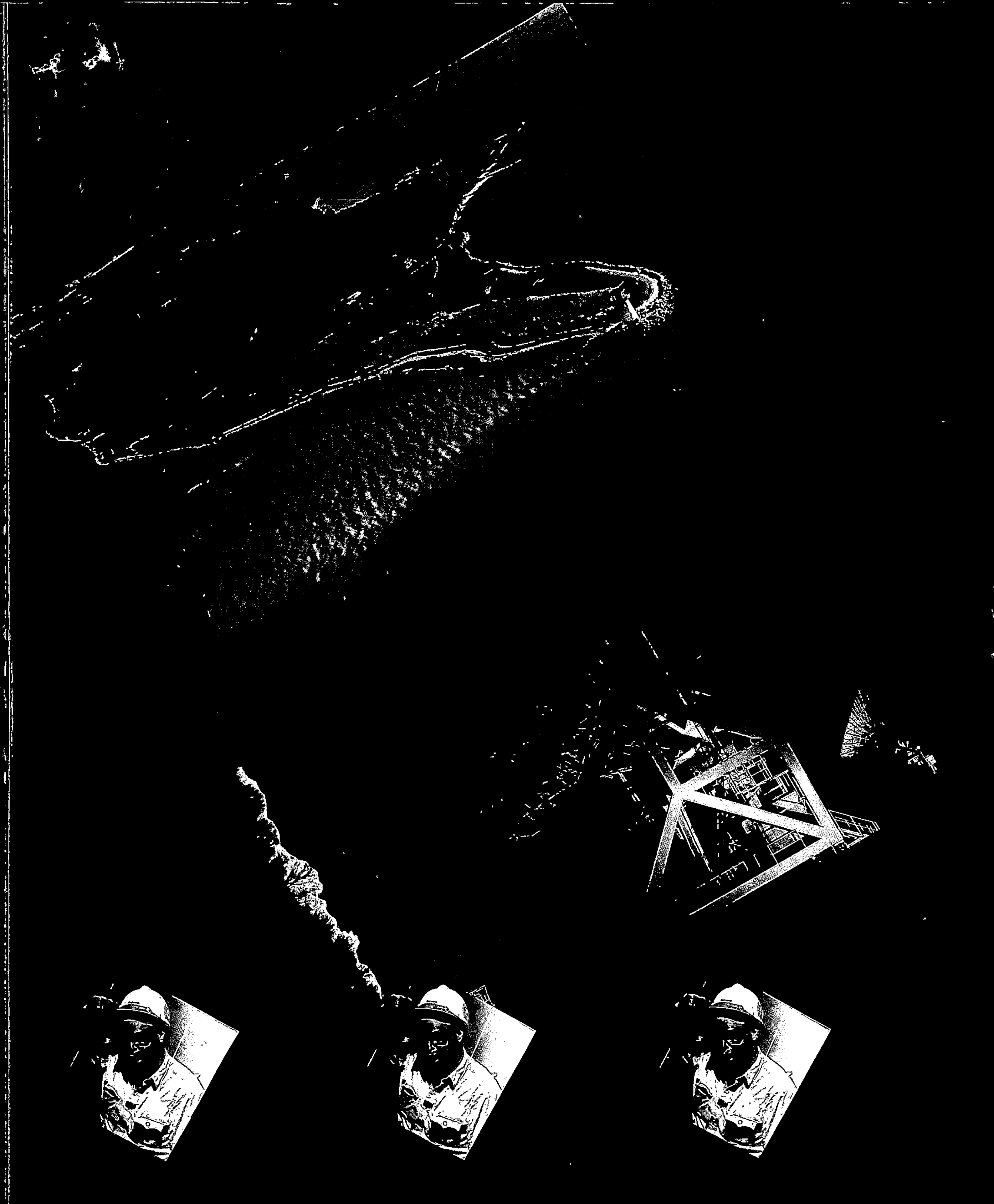

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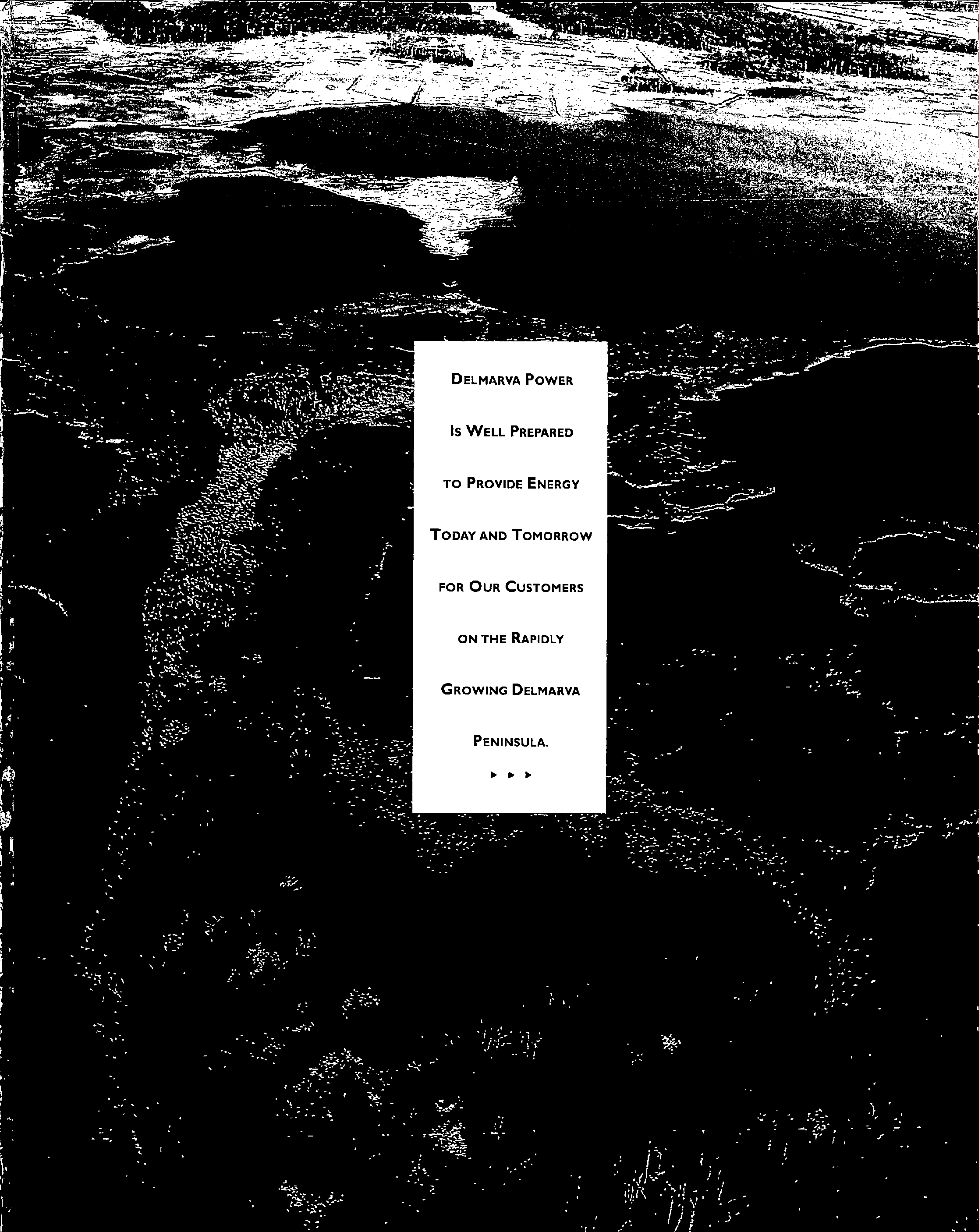
The cover photos were taken from locations around the diverse service territory.

FINANCIAL HIGHLIGHTS		1988		1987	Percent Increase (Decrease)
Revenues	$	**768.3 million**	$	712.5 million	7.8
Net Income	$	**84.7 million**	$	79.8 million	6.2
Earnings Per Share of Common Stock	$	**1.70**	$	1.60	6.3
Dividends Declared Per Share of Common Stock	$	**1.47**	$	1.42½	3.2
Average Shares of Common Stock Outstanding		**45,892,013**		45,717,450	0.4
Common Stock Book Value Per Share	$	**13.28**	$	13.01	2.1
Construction Expenditures[1]	$	**171.1 million**	$	142.2 million	20.3
Internally Generated Funds[2]	$	**106.1 million**	$	129.3 million	(18.0)
Electric Sales		**10.23 billion kwh**		9.57 billion kwh	6.9
Electric Customers *(year end)*		**351,578**		341,308	3.0
Average Annual Residential Usage		**9,575 kwh**		9,152 kwh	4.6
Gas Sales		**16.16 million mcf**		15.41 million mcf	4.8
Gas Customers *(year end)*		**80,263**		79,002	1.6
Average Annual Residential Usage		**91.6 mcf**		86.9 mcf	5.4

[1] *Excludes Allowance for Funds Used During Construction.*
[2] *Net cash provided by operating activities less preferred and common dividends.*

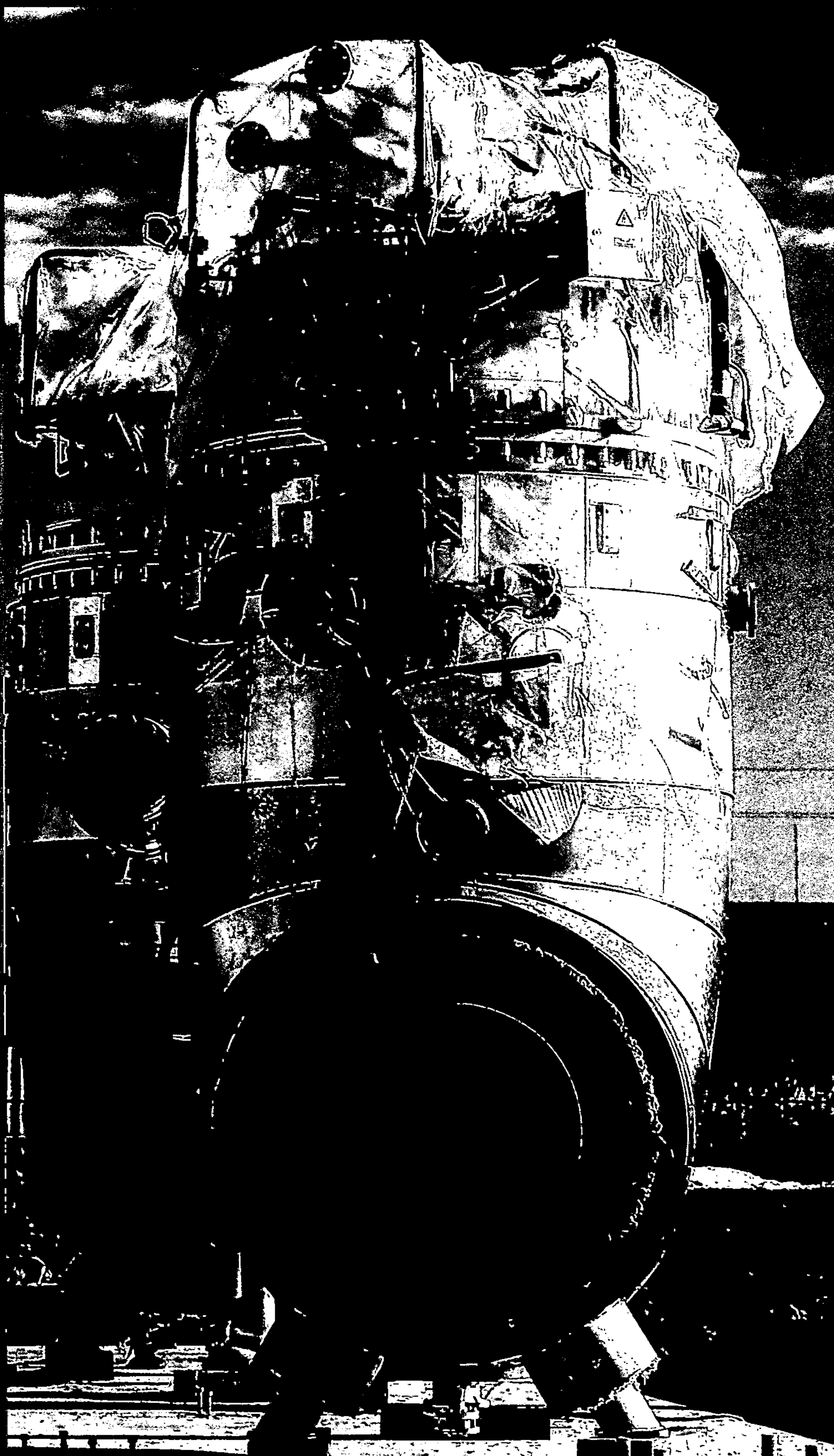
Assawoman Bay near Ocean City, Maryland



Delmarva Power Is Well Prepared to Provide Energy Today and Tomorrow for Our Customers on the Rapidly Growing Delmarva Peninsula.

▽ ▽ ▽

To Help Meet Future Demands for Energy, the Company Purchased Two, 100-Megawatt Combustion Turbines (CT's). The First Sections Were Delivered in the Fall of 1988.



CHAIRMAN'S PERSPECTIVE

1988 was a good year at Delmarva Power. Earnings increased. Employees met an extraordinary demand for energy during the hot summer despite tight reserves. Programs and projects to provide future energy moved from the drawing board to the implementation phase with good results.

Performance in 1988 demonstrated again that Delmarva Power employees are skilled, creative, and energetic. The following chapters of this annual report discuss their accomplishments.

The remainder of the letter focuses on the key issues—how we intend to improve earnings, to address ever tightening environmental regulations, and to provide energy in the future. These strategic plans combined with the company's financial strength and employee skills will enable Delmarva Power to continue to be the Delmarva Peninsula's major energy supplier.

Increasing Earnings

Earnings increased 6.3% in 1988 to $1.70 per share from $1.60 per share in 1987.

The higher earnings were a result of increased electric sales and improved earnings from the subsidiaries. These improvements were offset partially by higher operation and maintenance expenses, increased writeoffs of replacement power costs related to the shutdown of the Peach Bottom Nuclear Generating Station, and the reduced return on equity ordered more than a year ago by the regulatory commissions because of declining capital costs throughout the nation at that time.

The Peach Bottom Nuclear Generating Station, in which Delmarva Power owns 7.51%, remains shutdown due to a March 31, 1987 order issued by the Nuclear Regulatory Commission. Philadelphia Electric Company (PE), operator of the plant, delayed the projected restart of Unit 2 until the second quarter of 1989 and Unit 3 until the third quarter. In view of the tasks yet to be completed, the new dates may prove to be optimistic.

The company is pursuing recovery of replacement power and other costs from PE through a lawsuit filed jointly with Atlantic Electric Company, another co-owner of Peach Bottom. The company cannot predict the outcome of the lawsuit. At the same time, Public Service Electric & Gas Co., another joint owner, filed a similar suit against PE.

Future earnings are expected to grow modestly because of an economically strong service territory, continued aggressive cost control, and regulatory actions to earn appropriate returns on new capital investments.

Earnings from subsidiaries will fluctuate but will tend to increase over the next few years as projects under development begin operating.

Addressing Environmental Regulations

In response to public opinion and ever tightening environmental regulations, Delmarva Power will face, along with other utilities, increasing expenditures over the next few years for increased environmental protection. Delmarva Power shares the concern of many stockholders and customers who live and work on the Delmarva Peninsula that protecting the environment is important. The company also shares the concern of stockholders and customers that availability and price of energy are key components of the way we live. Environmental issues are complex; tradeoffs are inevitable.

The company's policy is to comply with all environmental laws and to seek opportunities, within the bounds of financial responsibility, to improve the quality of life in the service territory.

Providing Energy for the Future

One of the biggest challenges facing the company is to provide energy for the next decade. Our strategy to meet this challenge is to be as flexible and responsive as possible in light of changing growth patterns in the service territory and possible changes in the structure of the utility industry such as deregulation and the potential emergence of non-utility generators of electricity.

Under this strategy, the company developed 3 years ago a plan called Challenge 2000 which is detailed on page 17. Challenge 2000 is a combination of conservation programs and new energy sources. Progress on these efforts can be accelerated or slowed as events dictate. The intention is to avoid overcommitment, provide balance, and match capital expenditures as closely as possible with load growth.

In 1988, because of a fourth consecutive year of strong economic growth in the service territory and record demand for electricity, several components of the Challenge 2000 plan were accelerated.

The conservation program to cycle, by remote control, water heaters and air conditioners during hot summer periods for 2,000 residents in northern Delaware began and was well received, according to follow-up surveys. Another program to help commercial customers reduce their use of electricity at the peak worked well. Plans to increase participation in these programs were accelerated for 1989 and 1990. The company is also looking for new ways to expand conservation efforts.

