JERROLD L. JACOBS
SENIOR VICE PRESIDENT,
UTILITY OPERATIONS

May 21, 1987

Mr. Daniel R. Muller
BWR Project Directorate #2
Division of BWR Licensing
U. S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Muller:

Your letter of April 9, 1987 approved the proposed corporate reorganization of Atlantic City Electric Company (ACEC) under 10 CFR 50.80. That Nuclear Regulatory Commission (NRC) consent, which is attached, was provided after detailed NRC review of a request originally submitted in our letter to Mr. Harold R. Denton dated December 18, 1986.

In the interest of closing the record on this consent determination, we believe it is appropriate to inform you of the recent action of your shareholders. As stipulated in our proposal to you, our Annual Meeting of Shareholders was held on April 22nd, a notice and proxy material being mailed to all current shareholders on March 20, 1987. A copy of that notice is attached. At the Annual Meeting, the Company's shareholders voted to approve the formation of Atlantic Energy, Inc. (AEI) as the nonregulated parent company of ACEC. That approval included one slight rearrangement of assignments within the new organizations. Specifically, paragraph two on page three of your consent letter noted the contemplated board and officer arrangement for AEI. As approved by the shareholders, the former directors of ACEC did become the directors of AEI. However, the senior officers of the corporation have been named the directors of ACEC.

All other aspects of our reorganization are proceeding as planned, and there has been no change in the individuals involved or of the ultimate control of our Board of Directors. Therefore, we do not believe that this arrangement in any way modifies our submittal or your determinations. We trust that this information is useful in concluding your consideration of this issue.

Very truly yours,

Jerrold L. Jacobs

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PDR ADOCK 05000272
I PDR

pl
Enclosure

Atlantic City Electric Company
1199 Black Horse Pike
Pleasantville, N.J. 08232
609-645-4413

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ATLANTIC CITY ELECTRIC COMPANY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Holders of Common Stock of
Atlantic City Electric Company:

The Annual Meeting of Shareholders of Atlantic City Electric Company (the "Company") will be held at Powhatan Hall, Quail Hill Inn, at The Towne of Historic Smithville, Route 9, Smithville, New Jersey, on Wednesday, April 22, 1987, at 3:00 p.m. for the following purposes:

1. To elect a Board of Directors of nine members to hold office for one year and until their successors have been elected and qualified.

2. To approve an amendment to the charter of the Company eliminating certain Director and Officer liability.

3. To approve an Agreement and Plan of Merger ("Merger Agreement"), under which Atlantic Energy, Inc. ("Holding Company"), an inactive subsidiary of the Company, will become the parent holding company of the Company and the holders of Common Stock of the Company will become holders of Common Stock of Holding Company.

4. To consider and vote upon a Long-Term Performance Incentive Plan ("Long-Term Plan").

5. To ratify appointment of Deloitte Haskins & Sells as independent public accountants for 1987.

6. To transact any other business as may properly come before the meeting, or any adjournments thereof.

The close of business, March 6, 1987 has been fixed as the record date for determination of shareholders entitled to vote at the meeting. To assure your representation at the meeting, please sign, date and return your proxy in the enclosed envelope which requires no postage if mailed in the United States. If you plan to attend the meeting, please check the special box on the proxy card. An admittance card will be sent to you shortly before the meeting. Please bring it with you to eliminate the need to register at the meeting.

By Order of the Directors,
S. M. DODD
Secretary

March 20, 1987

An informative report of operations of the Company will be presented at the meeting. Directors and Officers will be available to talk individually with shareholders before and after the meeting. A report of the meeting will be mailed to shareholders. If you are unable to attend, please give this matter your prompt attention, so that your shares will be represented at the meeting.

This Document is both a Proxy Statement for the Annual Meeting of Shareholders of Atlantic City Electric Company and a Prospectus of Atlantic Energy, Inc.

ATLANTIC ENERGY, INC.

1199 Black Horse Pike
Pleasantville, New Jersey 08232
609-645-4100

Under the Agreement and Plan of Merger described herein, shares of Common Stock of Atlantic City Electric Company will be converted into an equal number of shares of Common Stock of Atlantic Energy, Inc. Upon consummation of the transaction, Atlantic City Electric Company will be a subsidiary of Atlantic Energy, Inc.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

18,870,561 SHARES OF COMMON STOCK
OF
ATLANTIC ENERGY, INC.

A Registration Statement under the Securities Act of 1933 has been filed with the Securities and Exchange Commission (''SEC''), Washington, DC, with respect to the shares of Common Stock of Atlantic Energy, Inc. offered hereby. As permitted by the rules and regulations of the SEC, this Prospectus omits certain information contained in the Registration Statement on file with the SEC. For further information pertaining to the securities offered hereby, reference is made to the Registration Statement, including the exhibits filed as part thereof.

The date of this Prospectus is March 20, 1987

AVAILABLE INFORMATION

Atlantic City Electric Company (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934 (the "1934 Act") and in accordance therewith files reports and other information with the SEC. Such reports, proxy and information statements, and other information can be inspected and copied at the offices of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549-1004; 219 South Dearborn Street, Chicago, Illinois 60604; and 26 Federal Plaza, New York, New York 10278. Copies of this material can also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549-1004. Company Common Stock $3 par value is listed on the New York, Philadelphia and Pacific Stock Exchanges, where reports and other information concerning the Company can also be inspected.

No person has been authorized to give any information or to make any representation not contained or incorporated by reference in this Proxy Statement/Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. Neither the delivery of this Proxy Statement/Prospectus nor any sale made hereunder shall under any circumstances create an implication that there has or has not been any change in the affairs of the Company since the date hereof. This Proxy Statement/Prospectus does not constitute an offer of any securities other than the registered securities to which it relates, or an offer to any person in any jurisdiction in which such offer would be unlawful.

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ABBREVIATIONS USED IN PROXY STATEMENT/PROSPECTUS

For ready identification of certain terms contained herein, the following abbreviations are used in the Proxy Statement/Prospectus:

''1934 Act'' means the Securities Exchange Act of 1934

''1935 Act'' means the Public Utility Holding Company Act of 1935

''SEC'' means the Securities and Exchange Commission

''BPU'' means the New Jersey Board of Public Utilities

''Company'' means Atlantic City Electric Company, a New Jersey corporation now operating the electric utility business

''Holding Company'' means Atlantic Energy, Inc., a New Jersey corporation

''Merger Company'' means X Atlantic Inc., a New Jersey corporation

''Merger Agreement'' means the Agreement and Plan of Merger

''Merger'' means the merging of the Merger Company, whose outstanding stock will be owned by the Holding Company immediately prior to the Merger, with and into the Company, with the Company becoming a subsidiary of the Holding Company

''Housing'' means Atlantic Housing, Inc., a New Jersey corporation and a wholly-owned subsidiary of the Company, which will, following the Merger, become a subsidiary of the Holding Company

''Generation'' means Atlantic Generation, Inc., a New Jersey corporation and a wholly-owned subsidiary of the Company, which will, following the Merger, become a subsidiary of the Holding Company

''Investment'' means ATE Investment, Inc., a New Jersey corporation and a wholly-owned subsidiary of the Company, which will, following the Merger, become a subsidiary of the Holding Company

''Deepwater'' means Deepwater Operating Company, a New Jersey corporation and a wholly-owned subsidiary of the Company, which will, following the Merger, remain a subsidiary of the Company

SUMMARY OF PROXY STATEMENT/PROSPECTUS

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Proxy Statement/Prospectus, the other documents referred to herein and the exhibits to the Registration Statement of which this Proxy Statement/Prospectus is a part.

THE MEETING

Time, Date and Place of Meeting: The Annual Meeting will be held at 3:00 p.m. on Wednesday, April 22, 1987, at Powhatan Hall, Quail Hill Inn, at the Towne of Historic Smithville, Route 9, Smithville, NJ.

Purposes of the Meeting: To elect nine Directors of the Company.

To consider and vote on an amendment to the Company's charter eliminating certain Director and Officer liability.

To consider and vote on a Merger Agreement forming a Holding Company.

To consider and vote on the Long-Term Plan.

To ratify the appointment of independent public accountants.

To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

Who May Vote: Holders of record of Company Common Stock at the close of business on March 6, 1987 will be entitled to notice of the Annual Meeting and to vote in person or by proxy.

Recommendations of the Board of Directors of the Company: The Company's Board of Directors recommends that the holders of Company Common Stock vote: FOR the election of the nominees named in the Proxy Statement/Prospectus as Directors, FOR an amendment to the charter of the Company eliminating certain Director and Officer liability, FOR a Merger Agreement forming a Holding Company, FOR approval of the Long-Term Plan, FOR the ratification of the appointment of Deloitte Haskins & Sells as independent public accountants for 1987.

ELECTION OF DIRECTORS

Nominees: Nine persons, all of whom currently serve as Directors of the Company, have been nominated for election as Directors of the Company at the Annual Meeting to serve for a one-year term. The persons so elected will serve as Directors of the Holding Company following the Merger. See "Election of Directors" at p. 8.

AMENDMENT TO THE COMPANY'S CHARTER

Elimination of Certain Director and Officer Liability: The Company's Board of Directors is asking the shareholders to consider and approve a proposal to amend the Company's

charter to include a new Article XI which would eliminate certain liability of Directors and Officers to the Company or its shareholders for damages. Article XI is being proposed as a result of changes in New Jersey law enacted in February 1987 authorizing New Jersey corporations to include such provisions in their charters. See p. 17.

AGREEMENT AND PLAN OF MERGER — FORMATION OF A HOLDING COMPANY

Formation of Holding Company: The Company and its subsidiaries other than Deepwater will become separate, wholly-owned subsidiaries of the Holding Company.

To accomplish the restructuring, the Company has caused two new New Jersey corporations, Holding Company and X Atlantic Inc. ("Merger Company"), to be incorporated. The Merger Company will be merged with and into the Company, with the Company becoming a subsidiary of the Holding Company (the "Merger"). The outstanding stock of the Merger Company will be owned by the Holding Company immediately prior to the Merger. In the Merger, the Common Stock of the Company will be converted into Common Stock of the Holding Company on a share for share basis. See "Agreement and Plan of Merger — Formation of a Holding Company" at p. 18.

Reasons for the Restructuring: The management and the Board of Directors of the Company believe that the creation of a holding company structure will facilitate initiatives into non-utility businesses while the Company continues to maintain its high standards of utility service. See "Reasons for the Restructuring" at p. 20.

Appraisal Rights: Holders of Company Common Stock do not have appraisal rights. It appears that holders of Company Preferred Stock will have such right. See "Appraisal Rights" at p. 23.

Tax Consequences: The Company has received a ruling from the Internal Revenue Service with respect to certain tax consequences . See "Tax Consequences" at p. 24.

Dividends: It will be the intention of the Holding Company to pay cash dividends on its shares of Common Stock at a rate not less than that currently paid by the Company, but dividends will be dependent on earnings, financial condition and other relevant factors.

Directors, Officers and Employees of the Holding Company: The persons who are the Directors of the Company immediately prior to the Merger shall be the Directors of the Holding Company after the Merger. The President and Senior Vice Presidents of the Company will become Directors of the Company. See "Directors, Officers and Employees" at p. 25.

Vote Required: Adoption of the Merger Agreement requires the affirmative vote of two-thirds of the votes cast by the holders of Company Common Stock. See "Vote Required" at p. 21.

THE LONG-TERM PLAN

Adoption of the Long-Term Plan: The Board of Directors recommends that holders of Company Common Stock approve the adoption of the Long-Term Plan. The Long-Term Plan provides for the award of shares of Common Stock, subject to restrictions, to key employees conditioned upon the achievement of longer-term financial and other operating performance objectives. See "Approval of Long-Term Performance Incentive Plan" at p. 27.

INDEPENDENT PUBLIC ACCOUNTANTS

Ratification of the Appointment of Independent Public Accountants: The Board of Directors recommends that the appointment of Deloitte Haskins & Sells as independent public accountants for the year 1987 be ratified. It is the intention of the Company that Deloitte Haskins & Sells also serve as independent public accountants of the Holding Company. See "Ratification of the Appointment of Independent Public Accountants" at p. 29.

