b>Sales</b> (millions of kilowatt-hours)							
Residential .....	<b>7,968</b>	7,875	8,110	7,585	7,424	7,159	5,812
Small Commercial and Industrial ..	<b>2,928</b>	2,888	2,825	2,755	2,624	2,558	2,292
Large Commercial and Industrial ..	<b>15,428</b>	15,302	14,912	14,662	14,060	14,622	12,663
All Other .....	<b>1,277</b>	1,329	1,350	1,271	1,227	1,217	1,106
Total Electric Sales	<b>27,601</b>	27,394	27,197	26,273	25,335	25,556	21,873
<b>Number of Customers, December 31</b>							
Residential .....	<b>1,173,514*</b>	1,158,853	1,148,171	1,137,544	1,120,981	1,113,036	1,060,376
Small Commercial and Industrial ..	<b>115,724*</b>	115,945	115,883	115,422	114,896	117,237	120,997
Large Commercial and Industrial ..	<b>5,798</b>	5,780	5,772	5,747	5,719	5,724	5,359
All Other .....	<b>1,919*</b>	2,413	2,381	2,345	2,305	2,248	2,045
Total Electric Customers .....	<b>1,296,955</b>	1,282,991	1,272,207	1,261,058	1,243,901	1,238,245	1,188,777
*Reflects reclassification of certain customers.							
<b>Operating Revenues</b> (millions of dollars)							
Residential .....	\$ <b>461.0</b>	\$ 430.8	\$ 427.6	\$ 373.2	\$ 364.7	\$ 314.4	\$ 135.0
Small Commercial and Industrial ..	<b>189.0</b>	176.5	168.4	149.3	138.9	122.0	58.9
Large Commercial and Industrial ..	<b>587.4</b>	544.0	513.4	442.9	418.3	388.1	138.2
All Other .....	<b>74.5</b>	73.1	68.3	59.4	56.5	49.0	23.2
Total Electric Revenues .....	<b>\$1,311.9</b>	\$1,224.4	\$1,177.7	\$1,024.8	\$ 978.4	\$ 873.5	\$ 355.3
<b>Operating Expenses</b> (millions of dollars)							
Operating expenses							
excluding depreciation .....	\$ <b>975.4</b>	\$ 896.3	\$ 881.2	\$ 750.2	\$ 717.6	\$ 669.6	\$ 224.0
Depreciation .....	<b>110.0</b>	106.3	97.9	88.0	81.6	68.4	44.0
Total Operating Expenses .....	<b>\$1,085.4</b>	\$1,002.6	\$ 979.1	\$ 838.2	\$ 799.2	\$ 738.0	\$ 268.0
<b>Operating Income</b> (millions of dollars)	\$ <b>226.5</b>	\$ 221.8	\$ 198.6	\$ 186.6	\$ 179.2	\$ 135.5	\$ 87.3
<b>Net Utility Plant</b> (millions of dollars) .....	<b>\$4,449.5</b>	\$4,167.1	\$3,883.9	\$3,604.5	\$3,388.0	\$3,128.0	\$1,468.9
Average Use per Residential Customer (kilowatt-hours) .....	<b>6,829</b>	6,833	7,097	6,710	6,645	6,460	5,557
Electric Peak Load, Net Hourly Demand (thous. kw) .....	<b>5,641</b>	5,667	5,888	5,346	5,530	5,431	4,592
Net Electric Generating Capacity— Summer Rating (thous. kw) .....	<b>7,727</b>	7,727	8,198	7,742	7,186	7,808	5,115
Cost of Fuel per Million Btu .....	<b>\$1.55</b>	\$1.29	\$1.40	\$1.24	\$1.23	\$1.42	\$0.32
Btu per Net Kilowatt-hour Generated .....	<b>10,810</b>	10,773	10,882	10,529	10,523	10,676	11,009