For new sources of energy, permits and licenses were obtained expeditiously to build two, 100-megawatt combustion turbines (CT's) at the Hay Road site in Wilmington. The completion of the first CT is scheduled for May, 1989. Schedules for the second unit were accelerated for completion in July, 1989.

Also, a letter of intent was signed to buy 100 MW of electricity from another utility beginning in 1991. Bidding procedures for non-utility generators were filed with state regulatory agencies with the intention of adding 100 MW of non-utility generation by 1992.

In addition, the experience gained from subsidiary activities contributes to the Challenge 2000 effort. Through developing wood-burning power plants in California and a trash-burning generator in Pennsylvania, the company will not only earn good returns but is also acquiring the expertise to prepare for the development of non-utility generators and positioning itself to take advantage of opportunities in this area.

All of these efforts are part of the overall philosophy of not relying on a single source for supplying energy in the future. But, the strategy will not work without the people. Delmarva Power has good people. Their technical skills and creative spirit have developed these strategies and put programs into place to provide energy and service today and tomorrow. The following pages highlight their accomplishments and demonstrate their potential. I appreciate their efforts because they truly are the force moving the company into the next decade.

Sincerely,

Nev Curtis

February 14, 1989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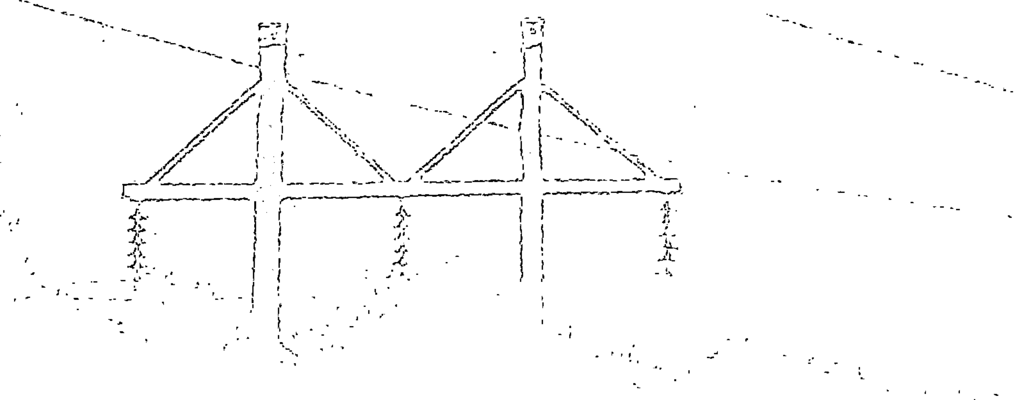

A Good Year Financially

1988

In December, Delmarva Power increased quarterly dividends for the 12th consecutive year. Quarterly dividends increased by 2.7% to 37.5 cents per share. On an annual basis, this is $1.50 per share.

Earnings were $1.70 per share as compared to $1.60 in 1987.

Earnings have improved because of strong sales growth, tight cost control, and improved earnings from subsidiaries.

First Mortgage Bonds are rated A1/A+ by Moody's Investors Service and Standard and Poor's, respectively.

The AFUDC ratio, a key indicator for financial analysis, remained low at 6.5% of net income. The company paid for 62% of construction expenditures with cash from its own operations.

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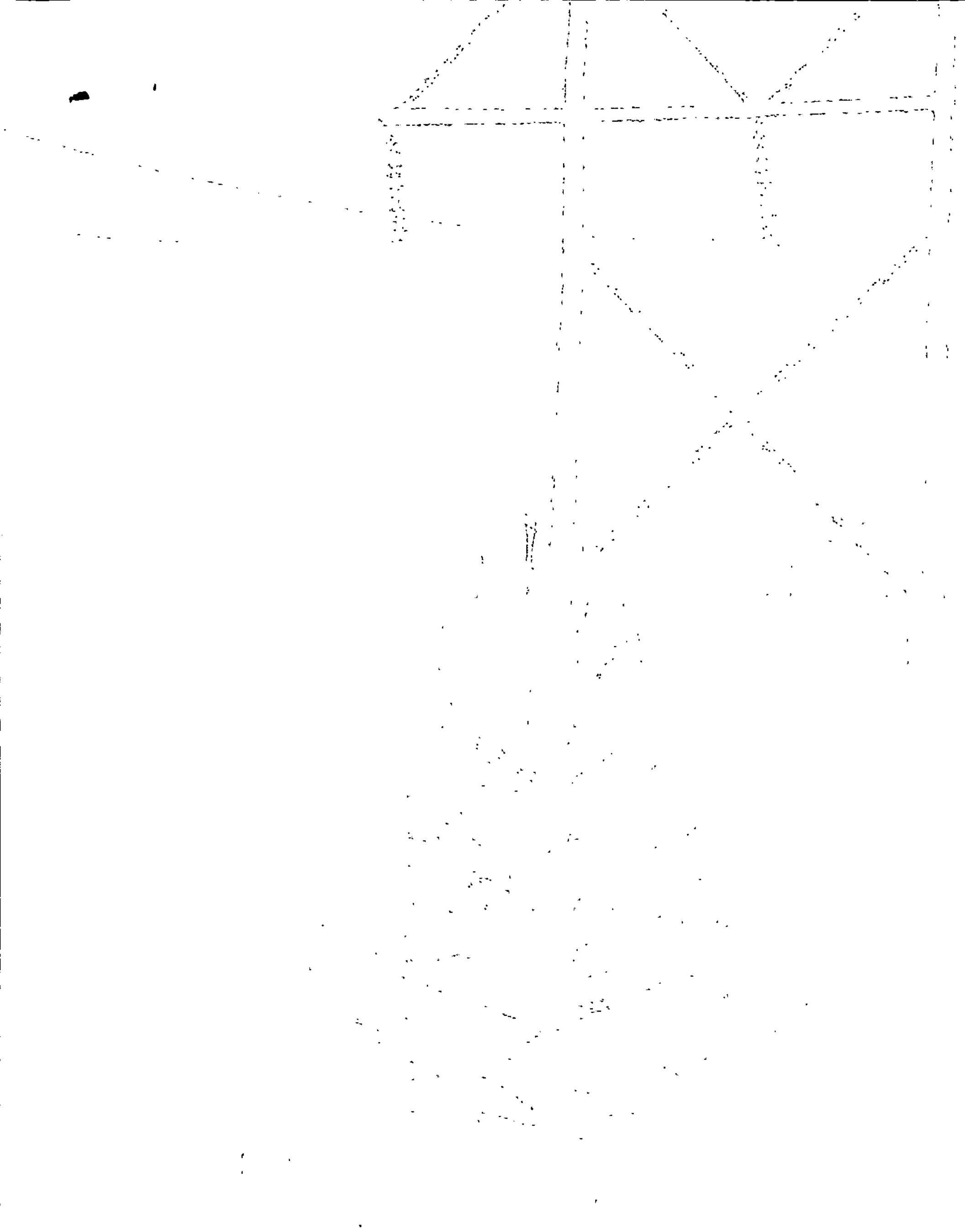


Through vegetation management programs, Delmarva Power has turned about 10,000 acres of right-of-way property into wildlife habitats. Myrtle, blackberries, blueberries, sumac, cedars, hollies, and dogwoods thrive on these lands. So do sundew and pitcher plants, two endangered species found only in two places on the Eastern Shore.

4th Year of Strong Growth

1988 was another boom year for sales growth. Because of the hot summer, a 3% increase in electric customers, and strong economic growth throughout the service territory, electric sales increased 6.9% over 1987 levels. Residential and commercial electric sales each increased 7.8%, and industrial electric sales increased 4.5%. Gas sales increased 4.8%. Electric sales have increased more than 23% in the last four years.

Subsidiary Activities

Several subsidiary projects have made progress in supporting the subsidiary philosophy of supplementing earnings and seeking returns which exceed those of the regulated business while not detracting from the core operation of the energy company.

The 24-MW wood-burning plant in Redding, California began operating in January of 1989. A sister unit in Burney, California will become operational by the end of 1989. A 500-ton-per-day trash burning facility to be located in Glendon, Pa. is in the permitting process. A 34-acre municipal landfill is under construction in Schuylkill County, Pa. to be used in conjunction with the Glendon plant. All of these facilities will be operated by subsidiary personnel. In an effort to use land owned by the company but not included in rates, construction was completed on eight houses at Post and Rail Farms in New Castle County, Delaware. Also, a 435-unit mini-storage facility opened for business in Wilmington, Delaware. Subsidiary activities contributed 10¢ per share to 1988 earnings.

Earnings and Dividends Increased. The Higher Earnings Were a Result of Increased Electric Sales and Improved Earnings from Subsidiaries.

△ △ △

Rate Matters

The cost of electricity for the company's customers on the Delmarva Peninsula remained basically the same.

The Federal Energy Regulatory Commission approved a 1.7% increase in electric rates for the company's 12 wholesale customers. This increase is intended to cover $1.23 million of increased costs associated with the wholesale business and the five-year recovery of an additional $3.9 million for income taxes related to the settlement of the Summit Nuclear Power Plant cancellation.

The Gas Cost Adjustment, the fuel portion of the price of gas, increased about 7% for a typical residential space heating customer to reflect anticipated higher gas costs. With this increase, prices for a typical residential customer are still more than 10% below 1985 prices.

External Financing

The period of excess cash generation or the company's "window of opportunity" is over. Transmission and distribution upgrades, the installation of two combustion turbines, and environmental control investments have led the company to seek external financing. In 1988, the company issued $50 million of 30-year First Mortgage Bonds (10% series), $18 million of Variable Rate Demand Exempt Facilities Revenue Bonds, and raised $7.9 million of new common equity by issuing 452,552 new shares of common stock under the Dividend Reinvestment Plan. The company also received $39.1 million for the sale and lease back of the Merrill Creek Reservoir Project. Construction expenditures will require about $50-$70 million annually in external financings during the next few years.

A new cooling tower for Indian River Unit 4 will be constructed in 1989. The original tower deteriorated because of uneven settling of the tower's foundation. Construction will cost about $28 million.

Peach Bottom

The Peach Bottom Nuclear Generating Station, in which Delmarva Power has a 7.51% ownership interest, remains shutdown due to a March 31, 1987, Nuclear Regulatory Commission (NRC) order. For the plant to return to service, Philadelphia Electric Company (PE), operator and partial owner of Peach Bottom, must provide the NRC with an acceptable plan which will assure that Peach Bottom will operate safely and comply with NRC regulations.

After preliminary reports from the NRC, PE extended its initial restart schedule. PE reports that it expects to be ready to restart Unit 2 in the second quarter of 1989 and Unit 3 in the third quarter of 1989. In view of the tasks yet to be completed, the new dates may prove to be optimistic.

Replacement power costs resulting from the shutdown amounted to $10 million (13.5¢ per share) in 1988. Future replacement power costs are estimated to be about $1 million per month.

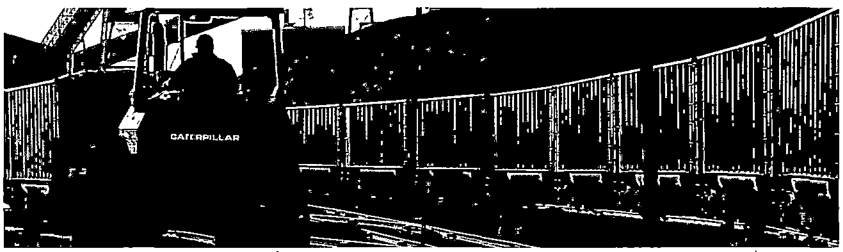
Delmarva Power continues to closely monitor the efforts to restart Peach Bottom and is pursuing recovery of replacement power and other costs from PE through a lawsuit filed jointly with Atlantic Electric Company, another co-owner of Peach Bottom.

The 24-MW wood-burning plant in Redding, California, began operating in January of 1989. The plant was developed by Delmarva Capital Technology, Co., one of Delmarva Power's subsidiary companies.

Hot, Hot, Hot. With temperatures above 135°F in the Edge Moor Power Plant, Bill Rhoades helped keep the electricity flowing on the hot, humid peak days in the summer of 1988.

·met by Extraordinary Efforts

Coal, the company's dominant fuel, is delivered to the Edge Moor Power Plant by rail car.



60,000 Rockfish were harvested in 1988 from the Vienna Power Plant fish hatchery.

Summer of 1988

During this past, extremely warm summer, growth continued. Demand on the hot, humid, August 15th grew to 2,204 megawatts, 5.8% higher than the previous record set in 1987. This caused generating reserves to be extremely tight for Delmarva Power and the other electric companies in the Middle Atlantic and Northeast regions of the country.

In August, customers demanded more than 2,000 megawatts 14 times including 2 Saturdays when many businesses do not generally operate.

Employees kept electricity flowing in spite of unprecedented tight reserve margins that grew progressively worse as the summer of 1988 grew hotter. Employees consistently came through during emergency situations. Employees restored service to customers in a matter of hours after tornado-like winds ripped through the Edge Moor Power Plant yard in August and after a severe thunderstorm in December.

Power Plant Operations

Delmarva Power's wholly owned and operated coal and oil fired power plants ran well. The average availability rate for these plants in 1988 was 90% compared to the most recent industry average of 87%. During the summer of 1988, Delmarva Power's plants had an even better availability rating. The company forecasted that its plants would be available 92% of the time during the months of June, July and August. Through the efforts of employees, the company's power plants were available 97% of the time.

The company's fuel mix is balanced: in 1988, 63% coal, 28% oil and natural gas, and 9% nuclear through nuclear power plants partially owned by Delmarva Power but operated by other companies.

Environment

The company, industry and governmental officials in Delaware worked together to use more than 8,000 cubic yards of coal ash as a core material in the construction of two new interchange ramps for I-495 in north Wilmington.

The company is studying this project and others to find ways to put the 300,000 tons of ash produced by our coal plants each year to productive use. Some of the other ash utilization projects include an artificial ocean reef for marine life off the coast of Lewes, Delaware, a liner for a Sussex County, Delaware, landfill, and core material for concrete and structures such as jetties and piers.

In this year's successful rockfish harvest, 60,000 fingerlings, reared by employees at the Vienna Power Plant, were released into Chesapeake Bay tributaries.

EMPLOYEES *are* MOVING *the* COMPANY *into the* NEXT DECADE

Prices Remain Low

Throughout the service territory, electric prices have decreased. For example, the price for residential customers using 750 kilowatt hours of electricity per month is generally about 12% less than it was in 1983.

The company's objective is to maintain regionally competitive prices.

Electric price comparisons (for all customer categories in cents/kwh) are: New York, 10.98; Philadelphia, 8.83; Newark, N.J., 8.35; Delmarva Peninsula, 6.45; Baltimore, 5.96; Norfolk, Va., 5.73. For natural gas (in cents/ccf): New York, 64.54; Philadelphia, 60.06; Newark, N.J., 53.36; Baltimore, 53.30; Norfolk, Va., 49.62; Wilmington, Del., 47.38.

Gas Division *employee Eugene Mease installs new gas lines on the east side of Wilmington.*

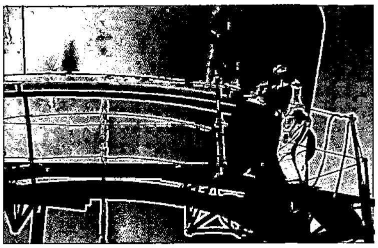
Natural Gas

The company constructed a seven-mile, large capacity, transmission pipeline from Claymont to Wilmington to provide natural gas to the new combustion turbines on Hay Road and to improve the company's ability to provide gas service to customers.

Delmarva Power also completed the construction of a regulating and metering station in Claymont, Delaware. At this station, natural gas from the company's major interstate pipeline suppliers, Transco and Columbia, is brought into Delmarva Power's system.

Working Safely *is a high priority at Delmarva Power.*

To help keep the price of natural gas competitive, the company continues to seek less expensive gas supplies. The company is developing a gas supply portfolio based on a diversified mix of long term and spot supplies rather than using a traditional single pipeline for supply. This approach will allow the company to become more price competitive and to improve reliability.



The Exhaust Stacks *for the CT's were delivered in the fall.*

The Beach Day Walk *for seniors was held in Rehoboth, Delaware.*

System Operator *Carlton Casson forecasts daily power needs at the Control Center in Christiana, Delaware.*

Meter Readers *help to increase the company's customer approval rating through courteous, efficient service.*

Employees

The company and its employees are working together to continually improve the health and safety of individuals. A wellness program was launched this year. Employees took a health risk assessment survey that showed their individual health risks and health improvement steps.