PROXIES AND SOLICITATIONS

The principal executive offices of the Company are located at 1199 Black Horse Pike, Pleasantville, New Jersey 08232. This Proxy Statement and the accompanying proxy card were first mailed to shareholders on or about March 20, 1987.

Your proxy is solicited on behalf of the Board of Directors of the Company. If the accompanying proxy card is duly executed and returned in advance of the meeting and is not revoked, the shares represented thereby will be voted in accordance with the authority contained therein. Your proxy may be revoked in writing at any time prior to its exercise. Under New Jersey law, the presence at the meeting of a shareholder who has given a proxy does not revoke the proxy unless the shareholder files written notice of such revocation with the secretary of the meeting prior to the voting of the proxy.

The solicitation of proxies will be made at the Company's expense. Proxies will be solicited primarily by mail, and also may be solicited personally and by telephone by regular employees of the Company. The Company may reimburse banks or brokerage firms for their expenses in forwarding proxy material to beneficial owners of shares held of record by such banks or brokerage firms. The Company has also retained D. F. King & Co., Inc. to aid in the solicitation of proxies from brokers, bank nominees, other institutional holders and certain large individual holders. The anticipated cost of the services is approximately $6,000, plus expenses.

VOTING SECURITIES

Only record holders of Common Stock at the close of business March 6, 1987 will be entitled to vote at the meeting. At the close of business on March 6, 1987 there were 18,276,035 shares of Common Stock outstanding and entitled to vote. Holders of shares of Common Stock are entitled to one vote per share of Common Stock.

ELECTION OF DIRECTORS
(Proposal No. 1)

At the meeting, nine Directors, constituting the entire Board of Directors, are to be elected for terms of one year and until their successors have been elected and qualified. Each of the nominees was elected a Director at the 1986 Annual Meeting of Shareholders. See also "Directors, Officers and Employees" under the caption "Agreement and Plan of Merger — Formation of a Holding Company" at p. 18.

It is intended that shares represented by the proxies solicited on behalf of the Board of Directors will be voted in favor of the election of the following persons as Directors:

NOMINEES FOR ELECTION

	Name, Age, Principal Occupation and Business Experience Past Five Years	Served as Director Since	Shares of Common Stock Beneficially Owned as of January 31, 1987(1)(2)
	ELEANOR S. DANIEL, 70, President and Director of Midtown Daniel Corporation and Vice President and Director of several other real estate corporations, East Brunswick, NJ. Formerly member of Board of Managers, U.S. Savings Bank of Newark, NJ and Trustee, New Jersey Blue Shield	1975	2,548

Other Information: Mrs. Daniel is Chairman of the Finance Committee and a member of the Pension and Insurance; Personnel; and Shareholder, Community and Government Relations Committees of the Board of Directors.

	JOHN D. FEEHAN, 57, Chairman of the Board of Directors of the Company. Formerly President and Chief Executive Officer of the Company	1973	10,899

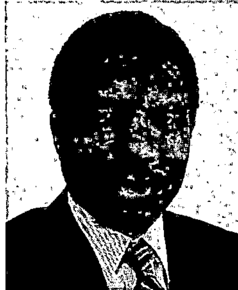
Other Information: Mr. Feehan is an ex officio member of all Committees of the Board of Directors except the Audit Committee.

	JOS. MICHAEL GALVIN, JR., 41, President and Chief Executive Officer of the Memorial Hospital of Salem County, Salem, NJ	1978	919

Other Information: Mr. Galvin is Chairman of the Personnel Committee and a member of the Audit; Energy, Operations and Research; and Shareholder, Community and Government Relations Committees of the Board of Directors.

Name, Age, Principal Occupation and Business Experience Past Five Years	Served as Director Since	Shares of Common Stock Beneficially Owned as of January 31, 1987(1)(2)
GERALD A. HALE, 59, President of H.H.H., Inc., Summit, NJ, an investment and management company. Chairman, Evans Clay Company, Summit, NJ, a producer of kaolin clay. Director of Oakite Products Inc. President of Hale Resources, Summit, NJ, an industrial and natural resource investment and management company	1983	1,000

Other Information: Mr. Hale is Chairman of the Corporate Development Committee and a member of the Energy, Operations and Research; Finance; and Personnel Committees of the Board of Directors.

 MATTHEW HOLDEN, JR., 55, Professor of Government and Foreign Affairs, University of Virginia, Charlottesville, VA. Formerly Commissioner, Federal Energy Regulatory Commission, Washington, DC	1981	117

Other Information: Mr. Holden is Chairman of the Shareholder, Community and Government Relations Committee and a member of the Audit; Pension and Insurance; and Personnel Committees of the Board of Directors.

E. DOUGLAS HUGGARD, 53, President and Chief Executive Officer of the Company. Formerly President and Chief Operating Officer of the Company; Executive Vice President of the Company; Senior Vice President-Operations of the Company	1984	2,944

Other Information: Mr. Huggard is an ex officio member of all Committees of the Board of Directors except the Audit Committee.

Name, Age, Principal Occupation and Business Experience Past Five Years	Served as Director Since	Shares of Common Stock Beneficially Owned as of January 31, 1987(1)(2)
IRVING K. KESSLER, 68, Retired. Formerly Executive Vice President, RCA Corporation, Cherry Hill, NJ....	1980	510

Other Information: Mr. Kessler is Chairman of the Energy, Operations and Research Committee and a member of the Audit; Corporate Development; and Personnel Committees of the Board of Directors.

RICHARD B. McGLYNN, 48, Attorney at Law. Partner of the law firm of Stryker, Tams & Dill, Newark, NJ	1986	106

Other Information: Mr. McGlynn is Chairman of the Audit Committee; and a member of the Corporate Development; Pension and Insurance; and Shareholder, Community and Government Relations Committees of the Board of Directors.

MADELINE H. McWHINNEY, 65, President of Dale, Elliott & Company, Inc., New York, NY, a management consulting firm. Trustee, Kettering Foundation, Institute for International Education, and Manager of Managers Mutual Funds. Formerly Assistant Director of Whitney Museum of American Art, New York, NY and Commissioner of Casino Control Commission, Atlantic City, NJ	1983	200

Other Information: Miss McWhinney is a member of the Energy, Operations and Research; Finance; Pension and Insurance; and Shareholder, Community and Government Relations Committees of the Board of Directors.

Ownership of Equity Securities by Officers and nominees for Director

	Title of Class	Number of Shares Beneficially Owned as of January 31, 1987(1)(2)
The 24 Officers and nominees for Director, as a group...	Common Stock	30,981
	Preferred Stock	50

(1) Based on information obtained from the Officers and nominees for Director who have advised the Company that, except as shown above, they did not own beneficially any other equity securities of the Company as of January 31, 1987. In certain cases the shares listed above were owned jointly with another person; in other cases they were owned by the spouse or children of the nominee for Director or Officer (in certain cases the nominee or Officer disclaims beneficial ownership of the shares).

(2) The number of shares listed in the table in each case represents less than 1% of the total number of shares of the class outstanding.

The management knows of no reason why any nominees for Director would be unavailable. If, however, any of such nominees should become unavailable for any reason, the proxy may be voted for a substitute nominee.

Other Transactions and Relationships

During 1986, the Company employed the services of the law firm Stryker, Tams & Dill of which Mr. McGlynn is a partner.

Meetings of the Board of Directors and of Committees of the Board

During 1986, there were 14 meetings of the Board of Directors and 47 meetings of Committees of the Board of Directors.

During 1986, Committees of the Board of Directors met as follows:

Committee	No. of Meetings
Audit	6
Corporate Development	7
Energy, Operations and Research	5
Executive (Ad Hoc)	2
Finance	8
Pension and Insurance	7
Personnel	5
Shareholder, Community and Government Relations	7

Functions of Audit Committee include:

1. Recommends each year, to the Board of Directors, the appointment of an independent public accounting firm.

2. Reviews the scope, magnitude and cost of audit and non-audit services to be performed by independent public accountants and makes recommendations to the Board of Directors for approval of such services.

3. Reviews accounting, financial and operating controls with independent public accountants, internal auditors and management.

4. Reviews periodic and annual audit reports of independent public accountants and internal auditors, meets independently with each and with management and ascertains implementation of the independent public accountants' recommendations.

5. Reviews annual financial reports with independent public accountants prior to release by the Company.

6. Reviews and makes recommendations concerning security measures required to protect vital records of the Company.

7. Inquires about any aspect of the Company's business, whenever it deems such desirable, to help ensure employees comply with local, state and federal laws and regulations and with the Company's Code of Ethics and Business Conduct Policy.

Functions of Personnel Committee include:

1. Reviews and makes recommendations to the Board of Directors with respect to selection of persons to be named Officers of the Company.

2. Reviews the performance of Officers of the Company and recommends to the Board of Directors appropriate compensation levels.

3. Reviews the level of fees paid to members of the Board of Directors and makes recommendations for adjustments.

4. Monitors the President's program of executive development and plans for Officer succession, monitors the management plan of organization and makes recommendations to the Board of Directors as required.

5. Considers and makes recommendations to the Board of Directors with respect to other major employee relations matters, employment policies and forms of compensation.

6. Considers and makes recommendations to the Board of Directors regarding the retirement policy for Directors.

7. Maintains a list of prospective candidates for Director including those recommended by shareholders.

8. Establishes procedures to be followed by shareholders in submitting recommendations for nominees for Director.

9. Reviews the qualifications of candidates for Director and makes recommendations to the Board of Directors with respect to the filling of vacancies on the Board of Directors which occur during the year.

10. Recommends to the Board of Directors nominees for election at the Annual Meeting of Shareholders.

The Committee considers nominees for Director recommended by shareholders. Any shareholder who wishes to submit a recommendation may do so by submitting the name of the person and a description of the person's business or other experience and qualifications in writing to: Chairman, Personnel Committee, Board of Directors, Atlantic City Electric Company, 1199 Black Horse Pike, Pleasantville, New Jersey 08232.

DIRECTOR COMPENSATION

In 1986, each Director who was not an employee of the Company, other than John D. Feehan, was entitled to receive a retainer at the rate of $7,000 per year. Each Director who was not an employee of the Company, including John D. Feehan, was entitled to receive a fee of $500 per meeting for each meeting of the Board of Directors attended and each Committee member was entitled to receive $500 for each Committee meeting. Actual receipt of such amounts, with interest thereon, may be deferred until a later time selected by the Director.

By agreement with the Company, John D. Feehan, Chairman of the Board, is serving as a consultant and advisor to the Company through April 30, 1990 for the initial sum of $60,000 per year,

adjusted annually for increases in the cost of living. The agreement may be extended for an additional period of three years from May 1, 1990 through April 30, 1993. The amount so payable to Mr. Feehan is in addition to any amounts payable to him as meeting attendance fees or payable pursuant to benefit plans of the Company in which Mr. Feehan was a participant as an employee of the Company.

EXECUTIVE COMPENSATION

The following tabulation shows the cash compensation paid or accrued for services in all capacities rendered to the Company and its subsidiaries during 1986, by each of the five most highly compensated Executive Officers of the Company, and to all Executive Officers of the Company as a group.