## Operating Statistics

	1979	1978	1977	1976	1975	1974	1969
<b>GAS OPERATIONS</b>							
<b>Sales (millions of cubic feet)</b>							
Residential .....	2,327	2,316	2,394	2,342	2,334	2,281	2,376
House Heating .....	23,593	24,974	26,335	24,540	20,817	23,793	23,403
Commercial and Industrial .....	37,452	32,784	31,017	33,390	30,012	35,913	41,750
All other .....	93	94	86	89	74	79	102
Total Gas Sales .....	<b>63,465</b>	60,168	59,832	60,361	53,237	62,066	67,631
<b>Number of Customers, December 31</b>							
Residential .....	85,315	87,715	88,775	89,459	90,117	90,870	98,598
House Heating .....	168,905	163,469	162,978	162,993	162,914	163,093	145,879
Commercial and Industrial .....	19,065	19,207	19,422	19,669	19,874	20,276	18,491
Total Gas Customers .....	<b>273,285</b>	270,391	271,175	272,121	272,905	274,239	262,968
<b>Operating Revenues (millions of dollars)</b>							
Residential .....	\$ 10.7	\$ 9.9	\$ 9.6	\$ 8.7	\$ 8.1	\$ 7.1	\$ 5.7
House Heating .....	91.2	86.6	84.1	73.3	54.8	55.4	39.6
Commercial and Industrial .....	118.4	92.2	80.4	76.1	54.5	45.7	29.4
All other .....	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Subtotal .....	<b>\$220.5</b>	\$188.9	\$174.3	\$158.3	\$117.5	\$108.3	\$ 74.8
Other Revenues .....	0.6	0.6	0.5	0.6	0.5	0.6	0.3
Total Gas Revenues .....	<b>\$221.1</b>	\$189.5	\$174.8	\$158.9	\$118.0	\$108.9	\$ 75.1
<b>Operating Expenses (millions of dollars)</b>							
Operating expenses							
excluding depreciation .....	<b>\$194.4</b>	\$163.0	\$145.7	\$128.1	\$ 93.7	\$ 82.2	\$ 57.9
Depreciation .....	8.9	8.6	8.2	8.4	8.3	8.1	4.3
Total Operating Expenses .....	<b>\$203.3</b>	\$171.6	\$153.9	\$136.5	\$102.0	\$ 90.3	\$ 62.2
<b>Operating Income (millions of dollars)</b>							
Net Utility Plant (millions of dollars)	<b>\$261.7</b>	\$250.5	\$248.1	\$247.5	\$246.8	\$246.4	\$180.2
<b>STEAM OPERATIONS</b>							
Sales (millions of pounds) .....	6,581	7,336	7,165	7,735	7,117	7,600	7,905
Number of Customers, December 31 ...	638	660	670	679	689	710	1,179
<b>Operating Revenues (millions of dollars)</b>							
Operating expenses							
excluding depreciation .....	<b>\$ 42.3</b>	\$ 39.3	\$ 38.0	\$ 36.5	\$ 35.3	\$ 29.1	\$ 8.0
Depreciation .....	1.7	1.6	1.6	1.5	1.4	1.3	0.9
Total Operating Expenses .....	<b>\$ 44.0</b>	\$ 40.9	\$ 39.6	\$ 38.0	\$ 36.7	\$ 30.4	\$ 8.9
<b>Operating Income (millions of dollars)</b>							
Net Utility Plant (millions of dollars)	<b>\$ 1.5</b>	\$ 1.9	\$ 2.7	\$ 2.5	\$ 1.8	\$ (1.1)	\$ 1.2
Net Utility Plant (millions of dollars)	<b>\$ 30.1</b>	\$ 31.6	\$ 33.9	\$ 34.9	\$ 34.9	\$ 31.7	\$ 25.3

## Officers

Robert F. Gilkeson Chairman of the Board	Charles L. Fritz Vice President Personnel and Industrial Relations	Joseph F. Paquette, Jr. Vice President Finance and Accounting
James L. Everett President and Chief Executive Officer	Martin F. Gavet Vice President Gas Operations	Lucy S. Binder Secretary
John H. Austin, Jr. Executive Vice President and Chief Operating Officer*	John S. Kemper Vice President Engineering and Research**	Morton W. Rimerman Treasurer
Vincent S. Boyer Senior Vice President Nuclear Power**	William L. Maruchi Vice President Electric Transmission and Distribution	James D. Lynch Assistant Secretary
Wayne C. Astley Vice President General Administration	William B. Morlok Vice President Commercial Operations	J. Robert Causton Assistant Treasurer
Edward G. Bauer, Jr. Vice President and General Counsel	Clair V. Myers Vice President Purchasing and General Services	George G. Eppright Assistant Treasurer
Clifford Brenner Vice President Corporate Communications		William M. Lennox Assistant Treasurer
Shields L. Daltroff Vice President Electric Production		Joseph W. Ruff Assistant Treasurer

\*Designated Chief Operating Officer on January 28, 1980.