A corporate employee incentive reward system was established this year. Employees worked hard and met 5 of the 7 goals of the Corporate Performance Incentive Plan, saving the company at least $2 million. Several of the goals were stretch goals and required a great deal of team effort.

The Participative Skills Program was expanded to include an Employee Development Plan which offers employees the opportunity to learn and fine-tune communications, participative, and leadership skills. Participation at Delmarva has transcended techniques and has moved more towards a way of doing business.

Merrill Creek

During June, the company completed a sale and lease back of its 11.9% interest in the Merrill Creek Reservoir located in northern New Jersey. The company and six other local utilities that use water from the Delaware River Basin as a source of cooling water for generating units built the reservoir to replenish water in the Delaware River during low water flow periods. The company sold and leased back its interest in the reservoir in order to provide cash for construction projects and reduce costs to customers.

Delaware City Power Plant

Star Enterprise, the new owner of the former Texaco refinery, announced it will exercise its long-standing option to purchase the Delaware City Power Plant from Delmarva Power by December, 1991. In the meantime, the refining company will decide who will operate the plant and who will have access to the 20 to 40 megawatts of available electricity that the refinery doesn't use. Delmarva Power will aggressively negotiate to continue operating the plant. Delmarva Power has assured continued employment for Delmarva Power people who work at the plant.

River Crossing Damages

In November, 1988, settlement was reached with the owners of the Seapride to recover damages from the transmission tower accident. The company and the other utility participants recovered $20 million. The Seapride, an oil tanker, rammed into one of the company's Delaware River transmission towers connecting lines from Delaware to New Jersey in March, 1987. Nine months later, the line was back in service.

Air Quality

State environmental officials issued an order authorizing the company to construct a 500-foot smokestack at the Indian River Power Plant and requiring the company to burn a lower sulfur coal at the site. The stack will cost about $32 million and will solve an infrequent "downwash" air pollution problem at the plant.

Community Activities

Through contributions of stockholders and customers, the Good Neighbor Energy Fund contributed more than $1 million during the last six years to customers having trouble paying utility bills.

Employees, as a part of the highly successful Radio Watch program, continued to summon aid to people in the community by using radios in company vehicles. Radio Watch is being adopted by agencies, governmental organizations, and utilities nationwide.

Employees contributed $272,151 to the United Way, surpassing their 1988 campaign goal by 36%.

About 60% of Delmarva Power's employees volunteer their personal time to help others in the community.

Customer Projects

A large steel mill that has been sitting idle for 18 months in Claymont, Delaware began startup testing in December. Delmarva Power engineers were instrumental in re-establishing the gas and electric service to the mill.

Customer Opinions

The company's customer approval rating increased for the sixth consecutive year. In the 1988 survey, 79% of customers surveyed gave the company a favorable rating compared with 78% in 1987; 74% in 1986; 71% in 1985; 66% in 1984; 59% in 1983; and 46% in 1982.

Customer Relations

For several years, customer service, community relations, and marketing representatives have worked one-on-one with customers having difficulty paying their utility bills. They have provided customers with information about credit extensions, budget billing, installment payments, load limiters, and community sources of funds. As a result of this approach, write-offs are at an all time low of less than 0.12% of revenues.

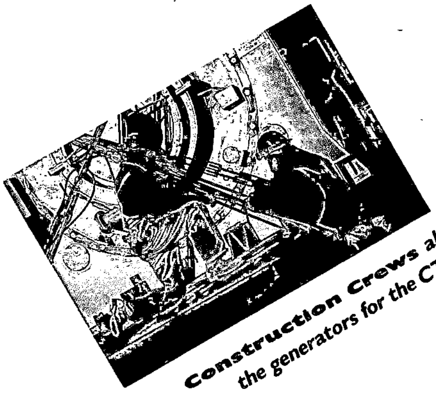
Customer Information

The company has worked hard to better understand the needs of customers and to provide them with useful information.

Useful publications include the monthly residential newsletter, "Energy News You Can Use;" the quarterly commercial newsletter, "Energy Exchange;" and the quarterly 60 Plus newsletter, "Silver Bulletin."

Diverse Service Territory

The peninsula is centrally located within the major East Coast markets and has a diverse blend of commercial, agricultural, industrial, and recreational activities. Delmarva Power serves 352,000 electric customers throughout most of the 5,700 square-mile peninsula and 80,000 natural gas customers in a 275 square-mile area in northern Delaware. The company employs 2,670 people.



Construction Crews align the generators for the CT's.

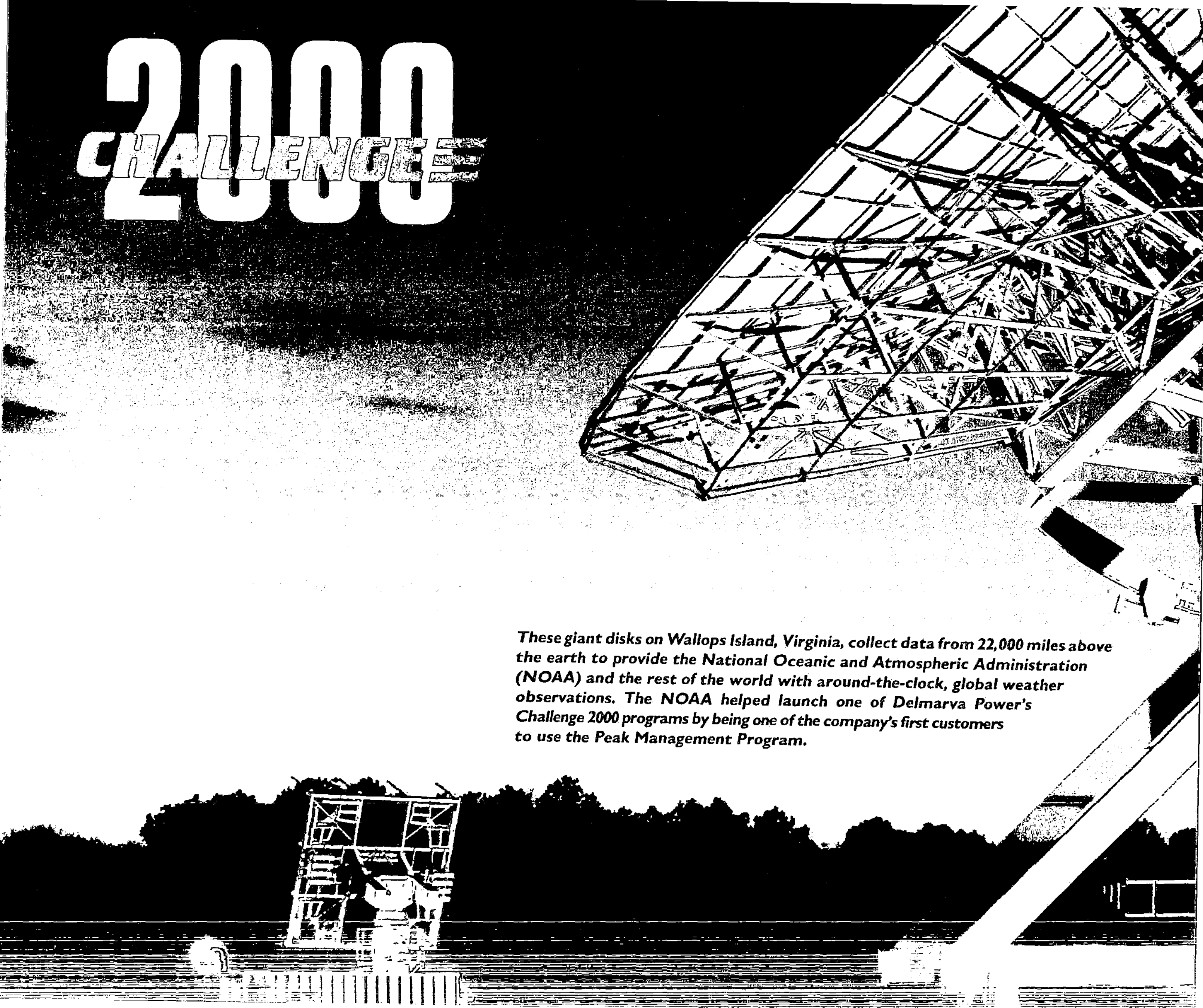
Work Crews begin each day with "tailgate" sessions to discuss efficiency and safety.

the **FUTURE** *is a* **TIME** *and a* **PLACE** *in the* **DISTANCE,**

CREATED HERE *and* **NOW**

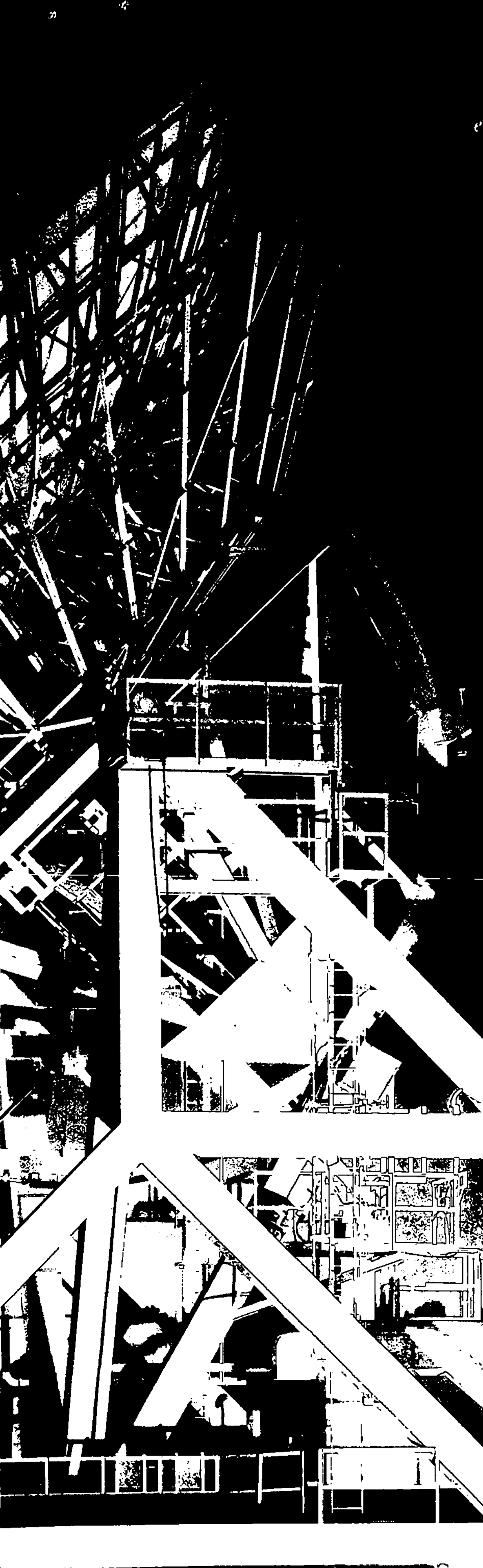
Energy For Tomorrow is one of the company's programs designed to assure that reliable energy is available for our young people now and in the future. The conservation program to cycle, by remote control, water heaters and air conditioners during hot summer periods for 2,000 residents in northern Delaware began and was well received, according to follow-up surveys.

CHALLENGE 2000



These giant disks on Wallops Island, Virginia, collect data from 22,000 miles above the earth to provide the National Oceanic and Atmospheric Administration (NOAA) and the rest of the world with around-the-clock, global weather observations. The NOAA helped launch one of Delmarva Power's Challenge 2000 programs by being one of the company's first customers to use the Peak Management Program.

Providing Energy Today *and* Tomorrow



Challenge 2000, *the company's plan to supply adequate amounts of future electricity at the lowest reasonable cost, is a blend of conservation programs and new energy sources. These programs are part of the company's philosophy of not relying on a single source for supplying energy in the future. The first of the company's Challenge 2000 programs began operating in 1988. Below is a summary of the major elements of Challenge 2000.*

1988

About 2,000 customers in Delaware volunteered to participate in the first phase of the company's residential conservation program, Energy For Tomorrow, and 16 industrial/commercial customers participated in the Peak Management Program. Installation began on two 100-megawatt combustion turbines (CT's) at the company's Hay Road site.

1989

The installation of the two CT's will be completed. The Energy For Tomorrow program will be extended to 3,000 customers in Maryland and to 4,000 additional customers in New Castle County, Delaware. The Peak Management Program will be expanded with the goal to be able to lower the peak electric load by 18 megawatts.

1990

The Energy For Tomorrow program will be offered to all residential customers system-wide.

1991

The company plans to purchase 100 megawatts of electricity from another utility. The company plans to have completed the upgrading of existing units to gain 51 megawatts.

1992

The company plans to add 100 megawatts of peaking electricity from non-utility generators.

1993

A 100-megawatt combined cycle unit is planned to be added to the new combustion turbines at the Hay Road site.

1994

The company plans to purchase 100 megawatts of base-load electricity from non-utility generators.

1997

100 megawatts of coal-fired base load power, a circulating fluidized bed coal unit, is planned to be installed.

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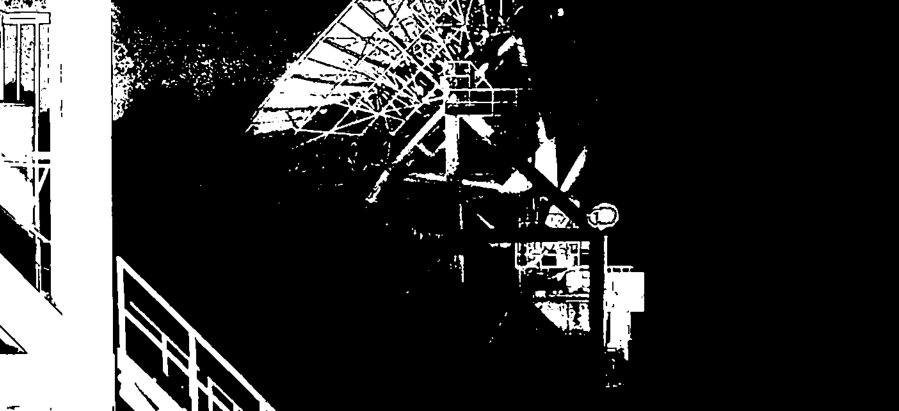