Name of Individual or Number in Group and Principal Capacities in which Compensation was Received	Cash Compensation
E. DOUGLAS HUGGARD President and Chief Executive Officer	$ 231,537
JERROLD L. JACOBS Senior Vice President—Utility Operations	149,399
JOS. JERRY SALOMONE Senior Vice President—Finance and Accounting	123,805
BRIAN A. PARENT Senior Vice President—Planning and Rates	119,571
MICHAEL A. JARRETT Senior Vice President—Corporate Services	118,134
The 15 Executive Officers as a group (including those named above)	$1,560,235

For the year 1985, the Board of Directors authorized the establishment of a bonus pool from which bonuses totalling $119,440 were awarded to the 15 Executive Officers of the Company whose individual and combined efforts were deemed responsible for the achievement in 1985 of results beneficial to the Company. Amounts awarded as bonuses were paid in 1986 and are included in the cash compensation table. Bonuses for the year 1986, were paid in February 1987 and total $130,700. That amount will be reflected in 1987 compensation. At a meeting of the Board of Directors held January 6, 1987 the Directors authorized the creation of a bonus pool for 1987. The amount of the 1987 bonus pool covering Executive Officers shall not exceed $246,750. No commitment has been made at the date of this Proxy Statement/Prospectus to pay a specific portion of the 1987 pool to any individual, nor has any commitment been made to create a bonus pool in succeeding years. For the two years 1985 and 1986, excluding Executive Officers who retired during those years, amounts awarded as bonuses are as follows: Mr. Huggard —$28,000; Mr. Jacobs —$23,200; Mr. Salomone —$19,500; Mr. Parent —$19,500; Mr. Jarrett —$19,600; and, the Executive Officer group —$195,700.

Under the terms of an Agreement dated November 1, 1986 between the Company and E. Douglas Huggard, a Director and the President and Chief Executive Officer of the Company, Mr. Huggard will receive from the Company a direct salary at the rate of $220,000 per annum or at a greater rate as established by the Board of Directors of the Company during the term of the Agreement. The salary payable to Mr. Huggard shall be in addition to (1) any bonus awards payable to him pursuant to any bonus pool established by the Board of Directors of the Company to reward achievement of results beneficial to the Company and (2) any amounts to which he would otherwise be entitled, pursuant to benefit plans of the Company as an Officer and employee of the Company. In the event of the death of Mr. Huggard during the term of the Agreement, the Company shall pay his designated beneficiary, in addition to any other benefit payable by or on behalf of the Company or any affiliate, an amount calculated at the rate of $55,000 per annum, from the date of his death to October 31, 1989. Unless otherwise terminated, the Agreement with Mr. Huggard shall terminate on November 1, 1989. The compensation paid to Mr. Huggard in 1986 is included in the Cash Compensation Table shown above.

Executive Medical Expense Reimbursement Plan: Under the Executive Medical Expense Reimbursement Plan, the 15 Executive Officers of the Company and their family members are eligible for medical coverage. Generally this coverage coordinates with the Company's other medical plans. Coverage is limited to 3% of the Executive Officer's salary per year and a maximum of 6% over any two-year period. For the three years 1984 through 1986, amounts distributed by the Company under this Plan are as follows: Mr. Huggard — $6,334; Mr. Jacobs — $5,099; Mr. Salomone — $185; Mr. Parent — $3,036; Mr. Jarrett — $618; and, the Executive Officer group — $28,959.

Retirement Plans: The Company and its subsidiary, Deepwater, have in effect a non-contributory Retirement Plan (the "Plan") covering all regular employees, including Executive Officers. Directors, as such, do not participate in the Plan. The Plan is a defined benefit plan. Retirement benefits are determined on a formula basis which recognizes both earnings and service. Retirement benefits are not subject to withholding of social security taxes or other offset amounts. An employee's annual retirement benefits are based on the average of the highest five years' earnings in the ten years preceding retirement. Earnings covered by the Plan are the employee's basic salary and bonuses. For the individuals named in the cash compensation table, the credited full years of service at December 31, 1986 under the Plan are as follows: Mr. Huggard—31 years; Mr. Jacobs—25 years; Mr. Salomone—10 years; Mr. Parent—19 years; and, Mr. Jarrett—11 years.

Excess Benefit Retirement Income Program: The Company adopted an Excess Benefit Retirement Income Program ("Excess Benefit Program") as of January 1, 1985 to provide benefits in excess of benefits which can be paid under the Plan in any one calendar year. The Internal Revenue Code provides a limitation on the amount of benefits which can be paid under the plan in one calendar year to a person who retires at the social security retirement age. This limit is actuarially adjusted downward if retirement benefits begin before the social security retirement age. The Excess Benefit Program is available to such persons as the Board may determine.

In addition to the Plan and Excess Benefit Program described above, the Company has a non-contributory *Supplemental Retirement Plan* (the "Supplemental Plan") for Executive Officers. As of October 2, 1986 the Supplemental Plan covers Executive Officers as of that date and such later appointed Executive Officers as the Board may designate. Under the Supplemental Plan, benefits are payable to covered Executive Officers who serve as such for a period of five years. Annual retirement benefits for Executive Officers under the Supplemental Plan will be equal to 25% of an Executive Officer's final annual rate of compensation and are payable at age 60 or later. The Supplemental Plan also provides for benefits to be payable to a beneficiary in the event that an Executive Officer dies before retirement or within 15 years after retirement. Benefits under the Supplemental Plan are not subject to withholding of social security taxes or other offset amounts. The Company has purchased life insurance on covered Executive Officers in amounts that, in the aggregate, are designed to actuarially fund all of its future liabilities under this Plan, and the Company will be the sole beneficiary of all such life insurance.

The following table shows the combined estimated annual retirement benefits under the Plan, payable to Executive Officers under a straight life annuity, computed assuming retirement at age 65 with the specified remuneration and years of service classifications and under the Excess Benefit Program and the Supplemental Plan:

Assumed Pension Earnings	Estimated Annual Retirement Benefits Based Upon Years of Service				
	25 Years	30 Years	35 Years	40 Years	45 Years
$130,000	$ 81,000	$ 90,000	$100,000	$110,000	$119,000
150,000	93,000	104,000	116,000	127,000	138,000
170,000	106,000	118,000	131,000	144,000	156,000
190,000	118,000	132,000	147,000	161,000	175,000
210,000	131,000	146,000	162,000	178,000	193,000
230,000	143,000	160,000	178,000	195,000	212,000
250,000	156,000	174,000	193,000	212,000	230,000
270,000	168,000	188,000	209,000	229,000	249,000
290,000	181,000	202,000	224,000	246,000	267,000

Employee Stock Ownership Plan: The Company and Deepwater have in effect an Employee Stock Ownership Plan (the "ESOP"), established in 1976, under which shares of Company Common Stock are credited to the accounts of eligible employees, including Executive Officers. Employees automatically become eligible to participate in the ESOP upon completion of one year of service. In 1986, with respect to the 1985 plan year, the Company contributed to the ESOP an amount equal to ½% of qualifying 1985 payroll. Shares of Common Stock issued pursuant to the qualifying payroll provision were allocated on an equal basis to 1,999 participating employees. All shares are held in trust and distributed upon retirement or other termination of employment. Amounts contributed by the Company for the three years 1984 through 1986 under the ESOP are as follows: Mr. Huggard — $1,169; Mr. Jacobs — $1,082; Mr. Salomone — $1,011; Mr. Parent — $937; Mr. Jarrett — $1,025; the Executive Officer group — $11,444 and all employees — $1,392,534.

Tax Saver Retirement and Savings Plan: The Company and Deepwater have in effect a Tax Saver Retirement and Savings Plan (the "Tax Saver Plan") under which all non-union employees may defer receipt of a portion of their salary. The Tax Saver Plan also contains a matching feature whereby the Company contributes 25¢ for each $1.00 an employee contributes; the maximum amount the Company will match is the equivalent of 6% of an employee's salary. Amounts contributed by the Company for the two years 1985 and 1986 are as follows: Mr. Huggard — $5,560; Mr. Jacobs — $3,179; Mr. Salomone — $3,198; Mr. Parent — $1,874; Mr. Jarrett — $3,095; the Executive Officer group — $32,708 and 778 participating employees — $889,315.

Long-Term Performance Incentive Plan: Subject to shareholder approval of the Long-Term Plan the Board of Directors has approved awards of shares of Company Common Stock under the Long-Term Plan. The purpose of the Long-Term Plan is to strengthen the identity of interests of the shareholders and key employees, and to provide key employees with an opportunity for additional compensation, conditioned upon the corporate achievement of longer-term financial and other operating performance objectives. Each of the shares is subject to restrictions prohibiting its sale, transfer, pledge or hypothecation until the expiration of a restriction period of not less than three years. The shares are subject to forfeiture upon separation from employment prior to the end of the restriction period, except that the restrictions may be lifted earlier as to some or all of the shares upon death or certain events of retirement or disability. For more information about the Long-Term Plan and share awards in general, please see the section entitled "Approval of Long-Term Performance Incentive Plan" at p. 27. The awards approved by the Board of Directors subject to shareholder approval of the Long Term Plan are as

follows: Mr. Huggard – 2,003 shares; Mr. Jacobs – 1,218 shares; Mr. Salomone – 1,002 shares; Mr. Parent – 986 shares; Mr. Jarrett – 954 shares; and, the Executive Officer group – 13,181 shares.

AMENDMENT OF CHARTER TO ELIMINATE CERTAIN LIABILITY OF DIRECTORS AND OFFICERS PURSUANT TO NEW JERSEY LAW (Proposal No. 2)

The Board of Directors has approved, and recommends that the shareholders approve, an amendment to the Company's charter as permitted by a change in New Jersey law (where the Company is incorporated) enacted in February 1987, to include a new Article XI that would eliminate certain liability of the Company's Directors and Officers to the Company or its shareholders for damages for breach of duty to the Company or its shareholders.

In recent years, litigation seeking to impose liability on Directors and Officers and threats of such litigation have increased significantly. Insurance against liability has become substantially more costly and, in many instances, limited in coverage. The February 1987 changes in the New Jersey law are a response to concerns that many corporations are having difficulty attracting and retaining Directors due to the threat of lawsuits and the lack of sufficient insurance coverage.

Although the Company to date has not experienced difficulty in attracting and retaining qualified Directors and Officers, the Board of Directors believes that adoption of the proposed charter amendment will enhance the ability of the Company to continue to attract and retain qualified Directors and Officers. To date, the Company has been able to maintain insurance coverage for personal liability of its Directors and Officers. Recently, however, such insurance coverage has been obtained by the Company at a significantly higher cost. Based on information received from the Company's insurers, the Board of Directors believes that future liability insurance will continue to be available at further significant increases in cost. Although there is no assurance that adoption of the proposed charter amendment will enable the Company to obtain liability insurance in the future at a lower cost, the Board of Directors believes that adoption of such charter provisions may have a favorable impact over the long term on the availability and cost of such insurance.

Under New Jersey law, Directors and Officers have fiduciary duties to a corporation and to its shareholders. Directors are specifically required to discharge their duties in good faith and with the degree of diligence, care and skill which ordinarily prudent persons would exercise under similar circumstances in like positions. The changes in the New Jersey law enacted in February 1987 do not change the duties of Directors or Officers of New Jersey corporations. Rather, the new laws permit a New Jersey corporation to adopt a charter amendment which eliminates the personal liability of Directors and Officers to the corporation or its shareholders for damages for breach of their duty of care. The proposed amendment to the Company's charter will not eliminate the ability of a shareholder to bring a legal proceeding for equitable relief to enjoin or rescind a transaction involving a breach of duty, although in any particular situation, such equitable relief may not be available. In accordance with the changes in the New Jersey law, the proposed charter amendment will not eliminate liability of a Director or an Officer for any breach of duty based upon an act or omission (i) in breach of the duty of loyalty to the Company or its shareholders, (ii) not in good faith or involving a knowing violation of law, or (iii) resulting in receipt by such Director or Officer of an improper personal benefit. The proposed charter amendment may eliminate the liability of a Director or an Officer for an act or omission occurring prior to the date when it becomes effective. The proposed charter amendment would not eliminate liability of a Director or an Officer under federal securities laws or to third parties who are not shareholders. The changes in the New Jersey law permitting a charter amendment to eliminate certain personal liability of Officers expire in February 1989.