\*\*Elected on January 28, 1980.

## Form 10-K

A copy of the Company's report for 1979 filed with the Securities and Exchange Commission on Form 10-K will be provided to shareholders upon written request to Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attn: Financial Division.

## Additional Information

Additional information about the Company may be obtained by writing to: L. S. Binder, Secretary, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

### FISCAL AGENTS FOR STOCKS AND BONDS

PHILADELPHIA ELECTRIC COMPANY—Preferred and Common Stocks

Registrars

GIRARD BANK

One Girard Plaza, Philadelphia, Pa. 19101

CHEMICAL BANK

20 Pine Street, New York, N.Y. 10015

Transfer Agents

PHILADELPHIA ELECTRIC COMPANY

2301 Market Street, Philadelphia, Pa. 19101

MORGAN GUARANTY TRUST CO. of N.Y.

30 West Broadway, New York, N.Y. 10015

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PHILADELPHIA ELECTRIC COMPANY—First and Refunding Mortgage Bonds

Trustee, THE FIDELITY BANK Broad & Walnut Streets, Philadelphia, Pa. 19109

New York Agent, MORGAN GUARANTY TRUST CO. of N.Y. 23 Wall Street, New York, N.Y. 10015

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PHILADELPHIA ELECTRIC COMPANY—Sinking Fund Debentures

PHILADELPHIA ELECTRIC POWER COMPANY (A Subsidiary)—Debentures

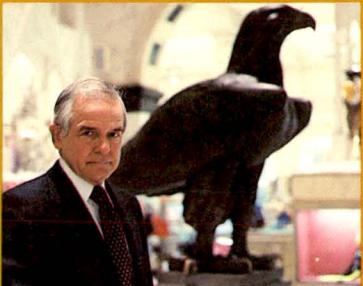
Trustee, THE PHILADELPHIA NATIONAL BANK Broad & Chestnut Streets, Philadelphia, Pa. 19101

New York Agent, IRVING TRUST COMPANY One Wall Street, New York, N.Y. 10015

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All Philadelphia Electric Company securities, except the Sinking Fund Debentures and those series of First and Refunding Mortgage Bonds and Preferred Stock which were sold privately to Institutional investors, are listed on the Philadelphia Stock Exchange and the New York Stock Exchange. Philadelphia Electric Power Company Debentures are listed on the Philadelphia Stock Exchange.

## Directors



Robert D. Harrison



William S. Fishman



Joseph C. Ladd



Richard G. Gilmore



John H. Austin, Jr.

James L. Everett

Robert F. Gilkeson



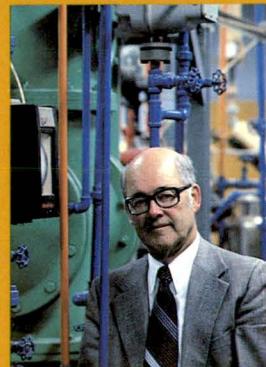
Joseph J. McLaughlin



Paul R. Kaiser



William T. Coleman, Jr., Esq.



William W. Hagerty

\*John H. Austin, Jr.  
Executive Vice President  
and Chief Operating Officer  
of the Company

William T. Coleman, Jr., Esq.  
Senior Partner of the law firm  
of O'Melveny & Myers

\*James L. Everett  
President and Chief Executive Officer  
of the Company

William S. Fishman  
Chairman and Chief Executive Officer  
ARA Services, Inc.  
(Service Management)

\*Robert F. Gilkeson  
Chairman of the Board  
of the Company

Richard G. Gilmore  
Executive Vice President  
Girard Bank

\*William W. Hagerty  
President, Drexel University

Robert D. Harrison  
Vice Chairman  
John Wanamaker, Philadelphia, Inc.  
(Merchandising)