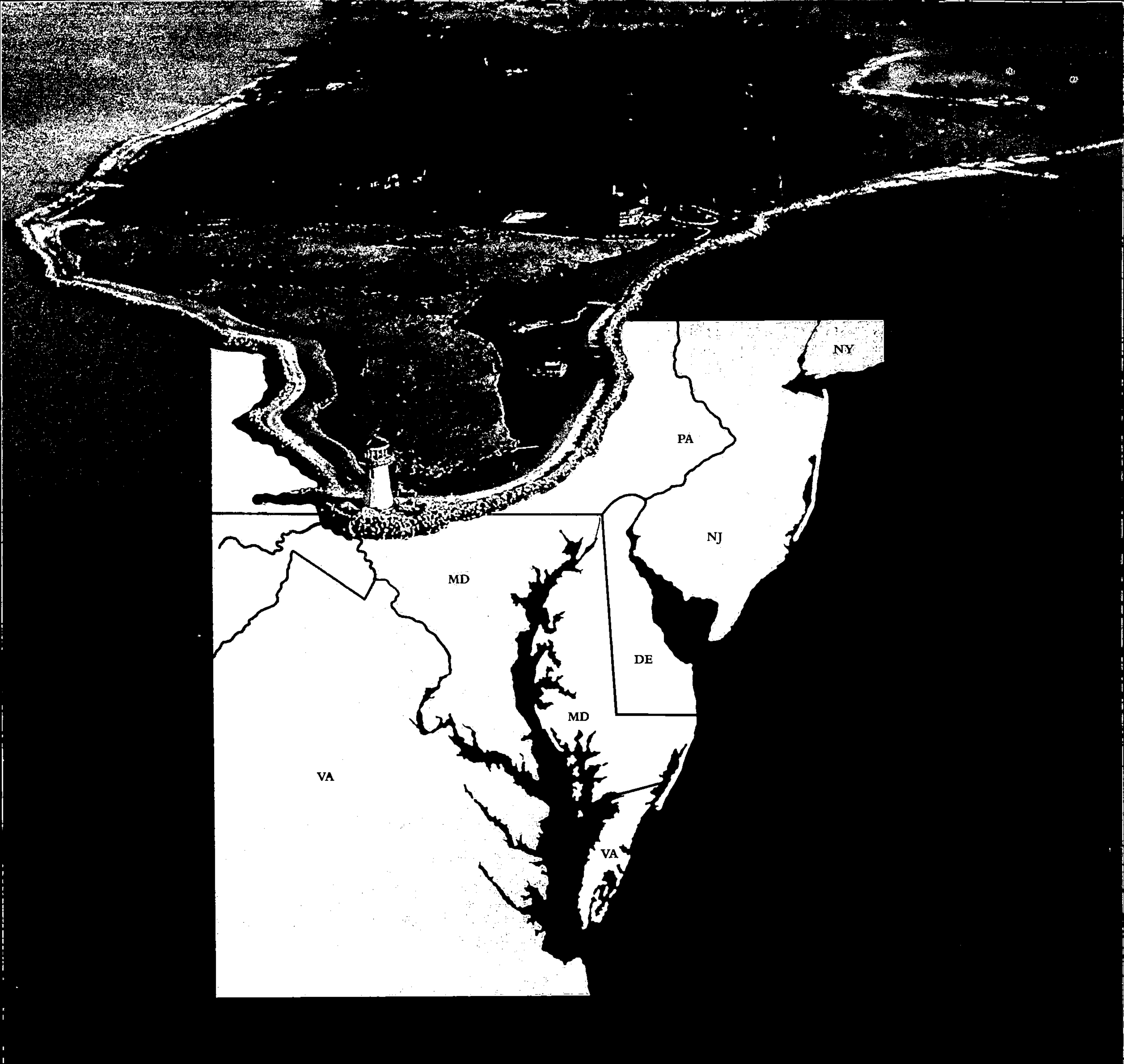

NY
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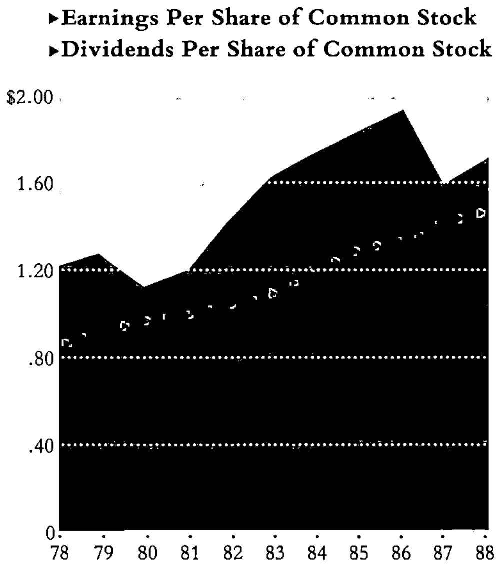
▸Earnings Per Share of Common Stock
▸Dividends Per Share of Common Stock
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1.60
1.20
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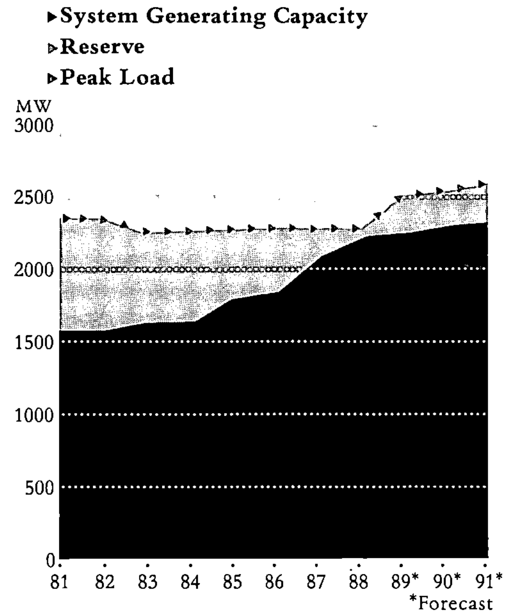
.40
0
78 79 80 81 82 83 84 85 86 87 88


▸System Generating Capacity
▹Reserve
▹Peak Load
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2500
2000
1500
1000
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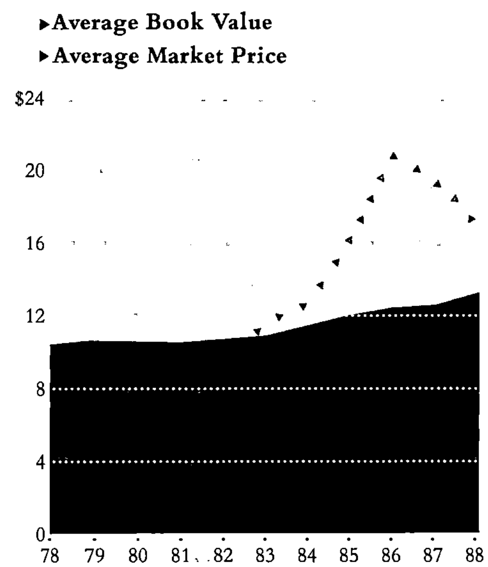
81 82 83 84 85 86 87 88 89* 90* 91*
*Forecast


▸Average Book Value
▸Average Market Price
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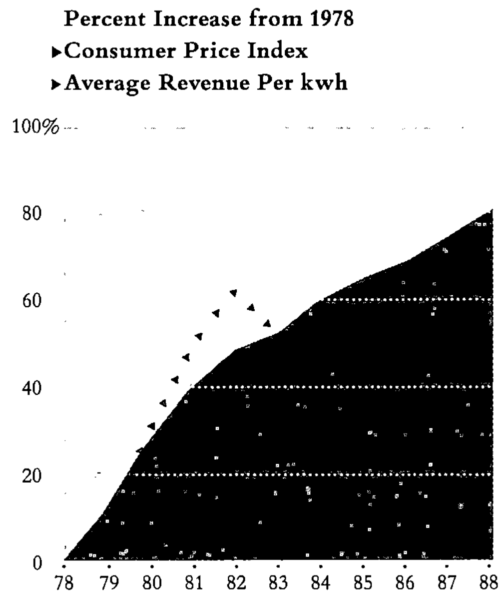
78 79 80 81 82 83 84 85 86 87 88


Percent Increase from 1978
▸Consumer Price Index
▸Average Revenue Per kwh
100%
80
60
40
20
0
78 79 80 81 82 83 84 85 86 87 88

	(Dollars in Thousands) For the Years Ended December 31	1988	1987	1986	1985	1984
Operating Data	Operating Revenues	**$ 768,322**	$ 712,479	$ 714,863	$ 722,834	$ 702,593
	Operating Income	**129,494**	124,967	134,738	135,515	133,209
	Net Income	**84,721**	79,803	96,123	96,638	92,110
	Electric Sales (kwh 000)	**10,225,043**	9,565,276	9,205,795	8,530,520	8,308,233
	Gas Sales (mcf 000)	**16,156**	15,411	15,952	15,708	17,239
Common Stock Data	Earnings Per Share of Common Stock	**1.70**	1.60	1.94	1.84	1.75
	Dividends Declared Per Share of Common Stock	**1.47**	1.42½	1.36⅓	1.29⅔	1.22
	Average Shares Outstanding (000)	**45,892**	45,717	45,717	45,717	45,372
Capitalization	Variable Rate Demand Bonds(1)	**75,000**	—	—	—	—
	Long-Term Debt(2)	**641,291**	670,738	666,979	638,090	567,761
	Preferred Stock without mandatory redemption	**103,306**	103,306	103,306	105,000	105,000
	Preferred Stock with mandatory redemption(3)	**2,477**	3,277	4,077	5,992	47,836
	Common Stockholders' Equity	**613,177**	594,975	587,449	561,811	539,650
	Total Capitalization	**$ 1,435,251**	$1,372,296	$1,361,811	$1,310,893	$1,260,247
Capitalization Ratios	Variable Rate Demand Bonds(1)	**5%**	0%	0%	0%	0%
	Long-Term Debt	**45%**	49%	49%	49%	45%
	Preferred Stock without mandatory redemption	**7%**	8%	8%	8%	8%
	Preferred Stock with mandatory redemption	**0%**	0%	0%	0%	4%
	Common Stockholders' Equity	**43%**	43%	43%	43%	43%
	Total Capitalization	**100%**	100%	100%	100%	100%
Other Financial Data	Total Assets	**$ 1,914,937**	$1,807,831	$1,747,324	$1,683,864	$1,604,954
	Construction Expenditures(4)	**171,102**	142,239	102,597	94,923	79,488
	Internally Generated Funds(5)	**106,051**	129,345	160,967	150,856	104,873

(1) Variable Rate Demand Bonds were reclassified from Long-Term Debt to Current Liabilities as of December 31, 1988. The Company intends to use the bonds as a source of long-term financing, as discussed in Note 7 on page 38.
(2) Includes Long-Term Debt due within one year.
(3) Includes mandatory redemption due within one year.
(4) Excludes Allowance for Funds Used During Construction.
(5) Net cash provided by operating activities less preferred and common dividends.

RESULTS OF OPERATIONS

Earnings

Earnings per share of common stock increased to $1.70 from $1.60 in 1987. The 10¢ increase was primarily due to increased electric sales and improved earnings from the Company's subsidiaries partially offset by higher operation and maintenance expenses and increased write-offs of replacement power costs related to the shutdown of the Peach Bottom Nuclear Generating Station.

The Peach Bottom Nuclear Generating Station, in which Delmarva Power has a 7.51% ownership interest, remained shut down during 1988 pursuant to a March 31, 1987 order issued by the Nuclear Regulatory Commission (NRC). Replacement power costs resulting from the shutdown are not being recovered through customer rates. Accordingly, $10.0 million (13.5¢ per share) of replacement power costs were expensed in 1988, as compared to $9.2 million (11.4¢ per share) in 1987. Future replacement power costs resulting from the NRC mandated shutdown of Peach Bottom are estimated at about $1 million per month and will continue to be expensed as incurred. The Company is pursuing recovery of replacement power and other costs from Philadelphia Electric Company (PE), operator of the plant, through a lawsuit filed in the United States District Court in New Jersey jointly with Atlantic Electric Company, another co-owner of Peach Bottom.

The NRC has approved PE's plan for restart and is monitoring PE's implementation of its plan. In October 1988, PE delayed the projected restart readiness of Peach Bottom Unit 2 until the second quarter of 1989 and of Unit 3 until the third quarter of 1989. This latest delay is disappointing to Delmarva Power since PE had previously projected a restart of Unit 2 in late 1988. In view of the tasks yet to be completed, the new dates may prove to be optimistic. Delmarva Power cannot predict when the Units will reach restart readiness, when the NRC will approve the restart, or the time it will take to achieve full power operation. See Note 14 on page 41 for additional information on the Peach Bottom shutdown.

Earnings per share of common stock for 1987 decreased 34¢ from $1.94 in 1986. The 34¢ decrease was principally attributed to electric rate decreases and the write-off of Peach Bottom replacement power expenses. Increased electric sales partially offset the impact of these unfavorable factors.

Dividends

On December 27, 1988, the Board of Directors raised the quarterly dividend on common stock to 37½¢ per share ($1.50 indicated annual rate) from 36½¢ per share ($1.46 indicated annual rate). This 2.7% improvement marks twelve consecutive years of increasing dividends and reflects the Company's goal to moderately increase dividends annually, earnings permitting, in order to provide stockholders with a fair and competitive return on their investment.

Electric Revenues and Sales

Electric revenues, net of fuel costs, increased $17.4 million or 4.1% in 1988 mainly due to a $27.3 million increase from higher sales which was partially offset by a $11.4 million net decrease in base rates primarily attributed to the lower 1988 federal income tax rate. (See Note 13 on page 40 for a discussion of rate matters). A 6.9% increase in total electric sales was principally due to a very hot summer and to another strong year for the service territory's economy, which benefited from the continuing expansion of banking and financial services and a high level of both residential and nonresidential construction activity. Also, Delaware has experienced low unemployment rates over the past several years which has contributed to an expanding population base. These positive economic factors resulted in residential and commercial customer growth rates of 2.8% and 5.0%, respectively, in 1988. The customer growth and increased use per customer, which was partly due to the extremely hot summer, resulted in residential and commercial sales growth rates of 7.8% in both sales classes. Industrial sales, which have grown at the lowest rate of all sales classes over the past ten years, increased 4.5% in 1988.

Electric revenues, net of fuel costs, increased $4.4 million or 1.1% in 1987. Excluding the effect of the $28.1 million December 1986 Delaware Summit credit payment (see Note 11 on page 39), net electric revenues decreased $23.7 million or 5.3%. Major factors that contributed to the decrease were a $34.4 million decrease in base rates and $9.2 million of Peach Bottom replacement power expenses, which were partially offset by a $26.4 million increase from a 3.9% sales increase. 1987 electric rates in all four of the Company's jurisdictions were lower than 1986 levels, mainly due to the effects of the Tax Reform Act of 1986 and lower rates of return authorized by regulatory commissions.

RESULTS OF OPERATIONS
(continued)

Gas Revenues and Sales

Gas revenues, net of fuel costs, increased $1.9 million or 6.2% in 1988 primarily due to a 4.8% sales increase which was attributed to residential and commercial customer growth. The sales increase was diminished by fuel switching by some large industrial and commercial customers due to lower 1988 oil prices.

In 1987, gas revenues, net of fuel costs, decreased $0.4 million due to a 3.4% sales decrease that resulted from the closing of a major customer, Phoenix Steel. Excluding the effect of Phoenix Steel, gas sales increased 6.2% in 1987 primarily due to relatively high oil prices which caused customers with oil-burning capability to use gas for most of the year.

Fuel Mix

In 1988, the electricity required by the Company's customers was provided by coal generation (63%), nuclear generation (9%), and oil and gas generation (28%). The average fuel cost, which includes fuel, interchange and purchased power costs was 1.94¢/kwh in 1988, 1.98¢/kwh in 1987 and 1.84¢/kwh in 1986. A decline in 1988 oil prices and savings from previously renegotiated coal purchase contracts were the primary factors that reduced the average fuel cost from the 1987 level. Nuclear generation, which has the lowest fuel cost, remained at a relatively low level primarily due to the NRC-ordered shutdown of Peach Bottom on March 31, 1987. The low nuclear generation, combined with significantly increased demand for energy in the service territory, resulted in greater reliance on oil and gas generation.

Operating Expenses

Operating expenses, other than fuel costs, increased $15.1 million or 4.3% in 1988 primarily due to increased operation and maintenance expenses partly offset by lower income taxes. The increase in operation and maintenance expenses was mostly attributed to increased outage expenses at the jointly-owned Peach Bottom and Salem nuclear units and higher payroll costs. Income taxes declined due to the lower federal income tax rate.

Excluding the effects of the 1986 Summit credit payment (as discussed in Note 11 on page 39), operating expenses, other than fuel costs, decreased $12.9 million or 3.5% in 1987. A decrease in income taxes, due to the lower federal income tax rate and lower pretax income, was partly offset by increased depreciation, increased operation and maintenance costs at the Company's jointly-owned nuclear units and higher payroll costs.

Other Income *(Net of Income Taxes)*

Other income, excluding allowance for funds used during construction, increased $1.3 million in 1988. This increase from 1987 reflects $2.7 million of 1987 capital losses on marketable securities and a $1.2 million decrease in subsidiary research and development project expenses, net of related tax credits. These increases were partly offset by a $1.3 million decrease in interest and dividend income and $1.3 million of other decreases. The decline in interest and dividend income was mainly due to lower average investment balances which resulted from increased utility and nonutility capital requirements. Over the past several years, the Company's subsidiaries have invested in various nonutility projects, including cogeneration plants, waste to energy plants, and high technology ventures. These nonutility projects are expected to become operational during the next several years and begin providing returns on the subsidiaries' investments. See Note 16 on page 44 for information on the Company's subsidiaries.

Other income, excluding allowance for funds used during construction, decreased $6.4 million in 1987 mostly due to $2.7 million of capital losses on marketable securities and a $2.0 million decrease in interest income on tax refunds.

IMPACT OF INFLATION

As a regulated utility, the Company's utility revenues are intended to provide for recovery of operating costs and a return on rate base. The overall decline in interest rates since the early 1980's combined with lower rates of inflation have resulted in lower rates of return authorized by the regulatory commissions having jurisdiction over the Company. Increases in operating costs due to inflation are normally recovered in customer rates, although cost recovery may lag behind the time period in which increases actually occur due to the ratemaking process.

IMPACT OF INFLATION (continued)

The cost of replacing utility plant will be significantly higher than the historical cost reflected in the financial statements. Under the ratemaking prescribed by the regulatory commissions to which the Company is subject, only the original cost of utility plant is recoverable in revenues as depreciation. Therefore, due to inflation, the Company's current cash flows do not fully provide for the replacement of existing utility plant. However, this effect of inflation is mitigated to the extent depreciable utility property is financed with debt which will be repaid with dollars of lower purchasing power.

IMPACT OF ACCOUNTING PRONOUNCEMENTS

See Note 2 on pages 34 and 35 for a discussion on Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes", and its anticipated effects on the Company's financial statements.

The Financial Accounting Standards Board is currently studying accounting for postretirement benefits other than pensions. The Board has tentatively concluded that postretirement health care benefits represent a form of deferred compensation and that a liability should be recognized based on years of employee service and factors that will affect the health care plan's cost. The Board plans to issue a draft of its proposed accounting rules for certain postretirement benefits in the first quarter of 1989 for public comment. The Company will continue to review and study the possible impacts of the Board's tentative conclusions and proposals regarding postemployment benefits.