In unanimously recommending the proposed charter amendment, the Board of Directors has considered the detriments to the Company and its shareholders as well as the benefits and has recognized that the Directors have a personal interest in this matter. The principal detriment will be the elimination, to the extent permitted, of the ability of the Company and its shareholders to recover damages for breach by Directors or Officers of their duty of care. This means that Directors or Officers will not be liable

for damages for grossly negligent decisions, including decisions taken in connection with substantive matters or acquisition proposals affecting the Company and its shareholders, unless one of the exceptions applies. There has been no recent litigation involving the Board or its members which would have been affected by the provision had it been in effect at that time. Because the changes in law were recently adopted, there has been no judicial interpretation of their validity or applicability and the potential outcome of any litigation arising out of their interpretation cannot be ascertained. The Board of Directors believes that the recent changes in the market for Director and Officer liability insurance threaten the quality and stability of corporate governance of the Company and its shareholders. The Board of Directors therefore recommends adoption of the proposed amendment to the charter, by adoption of the following resolution:

> RESOLVED: that the charter of the Company, as amended, be amended by inclusion therein of a new Article XI as follows:
>
> > ARTICLE XI: A person who is or was a director or an officer of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for breach of any duty owed to the Corporation or its shareholders, except that this Article XI shall not relieve such person from liability for any breach of duty based upon an act or omission (a) in breach of such person's duty of loyalty to the Corporation or its shareholders, (b) not in good faith or involving a knowing violation of law or (c) resulting in receipt by such person of an improper personal benefit. Any modification, repeal or supersession of this Article XI shall not adversely affect any right or protection of any such person for or with respect to any act or omission occurring prior to the time of such modification, repeal or supersession.

It should be noted that the Restated Certificate of Incorporation of the Holding Company contains a provision corresponding to the proposed new Article XI of the Company's charter. (See Exhibit A hereto). As a result, the Directors and Officers of the Holding Company (see Proposal No. 3 herein) would have the same protection against personal liability as will the Directors and Officers of the Company upon adoption of Article XI of the Company's charter. In the event that Article XI is not approved by the shareholders, it is intended that the corresponding provision in the Holding Company's Restated Certificate of Incorporation would be deleted.

If approved by the shareholders, Article XI would become effective upon filing with the Secretary of State of New Jersey a Certificate of Amendment to the Company's charter, which filing would take place shortly after the Annual Meeting.

Adoption of the amendment adding Article XI to the Company's charter requires the affirmative vote of two-thirds of the votes cast by the holders of Company Common Stock.

The Board of Directors recommends a vote FOR the Amendment of Charter to Eliminate Certain Liability of Directors and Officers (Proposal No. 2).

AGREEMENT AND PLAN OF MERGER — FORMATION OF A HOLDING COMPANY (Proposal No. 3)

General

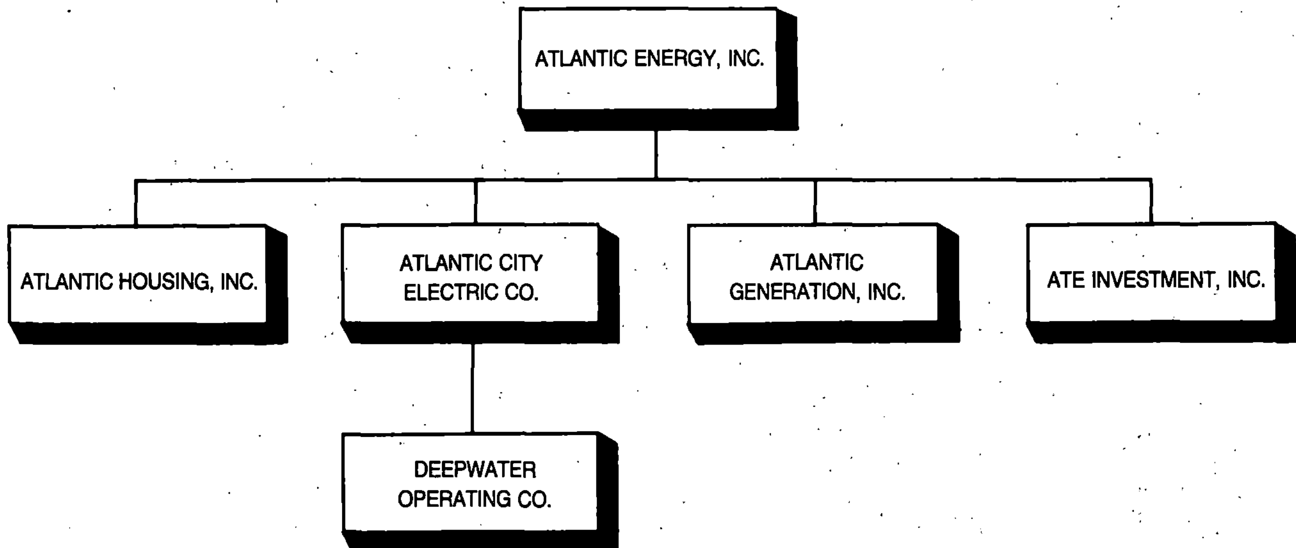
The Board of Directors of the Company has approved a Merger Agreement set forth as Exhibit B hereto to provide for a corporate restructuring. Under the Merger Agreement the Company will become a wholly-owned subsidiary of the Holding Company and the holders of Company Common Stock will become shareholders of the Holding Company on a share for share basis. The Company's management and Board of Directors believe that the proposed corporate structure is more appropriate for diversification into non-utility businesses.

To accomplish the restructuring, the Company formed the Holding Company as a wholly-owned subsidiary of the Company, and the Holding Company formed the Merger Company as a wholly-owned subsidiary of the Holding Company. Both the Holding Company and the Merger Company are New Jersey corporations. At present time neither company conducts any business and both have only nominal assets and liabilities.

Pursuant to the Merger Agreement, subject to approval of the holders of Company Common Stock and the fulfillment of certain other conditions, the Company will become a subsidiary of the Holding Company through the merger of the Merger Company with and into the Company (the "Merger"). On

the effective date of the Merger, each outstanding share of Company Common Stock (par value $3) will be automatically converted into a share of Common Stock of the Holding Company, without par value. After the Merger, the Company will transfer the capital stock of Atlantic Housing, Inc. (''Housing''), Atlantic Generation, Inc. (''Generation'') and ATE Investment, Inc. (''Investment'') currently wholly-owned subsidiaries of the Company through the declaration of a dividend of such capital stock. The businesses of these subsidiaries are described under the caption ''Reasons for the Restructuring.'' Deepwater Operating Company (''Deepwater''), which operates the Company's Deepwater Station, will remain a direct subsidiary of the Company.

Following the Merger, the Company, as a subsidiary of the Holding Company, will continue as an electric utility subject to the jurisdiction of various regulatory agencies. After these actions have been completed, the corporate structure will be as follows:



The Company's Cumulative Preferred Stock and No Par Preferred Stock (''Preferred Stock''), and other debt securities will not be changed or affected by the Merger. Outstanding Preferred Stock immediately prior to the Merger will continue, following the Merger, to be outstanding Company Preferred Stock. After the Merger, debt securities and other obligations of the Company will continue to be obligations of the Company.

On March 5, 1987, the Company called for redemption all of the 10,855 outstanding shares of 5⅞% Cumulative Convertible Preferred Stock (''the 5⅞% Series'') of the Company, and fixed April 30, 1987 as the redemption date. Until the redemption date, the 5⅞% Series can be converted into shares of Company Common Stock at the rate of 3.5 shares of Common Stock for each share of the 5⅞% Series, or an aggregate of approximately 40,372 shares of Common Stock if all shares of the 5⅞% Series are converted. After the redemption date, shares of the 5⅞% Series not converted will no longer be outstanding shares of Preferred Stock, and will be entitled only to receive the redemption price.

Reasons for the Restructuring

The purpose of the restructuring is to establish a more appropriate corporate structure for diversification on a limited basis into non-regulated activities. A holding company structure is believed to be an appropriate means of achieving this goal by permitting Holding Company to diversify into businesses which have the potential for enhancing the financial strength and operating results of the entire system. The holding company structure is also intended to insulate the Company's utility customers from the risks associated with business activities of non-utility subsidiaries of the Holding Company and to enable utility managers to focus on utility operations in order to meet new challenges faced by the utility industry.

During the past decade, the utility industry has experienced substantial changes in virtually all aspects of its business. From a relatively stable industry in the 1960's with manageable capital and energy costs associated with meeting the energy demands of its customers, electric utilities in the 1970's to the present have been increasingly faced with, among other things, high and rising costs in meeting those energy needs and uncertainties as to future demand for electric energy. In addition, utilities must address competing sources of energy and even the potential deregulation of certain segments of the energy industries. Each of these factors represents risks with which each utility, in greater or lesser degree, must deal in the best interests of its ratepayers and investors. As a result of these and other factors, the financial markets have perceived the utility business as an increasing investment risk over the last decade, and this perception persists. In order to offset this increasing risk, many utilities in New Jersey and elsewhere have diversified into non-utility businesses with differing risk exposures.

The Board of Directors and management believe that a holding company structure is better suited to enable the Company to meet the future energy requirements of its customers at the lowest cost possible. The proposed restructuring is intended to provide long-term advantages of financial and organizational flexibility to meet future energy needs. A holding company structure would also provide a more clearly defined separation of utility and non-utility operations.

Diversification offers potential benefits to both shareholders and ratepayers. It also carries with it different and perhaps greater risks for shareholders. Diversification provides the potential for another base of earnings to reduce the risks associated with exposure to a single line of business. It also offers the potential of earnings growth without increasing the rates charged to utility customers. The holding company structure strikes a reasonable balance between utility customers and shareholder interests in that the potential benefits of successful diversification can best be realized for shareholders, while insulating utility customers from exposure to risks associated with diversification by isolating the utility subsidiary from the financial performance of its parent and affiliates.

Housing was organized in 1970 and in recent years has been inactive. In 1986, Housing acquired an office and warehouse facility in Atlantic County, New Jersey, a portion of which, upon completion of alterations, will be leased for office space to the Company and the balance of which is intended to be leased to other commercial users. At February 28, 1987, the Company's investment in Housing was approximately $6.6 million

Generation was organized in 1986 and in March 1987, Generation entered into a partnership with an unaffiliated firm for the purpose of participating in the development, ownership, operation and

order by BPU, satisfactory to the Company, approving the Merger, (b) issuance by the Internal Revenue Service of a ruling or rulings or receipt of an opinion of counsel with respect to the tax consequences of the Merger and other transactions incident to the Merger and (c) receipt by the Company of all other consents and approvals, in form and substance satisfactory to the Company, necessary or appropriate for the consummation of the Merger and other transactions incident thereto. (See "Regulatory Approvals" and "Tax Consequences" at pp. 22 and 24, respectively.)

Amendment and Termination

By mutual consent of the Boards of Directors of the Company, the Merger Company and the Holding Company, the Merger Agreement may be amended, modified, or supplemented or any condition therein waived, in such manner as such Boards of Directors may agree in writing at any time before or after approval of the Merger Agreement by the shareholders of the Company; provided, however, that after such shareholder approval, no such amendment, modification, or supplement or waiver shall, in the sole judgment of the Board of Directors of the Company, materially and adversely affect the rights of the shareholders of the Company.

In addition to being subject to fulfillment of conditions set forth above and notwithstanding approval of the Merger Agreement by the holders of Company Common Stock, the Merger Agreement may be terminated by the Board of Directors of the Company at any time prior to the effective date of the Merger, if the Board of Directors determines that the consummation of the transactions would for any reason be inadvisable or not in the best interest of the Company or its shareholders, or that any regulatory or other consent or approval deemed necessary or advisable by the Board of Directors has not been obtained.

Regulatory Approvals

The BPU issued an order dated January 5, 1987 authorizing the Merger and related transactions. The order included a number of conditions and limitations with respect to the future operations of the Company as a subsidiary of the Holding Company, including a requirement that the management of Generation not consist of utility management, staff or personnel and conditions limiting access of Generation or other non-utility subsidiaries to customer information or information on prospective cogeneration and small power customers of the Company and a requirement that the Merger and certain other actions be consummated by December 31, 1987. The Company has agreed to the terms and conditions of the BPU order and believes that they do not alter the desirability of forming the Holding Company. If for any reason, including the failure to obtain other regulatory authorizations on a timely basis, the Merger is not consummated by December 31, 1987, the Company could request BPU to extend the December 31, 1987 expiration date set forth in the BPU's order, but cannot be assured that such extension would be granted.