\*Paul R. Kaiser  
Chairman of the Board and Chief  
Executive Officer  
Tasty Baking Company  
(Diversified Manufacturing)

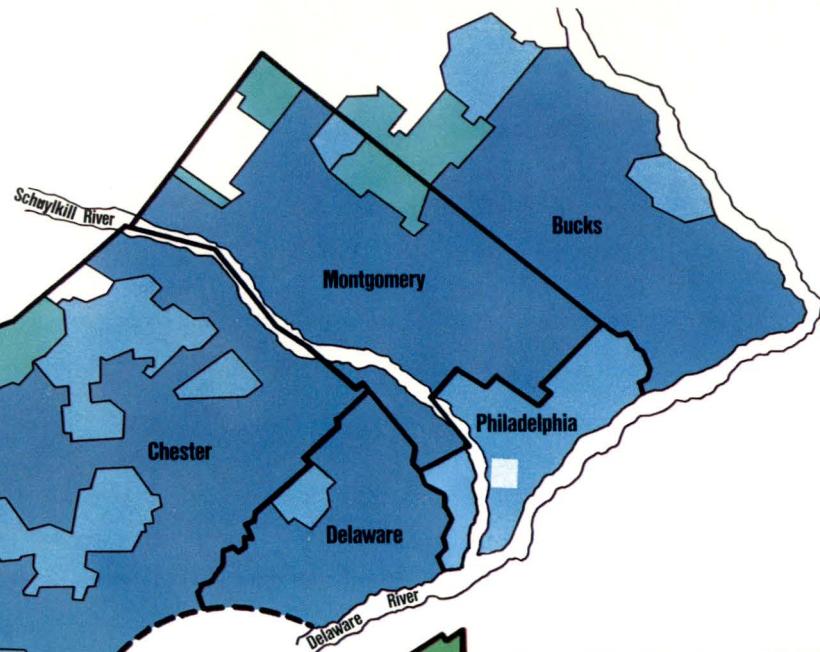
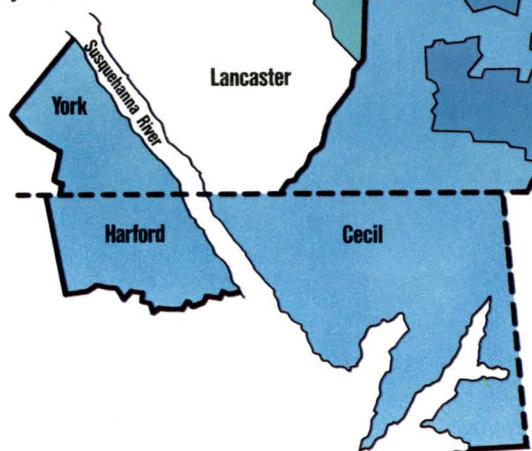
Joseph C. Ladd  
President, Fidelity Mutual  
Life Insurance Company

\*Joseph J. McLaughlin  
President, Beneficial Mutual  
Savings Bank

\*Member of Executive Committee

## PE and PJM

The Pennsylvania-New Jersey-Maryland Interconnection (PJM), the world's first integrated power pool, was created in 1927 by PE and two other companies. Now, eleven electric utility companies operate together through PJM for the development of power generation and transmission facilities. PJM Computers coordinate and schedule the operation of generating units each hour using the most economic units. These operations reduce energy costs and increase reliability of service.



### Philadelphia Electric Company

- [Dark Blue Box] Electric and Gas Service
- [Medium Blue Box] Electric Service only
- [Light Blue Box] Gas Service only
- [Lightest Blue Box] Steam Service

### Other PJM Members and Associates

- [Light Green Box] Public Service Electric and Gas Company
- [Orange Box] Pennsylvania Power & Light Company
- [Yellow Box] Baltimore Gas and Electric Company
- [Red Box] Jersey Central Power & Light Company
- [Olive Green Box] Metropolitan Edison Company
- [Dark Green Box] Pennsylvania Electric Company
- [Purple Box] Potomac Electric Power Company
- [Orange Box] Atlantic Electric Company
- [Pink Box] Delmarva Power & Light Company
- [Dark Purple Box] Luzerne Electric Division — UGI Corporation

Philadelphia Electric Company  
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P.O. Box 8699  
Philadelphia, PA 19101

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