LIQUIDITY AND CAPITAL RESOURCES

Overview

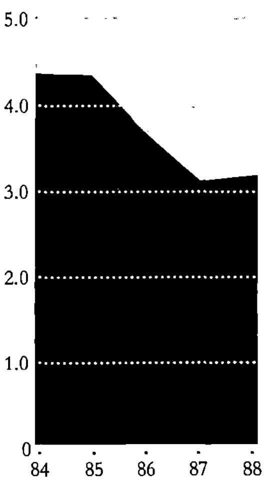
The Company's primary capital resources are internally generated funds (net cash provided by operating activities less common and preferred dividends) and external financing. These resources provide capital for the Company's construction program and other capital requirements such as maturing debt and sinking fund requirements. The Company anticipates that internally generated funds, which are affected by regulatory actions and economic conditions, will continue to be the Company's primary capital resource.

Internally generated funds have decreased from the relatively high levels of 1985 and 1986 mainly due to lower electric rates resulting from lower authorized rates of return on equity and the effects of the Tax Reform Act of 1986. Increased electric sales have partly offset these decreases in internally generated funds. Restoring internally generated funds to the levels achieved in 1985 and 1986 is somewhat dependent on the Company being granted higher authorized returns on equity by the regulatory commissions. Internally generated funds are still relatively strong, but no longer equal or exceed the Company's construction expenditures. This is partly due to higher construction expenditures which have resulted from the increasing demand for electricity in the service territory.

Financing and Capitalization

Financial indicators of liquidity remained solid in 1988 due to the Company's sound financial performance. The Company's ratio of pre-tax earnings to fixed charges (computed according to SEC regulations) was 3.22, showing little change from the 1987 ratio of 3.16. This stability was achieved despite downward pressure from the effects of the Peach Bottom shutdown and electric rate reductions related to the lower 1988 federal income tax rate. The Company's senior debt is now rated by Moody's Investor Service and Standard and Poors as A1 and A+, respectively. These ratings indicate that the Company should be able to continue to access the capital markets at costs which should help keep the Company's electric and gas prices competitive.

▸Ratio of Earnings to Fixed Interest Charges
(SEC method)



The Company satisfied its 1988 requirements for external financing principally through the issuance of debt. In October 1988, the Company filed shelf registration statements with the Securities and Exchange Commission for $100 million of Medium Term Notes and $100 million of First Mortgage Bonds, intending to issue up to a total of $100 million in debt through both registration statements combined. Pursuant to the shelf registration statements, the Company issued $50 million of 10% First Mortgage Bonds in December 1988. Other debt capital was provided through the September 1988 issuance of $18 million of tax exempt Variable Rate Demand Bonds. $7.9 million of equity capital was raised during 1988 by the issuance of common stock under the Dividend Reinvestment and Common Share Purchase Plan. In June 1988, the sale and leaseback of the Company's 11.9% ownership interest in the Merrill Creek Reservoir provided $39.1 million in funds which were used partially to redeem $25 million of First Mortgage Bonds at maturity.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing and Capitalization (continued)

External financing requirements are estimated to be $56 million and $72 million in 1989 and 1990, respectively. During this period the Company plans increased equity financing in order to reduce debt leverage and further stabilize the capital structure. Planned proceeds from equity financing include $30 million from preferred stock and $33 million from common stock. The Company's plan for debt financing during this period includes $15 million of tax exempt Variable Rate Demand Bonds and $50 million of First Mortgage Bonds or Medium Term Notes.

Other capital resources available to the Company include commercial paper, loan placement agreements, and lines of credit. The Company places short-term debt through competitively bid loan placements and issues commercial paper supported by adequate lines of credit to meet fluctuations in working capital requirements and for interim financing of construction projects. The Company has lines of credit with banks in the amount of $65 million. These lines are available for bank loans and to secure commercial paper borrowings as the need arises.

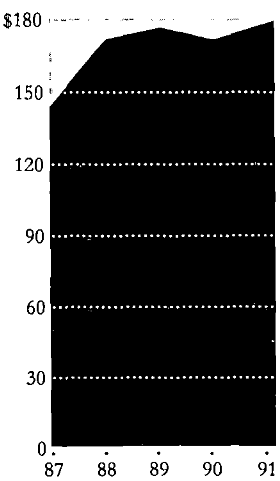
The Company's subsidiaries also have financing requirements and capital resources, which are not reflected in the above discussion. The subsidiaries plan to satisfy their estimated requirements for external financing in 1989 and 1990 with a combination of non-recourse debt and a revolving credit agreement. As of December 31, 1988, the subsidiaries had a $10 million line of credit.

Capital and Construction Requirements

For the period 1986-1988, the Company had total capital requirements of $549 million, including $416 million for construction (excluding AFUDC). During the same period, $396 million was generated internally (net cash provided by operating activities less common and preferred dividends) which represents 72% of the capital requirements and 95% of the construction requirements. Capital requirements for the period 1989-1991 are estimated to be $570 million, including $526 million for construction (excluding AFUDC). The Company presently anticipates that, for the period 1989-1991, internally generated funds will be $318 million which equals 56% of the total capital requirements and 60% of its construction requirements. Actual internally generated funds and construction expenditures may vary from the above estimates due to, among other factors, the rate of inflation, regulation and legislation, rates of load growth, licensing and construction delays, results of rate proceedings, and the cost and availability of capital.

The Company estimates that its annual energy and peak load growth rates for the next 10 years will be 2.7% and 2.1%, respectively. The Company's present generating capacity of 2,277 megawatts (MW) provided a reserve of 3.3% against the peak load of 2,204 MW experienced in the summer of 1988. The peak load was substantially higher than expected due to the abnormally hot weather and economic growth in the service territory. In 1987, the Company peak was 2,084 MW. Thus, peak load grew 5.8% in 1988 and has grown about 36% over the last four years.

▸**Construction Expenditures** (excluding AFUDC)
▸**Internally Generated Funds**
(millions of dollars)



The Company's approach to supplying adequate amounts of electricity in the future is to match capacity expansion and load growth as closely as possible. As a result of the high 1988 summer peak and the resulting low reserve margin, the Company updated the supply-side options of its Challenge 2000 plan. The plan combines the construction of new generating capacity, the use of power purchases and non-utility generation as follows: In 1989, the installation of two 100 MW combustion turbines is scheduled for completion; in 1991, a 100 MW purchase of electricity is planned from another utility; in 1991, a 51 MW upgrade of existing generating units is scheduled for completion; in 1992, a 100 MW purchase through competitive bidding of nonutility generation peaking capacity is planned; in 1993, a 100 MW combined cycle addition to the 1989 combustion turbines is planned; in 1994, a 100 MW purchase through competitive bidding of nonutility generation base-load capacity is planned; and in 1997, the installation of a 100 MW circulating fluidized bed coal unit is planned.

The demand-side or conservation programs of Challenge 2000 have undergone initial testing and yielded positive results both in terms of customer acceptance and the capability of shaving peak usage during the hottest days. The Company estimates that these programs reduced the 1988 peak load by about 10 MW. The program is being expanded during 1989 to include 3,000 to 4,000 more customers.

REPORT OF MANAGEMENT

Management is responsible for the information and representations contained in the Company's financial statements. Our financial statements have been prepared in conformity with generally accepted accounting principles, based upon currently available facts and circumstances and management's best estimates and judgments of the expected effects of events and transactions.

Delmarva Power & Light Company maintains a system of internal controls designed to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. The internal control system is supported by written administrative policies, a program of internal audits, and procedures to assure the selection and training of qualified personnel.

Coopers & Lybrand, independent certified public accountants, are engaged to audit the financial statements and express their opinion thereon. Their audits are conducted in accordance with generally accepted auditing standards which include a review of internal controls.

The audit committee of the Board of Directors, composed of outside Directors only, meets with management, internal auditors and independent accountants to review accounting, auditing and financial reporting matters. The independent accountants are appointed by the Board on recommendation of the audit committee, subject to stockholder approval.

Nevius M. Curtis
Chairman, President and
Chief Executive Officer

Paul S. Gerritsen
Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
Delmarva Power & Light Company
Wilmington, Delaware

We have audited the accompanying consolidated balance sheets and statements of capitalization of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1988 and 1987, and the related statements of income, changes in common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 3, 1989

	(Dollars in Thousands) For the Years Ended December 31	1988	1987	1986
Operating Revenues	Electric	**$667,553**	$612,367	$602,240
	Gas	**78,615**	78,233	91,802
	Steam	**22,154**	21,879	20,821
		768,322	712,479	714,863
Operating Expenses	Operation			
	Fuel for electric generation	**215,491**	211,006	207,862
	Net interchange and purchased power	**(5,274)**	(10,162)	(28,098)
	Purchased gas	**51,189**	45,208	57,012
	Deferred energy costs	**11,863**	(8,994)	7,767
	Other operation	**141,966**	132,914	128,116
	Maintenance	**70,264**	65,738	62,621
	Depreciation	**71,609**	68,907	64,657
	Amortization of Summit credit	**(276)**	(907)	(15,707)
	Taxes other than income taxes	**31,261**	30,352	30,687
	Income taxes	**50,735**	53,450	65,208
		638,828	587,512	580,125
Operating Income		**129,494**	124,967	134,738
Other Income	Allowance for other funds used during construction	**3,312**	3,453	2,750
	Other, net	**8,149**	6,889	13,267
		11,461	10,342	16,017
Income Before Interest Charges		**140,955**	135,309	150,755
Interest Charges	Debt	**56,086**	54,998	54,478
	Other	**2,356**	1,658	922
	Allowance for borrowed funds used during construction	**(2,208)**	(1,150)	(768)
		56,234	55,506	54,632
Earnings	Net Income	**84,721**	79,803	96,123
	Dividends on preferred stock	**6,889**	6,814	7,405
	Earnings applicable to common stock	**$ 77,832**	$ 72,989	$ 88,718
Common Stock	Average shares outstanding *(thousands)*	**45,892**	45,717	45,717
	Earnings per average share	**$ 1.70**	$ 1.60	$ 1.94
	Dividends declared per share	**$ 1.47**	$ 1.42½	$ 1.36⅓

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands) For the Years Ended December 31		1988	1987	1986
Cash Flows from Operating Activities	Net Income	**$ 84,721**	$ 79,803	$ 96,123
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation	**71,609**	68,907	64,657
	Amortization of Summit credit	**(276)**	(907)	(15,707)
	Amortization of nuclear fuel	**6,284**	6,027	5,405
	Allowance for other funds used during construction	**(3,312)**	(3,453)	(2,750)
	Investment tax credit adjustments, net	**(2,658)**	(3,132)	(956)
	Deferred income taxes, net	**20,361**	33,616	54,535
	Net change in:			
	Accounts receivable	**(9,728)**	11,762	7,097
	Inventories	**(2,117)**	(3,494)	11,313
	Accounts payable	**(771)**	12,741	707
	Other current assets & liabilities*	**16,297**	(4,471)	(21,795)
	Decrease in refundable taxes and interest	**4,192**	—	31,111
	Other, net	**(4,810)**	3,378	206
	Net cash provided by operating activities	**179,792**	200,777	229,946
Cash Flows from Investing Activities	Construction expenditures, excluding AFUDC	**(171,102)**	(142,239)	(102,597)
	Allowance for borrowed funds used during construction	**(2,208)**	(1,150)	(768)
	Proceeds from sale of ownership interest in Merrill Creek Reservoir	**39,121**	—	—
	Investment in leveraged leases	**(2,330)**	(8,067)	(28,682)
	Investment in partnerships and nonutility operations	**(34,193)**	(16,091)	(5,372)
	Decrease (increase) in marketable securities	**28,087**	9,059	(32,903)
	Construction funds held by trustee	**180**	(180)	9,186
	Other, net	**6,572**	(1,137)	(2,673)
	Net cash used in investing activities	**(135,873)**	(159,805)	(163,809)
Cash Flows from Financing Activities	Dividends: Common	**(66,852)**	(64,618)	(61,574)
	Preferred	**(6,889)**	(6,814)	(7,405)
	Issuances: First mortgage bonds	**50,000**	—	126,000
	Variable rate demand bonds	**18,000**	8,000	—
	Other long-term debt	—	11,000	18,000
	Preferred stock	—	—	28,000
	Common stock	**7,853**	—	—
	Redemptions: Long-term debt	**(25,499)**	(15,205)	(114,250)
	Preferred stock	**(800)**	(800)	(31,635)
	Premium on redemption of securities	—	—	(6,218)
	Net change in short-term debt	**(6,000)**	6,000	—
	Net cash used in financing activities	**(30,187)**	(62,437)	(49,082)
	Net change in cash and cash equivalents	**13,732**	(21,465)	17,055
	Beginning of year cash and cash equivalents	**36,867**	58,332	41,277
	End of year cash and cash equivalents	**$ 50,599**	$ 36,867	$ 58,332

**Other than debt classified as current, preferred stock redeemable within one year and current deferred income taxes.*

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

ASSETS	(Dollars in Thousands) As of December 31	**1988**	1987
Utility Plant— at Original Cost	Electric	**$1,823,994**	$1,739,339
	Gas	**118,426**	103,788
	Steam	**25,099**	24,913
	Common	**113,045**	103,011
		2,080,564	1,971,051
	Less: Accumulated depreciation	**701,639**	647,728
	Net utility plant in service	**1,378,925**	1,323,323
	Plant held for future use	**6,710**	6,838
	Construction work in progress	**97,221**	80,850
	Nuclear fuel, at amortized cost	**19,019**	20,791
		1,501,875	1,431,802
Other Property and Investments	Investment in leveraged leases, net	**73,811**	70,071
	Investment in partnerships	**47,327**	16,649
	Other property, net	**30,691**	23,704
	Construction funds held by trustee	**—**	180
		151,829	110,604
Current Assets	Cash and cash equivalents	**50,599**	36,867
	Marketable securities, at lower of cost or market	**33,738**	60,912
	Accounts receivable:		
	Customers	**50,691**	44,492
	Other	**13,552**	10,023
	Inventories, at average cost:		
	Fuel (coal, oil and gas)	**44,783**	45,703
	Materials and supplies	**25,857**	22,820
	Prepayments	**5,417**	5,882
	Deferred income taxes, net	**7,792**	1,102
		232,429	227,801
Deferred Charges and Other Assets	Unamortized debt expense	**6,917**	6,307
	Deferred recoverable plant costs	**6,540**	9,120
	Other	**15,347**	22,197
		28,804	37,624
	Total	**$1,914,937**	$1,807,831

See accompanying Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES

(Dollars in Thousands)
As of December 31

		1988	1987
Capitalization *(see Statements of Capitalization)*	Common stock	**$ 103,883**	$ 102,864
	Additional paid-in capital	**241,727**	234,890
	Retained earnings	**267,567**	257,221
	Total common stockholders' equity	**613,177**	594,975
	Preferred stock:		
	Without mandatory redemption	**103,306**	103,306
	With mandatory redemption	**1,677**	2,477
	Long-term debt	**609,687**	645,270
		1,327,847	1,346,028
Current Liabilities	Short-term debt	**—**	6,000
	Long-term debt due and preferred stock redeemable within one year	**32,404**	26,268
	Variable rate demand bonds (Note 7)	**75,000**	—
	Accounts payable	**48,414**	49,185
	Taxes accrued	**11,097**	6,394
	Interest accrued	**11,527**	11,051
	Dividends declared	**17,314**	16,687
	Deferred energy costs, net	**7,147**	(2,471)
	Other	**11,660**	10,625
		214,563	123,739
Deferred Credits and Other Liabilities	Deferred income taxes, net	**291,549**	264,692
	Deferred investment tax credits	**63,670**	66,328
	Other	**17,308**	7,044
		372,527	338,064
Other	Commitments and Contingencies (Notes 8, 14 and 16)		
	Total	**$1,914,937**	$1,807,831

See accompanying Notes to Consolidated Financial Statements.