In December 1986 the Holding Company applied to the SEC under the 1935 Act for approval of the Merger and related transactions. In March 1987, the Holding Company amended its application to the SEC to provide, in effect, that if the SEC grants the application as proposed and the Merger and related transactions are consummated, the Holding Company's investments in its non-utility subsidiaries and the investments made by such subsidiaries would be limited to the types of investments which, in general, the SEC has authorized or in the future may authorize holding companies to make under the standards of the 1935 Act, or which the SEC by order authorizes the Holding Company to make. Although such investment authority would be more limited in scope than that initially contemplated, the Company believes that its principal diversification goals can be accomplished within such limits. The SEC has not yet taken action with respect to the amended application and the Company cannot predict when the SEC will take such action nor whether the application ultimately will be granted.

The Nuclear Regulatory Commission ("NRC") has recently taken a position that restructurings such as that being proposed may involve a change of licensees of nuclear generating facilities owned by an electric utility party to the restructuring, requiring NRC approval. Since the Company is a licensee of nuclear generating facilities, requests have been filed with the NRC for any necessary authorization by NRC in connection with the restructuring. NRC approval is expected and the Company is not aware of any matter that would cause NRC approval to be withheld.

management of cogeneration and small power production facilities. Generation expects to provide capital funds to the partnership of up to $3.0 million in 1987 and $3.0 million in 1988.

Investment was organized in 1986 and presently is nominally capitalized. The purpose of Investment will be to invest available funds primarily in passive investments with the goal of earning reasonable returns.

The Company has presently authorized up to $30 million for investment in the non-utility subsidiaries, which includes the foregoing investments of Housing and Generation.

The Company's electric utility operations have accounted historically for the dominant portion of its assets and revenues and it is intended that for the foreseeable future after the restructuring, the Company's electric utility business will continue to be the principal or core business of the holding company system.

Vote Required

The proposed Merger will require the affirmative vote of two-thirds of the votes cast by the holders of Company Common Stock.

Holders of the Company's Preferred Stock do not have a general voting right with respect to mergers or similar transactions. However, Article II(7)(B)(b) of the Company's charter provides that the Company shall not, without the consent of the holders of a majority of the shares of Preferred Stock then outstanding, merge or consolidate with or into any other corporation or corporations, unless such merger or consolidation, or the issuance and assumption of all securities to be issued or assumed in connection with any such merger or consolidation, shall have been ordered, approved or permitted by the SEC under the provisions of the 1935 Act or by any successor commission or regulatory authority having jurisdiction in the premises. The Company has filed an application with SEC under the 1935 Act (see "Regulatory Approvals") and if granted by SEC, the consent to the Merger by holders of the Company's Preferred Stock pursuant to Article II(7)(B)(b) of the Company's charter would not be required.

Agreement and Plan of Merger

The Agreement and Plan of Merger has been unanimously approved by the respective Boards of Directors of the Company, the Holding Company and the Merger Company. Under the provisions of the Agreement and Plan of Merger:

(1) Merger Company will be merged into the Company with the Company being the surviving corporation;

(2) Each share of Company Common Stock issued and outstanding immediately prior to the Merger shall be automatically converted into one share of Holding Company Common Stock;

(3) The shares of Merger Company Common Stock issued and outstanding immediately prior to the Merger shall be changed and converted into such number of shares of Company Common Stock as shall equal the number of shares of Company Common Stock issued and outstanding immediately prior to the Merger; and

(4) Each share of Holding Company Common Stock issued and outstanding immediately prior to the Merger shall be cancelled.

The Company, which will be the surviving corporation in the Merger, will be a subsidiary of the Holding Company after the Merger, and all of the Common Stock of the Holding Company will be held by the shareholders who were holders of the Company's Common Stock prior to the Merger.

The Merger will become effective upon the filing of a Certificate of Merger with the New Jersey Secretary of State. Such filing is expected to be made as soon as practicable after the conditions of the Merger have been satisfied or waived.

Conditions to the Merger

In addition to approval of the Merger Agreement by holders of Company Common Stock, the Merger Agreement provides that consummation of the Merger is conditioned upon (a) issuance of an

Appraisal Rights

Pursuant to New Jersey law, the holders of Company Common Stock do not have dissenters' rights with respect to the Merger.

Pursuant to such New Jersey law, it appears that holders of Preferred Stock of the Company are entitled to an appraisal of, and payment for, their shares, provided that the requirements of New Jersey law are met. However, the Company has been advised that the right of holders of Preferred Stock to an appraisal is not free from doubt, and the Company therefore reserves the right to seek a court determination of the availability of such dissenters' rights at an appropriate time in connection with any preferred shareholder dissenters' rights proceeding.

Assuming such rights are available, any holder of Preferred Stock who objects to the Merger may elect to be paid the fair value of all, but not less than all, of the Preferred Stock held by such shareholder. Such fair value is calculated as of the day prior to the date of the meeting and excludes "any appreciation or depreciation resulting from the proposed action." In order to receive the fair value of Company Preferred Stock as aforesaid, a shareholder must file with the Company before the meeting written objection to the Merger stating that he or she intends to demand payment for his or her shares if the action is taken. Furthermore, such shareholder must, within twenty days after the date of mailing of notice that the Merger has taken place (which notice shall be sent by the Company to such shareholder by certified mail within ten days after the effective date of the Merger), demand in writing from the Company payment of the fair value of his or her shares. After making such demand, all rights of such shareholder as a shareholder cease, except the right to receive the fair value of the shares. In addition, within twenty days after making such demand, the shareholder must submit his or her stock certificates to the Company for notation thereon that such demand has been made, after which such certificates shall be returned. Thereafter, any transferee of the shares shall be in the same position as the dissenting shareholder. Failure to so submit such certificate will constitute a waiver of the dissenting shareholder's appraisal rights.

Within ten days after the expiration of the twenty-day period within which the shareholder must demand payment of the fair value of the shares as described in the preceding paragraph, the Company shall mail to each dissenting shareholder certain financial statements of the Company and may, at the same time, make a written offer to pay such dissenting shareholder a specified price for his or her shares. If the Company and the dissenting shareholder cannot agree on the fair value of the shares within thirty days after expiration of such ten-day period, the dissenting shareholder may within thirty days after the expiration of such thirty-day period serve a written demand on the Company that the Company commence an action in New Jersey Superior Court for determination of the fair value of the shares. If the Company does not commence such an action within thirty days after receipt of the demand therefor, the dissenting shareholder may commence such an action in the name of the Company within sixty days after the expiration of the last thirty-day period. If no action is commenced within such period, the dissenting shareholder's appraisal rights will have been waived.

In any such proceeding, the Superior Court may take evidence or may appoint an appraiser to receive evidence on the issue of fair value and the Court shall thereafter fix the fair value of the shares and order the Company to pay the same. The Court may also allow interest from the date of the dissenting shareholder's demand for payment. The costs and expenses of the action shall be apportioned and assessed as the Court may find equitable upon the parties or any of them.

Condensed Financial Information

The following table summarizes the capitalization of the Company as of December 31, 1986 and pro forma consolidated capitalization of the Holding Company as of December 31, 1986:

	Atlantic City Electric Company As Reported (1)		Consolidated Pro Forma Holding Company (1) (2)	
	Amount	%	Amount	%
Long-Term Debt	$ 494,972	48.1	$ 494,972	48.1
Preferred Stock	65,954	6.4	64,800	6.3
Common Equity	469,023	45.5	470,177	45.6
Total Capitalization	$1,029,949	100.0	$1,029,949	100.0

(1) Excludes Short-Term Debt and Current Maturities of Long-Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption.

(2) Assumes all 5⅞% Cumulative Convertible Preferred Stock had been converted into Company Common Stock and all Company Common Stock had been converted into Holding Company Common Stock.

Common Stock Information

Per share data information for the Company as of December 31, 1986 and pro forma data for the Holding Company as of December 31, 1986 is as follows:

	Atlantic City Electric Company As Reported	Pro Forma Holding Company (1)
Common Stock:		
Shares outstanding at year end	18,273,655	18,314,028
Average outstanding for the year	18,265,666	18,306,039
Book value at year end	$ 25.67	$ 25.67
Earnings per average share	$ 3.50	$ 3.50
Dividends paid	$ 2.60	$ 2.60

(1) Assumes that all 5⅞% Cumulative Convertible Preferred Stock had been converted into Company Common Stock and all Company Common Stock had been converted into Holding Company Common Stock.

Tax Consequences

Federal Income Tax. The Company has received a ruling from the Internal Revenue Service with respect to the proposed Merger, to the effect that: (1) for federal income tax purposes, the formation of Merger Company and its merger into the Company will be disregarded and the effect of the Merger will be viewed as a transfer by the holders of Company Common Stock of their shares of Company Common Stock to the Holding Company in exchange for all of the outstanding shares of Common Stock of the Holding Company; (2) no gain or loss will be recognized by the holders of Company Common Stock upon transfer of their shares to Holding Company solely in exchange for Holding Company Common Stock; (3) no gain or loss will be recognized by Holding Company upon receipt of Company Common Stock solely in exchange for shares of Holding Company Common Stock; (4) the tax basis of the Holding Company Common Stock received by holders of Company Common Stock will be the same as the tax basis for the Company Common Stock surrendered in exchange therefore; (5) the holding period of Holding Company Common Stock received by holders of Company Common Stock will include the period during which such holders held Company Common Stock, provided the Company Common Stock is held as a capital asset on the date of the exchange; and (6) the affiliated group of which the Company is the common parent immediately before the restructuring will continue in existence for consolidated tax return purposes and the Holding Company will be the common parent of the affiliated group.

Pennsylvania Personal Property Taxes. Company Common Stock is currently exempt under Pennsylvania law, as presently in effect, from all personal property taxes in Pennsylvania. However, the Holding Company does not own property or transact business in Pennsylvania. Therefore, the Holding Company does not pay Pennsylvania foreign franchise tax and its Common Stock will not be so exempt after the Merger. The amount of the county tax is four-tenths of 1% of the value of the holders shares on December 31. Pittsburgh area residents pay additional taxes at rates totalling eight-tenths of 1%.

Shareholders are advised to consult their own tax advisors with regard to the federal, state and local tax consequences of the Merger.

Regulation of the Holding Company

Upon consummation of the Merger, the Holding Company will be a public utility holding company under the 1935 Act, but plans, subject to any requirements or conditions contained in any SEC order authorizing the Merger, to file an exemption statement with the SEC claiming exemption as a holding company under the 1935 Act on the basis that the Holding Company and its utility subsidiaries are organized in New Jersey and are predominantly intrastate and carry on their business substantially in New Jersey. Such exemption may be revoked by the SEC on a finding that exemption "may be detrimental to the public interest or to the interests of investors or consumers", and, in the case of any investments in non-utility businesses found by the SEC to be contrary to the standards of the 1935 Act, the SEC could require divestiture on terms which could be adverse to the Holding Company.

Future Dividend Policy

Initially, the funds required to enable the Holding Company to pay dividends on its Common Stock are expected to be derived predominantly from the dividends paid by the Company on its Common Stock all of which will be held by the Holding Company. Therefore, as a practical matter, the ability of the Holding Company to pay dividends on Holding Company Common Stock, for the immediate future, will be governed by the ability of the Company to pay dividends on its Common Stock. The Company's ability to pay dividends will not be altered by the proposed restructuring.

It is contemplated that the initial per share quarterly dividend declared and paid by the Holding Company on its Common Stock will be no less than the most recent quarterly dividend declared by the Company on its Common Stock prior to the Merger. In addition, it is expected that quarterly dividends of the Holding Company will be declared and paid on approximately the same schedule of dates currently followed by the Company with respect to dividends. The most recent quarterly dividend declared by the Board of Directors of the Company was 65½¢ per share payable on April 15, 1987 to holders of Company Common Stock of record on March 19, 1987.

The rate and timing of dividends of the Holding Company will, however, depend upon the earnings and financial condition of Holding Company and its subsidiaries, including the Company, and upon other factors affecting dividend policy which are not presently determinable. The Holding Company will be dependent as a practical matter on the ability of its subsidiaries to pay dividends to it. Dividends by subsidiaries will, of course, depend upon their earnings and financial condition as well as other factors. In addition, under certain conditions the BPU has authority to limit dividends paid by the Company.

Directors, Officers and Employees

The members of the Board of Directors of the Company, at the effective date of the Merger will constitute the Board of Directors of the Holding Company. A vote for the Merger Agreement in effect approves the election of those persons as Directors of the Holding Company.

Following the Merger, it is expected that the following persons, each of whom is currently an Officer of the Company will, at least initially, hold in addition the offices of the Holding Company indicated below:

Name	Office
E. D. Huggard	President and Chief Executive Officer
J. L. Jacobs	Vice President
M. A. Jarrett	Vice President
B. A. Parent	Vice President
J. G. Salomone	Vice President and Treasurer
S. M. Dodd	Secretary
J. D. McCann	Assistant Secretary and Assistant Treasurer

Upon consummation of the Merger, it is intended that the Directors of the Company elected by the shareholders of the Company (other than Mr. Huggard) will resign as Directors of the Company and will be replaced as Directors of the Company by persons who at the time are Senior Vice Presidents of the Company.

Initially, the Holding Company will not have full-time employees of its own, but will share the services of employees of the Company. The Company and the Holding Company each expect, from time to time, to render to the other certain services and to make available the use of certain facilities and equipment. The company receiving such services or using such facilities and equipment will reimburse the other company for the cost thereof. It is not anticipated that there will be any immediate change in the Officers and active managers of the Company.

Restated Certificate of Incorporation of the Holding Company

The Restated Certificate of Incorporation of the Holding Company is set forth as Exhibit A hereto. It gives the Holding Company broad corporate power to engage in any lawful activity for which a corporation may be formed under New Jersey law. The following summary of the Restated Certificate of Incorporation is qualified by reference thereto and to New Jersey law.

The authorized capital stock of the Holding Company consists of 50,000,000 shares of Common Stock, without par value. The rights and privileges of holders of Holding Company Common Stock will be similar to those of holders of Company Common Stock. All shares of Holding Company Common Stock will participate equally with respect to dividends, will rank equally upon liquidation, and will be entitled to one vote per share in the election of Directors and other matters. The holders of Holding Company Common Stock will not be entitled to any preemptive or subscription right. Upon the effective date of the Merger, the outstanding shares of Holding Company Common Stock will be fully paid and non-assessable.

Under New Jersey law, amendment of the Restated Certificate of Incorporation will require the affirmative vote of a majority of the votes cast by the holders of Holding Company Common Stock. Amendment of the Certificate of Incorporation of Atlantic City Electric Company requires the affirmative vote of two-thirds of the votes cast by holders of Atlantic City Electric Company Common Stock. See Proposal No. 2 herein for a discussion of the effect of the provision in the Holding Company's Restated Certificate of Incorporation eliminating certain liability of Directors and Officers of the Holding Company to the Holding Company and to its shareholders.

The transfer agent and registrar for the Holding Company Common Stock will be the Company.

Exchange of Stock Certificates Not Necessary

Upon consummation of the Merger, it will not be necessary for holders of Company Common Stock to surrender their existing certificates for new certificates representing Holding Company Stock. Certificates for Company Common Stock will automatically represent an equal number of shares of Holding Company Common Stock. After the Merger, certificates that previously represented Company Common Stock will be replaced by certificates representing Holding Company Common Stock only when they are presented for transfer or a request is submitted that they be replaced.

Employee Stock Plans

The Company's Employee Stock Ownership Plan (''ESOP'') will be amended as of the effective date of the Merger to provide for the issuance of Holding Company Common Stock in lieu of Company Common Stock.

Dividend Reinvestment and Stock Purchase Plan

Upon consummation of the Merger, the Holding Company will assume the Company's existing Dividend Reinvestment and Stock Purchase Plan (''DRP''). Participants in the DRP will be able to reinvest dividends paid by the Holding Company to purchase additional shares of Holding Company Common Stock and to make optional cash payments to acquire additional shares of Holding Company Common Stock.

Price of Company Common Stock

The high and low sale prices of Company Common Stock as reported in *The Wall Street Journal* for the New York Stock Exchange composite tape as of August 7, 1986, the date preceding announcement of the proposed Merger, were $42.25 and $41.75, respectively.

The last reported sale price of Company Common Stock on the New York Stock Exchange on March 13, 1987, was $37.13 per share.

Listing of Holding Company Common Stock

The Holding Company will apply to list its Common Stock on the New York Stock Exchange, Inc., the Philadelphia Stock Exchange, Inc. and the Pacific Stock Exchange, Inc. in substitution for Company Common Stock. It is expected that the listing of Holding Company Common Stock will occur on the effective date of the Merger. At the time of the listing of Holding Company Common Stock, Company Common Stock will be delisted.

Legal Opinions

Megargee, Youngblood, Franklin & Corcoran, P.A., Pleasantville, New Jersey, counsel for the Holding Company, has prepared an opinion for the Holding Company with respect to the legality of the shares of Holding Company Common Stock to be issued pursuant to the Merger.

APPROVAL OF LONG-TERM PERFORMANCE INCENTIVE PLAN
(Proposal No. 4)

General

The Board of Directors has adopted a Long-Term Plan for key employees (including Officers) of the Company and certain of its subsidiaries, subject to approval of shareholders. The growth and development and financial success of the Company and its subsidiaries is dependent upon ensuring the best possible management. The Board of Directors believes the Long-Term Plan will be an important aid to the Company in attracting and retaining individuals of outstanding abilities, strengthening the identity of interests of the shareholders and key employees and providing key employees with an opportunity for additional compensation, conditioned upon the corporate achievement of longer-term financial and operating performance objectives.

Awards of shares of Common Stock, subject to restrictions on their transfer for a period of years, may be granted under the Long-Term Plan. Under the Long-Term Plan, up to 100,000 shares of Company Common Stock will be available for awards. The awards shall be made without the payment of cash consideration by a recipient. Common Stock delivered under the Long-Term Plan may be authorized and previously issued or unissued shares of Common Stock. To the extent that an award lapses or the rights of a Long-Term Plan participant to whom it was granted terminate, any shares of Common Stock subject to the award will again be available for awards under the Long-Term Plan. A

summary of the principal provisions of the Long-Term Plan is set forth below. Please read this information in conjunction with the full text of the Long-Term Plan, which is attached as Exhibit C to this Proxy Statement.

Administration

The Long-Term Plan provides that it will be administered by the Personnel Committee (the ''Committee'') of the Board of Directors. The Board of Directors will establish the conditions of each grant made under the Long-Term Plan, determine which key employees will receive awards establish the restrictions applicable to shares of stock awarded, and determine the amount of stock to be awarded to each participant. Currently, Jos. Michael Galvin, Jr., Eleanor S. Daniel, Gerald A. Hale, Matthew Holden, Jr., and Irving K. Kessler are members of the Personnel Committee. John D. Feehan and E. Douglas Huggard are ex officio members of the Committee.

Eligibility

Key employees of the Company and its subsidiaries (including Officers or employees who are members of the Board of Directors, but excluding Directors who are not Officers or employees) who, in the opinion of the Board of Directors, are mainly responsible for the continued growth and development and financial success of the business of the Company or of its subsidiaries are eligible to be granted awards under the Long-Term Plan. Subject to the provisions of the Long-Term Plan, the Board of Directors shall from time to time select from such eligible persons those to whom awards shall be granted and determine the number of shares to be granted. Because eligibility is determined by these subjective criteria, it is not possible at this time to determine either the number of employees which from time to time will be eligible to participate in the Long-Term Plan or the amount of awards which will be made.

Awards

Shares of Common Stock bearing restrictive legends prohibiting their sale, transfer, pledge or hypothecation until the expiration of a restriction period will be awarded pursuant to the Long-Term Plan. It is intended as of the effective date of the Long-Term Plan that the restriction with respect to awards will be not less than three years. The shares are subject to forfeiture upon separation from employment prior to the end of the restriction period, except that a participant may receive some or all of the shares awarded to him without restrictions upon death or certain events, including retirement or disability. During the restriction period, the recipient of an award will be entitled to receive dividends on and to vote the shares. Awards of shares have been made to certain Executive Officers, subject to shareholder approval of the Long-Term Plan. These awards are described in the section of this Proxy Statement entitled ''Executive Compensation'' at p. 14.

Adjustments; Amendments

The Long-Term Plan provides for appropriate adjustments in the number of shares of Common Stock subject to awards and available for future awards in the event of any changes in the outstanding Common Stock by reason of stock splits or similar events. The Board of Directors may at any time and from time to time alter, amend, suspend or terminate the Long-Term Plan in whole or in part, except that (i) shareholder approval is required if said action materially increases the benefits accruing to participants pursuant to the Long-Term Plan or materially modifies the requirements as to eligibility for participation in the Long-Term Plan, or materially increases the number of securities which may be issued pursuant to the Long-Term Plan and (ii) the consent of a participant is required if such action would impair the rights of said participant, unless such action is required by statute or rules and regulations.

Upon consummation of the Merger, the Holding Company will assume the obligations of the Company under the Long-Term Plan.

Vote Required

Approval of the Long-Term Plan requires approval by a majority of the votes cast thereon by holders of Company Common Stock.

The Board of Directors of the Company recommends a vote FOR approval of the Long-Term Plan (Proposal No. 4).

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS (Proposal No. 5)

Upon the recommendation of the Audit Committee, the Board of Directors has appointed Deloitte Haskins & Sells, Certified Public Accountants, as independent public accountants of the Company for the year 1987. None of the members of the Audit Committee is an Officer of the Company.

Although not required, the Board of Directors proposes to submit at the meeting a proposal that the appointment of Deloitte Haskins & Sells, as independent public accountants for the year 1987, be ratified. If the shareholders do not ratify the appointment of Deloitte Haskins & Sells, the selection of independent public accountants will be reconsidered and made by the Board of Directors.

Representatives of Deloitte Haskins & Sells will be present at the Annual Meeting, will be available to respond to appropriate questions and will have the opportunity to make a statement if they so desire.

The Board of Directors recommends a vote FOR the ratification of the appointment of Deloitte Haskins & Sells as independent public accountants for 1987 (Proposal No. 5).

FUTURE PROPOSALS OF SHAREHOLDERS

To be included in the proxy materials for the 1988 Annual Meeting of Shareholders, any shareholder proposal intended to be submitted for action at that meeting must be received by the Secretary on or before November 17, 1987.

OTHER MATTERS

The Company's 1986 Annual Report to Shareholders has been mailed to all shareholders of record at the close of business on March 6, 1987. In addition, the Company has mailed a 1986 Annual Report to Shareholders and a proxy card together with this Proxy Statement to all persons who, according to the records of the Company, hold shares of Common Stock in the DRP or ESOP but do not own any other shares.

The Board of Directors does not intend to bring before the meeting any business other than the matters referred to above and at the date of this Proxy Statement the Board of Directors is not aware that any other matters are to be presented for action at the meeting. However, if any other matters properly come before the meeting, or any adjournments thereof, the persons named in the accompanying proxy card will vote in accordance with their discretion on such matters.

UPON RECEIPT OF A WRITTEN REQUEST OF A BENEFICIAL OWNER OF SECURITIES ENTITLED TO VOTE AT THE MEETING, THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF ITS FORM 10-K ANNUAL REPORT AFTER IT IS FILED ON OR BEFORE MARCH 31, 1987 WITH THE SEC. THE REQUEST SHOULD BE DIRECTED TO INVESTOR SERVICES DEPARTMENT, ATLANTIC CITY ELECTRIC COMPANY, 1199 BLACK HORSE PIKE, PLEASANTVILLE, NEW JERSEY 08232

Participants in the
DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN
AND THE EMPLOYEE STOCK OWNERSHIP PLAN
PLEASE NOTE

The proxy card includes the number of shares registered in your name according to the records of the Company, and the number of shares, beneficially owned by you, held in the name of the nominee of the administrator of the DRP. For employee shareholders the proxy card also includes the shares that are held in the name of the nominee of the trustee under the ESOP. Your vote with respect to the shares which are registered in your name is also an instruction by you to the Company to vote the shares credited to your account under the DRP and ESOP.