(Dollars in Thousands) As of December 31			1988	1987
Common Stockholders' Equity	Total Common Stockholders' Equity[1]		**$ 613,177**	$ 594,975
Cumulative Preferred Stock	Par value $1 per share, 10,000,000 shares authorized, none issued			
	Par value $25 per share, 3,000,000 shares authorized, none issued			
	Par value $100 per share, 1,800,000 shares authorized			
	Without Mandatory Redemption:			
	Series	Shares Issued (1988 and 1987)		
	3.70%-4.56%	240,000 and 240,000	**24,000**	24,000
	5.00%-7.88%	530,000 and 530,000	**53,000**	53,000
	Adjustable-6.59%[2]	280,000 and 280,000	**28,000**	28,000
			105,000	105,000
	Less: Cost of shares (17,200) held in treasury		**1,694**	1,694
	Preferred Stock without Mandatory Redemption		**103,306**	103,306
	With Mandatory Redemption:			
	9.00% Series	24,766 and 32,766 shares	**2,477**	3,277
	Less: Amount to be redeemed within one year		**800**	800
	Preferred Stock with Mandatory Redemption		**1,677**	2,477
Long-Term Debt	First Mortgage Bonds:			
	Maturity	Interest Rates		
	June 1988	3⅞%	**—**	25,000
	1994-1997	4⅝%-6⅜%	**50,000**	50,000
	1998-2002	7%-11¾%	**158,100**	158,100
	2003-2005	6.6%-10¼%	**92,150**	92,150
	2008-2011	9⅝%-12%	**81,900**	81,900
	2015-2018	9¼%-10⅛%	**176,000**	126,000
			558,150	533,150
	Pollution Control Notes:			
	Series 1973, due 1989-1998, 5.45%-5.75%		**7,250**	7,400
	Series 1976, due 1992-2006, 7⅛%-7¼%		**34,500**	34,500
			41,750	41,900
	Variable Rate Demand Bonds, due 2014-2017[3]		**—**	57,000
	First Mortgage Notes, 9.65%[4]		**10,596**	10,945
	Other Long-Term Debt, due 1989, 9.89%		**28,000**	28,000
	Other Obligations, due 1989-1992, 8.07%[2]		**3,398**	—
	Unamortized premium and discount, net		**(603)**	(257)
			641,291	670,738
	Less: Long-term debt due within one year		**31,604**	25,468
	Total Long-Term Debt		**609,687**	645,270
	Total Capitalization		**1,327,847**	1,346,028
	Variable Rate Demand Bonds[3]		**75,000**	—
	Total Capitalization with Variable Rate Demand Bonds		**$1,402,847**	$1,346,028

(1)Refer to statement on page 31 for additional information.
(2)Average rate during 1988.
(3)Variable Rate Demand Bonds were reclassified from Long-Term Debt to Current Liabilities as of December 31, 1988. See Note 7 on page 38.
(4)Repaid through monthly payments of principal and interest over 15 years ending November 2002.

See accompanying Notes to Consolidated Financial Statements.

(Dollars in Thousands) For the Three Years Ended December 31, 1988	Common Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance as of January 1, 1986	45,717,450	$102,876	$235,798	$223,137	$561,811
Net Income				96,123	96,123
Cash dividends declared:					
Common stock ($1.36⅓)				(62,336)	(62,336)
Preferred stock				(7,405)	(7,405)
Issuance of preferred stock			(650)		(650)
Redemption of preferred stock			39	(133)	(94)
Balance as of December 31, 1986	45,717,450	102,876	235,187	249,386	587,449
Net Income				79,803	79,803
Cash dividends declared:					
Common stock ($1.42½)				(65,149)	(65,149)
Preferred stock				(6,814)	(6,814)
Three for two stock split:					
Cash paid for fractional shares		(12)			(12)
Other expenses			(302)		(302)
Redemption of preferred stock			5	(5)	—
Balance as of December 31, 1987	45,717,450	102,864	234,890	257,221	594,975
Net Income				84,721	84,721
Cash dividends declared:					
Common stock ($1.47)				(67,479)	(67,479)
Preferred stock				(6,889)	(6,889)
Issuance of common stock:					
Dividend Reinvestment and Common Share Purchase Plan	452,552	1,019	6,834		7,853
Other expenses			(3)		(3)
Redemption of preferred stock			6	(7)	(1)
Balance as of December 31, 1988	46,170,002	$103,883	$241,727	$267,567	$613,177

Note: The Company's common stock has a par value of $2.25 per share and 90,000,000 shares are authorized.

See accompanying Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Delmarva Energy Company, Delmarva Industries, Inc., Delmarva Services Company, and Delmarva Capital Investments, Inc. and its subsidiaries. Delmarva Capital Investments, Inc. accounts for its investment in 20% to 50% owned partnerships with the equity method. In conformity with generally accepted accounting principles, the accounting policies reflect the financial effects of rate decisions issued by regulatory commissions having jurisdiction over the Company's utility business.

In 1988, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows". The Company considers highly liquid marketable securities and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Certain reclassifications, not affecting income, have been made to amounts reported in prior years to conform to the presentations used in 1988.

Revenues

Revenues are recorded at the time billings are rendered to customers on a monthly cycle basis. At the end of each month, there is an amount of unbilled electric and gas service which has been rendered from the last meter reading to the month-end.

Fuel Costs

Fuel costs (electric and gas) are charged to operations on the basis of fuel costs included in customer billings under the Company's tariffs, which are subject to periodic regulatory review and approval. The difference between fuel costs recovered in customer billings and fuel costs actually incurred is generally deferred and reported as deferred energy costs.

Depreciation and Maintenance

The annual provision for depreciation on utility property is computed on the straight-line basis using composite rates by classes of depreciable property. Provision for the costs of decommissioning of nuclear plant is made to the extent of the net cost of removal allowed for rate purposes (approximately 20% of original plant cost). The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.7% for 1988, 3.7% for 1987 and 3.5% for 1986.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. A replacement of a unit of property is accounted for as an addition to and a retirement from utility plant. The original cost of the property retired is charged to accumulated depreciation together with the net cost of removal. For income tax purposes, the cost of removing retired property is deducted as an expense.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Nuclear Fuel

The Company's share of nuclear fuel costs relating to jointly-owned nuclear generating stations is charged to fuel expense on a unit of production basis, which includes a factor for spent nuclear fuel disposal costs pursuant to the Nuclear Waste Policy Act of 1982. The Company is collecting future storage and disposal costs for spent fuel as authorized by the regulatory commissions in each jurisdiction and is paying such amounts quarterly to the United States Department of Energy.

Leveraged Leases

The Company's net investment in leveraged leases includes the aggregate of rentals receivable (net of principal and interest on nonrecourse indebtedness) and estimated residual values of the leased equipment less unearned and deferred income (including investment tax credits). Unearned and deferred income is recognized at a level rate of return during the periods in which the net investment is positive.

Income Taxes

The Company and its wholly-owned subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the Company's utility business and subsidiaries based upon their respective taxable incomes, tax credits, and effect of the alternative minimum tax, if any. Deferred income taxes are provided on timing differences between the tax and financial accounting recognition of certain income and expenses. The principal timing difference arises from accelerated depreciation methods used for income tax purposes. Investment tax credits from regulated operations utilized to reduce federal income taxes are deferred and generally amortized over the useful lives of the related utility plant. Investment tax credits of the Company's non-regulated operations (excluding leveraged leases) are accounted for by the flow-through method.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is a non-cash item and is defined in the regulatory system of accounts as the "net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds so used". AFUDC is recorded as a charge to Construction Work In Progress with concurrent credits to (1) Interest Charges for the pretax interest cost of borrowed funds ("allowance for borrowed funds used during construction") and (2) Other Income for the after-tax cost of and return on equity funds ("allowance for other funds used during construction"). The rates used in determining AFUDC, which include semi-annual compounding, were 10.0% in 1988, 8.5% in 1987 and 9.2% in 1986.

Unamortized Debt Discount, Premium and Expense

These items are amortized on a straight-line basis over the lives of the long-term debt issues to which they pertain. The amortization is included in other interest charges.

2. INCOME TAXES

(Dollars in Thousands)	**1988**	1987	1986
Operation:			
Federal: Current	**$40,693**	$28,592	$29,278
Deferred	**2,857**	18,635	26,779
State: Current	**9,043**	5,934	5,051
Deferred	**800**	3,543	4,596
Investment tax credit adjustments, net	**(2,658)**	(3,254)	(496)
Other income:			
Federal: Current	**(17,834)**	(16,022)	(27,370)
Deferred	**16,689**	11,428	23,160
State: Current	**(59)**	(155)	147
Deferred	**15**	10	—
Total income tax expense	**$49,546**	$48,711	$61,145

Investment tax credits utilized to reduce federal income taxes payable amounted to $1,237,000 in 1988, $1,835,000 in 1987, and $5,450,000 in 1986. The amount for 1986 includes an Employee Stock Ownership Plan credit of $464,000, which did not affect net income.

The following is a reconciliation of the difference between income tax expense and the amount computed by multiplying income before tax by the federal statutory rate:

(Dollars in Thousands)	**1988 Amount**	**Rate**	1987 Amount	Rate	1986 Amount	Rate
Statutory income tax expense	**$45,651**	**34%**	$51,406	40%	$72,343	46%
Increase (decrease) in taxes resulting from:						
Exclusion of AFUDC for income tax purposes	**(1,247)**	**(1)**	(1,842)	(1)	(1,619)	(1)
Depreciation not normalized	**2,495**	**2**	1,504	1	2,852	2
ITC amortization/flow-through	**(3,388)**	**(3)**	(5,089)	(4)	(5,947)	(4)
State income taxes, net of federal tax benefit	**6,509**	**5**	5,455	4	5,333	3
Amortization of credit arising from sale of contracts	**(57)**	**—**	(354)	—	(7,225)	(5)
Other, net	**(417)**	**—**	(2,369)	(2)	(4,592)	(3)
Income tax expense	**$49,546**	**37%**	$48,711	38%	$61,145	38%

The Tax Reform Act of 1986 substantially modified the Alternative Minimum Tax (AMT). The new AMT is based on 20% of alternative minimum taxable income as defined by the tax law. The AMT is paid only if it exceeds the regular corporate tax. Generally, the AMT is carried forward as a reduction of subsequent-year regular corporate tax in excess of the minimum tax. In 1987, the Company incurred an AMT liability of $2.6 million which did not affect income because it qualified for minimum tax credit carryforward treatment. In 1988, the $2.6 million minimum tax credit carryforward was fully utilized as a reduction of the regular corporate tax in excess of the 1988 AMT.

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes", which replaces the currently utilized deferred method of income tax accounting with the liability method. Under the liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Deferred tax assets and liabilities are adjusted currently for the effects of changes in enacted tax laws or rates. In December 1988, the FASB issued SFAS No. 100, "Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96", which postponed the required adoption date of SFAS No. 96 from 1989 to 1990.

2. INCOME TAXES (continued)

SFAS No. 96 allows adoption retroactively or prospectively. The Company currently expects to adopt the standard on a prospective basis in 1990. Since the Company is a regulated enterprise, adoption of SFAS No. 96 is not expected to have a material effect on the Company's results of operations, however the total amount of assets and liabilities on the consolidated balance sheet is expected to increase by approximately $75 million. The expected increase is due to recognition of additional tax liabilities for tax benefits flowed through to customers partially offset by the reduction of existing accumulated deferred income taxes as a result of the reduction in the federal income tax rates, and for other temporary differences. The increased deferred tax liabilities and assets will be offset by corresponding regulatory assets and liabilities.

The components of deferred income taxes relate to the following tax effects of timing differences between book and tax income:

(Dollars in Thousands)	**1988**	1987	1986
Depreciation	**$28,269**	$30,013	$ 43,443
Deferred energy costs	**(4,711)**	3,541	(2,082)
Capitalized overhead costs	**(2,558)**	(1,296)	1,143
Deferred recoverable plant costs	**(433)**	(254)	3,488
Pollution control amortization	**(604)**	2,717	3,076
ADR repair allowance	**2,261**	3,788	2,337
Unbilled revenues	**(2,662)**	(2,331)	—
Alternative minimum tax	**2,600**	(2,600)	—
Other, net	**(1,801)**	38	3,130
Total	**$20,361**	$33,616	$ 54,535

The Company has not provided deferred income taxes of approximately $76 million, based on current income tax rates, related to cumulative timing differences of $192 million arising before the adoption of full tax normalization for ratemaking purposes by regulatory authorities. The Company is collecting the unnormalized taxes in its rate jurisdictions either on a levelized basis, over the life of the related plant facilities, or when actually paid to taxing authorities.

3. TAXES OTHER THAN INCOME TAXES

(Dollars in Thousands)	**1988**	1987	1986
Delaware utility	**$10,963**	$10,212	$ 11,869
Property	**7,881**	7,481	6,787
Other gross receipts	**5,644**	5,777	5,881
Payroll, franchise and other	**6,773**	6,882	6,150
Total	**$31,261**	$30,352	$ 30,687

4. SUPPLEMENTAL CASH FLOW INFORMATION

(Dollars in Thousands)	**1988**	1987	1986
Cash paid (received) during the year for:			
Interest, net of capitalized amount	**$54,971**	$54,855	$ 57,920
Income taxes	**$24,531**	$20,761	$ 19,314
Income tax (refunds)	**(2,730)**	(6,685)	(30,095)
Income taxes, net of refunds	**$21,801**	$14,076	$(10,781)

5. PENSION PLAN AND POST-RETIREMENT BENEFITS

The Company has a defined benefit pension plan covering all regular employees. The benefits are based on years of service and the employee's compensation. The Company's funding policy is to contribute each year the net periodic pension cost for that year. However, the contribution for any year will not be less than the minimum required contribution nor greater than the maximum tax deductible contribution. There were no pension contributions in 1988, 1987 or 1986.

In 1987, the Company adopted the new pension expense recognition and disclosure standards contained in Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions". The adoption of the new standard did not materially affect the Company's 1987 results of operations.

The following table reconciles the plan assets and liabilities to the funded status of the plan as of December 31, 1988 and 1987. Pension plan assets consist primarily of equity securities and public bond securities.

(Millions of Dollars)

Actuarial Present Value of Benefit Obligations	**1988**	1987
Accumulated benefit obligation		
Vested	**$159.4**	$136.5
Nonvested	**23.7**	21.1
Total	**$183.1**	$157.6
Projected benefit obligation	**$248.5**	$229.0
Plan assets at fair value	**331.5**	293.2
Excess of plan assets over projected benefit obligation	**83.0**	64.2
Unrecognized prior service cost	**4.8**	1.5
Unrecognized net (gain)	**(34.5)**	(9.2)
Unrecognized net transition (asset)	**(53.0)**	(56.4)
Prepaid pension cost	**$ 0.3**	$ 0.1

(Millions of Dollars)

Components of Net Pension Cost	**1988**	1987
Service cost—benefits earned during period	**$ 8.5**	$ 9.5
Interest cost on projected benefit obligation	**17.5**	16.2
Actual return on plan assets	**(46.9)**	(15.8)
Net amortization and deferral	**20.7**	(10.0)
Net pension cost	**$ (0.2)**	$ (0.1)

Assumptions	**1988**	1987
Discount rates	**7.5%**	7.75%
Rates of increase in compensation levels	**6.5%**	6.5%
Expected long-term rates of return on assets	**8.0%**	8.0%

The Company provides health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits if they reach normal retirement age while still working for the Company. The Company recognizes the cost of providing these benefits by expensing the insurance claims as they are paid. These costs totalled $2,387,000, $2,144,000, and $2,009,000 for 1988, 1987 and 1986, respectively.

6. CAPITALIZATION

Common Stock

In April 1988, the Company registered 3,000,000 of its common shares under a Dividend Reinvestment and Common Share Purchase Plan (the Plan). As of December 31, 1988, 2,547,448 shares of common stock were reserved for issuance under the Plan.

On April 29, 1987, the Company's common stock split on a 3 for 2 basis. All per common share disclosures and the number of common shares have been adjusted to reflect the stock split.

Retained Earnings

The current first mortgage bond indenture restricts the amount of consolidated retained earnings available for cash dividend payments on common stock to $35,000,000 plus accumulations after June 30, 1978. The amount available at December 31, 1988 was approximately $188,239,000.

Preferred Stock

The annual preferred dividend requirements on all outstanding preferred stock at December 31, 1988 are $6,834,000. If preferred dividends are in arrears, the Company may not declare common stock dividends or acquire its common stock.

Without Mandatory Redemption

These series may be redeemed at the option of the Company at any time, in whole or in part at the various redemption prices fixed for each series (ranging from $103 to $106 at December 31, 1988).

With Mandatory Redemption

The 9% series has a sinking fund requirement to redeem 8,000 shares annually at $100 per share. At the option of the Company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium. The Company redeemed 8,000 shares in December 1988 at $100 per share. Mandatory sinking fund redemptions are $800,000 per year during the next three years and $77,000 in 1992. Under certain conditions the 9% series may also be redeemed at the option of the Company. The redemption price at December 31, 1988 is $104 per share, excluding sinking fund redemptions which have a $100 per share redemption price.