March 20, 1987

Exhibit A

RESTATED CERTIFICATE OF INCORPORATION
OF
ATLANTIC ENERGY, INC.

Pursuant to Section 14A:9-5 of the New Jersey Business Corporation Act, the undersigned Corporation hereby adopts the following Restated Certificate of Incorporation to incorporate certain provisions of Certificates of Amendment heretofore filed.

I. The name of the Corporation is Atlantic Energy, Inc.

II. The purpose for which this Corporation is organized is to engage in any activity for which corporations may be organized under the New Jersey Business Corporation Act, as same may from time to time be amended or supplemented.

III. The total number of shares of stock that the Corporation is authorized to issue is fifty million (50,000,000) shares of Common Stock, without par value.

IV. The initial registered office of the Corporation shall be located at 1199 Black Horse Pike, Pleasantville, New Jersey 08232, and the name of the initial registered agent of the Corporation at such location is E. D. Huggard.

V. The first Board of Directors of this Corporation and the Board of Directors of this Corporation in office at the time of filing of this Amendment to the Certificate of Incorporation is as follows:

NAME	ADDRESS
E. D. HUGGARD	1199 Black Horse Pike Pleasantville, New Jersey 08232
B. A. PARENT	1199 Black Horse Pike Pleasantville, New Jersey 08232
J. G. SALOMONE	1199 Black Horse Pike Pleasantville, New Jersey 08232

VI. A person who is or was a director or an officer of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for breach of any duty owed to the Corporation or its shareholders, except that this Article VI shall not relieve such person from liability for any breach of duty based upon an act or omission (a) in breach of such person's duty of loyalty to the Corporation or its shareholders, (b) not in good faith or involving a knowing violation of law or (c) resulting in receipt by such person of an improper personal benefit. Any modification, repeal or supersession of this Article VI shall not adversely affect any right or protection of any such person for or with respect to any act or omission occurring prior to the time of such modification, repeal or supersession.

VII. This Restated Certificate of Incorporation has been adopted by the Board of Directors of Atlantic Energy, Inc. Attached hereto as Exhibit A, and made a part hereof for filing with the Secretary of State of the State of New Jersey is a Certificate setting forth the information required pursuant to Section 14A:9-5(5) of the New Jersey Business Corporation Act.

VIII. This Amendment shall become effective upon filing.

ATTEST **ATLANTIC ENERGY, INC.**

S. M. Dodd
S. M. Dodd, Secretary

BY: E. D. Huggard
E. D. Huggard, President and Chief Executive Officer

EXHIBIT B

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (''Agreement'') dated as of March 6, 1987 by and among Atlantic City Electric Company, a New Jersey corporation (''Atlantic''), X Atlantic Inc. a New Jersey corporation (''Subsidiary''), and Atlantic Energy, Inc., a New Jersey corporation (''Holding'').

WITNESSETH:

WHEREAS, Atlantic has an authorized capitalization consisting of (i) 25,000,000 shares of Common Stock, $3 par value per share (''Atlantic Common Stock''), of which, as of December 31, 1986, 18,273,655 shares were issued and outstanding, (ii) 799,979 shares of Cumulative Preferred Stock $100 par value per share (''Cumulative Preferred Stock''), of which, as of December 31, 1986 507,535 shares were outstanding, (iii) 2,000,000 shares of No Par Preferred Stock (''No Par Preferred Stock''), of which, as of December 31, 1986, 202,500 shares were outstanding and (iv) 3,000,000 shares of Preference Stock without par value (''Preference Stock'') of which no shares were outstanding.

WHEREAS, Subsidiary has an authorized capitalization consisting of 1,000 shares of Common Stock without par value (''Subsidiary Common Stock'') of which 100 shares are issued and outstanding and owned by Holding on the date hereof;

WHEREAS, Holding has an authorized capitalization consisting of 50,000,000 shares of Common Stock, without par value (''Holding Common Stock''), of which 100 shares are issued and outstanding and owned by Atlantic on the date of this Agreement; and

WHEREAS, the respective Boards of Directors of Atlantic, Subsidiary and Holding have approved this Agreement and deem it advisable and to the benefit of such parties to merge Subsidiary into Atlantic in accordance with the applicable provisions of the laws of New Jersey on terms whereby Atlantic will be the surviving corporation and holders of shares of Atlantic Common Stock will receive shares of Holding Common Stock;

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree that Subsidiary shall be merged into Atlantic (the ''Merger''), that Atlantic shall be the surviving corporation of the merger, and that the terms and conditions of the Merger and the mode of carrying it into effect and the manner of converting and exchanging shares be as follows:

ARTICLE I

THE MERGER

(a) Subject to and in accordance with this Agreement, a certificate of merger shall be duly executed by each of Atlantic and Subsidiary and such certificate shall be delivered to the Secretary of State of New Jersey for filing pursuant to the provisions of Section 14A:10-4 of the New Jersey Business Corporation Act. The Merger shall become effective upon the filing of the certificate of merger in the office of the Secretary of State of New Jersey or at such later time not to exceed 30 days after the date of filing as is specified in the certificate of merger (such time of filing, or if there be such a later specified time, then such later time, being referred to herein as the ''Effective Time''). At the Effective Time, the separate existence of Subsidiary shall cease and Subsidiary shall be merged into Atlantic (Subsidiary and Atlantic collectively being sometimes referred to hereinafter as the ''Constituent Corporations'' and Atlantic, the corporation designated in the certificate of merger as the surviving corporation, being hereinafter sometimes referred to as the ''Surviving Corporation'').

(b) Prior to and after the Effective Time, Holding, Subsidiary and Atlantic, respectively, shall take all such action as may be necessary or appropriate to effectuate the Merger. In this connection, Holding shall issue the shares of Holding Common Stock which the holders of Atlantic Common Stock shall be entitled to receive as provided in Article II hereof. In case at any time after the Effective Time any further

action is necessary or desirable to carry out the purposes of this Agreement and to vest in the Surviving Corporation all rights, privileges, immunities and franchises, of a public as well as of a private nature, and all property, real, personal and mixed, of the Constituent Corporations, the officers and directors of each of the Constituent Corporations, as of the Effective Time, shall take all such further action.

ARTICLE II

TERMS OF CONVERSION OF SHARES

At the Effective Time by virtue of the Merger and without any action on the part of the holders thereof:

(a) Each share of Atlantic Common Stock issued and outstanding immediately prior to the Effective Time shall be changed and converted into one share of Holding Common Stock, which thereupon shall be duly authorized, validly issued, fully paid and non-assessable;

(b) Each share of Cumulative Preferred Stock and No Par Preferred Stock issued and outstanding immediately prior to the Effective Time shall not be converted or otherwise affected by the Merger (except to the extent, if any, provided by Chapter 11 of the New Jersey Business Corporation Act); and each such share shall continue to be outstanding subsequent to the Effective Time as a duly authorized, validly issued, fully paid and non-assessable share of the particular class and series of the Surviving Corporation;

(c) The shares of Subsidiary Common Stock issued and outstanding immediately prior to the Effective Time shall be changed and converted into such number of shares of Atlantic Common Stock as shall equal the number of shares of Atlantic Common Stock issued and outstanding immediately prior to the Effective Time; each such share of Atlantic Common Stock shall thereupon be duly authorized, validly issued, fully paid and non-assessable; and

(d) Each share of Holding Common Stock issued and outstanding immediately prior to the Merger shall be cancelled.

ARTICLE III

ARTICLES OF INCORPORATION AND BY-LAWS

The Agreement of Merger, dated as of May 24, 1949, forming Atlantic, as amended, constituting the certificate of incorporation of Atlantic as in effect at the Effective Time shall be the certificate of incorporation of the Surviving Corporation, until thereafter amended as provided by law.

The By-Laws of Atlantic, as in effect at the Effective Time, shall be the By-Laws of the Surviving Corporation, until amended as therein provided.

ARTICLE IV

DIRECTORS AND OFFICERS

The persons who are directors and officers of Atlantic immediately prior to the Effective Time shall continue after the Merger as directors and officers of the Surviving Corporation, without change, until their successors have been duly elected and qualified in accordance with the Articles of Incorporation and By-Laws of the Surviving Corporation.

ARTICLE V

STOCK CERTIFICATES

Following the Effective Time, each holder of an outstanding certificate or certificates theretofore representing shares of Atlantic Common Stock may, but shall not be required to, surrender the same to Holding for cancellation and exchange or transfer, and each such holder will be entitled to receive a

certificate or certificates representing the respective number of shares of Holding Common Stock to which such holder shall be entitled hereunder. Until so surrendered, each certificate which, prior to the Effective Time, represented Atlantic Common Stock shall be deemed and treated for all corporate purposes to represent the ownership of the respective number of shares of Holding Common Stock. At the Effective Time, the stock transfer books for Atlantic Common Stock shall be deemed closed and no transfer of shares of Atlantic Common Stock outstanding prior to the Effective Time shall thereafter be made on such books.

ARTICLE VI

CONDITIONS TO THE MERGER

Consummation of the Merger is subject to the satisfaction of each of the following conditions:

(a) The Board of Public Utilities of the State of New Jersey shall have issued an order, satisfactory to Atlantic, approving the Merger;

(b) the Merger shall have received the approval of the holders of common stock of Atlantic and Subsidiary as required by the New Jersey Business Corporation Act;

(c) the Internal Revenue Service shall have issued a ruling or rulings with respect to the Merger, satisfactory in form and substance to Atlantic, or counsel to Atlantic shall have rendered an opinion satisfactory to the Board of Directors of Atlantic, with respect to the tax consequences of the Merger and other transactions incident thereto; and

(d) Atlantic shall have received all other consents and approvals, in form and substance satisfactory to Atlantic, necessary or appropriate for the consummation of the Merger and other transactions incident thereto.

ARTICLE VII

AMENDMENT AND TERMINATION

The parties hereto by the mutual consent of their Boards of Directors may amend, modify, supplement this Agreement or waive in whole or in part any condition set forth in Article VI hereof in such manner as may be agreed upon by them in writing, at any time before or after approval hereof by the shareholders of Atlantic, provided that after any such shareholder approval, no such amendment, modification, supplement or waiver shall, in the sole judgment of the Board of Directors of Atlantic, materially and adversely affect the rights of the shareholders of Atlantic.

This Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time, whether before or after approval of this Agreement by the shareholders of Atlantic, by action of the Board of Directors of Atlantic, if the Board of Directors determines that the consummation of the transactions provided for herein would for any reason be inadvisable or not in the best interests of Atlantic or its shareholders, or that any regulatory or other consent or approval deemed necessary or advisable by the Board of Directors has not been obtained.

ARTICLE VIII

MISCELLANEOUS

This Agreement may be executed in counterparts, each of which, when so executed, shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto pursuant to approval and authorization duly given by resolutions adopted by its respective Board of Directors, has caused this Agreement and Plan of Merger to be executed by either its Chairman of the Board, President or one of its Vice Presidents.

ATLANTIC CITY ELECTRIC COMPANY

By: /s/ E. D. HUGGARD

E. D. Huggard, *President and Chief Executive Officer*

ATLANTIC ENERGY, INC.

By: /s/ J. G. SALOMONE

J. G. Salomone, *Vice President & Treasurer*

X ATLANTIC INC.

By: /s/ B. A. PARENT

B. A. Parent, *Vice President*

EXHIBIT C

ATLANTIC CITY ELECTRIC COMPANY
LONG-TERM PERFORMANCE INCENTIVE PLAN

SECTION ONE. PURPOSE OF PLAN

The purpose of the Atlantic City Electric Company Long-Term Performance Incentive Plan is to increase the ownership of Atlantic City Electric Company common stock by those key employees who are mainly responsible for the continued growth, development and financial success of Atlantic City Electric Company and its subsidiaries; to attract and retain such employees; to strengthen the identity of interests of the shareholders and key employees; and to provide key employees with an opportunity for additional compensation, conditioned upon the corporate achievement of longer-term financial and other operating performance objectives.

SECTION TWO. DEFINITIONS

The following definitions are applicable herein:

A. ''Award'' means a grant of Stock hereunder, the issuance and delivery of which is based upon a determination by the Board as to the the corporate achievement of longer-term financial and other operating performance objectives.

B. ''Board'' means the Board of Directors of the Company.

C. ''Code'' means the Internal Revenue Code of 1986. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated thereunder.

D. ''Committee'' means the Personnel Committee of the Board and duly constituted successor committee.

E. ''Company'' means Atlantic City Electric Company, its successors or its assigns, including any ''New Company'' as provided in Section Nine G.

F. ''Disability'' or ''Disabled'' means a Participant is unable to perform his job due to an accident or illness, as determined by the Committee, after such Participant's continuous absence from work due to such accident or illness for a period of six months.

G. ''Eligible Employee'' means a key employee of the Company or a Subsidiary who has been specifically selected as such by the Board to participate in the Plan, applying the standards prescribed in Section Six.

H. ''Participant'' means an employee of the Company or a Subsidiary who has been granted an Award under this Plan.

I. ''Plan'' means the Atlantic City Electric Company Long-Term Performance Incentive Plan.

J. ''Retirement'' (i) Retirement on or after the ''Normal Retirement Date'' or ''Early Retirement Date'' as such terms are defined in the qualified retirement or pension plan of the Company, in which the Participant has an accrued benefit, if any, as may be supplemented or amended or any successor plan in effect at the time a Participant's employment with the Company ceases, or (ii) cessation of employment upon such terms and conditions approved by the Board, after attainment of age 55.

K. ''Stock'' means the common stock, $3 par value, of the Company or securities received pursuant to Section Nine G.

L. ''Subsidiary'' means any corporation of which 80% or more of its outstanding voting stock or voting power is beneficially owned, directly or indirectly, by the Company.

M. ''Termination'' means resignation or discharge, with or without cause, from employment with the Company or any of its Subsidiaries, but does not include cessation of employment with the Company on account of death, Disability or Retirement.

SECTION THREE. EFFECTIVE DATE, DURATION AND SHAREHOLDER APPROVAL

A. Effective Date and Shareholder Approval. Subject to the approval of the Plan at the 1987 Annual Meeting of Shareholders of the Company by a majority of the votes cast thereon by holders of Stock, the Plan shall be effective as of January 1, 1987.

B. Period for Grant of Awards. Awards shall be granted at such intervals as the Board, in its sole discretion, shall determine, provided that it is contemplated, as of the effective date of the Plan that the granting of Awards be considered tri-annually and in no event more frequently than annually.

C. Termination. Subject to the provisions of Section Eight, the Plan shall continue in effect until all matters relating to the payment of Awards and administration of the Plan have been settled.

SECTION FOUR. ADMINISTRATION

Subject to the provisions of Section Five, the Plan shall be administered by the Committee; provided, however, that the Committee in its discretion may delegate its authority with respect to the Plan, other than its authority to delegate its duties and to recommend to the Board the Award of Stock. All questions of interpretation and application of the Plan, or of the terms and conditions pursuant to which Awards are granted, exercised or forfeited under the provisions of the Plan, shall be subject to the determination of the Committee. Such determination, reached in good faith, shall be final and binding upon all parties affected thereby.

SECTION FIVE. GRANT OF AWARDS AND LIMITATION OF NUMBER OF SHARES AWARDED

The Board may, from time to time, and at any time, select one or more Eligible Employees (whether or not recommended for an Award by the Committee) to whom Awards of the number of shares of Stock specified by the Board will be granted, provided that (i) subject to any adjustment pursuant to Section Nine F, the aggregate number of shares of Stock subject to Awards under the Plan may not exceed 100,000 shares; (ii) to the extent that an Award lapses or the rights of the Participant to whom it was granted terminate, any Stock subject to such Award shall again be available for the grant of an Award under the Plan; and (iii) shares delivered by the Company under the Plan may be authorized and previously issued or unissued Stock.

In determining the size of Awards, the Board shall take into account a Participant's responsibility level, performance, compensation level and the fair market value of the Stock, as well as such other considerations as it may from time to time deem appropriate.

SECTION SIX. ELIGIBILTY

Key employees of the Company and its Subsidiaries (including officers or employees who are members of the Board, but excluding directors who are not officers or employees) who, in the opinion of the Board, have decision-making responsibility directly bearing on the continued growth and development and financial success of the business of the Company or one or more of its Subsidiaries, may be designated as Eligible Employees by the Board. Subject to the provisions of the Plan, the Board shall from time to time select from such Eligible Employees those to whom Awards shall be granted and determine the amount of Stock to be granted. The existence of the Plan shall not be construed as giving an officer or employee of the Company or its Subsidiaries any right to be granted an Award under this Plan.

SECTION SEVEN. AWARDS

A. Awards of Stock. An Award made pursuant to this Section Seven shall be granted to a Participant in the form of shares of Stock issued as of the date of this Award, subject to restrictions as

provided in this Section Seven. The Stock shall be issued in the name of the Participant without the payment of cash consideration by the Participant. The Stock shall bear a restrictive legend prohibiting sale, transfer, pledge or hypothecation until the expiration of the restriction period established by the Committee. After the lapse of all such restrictions, all or a portion of the certificate(s) evidencing the Stock shall be delivered by the Company to the Participant (or, if appropriate, the estate or designated beneficiary), based upon a determination by the Board as to the value of services performed in the corporate achievement of longer-term financial and other operating performance objectives.

The Board may also impose such other restrictions and conditions on the Stock as it deems appropriate.

During the restriction period, the Participant shall have the right to vote the Stock and receive the cash dividends distributable with respect to such Stock.

B. Restriction Period. At the time an Award is made, the Committee shall establish a period during which the Stock awarded shall be subject to certain restrictions. Stock awarded shall be subject to a restriction period, fixed at the time of the Award. Subject to the provisions of Section Seven C below, it is intended that, as of the effective date of the Plan, the restriction period with respect to Awards shall not be less than three years. Each Award may have a different restriction period, at the discretion of the Board. Different restrictions, restriction periods, or both may apply to some or all shares of Stock in any Award. Notwithstanding the other provisions of this Section Seven B, in the event of a public tender for all or any portion of the Stock of the Company or in the event that any proposal to merge or consolidate the Company with another company is submitted to the shareholders of the Company for a vote, the Board, in its sole discretion, may change or eliminate the restriction period.

C. Forfeiture or Lapse of Restrictions. In the event a Participant ceases employment during a restriction period, an Award is subject to forfeiture or the restrictions placed on each share of Stock in an Award shall lapse, as follows:

(i) Termination—the Award shall be completely forfeited.

(ii) Retirement and Early Retirement

—if during any calendar year other than the last calendar year of the restriction period: the restrictions shall lapse on the Stock and the Participant will be entitled to receive a pro rata portion of the Award, based upon a determination by the Board as to the corporate achievement of longer-term financial and other operating performance objectives, among other things.

—if during the last calendar year of the restriction period: the restriction period shall not be affected and the amount of Stock to be received by the Participant shall be determined at the end of the restriction period as if he had not retired.

(iii) Disability or Death—the restrictions shall lapse on the Stock and the Participant will be entitled to receive a pro rata portion of the Award, based upon a determination by the Board as to the corporate achievement of longer-term financial and other operating performance objectives, among other things.

In any instance where payment of an Award is prorated, the Board may choose to provide the Participant (or, if appropriate, the estate or designated beneficiary) with the entire Award rather than a prorated portion thereof.

Any stock which is forfeited during a restriction period shall continue to be available to the Plan.

Upon completion of the restriction period, all restrictions upon the Stock will lapse and certificates representing the Stock, which do not bear a restrictive legend will be delivered to the Participant. As a condition precedent to receipt of the certificates, the amount necessary to satisfy applicable federal, state, or local taxes shall be withheld or the Participant (or, if appropriate, the estate or designated beneficiary) shall agree to make payment to the Company in the amount of any taxes which may be owed by the Participant and required to be withheld by the Company with respect to such Stock.

SECTION EIGHT. AMENDMENT OF PLAN

The Board may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, except (i) no such action may be taken without shareholder approval which materially increases the benefits accruing to Participants pursuant to the Plan, materially modifies the requirements as to eligibility for participation in the Plan or, except as provided in Section Nine F, materially increases the number of securities which may be issued pursuant to the Plan; and (ii) no such action which would impair the rights of a Participant who received any Award theretofore made may be taken without the consent of such Participant, except as such termination or amendment of the Plan is required by statute, or rules and regulations promulgated thereunder.

SECTION NINE. MISCELLANEOUS PROVISIONS

A. Nontransferability. No benefit provided under this Plan shall be pledged or subject to alienation or assignment by a Participant (or by any person entitled to such benefit pursuant to the terms of this Plan), nor shall it be subject to attachment or other legal process of whatever nature. Any attempted pledge, alienation, assignment or attachment shall be void and of no effect whatsoever. Notwithstanding the foregoing, each Participant shall have the right to designate, and from time to time change, a beneficiary or beneficiaries to receive benefits under the Plan, distributable after his or her death, provided that no such designation shall be effective unless made in writing and delivered to the Committee prior to the death of the Participant.

B. No Employment Right. Neither this Plan nor any action taken hereunder shall be construed as giving any right to be retained as an officer or employee of the Company or any of its Subsidiaries.

C. General Restriction. No Stock issued pursuant to the Plan shall be sold or distributed by a Participant until all appropriate listing, registration and qualification requirements are and consents and approvals have been obtained, free of any condition unacceptable to the Board.

D. Government and Other Regulations. The obligation of the Company to make payment of Awards in Stock shall be subject to all laws, rules, and regulations applicable to the Company or the Participant, and to such approvals by any government agencies as may be required. The Company shall be under no obligation to register under the Securities Act of 1933, as amended (''Act''), any of the shares of Stock issued, delivered or paid in settlement under the Plan. If Stock awarded under the Plan may in certain circumstances be exempt from registration under the Act, its transfer may be restricted in such manner as the Board deems advisable to ensure such exempt status. As a condition to the issuance of Stock under the Plan, the Board may require such agreements or understandings, if any, as the Board may deem necessary or advisable to assure compliance with any law or regulations.

E. Reliance on Reports. Each member of the Board and each person or Committee to whom the Board or the Committee has delegated any of its authority or power under this Plan pursuant to Section Four shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries, an opinion of counsel for the Company or any subsidiary, or financial or other reports of the Company or any subsidiary represented to be correct by a responsible official of the Company or of any Subsidiary or by the person presiding at a meeting of the Board or such Committee. In no event shall any person who is or shall have been a member of the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

F. Changes in Capital Structure. In the event of any change in the outstanding shares of Stock by reason of any stock dividend or split, recapitalization, combination or exchange of shares or other similar changes in the Stock, then appropriate adjustments shall be made in the shares of Stock theretofore awarded to the Participants and in the aggregate number of shares of Stock which may be awarded pursuant to the Plan. Such adjustments shall be conclusive and binding for all purposes. Additional shares of Stock issued to a Participant as the result of any such change shall bear the same restrictions as the shares of Stock to which they relate.

G. Company Successors. In the event the Company becomes a party to a merger, consolidation, sale of substantially all of its assets or any other corporate reorganization in which the Company will

not be the surviving corporation or in which the holders of the Stock will receive securities of another corporation (in any such case, the "New Company"), then the New Company shall be obligated to assume the rights and obligations of the Company under this Plan.

H. Governing Law. All matters relating to the Plan, the issuance of Stock subject to Awards or the delivery of certificates evidencing Stock shall be governed by the laws of the State of New Jersey and subject to such regulatory approvals, including New Jersey Board of Public Utilities approval, as may be required, without regard to the principles of conflict of laws.

I. Relationship to Other Benefits. No Award under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing or group insurance or other benefit plan of the Company or any Subsidiary.

J. Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.