Long-Term Debt

1) Pursuant to the Mortgage and Deed of Trust, the Company changed the title of its First Mortgage and Collateral Trust Bonds to First Mortgage Bonds. This change in no way affects the status of any outstanding bonds.
2) Sinking fund requirements for the First Mortgage Bonds may be reduced by an amount not exceeding sixty percent (60%) of the bondable value of property additions. For the years 1986-1988, property additions satisfied the sinking fund requirements. Substantially all utility plant of the Company now or hereafter owned is subject to the lien of the related Mortgage and Deed of Trust.
3) On December 6, 1988, the Company issued $50 million of the 10% Series First Mortgage Bonds, due December 1, 2018. The proceeds from the bond issuance were used to retire short-term debt and to finance construction expenditures, with the balance being applied to general corporate cash requirements relating to the Company's utility business.
4) In August 1988, a subsidiary of the Company increased its investment in a wood-waste burning power plant (which is under construction) by $8.5 million of which $5.5 million was paid in 1988 with the remaining $3 million due in December 1989. Interest on the $3 million obligation is based on the yield of a money market fund.
5) Maturities of long-term debt during the next five years are 1989—$31,603,000; 1990—$669,000; 1991—$711,000; 1992—$2,058,000; 1993—$2,010,000.
6) The annual interest requirements on long-term debt at December 31, 1988 are $54,007,000.

7. VARIABLE RATE DEMAND BONDS

On September 28, 1988, the Company issued, through the Delaware Economic Development Authority, $18 million of Variable Rate Demand Exempt Facilities Revenue Bonds (Variable Rate Demand Bonds), due October 1, 2017. The proceeds were used to finance certain pollution control facilities and additions to the Company's gas system. The Variable Rate Demand Bonds are secured by $20.3 million of First Mortgage Bonds. The Variable Rate Demand Bonds bear interest, which is tax exempt to the bond owner, at a variable or fixed rate as determined by the Company from time to time. The bond owners may tender the Variable Rate Demand Bonds to the remarketing agent each time the interest rate is reset.

A total of $75 million and $57 million of Variable Rate Demand Bonds were outstanding as of December 31, 1988 and 1987, respectively. As of December 31, 1987, the Company had long-term financing agreements available for the possible redemption of any bonds not remarketed. In recognition of the long-term financing capability, the Variable Rate Demand Bonds were classified as long-term debt. During 1988 the Company elected to not make available the long-term financing agreements for possible redemptions and accordingly, the Variable Rate Demand Bonds are classified as current liabilities as of December 31, 1988. However, the Company intends to use the Variable Rate Demand Bonds as a source of long-term financing by setting the bonds' interest rates at market rates and, if advantageous, by utilizing one of the fixed rate/fixed term conversion options of the bonds. The bonds are due in the years 2014 to 2017.

During 1988 the Variable Rate Demand Bonds bore interest at an average annual rate of 5.58%. The annual interest requirements on the Variable Rate Demand Bonds at December 31, 1988 are $5,054,000.

8. COMMITMENTS

The Company estimates that approximately $175,600,000, excluding AFUDC, will be expended for construction purposes in 1989. The Company also has commitments under long-term fuel supply contracts.

The Company leases certain distribution facilities, transportation equipment and various other facilities and equipment under long-term lease agreements. Rentals charged to operating expenses aggregated $8,867,000 in 1988, $9,191,000 in 1987, and $7,439,000 in 1986.

Minimum commitments as of December 31, 1988 under all non-cancellable lease agreements (excluding the Merrill Creek Reservoir lease discussed in Note 10) are as follows: 1989—$2,157,000; 1990—$1,904,000; 1991—$715,000; 1992—$596,000; 1993—$378,000; after 1993—$3,337,000; total—$9,087,000.

Nuclear fuel requirements for the Peach Bottom Nuclear Generating Station are being provided by the operating company through a fuel purchase contract. The Company is responsible for payment of its share of fuel consumed and related interest expense, both of which are considered fuel expense for financial reporting purposes. Nuclear fuel expense for Peach Bottom totalled $1,643,000 in 1988, $3,190,000 in 1987 and $8,372,000 in 1986.

The Company has an agreement providing for the availability of fuel oil storage and oil pipeline facilities through 1999. Under the agreement, the Company must make specified minimum payments monthly, which totalled $1,693,000 in 1988, $2,165,000 in 1987 and $2,766,000 in 1986. The estimated amount of required payments is $1,463,000 in 1989, $1,125,000 in 1990, $1,883,000 in 1991, $1,796,000 in 1992, $1,796,000 in 1993 and $10,371,000 between 1994 and 1999.

Pursuant to a letter of intent, the Company plans a 100 megawatt purchase of electricity from another utility in 1991.

Delmarva Capital Investments, Inc. (DCI), the Company's primary investment subsidiary, has purchased land it plans to develop into a landfill and has various commitments to make equity contributions and loan funds under certain conditions to partnerships in which DCI has invested. The maximum amounts that DCI could be required to provide as payments, loans or equity commitments over the next five years are as follows: 1989—$25,821,000; 1990—$4,291,000; 1991—$10,390,000; 1992—$2,390,000; 1993—$2,390,000. Also, DCI is the obligor on a $15 million letter of credit which was issued to secure capital contributions required for a wood-waste burning power plant.

9. SHORT-TERM DEBT

As of December 31, 1988, the Company had unused bank lines of credit of $75 million. The Company is generally required to pay commitment fees for these lines. Such lines of credit are periodically reviewed by the Company, at which time they may be renewed or cancelled.

10. MERRILL CREEK RESERVOIR SALE-LEASEBACK

On June 16, 1988 the Company sold its 11.9% ownership interest in the Merrill Creek Reservoir, located in northern New Jersey, for $39.1 million and is leasing it back. The sale resulted in a pretax book gain of $10.2 million, of which $2.2 million was recognized in 1988 in electric operating revenues. The $2.2 million recognized portion of the gain did not affect earnings due to certain offsetting tax expenses related to the sale. The remaining $8.0 million was deferred and after receiving regulatory approvals, the Company intends to amortize the deferred gain over the remaining life of the lease. The lease, which is being accounted for as an operating lease, has a 44½ year term ending in December 2032 and will require future minimum lease payments aggregating approximately $179 million. Lease payments begin in 1990 and the next five years of payments are scheduled as follows: 1989—None; 1990—$187,000; 1991—$5,557,000; 1992—$3,785,000 and 1993—$3,785,000. The Company is deferring the rental expense which is approximately $4 million per year based on the total lease payments apportioned ratably over the entire lease term. After receiving regulatory approval, the Company intends to amortize the deferred amounts over the remaining life of the lease. As of December 31, 1988, $2,145,000 had been accrued and deferred.

11. SUMMIT CREDIT

The net proceeds received by the Company for the sale in 1975 of the contracts for a nuclear steam supply system (Summit) were initially deferred as a credit on the balance sheet. Since 1982, the Company has amortized the credit to income, offsetting the related reduction in customer revenue. In December 1986, the Company paid $28.1 million to the Delaware retail electric customers primarily for the $13.5 million Delaware unamortized Summit credit balance and the $14.3 million income tax benefit of the payment. The effects of this payment are reflected in the 1986 income statement as a $28.1 million electric revenue reduction, $13.5 million additional Summit amortization and a $14.3 million reduction of income taxes.

12. JOINTLY-OWNED PLANT

Information with respect to the Company's share of jointly-owned plant, including nuclear fuel for the Salem plant, as of December 31, 1988 is as follows:

(Dollars in Thousands)	Ownership Share	Megawatt Capability Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Nuclear:					
Peach Bottom	7.51%	157 MW	$104,086	$ 36,021	$ 4,730
Salem	7.41%	164 MW	217,039	88,885	11,069
Coal-Fired:					
Keystone	3.70%	63 MW	12,849	5,089	315
Conemaugh	3.72%	63 MW	13,564	5,689	422
Transmission Facilities	Various		4,460	1,420	—
Total			$351,998	$137,104	$16,536

The Company provides its own financing for its share of improvements to jointly-owned plant. In addition, the Company is a joint guarantor of loans ($390,000 proportionate share) advanced for operation of the coal mines that supply the Keystone plant. The Company's share of operating and maintenance expenses of the jointly-owned plant is included in the corresponding expenses in the statements of income.

On May 12, 1988, the Nuclear Regulatory Commission (NRC) voted to approve a final rule which eliminated internal funding as a method for funding nuclear reactor decommissioning costs. Accordingly, the Company is reviewing the funding options allowed under the NRC rule and, as required, will provide a report to the NRC by July 1990 proving "financial assurance" that funds will be available to decommission its share of the Peach Bottom and Salem nuclear reactors.

13. RATE MATTERS

The Company is subject to regulation with respect to its retail sales of electricity by the Delaware and Maryland Public Service Commissions and the Virginia State Corporation Commission, which have broad powers over rate matters, accounting and terms of service. The Federal Energy Regulatory Commission (FERC) exercises jurisdiction with respect to the Company's accounting systems and policies and the transmission and sale at wholesale (resale) of electric energy.

1) **Delaware Electric Retail**

In accordance with a final rate order issued by the Delaware Public Service Commission (DPSC) in April 1987, a reduction in rates of approximately $4.2 million became effective January 1, 1988, primarily to reflect the lower 1988 federal income tax rate.

The April 1987 order reduced 1987 electric rates by $7.3 million, effective April 15, 1987. The order reflected a reduction in the interim authorized return on equity from 13.0% to 12.5%, lower 1987 tax rates due to the Tax Reform Act of 1986 and resolution of certain accounting issues.

A Power Plant Performance Program (PPPP) was in effect through 1988. The Program measures performance at the Company's twelve largest power units and can result in a financial reward or penalty. The potential reward or penalty for 1988 performance is limited to $1.5 million, which would be reflected in 1990 electric rates. 1988 electric rates included a $605,000 reward under this Program for 1986 performance. 1989 electric rates will reflect a net $103,000 penalty for 1987 performance. The $103,000 net penalty includes a $261,000 penalty related to the Peach Bottom shutdown. The Company has proposed to the DPSC that the PPPP be continued indefinitely subject to periodic review. The Company's proposal also requested that the number of power units be increased from twelve to fifteen and the annual reward or penalty limit be increased from $1.5 million to approximately $3.2 million annually.

2) **Maryland Retail**

Effective January 1, 1988, Maryland retail electric rates were reduced by $3.8 million to reflect the lower 1988 federal income tax rate, pursuant to a 1986 settlement agreement. The 1986 settlement agreement reduced 1987 retail electric rates by $3.3 million, effective January 1, 1987, to reflect the 1987 effects of the Tax Reform Act of 1986.

3) **Virginia Retail**

By order dated August 15, 1988, the Virginia State Corporation Commission (VSCC) approved a $0.8 million decrease in retail electric rates primarily to reflect the lower 1988 federal income tax rate. The lower rates had become effective on an interim basis on May 1, 1988. Also pursuant to that order, in October 1988, the Company refunded $0.2 million of excess revenues collected from January 1, 1988 through April 30, 1988 due to the lower federal income tax rate.

By order dated August 27, 1987, the VSCC approved a $0.8 million rate decrease which became effective on an interim basis on May 1, 1987. The decrease reflected a lower return on equity (13.0%) and the 1987 effects of the Tax Reform Act of 1986.

4) **Resale**

By order dated September 20, 1988, the Federal Energy Regulatory Commission (FERC) approved a settlement agreement providing for an increase in electric rates of $1.23 million effective March 1, 1988, the recovery of $3.9 million over five years commencing March 1989 related to income taxes on the Summit credit (see Note 11), and a refund of $750,000 reflecting certain fuel related issues. In September 1988, the $750,000 due under the settlement agreement was refunded to the resale customers.

On September 15, 1987 the FERC approved a $2.4 million annual rate reduction filed by the Company on July 21, 1987. The lower rates reflected the effects of the Tax Reform Act of 1986 and became effective as of April 15, 1987.

14. CONTINGENCIES

1) Shutdown of Peach Bottom Nuclear Generating Station

On March 31, 1987, the Nuclear Regulatory Commission (NRC) ordered the shutdown of the Peach Bottom Nuclear Generating Station for a variety of problems including operator inattention. The Company has a 7.51% ownership interest in the plant which is operated by Philadelphia Electric Company (PE). The NRC order stated that PE must provide a detailed and comprehensive plan and schedule to assure that the plant will operate safely and comply with all requirements prior to resuming operation of the plant. On November 25, 1987, PE submitted to the NRC Section I of its Plan for Restart which detailed a major corporate reorganization of its entire nuclear operations and support services. On February 12, 1988, PE submitted Section II of its Plan for Restart to the NRC describing management changes and actions taken to address the causes of the unsatisfactory performance at the plant. The submittals of Section I and Section II of the Plan for Restart, as subsequently amended, constitutes PE's plan assuring safe operation and compliance with all requirements. On October 19, 1988, the NRC issued its safety Evaluation Report in which it concluded that the Plan addressed the issues identified in the March 31, 1987 shutdown order and, upon implementation, will ensure that Peach Bottom will be operated safely and comply with all requirements. The NRC continues to monitor the effectiveness of PE's implementation of the Plan. On October 21, 1988, PE delayed the projected restart readiness of Peach Bottom Unit 2 until the second quarter of 1989 and of Unit 3 until the third quarter of 1989. This latest delay is disappointing to Delmarva Power since PE had previously projected a restart of Unit 2 in late 1988. In view of the tasks yet to be completed, the new dates may prove to be optimistic. On February 2, 1989, PE requested the NRC to perform an Integrated Assessment Team Inspection (IATI). The IATI is a two week comprehensive inspection designed to assess restart readiness. The NRC has indicated that April 1989 is the earliest it anticipates that restart authorization would be possible. Delmarva Power cannot predict when the Units will reach restart readiness, when the NRC will approve the restart, or the time it will take to achieve full power operation.

On January 22, 1988, the Commonwealth of Pennsylvania filed a petition to intervene with the NRC and requested a hearing on certain operating license amendments associated with PE's reorganization prior to restart. Pennsylvania's petition also included a request for a hearing on the circumstances leading to the shutdown of Peach Bottom. The NRC referred Pennsylvania's petition to the Atomic Safety and Licensing Board (ASLB). On June 22, 1988, the NRC approved the license amendments. On August 22, 1988, Pennsylvania filed a petition with the United States Court of Appeals for the Third Circuit seeking review of the NRC's approval of the license amendments. The matter before the ASLB is still pending. In another action by the Commonwealth of Pennsylvania, on September 23, 1988, the Governor of Pennsylvania invoked a state environmental law in an attempt to compel PE and the Institute of Nuclear Power Operations (INPO) to disclose internal records on the Peach Bottom shutdown. PE has filed an appeal with the Environmental Hearing Board. PE and Pennsylvania are currently negotiating on these matters.

On August 11, 1988, the NRC issued a Notice of Violation and Proposed Imposition of Civil Penalties to PE which proposed to fine PE $1.25 million with respect to the matters related to the March 31, 1987 shutdown. In addition, the NRC proposed imposition of civil penalties in amounts ranging from $500 to $1,000 each on 33 of the 36 present or former licensed Peach Bottom operators. The NRC did not revoke any licenses of operators currently employed by PE at Peach Bottom. PE paid the $1.25 million fine on September 30, 1988 and the operators have paid the civil penalties.

On February 2, 1988, PE officials made public a report from the Institute of Nuclear Power Operations (INPO) that was very critical of PE's operation of Peach Bottom over the last several years. Due to the seriousness of the new information, some of which was not previously made available to Delmarva Power as a minority owner, the Company decided not to pursue recovery of replacement power costs from customers. Accordingly, the Company's results of operations in 1988 and 1987 reflect replacement power costs of $10.0 million (13.5¢ per share) and $9.2 million (11.4¢ per share), respectively. Future replacement power costs resulting from the NRC shutdown will continue to be expensed as incurred. The Company is seeking recovery of the replacement power costs and other costs in the lawsuit discussed on page 42.

14. CONTINGENCIES (continued)

1) **Shutdown of Peach Bottom Nuclear Generating Station** (continued)

On July 27, 1988, the Company and Atlantic Electric Company, as co-owners, filed a lawsuit against PE in the U.S. District Court of New Jersey to recover losses incurred since Peach Bottom was shut down by the NRC, charging PE with breach of contract and negligence for failing to manage and operate the nuclear plant in a safe and efficient manner. The amount of relief the Company is seeking in the lawsuit is unspecified because the actual amount of damages to the co-owners will be unclear until the plant resumes operation. Public Service Electric and Gas (also a co-owner of Peach Bottom) has also filed a similar lawsuit against PE. These suits were in the pre-discovery phase as of December 31, 1988. The Company expects that it may be at least two years before these cases are resolved and cannot predict the outcome of these lawsuits.

2) **Plant Held for Future Use**

In 1982, the Company delayed the construction schedule for the coal-fired Nanticoke #1 generating unit. During 1986, the Company downsized the planned unit and reclassified costs associated with the previously planned larger unit as a deferred asset ($6.5 million balance at December 31, 1988). Cost recovery has been approved in the Delaware, Virginia and resale jurisdictions. The Company anticipates recovery of the $1.9 million Maryland jurisdiction portion. $6.2 million of costs associated with the smaller Nanticoke #1 unit remain classified as plant held for future use. Recovery of these costs is anticipated through the ratemaking process.

3) **Nuclear Insurance**

The insurance coverages applicable to the nuclear power units are as follows:

(Millions of Dollars) Type and Source of Coverage	Aggregate Maximum Coverage	Maximum Retrospective Assessment for a Single Incident[2]
Public Liability		
Private	$ 160	
Price Anderson Assessment[1]	7,119	$18.8[3]
	$7,279[4]	
Property Damage:[5]		
Peach Bottom[6]	$ 750	—
Salem[7]	$ 750	$ 2.5
All units[8]	$ 825	$ 2.4
Replacement Power:		
Nuclear Electric Insurance Limited (NEIL)[9]	$3.1-$3.5[10]	$ 1.8

[1] *Retrospective premium program under the Price-Anderson liability provisions of the Atomic Energy Act of 1954 as amended by the Price-Anderson Amendments Act of 1988. Subject to retrospective assessment with respect to loss from an incident at any licensed nuclear reactor in the United States.*

[2] *The Company's share of the maximum retrospective assessment for a single incident based on the Company's ownerhship share of the nuclear power units.*

[3] *The maximum retrospective assessment is subject to periodic inflation indexing and a 5% surcharge if funds prove insufficient to pay claims associated with a nuclear incident.*

[4] *Limit of liability under the Price-Anderson Act for each nuclear incident. If claims from a nuclear incident exceed the $7.3 billion limit, Congress could impose a revenue raising measure on the nuclear industry to pay the claims.*

[5] *The Company is a self insurer, to the extent of its ownership interest, for any property loss in excess of the stated amounts.*

[6] *For property damage to the Peach Bottom nuclear plant facilities, the Company and its co-owners have private insurance up to $750 million.*

[7] *For property damage to the Salem nuclear facilities, the Company and its co-owners have $500 million of insurance with Nuclear Mutual Limited (NML), a utility-owned insurance company, and $250 million with private insurers. NML has a maximum retrospective assessment of ten times the annual premium.*

[8] *All units are insured by Nuclear Electric Insurance Limited (NEIL II) for losses in excess of $825 million. Maximum retrospective assessment is seven and a half times the annual premiums.*

[9] *A utility-owned mutual insurance company that provides coverage against extra expense incurred in obtaining replacement power during prolonged accidental outages of nuclear power units.*

[10] *Maximum weekly indemnity for 52 weeks which commences after the first 21 weeks of an outage. Also provides for an additional 52 weeks indemnity at one-half maximum level. Maximum retrospective assessment is five times the annual premiums.*

4) **Other**

The Company is involved in certain other legal and administrative proceedings before various courts and governmental agencies concerning rates, environmental issues, fuel contracts, tax filings and other matters. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the Company's financial position or results of operations.

15. SEGMENT INFORMATION

Segment information with respect to electric, gas and steam operations was as follows:

(Dollars in Thousands)	1988	1987	1986
Operating Revenues:			
Electric	**$ 667,553**	$ 612,367	$ 602,240
Gas	**78,615**	78,233	91,802
Steam	**22,154**	21,879	20,821
Total	**$ 768,322**	$ 712,479	$ 714,863
Operating Income:			
Electric	**$ 120,195**	$ 115,964	$ 126,007
Gas	**7,456**	7,347	6,985
Steam	**1,843**	1,656	1,746
Total	**$ 129,494**	$ 124,967	$- 134,738
Net Utility Plant:(1 & 2)			
Electric	**$1,408,717**	$1,355,168	$1,312,517
Gas	**91,495**	74,759	67,469
Steam	**1,663**	1,875	3,944
	1,501,875	1,431,802	1,383,930
Other Identifiable Assets:			
Electric	**117,354**	117,336	105,575
Gas	**18,169**	14,593	18,341
Steam	**1,556**	1,405	409
	137,079	133,334	124,325
Assets Not Allocated	**275,983**	242,695	239,069
Total Assets	**$1,914,937**	$1,807,831	$1,747,324
Depreciation Expense:			
Electric	**$ 66,317**	$ 63,978	$ 59,725
Gas	**4,360**	4,004	4,016
Steam	**932**	925	916
Total	**$ 71,609**	$ 68,907	$ 64,657
Construction Expenditures:(3)			
Electric	**$ 150,239**	$ 131,970	$ 94,337
Gas	**20,237**	9,944	7,751
Steam	**626**	325	509
Total	**$ 171,102**	$ 142,239	$ 102,597

(1)Includes plant held for future use, construction work in progress and allocation of common utility property.
(2)Stated net of the respective accumulated provisions for depreciation.
(3)Excludes allowance for funds used during construction.

Operating income by segments is reported in accordance with generally accepted accounting and rate-making principles within the utility industry and, accordingly, includes each segment's proportionate share of taxes on income and general corporate expenses.

16. CONDENSED FINANCIAL STATEMENTS OF CONSOLIDATED SUBSIDIARIES

The following presents condensed financial information of the Company's wholly-owned subsidiaries, Delmarva Energy Company, Delmarva Industries, Inc. and Delmarva Capital Investments, Inc. Delmarva Services, a subsidiary which leases an office building to the Company's utility business, is excluded from these statements since its income is derived from intercompany transactions which are eliminated in consolidation.

Consolidated Condensed Subsidiary Statements of Income

(Dollars in Thousands)	**1988**	1987	1986
Revenues and investment income	**$12,502**	$ 1,620	$ 3,261
Operating expenses	**6,109**	2,453	1,698
Operating income/(loss)	**6,393**	(833)	1,563
Interest expense	**2,967**	3,955	3,164
Net income/(loss) before income taxes	**3,426**	(4,788)	(1,601)
Income tax benefit	**(1,354)**	(5,448)	(6,426)
Net income	**$ 4,780**	$ 660	$ 4,825
Contribution to Delmarva Power & Light's earnings per share of common stock	**$ 0.10**	$ 0.01	$ 0.11

Consolidated Condensed Subsidiary Balance Sheets

(Dollars in Thousands) **Assets**	At December 31, **1988**	1987
Current assets:		
Cash and cash equivalents	**$ 14,029**	$ 7,992
Marketable securities	**33,669**	58,911
Other	**1,618**	1,020
	49,316	67,923
Noncurrent assets:		
Investment in leveraged leases, net	**73,811**	70,071
Investment in partnerships	**47,327**	16,649
Other	**13,596**	5,985
	134,734	92,705
Total	**$184,050**	$160,628

Liabilities and Stockholder's Equity	At December 31, **1988**	1987
Current liabilities:		
Long-term debt due within one year	**$ 31,130**	$ —
Other	**585**	2,059
	31,715	2,059
Noncurrent liabilities:		
Long-term debt	**296**	28,000
Deferred income taxes	**66,900**	50,348
Other	**138**	—
	67,334	78,348
Stockholder's equity	**85,001**	80,221
Total	**$ 184,050**	$160,628

The historical earnings of the subsidiaries have been largely dependent upon the financial performance of its marketable securities portfolio. During 1987, an overall rise in interest rates caused a decrease in the market value of interest rate sensitive investments (mainly preferred stocks). This effect combined with the October 1987 stock market decline resulted in a 1987 write-down of securities to current market value and losses on securities sales, which decreased 1987 earnings per share by 6.1¢. During 1988, the market stabilized enabling the subsidiaries to improve the returns on its investments in marketable securities. High research and development expenses were incurred in 1987 for projects in their start-up phase, which lowered 1987 earnings per share by 2.7¢. These two 1987 decreases did not recur in 1988 and, as such, account for the majority of the increase in the subsidiaries' 1988 earnings.

At December 31, 1988, Delmarva Capital Investments, Inc. had invested $48.7 million in partnerships and other property which are now in varying stages of development, including $11.9 million related to assets in the permitting stage. The Company has filed applications requesting issuance of the necessary permits.

17. QUARTERLY FINANCIAL INFORMATION (unaudited)

The quarterly data presented below reflect all adjustments necessary in the opinion of the Company for a fair presentation of the interim results. Quarterly data normally vary seasonally with temperature variations, differences between summer and winter rates, the timing of rate orders and the scheduled downtime and maintenance of electric generating units.

Quarter Ended	Operating Revenue	Operating Income	Net Income	Earnings Applicable to Common Stock	Average Shares Outstanding	Earnings per Average Share
	(Dollars in Thousands)				(In Thousands)	
1988						
March 31	$200,950	$ 35,407	$25,186	$23,452	45,717	$0.51
June 30	172,987	25,698	14,964	13,262	45,738	0.29
September 30	217,547	46,156	34,727	33,001	45,952	0.72
December 31	176,838	22,233	9,844	8,117	46,160	0.18
	$768,322	$129,494	$84,721	$77,832	45,892	$1.70
1987						
March 31	$185,935	$35,689	$25,058	$23,394	45,717	$0.51
June 30	160,936	27,277	16,763	15,099	45,717	0.33
September 30	200,482	44,279	32,880	31,164	45,717	0.68
December 31	165,126	17,722	5,102	3,332	45,717	0.08
	$712,479	$124,967	$79,803	$72,989	45,717	$1.60

Net income in 1988 was decreased due to the Peach Bottom replacement power costs as follows: first quarter—$1,476,000 (3.2¢ per share); second quarter—$1,089,000 (2.4¢ per share); third quarter—$1,907,000 (4.1¢ per share); fourth quarter—$1,733,000 (3.8¢ per share); or a total of $6,205,000 (13.5¢ per share).

Electric rate decreases in the Company's jurisdictions, primarily due to lower authorized rates of return, decreased 1987 net income as follows: first quarter—$4,857,000 (10.6¢ per share); second quarter—$4,587,000 (10.0¢ per share); third quarter—$3,916,000 (8.6¢ per share); fourth quarter—$442,000 (1.0¢ per share); or a total of $13,802,000 (30.2¢ per share).

In the fourth quarter of 1987, losses were realized on the sale of marketable securities and certain marketable securities were written down to their market value which decreased net income by $2,628,000 (5.7¢ per share). From April 1987 to November 1987, Peach Bottom replacement power costs were deferred based on anticipated cost recovery from customers. However, based on information that Philadelphia Electric Company made public on February 2, 1988, the Company decided not to pursue cost recovery from customers. Accordingly, the Company charged 1987 replacement power costs to December 1987 results of operations, reducing net income by $5,185,000 or 11.4¢ per share. If the replacement power costs had been expensed as incurred, earnings per share (EPS) would have decreased in the second and third quarters by 3.3¢ and 4.4¢, respectively. The fourth quarter EPS would have increased 7.7¢ per share since only 3.7¢ per share, representing three months of replacement power costs, would have been expensed, rather than the nine months of replacement power costs (11.4¢ per share) actually written-off.

18. DELAWARE CITY PLANT

The Company owns and operates an electric generating plant which supplies electricity and steam to an adjacent refinery at Delaware City, Delaware which is owned by Star Enterprise, a partnership between Texaco Refining and Marketing, Inc. and Saudi Refining, Inc. On January 19, 1989, Star Enterprise notified the Company of its intent to exercise an option in the refinery contract which entitles Star Enterprise to purchase the plant on December 31, 1991 at net book value. The plant contributed 2.3¢ to earnings per share in 1988 and its net book value was $3.3 million at December 31, 1988.

10 YEARS OF REVIEW

		1988	1987	1986	1985
Electric Revenues (thousands)	Residential	**$ 247,950**	$ 231,439	$ 217,393	$ 212,254
	Commercial	**191,104**	176,355	169,157	168,957
	Industrial	**130,094**	119,109	127,900	135,141
	Other utilities, etc.	**90,220**	79,180	80,291	79,399
	Miscellaneous revenues	**8,185**	6,284	7,499	9,830
	Total electric revenues	**$ 667,553**	$ 612,367	$ 602,240	$ 605,581
Electric Sales (1,000 kilowatt-hours)	Residential	**2,944,477**	2,732,018	2,496,099	2,256,922
	Commercial	**2,734,069**	2,536,399	2,370,775	2,165,685
	Industrial	**2,729,409**	2,611,218	2,753,902	2,606,466
	Other utilities, etc.	**1,817,088**	1,685,641	1,585,019	1,501,447
	Total electric sales	**10,225,043**	9,565,276	9,205,795	8,530,520
Electric Customers (end of period)	Residential	**311,577**	303,158	293,452	283,911
	Commercial	**38,629**	36,783	35,089	33,189
	Industrial	**825**	842	853	893
	Other utilities, etc.	**547**	525	517	492
	Total electric customers	**351,578**	341,308	329,911	318,485
Gas Revenues (thousands)	Residential	**$ 40,303**	$ 39,614	$ 43,145	$ 39,224
	Commercial	**16,404**	15,491	18,523	17,901
	Industrial	**12,208**	10,941	16,995	19,762
	Interruptible	**8,309**	11,136	11,464	17,419
	Other utilities, etc.	**66**	160	142	130
	Miscellaneous revenues	**1,325**	891	1,533	820
	Total gas revenues	**$ 78,615**	$ 78,233	$ 91,802	$ 95,256
Gas Sales (million cubic feet)	Residential	**6,797**	6,364	6,201	5,622
	Commercial	**3,333**	2,992	2,906	2,742
	Industrial	**3,229**	2,693	3,338	3,579
	Interruptible	**2,774**	3,320	3,471	3,734
	Other utilities, etc.	**23**	42	36	31
	Total gas sales	**16,156**	15,411	15,952	15,708
Gas Customers (end of period)	Residential	**74,762**	73,803	72,685	70,804
	Commercial	**5,322**	5,027	4,693	4,417
	Industrial	**162**	156	158	160
	Interruptible	**16**	15	14	15
	Other utilities, etc.	**1**	1	1	1
	Total gas customers	**80,263**	79,002	77,551	75,397
Steam Service	Electricity delivered (1,000 kilowatt-hours)	**292,688**	354,842	370,802	335,308
	Steam delivered (1,000 pounds)	**6,928,792**	6,134,946	6,627,130	6,794,105

1984	1983	1982	1981	1980	1979	1978	Average Annual Compound % Rate of Growth
$ 205,910	$ 193,021	$ 183,258	$ 164,919	$ 144,637	$ 115,381	$ 105,237	8.95 %
156,507	140,809	137,434	123,099	112,166	91,798	82,796	8.72 %
128,833	126,703	127,441	129,601	116,401	98,023	83,972	4.47 %
79,235	68,991	73,469	73,602	63,698	53,782	40,840	8.25 %
13,678	12,728	13,168	12,898	7,025	4,682	5,261	4.52 %
$ 584,163	$ 542,252	$ 534,770	$ 504,119	$ 443,927	$ 363,666	$ 318,106	7.69 %
2,249,270	2,136,265	2,026,398	1,996,647	2,046,546	1,968,452	1,979,624	4.05 %
2,073,457	1,844,324	1,729,863	1,660,147	1,648,776	1,598,299	1,568,600	5.71 %
2,569,572	2,600,492	2,255,673	2,454,685	2,429,842	2,624,438	2,418,527	1.22 %
1,415,934	1,297,395	1,237,508	1,283,845	1,335,216	1,300,611	1,281,498	3.55 %
8,308,233	7,878,476	7,249,442	7,395,324	7,460,380	7,491,800	7,248,249	3.50 %
275,175	267,357	260,371	255,646	246,887	242,745	237,925	2.73 %
31,548	30,525	29,966	29,450	28,162	27,998	28,421	3.12 %
929	949	741	788	821	874	858	(0.39)%
502	434	434	434	440	478	480	1.32 %
308,154	299,265	291,512	286,318	276,310	272,095	267,684	2.76 %
$ 40,933	$ 36,694	$ 36,505	$ 34,123	$ 26,525	$ 25,719	$ 28,370	3.57 %
18,663	16,527	15,792	14,344	10,342	8,954	10,154	4.91 %
22,940	23,232	20,112	22,259	12,404	9,884	10,191	1.82 %
18,098	17,026	11,733	11,711	9,293	4,440	716	27.28 %
160	115	53	61	46	55	93	(3.37)%
784	764	552	572	430	270	116	27.58 %
$ 101,578	$ 94,358	$ 84,747	$ 83,070	$ 59,040	$ 49,322	$ 49,640	4.70 %
6,213	5,640	6,062	6,193	6,321	6,423	6,941	(0.21)%
2,971	2,677	2,768	2,704	2,683	2,415	2,593	2.54 %
4,245	4,378	4,108	4,809	3,937	3,388	3,290	(0.19)%
3,769	3,723	2,656	2,802	2,738	1,720	319	24.15 %
41	31	10	12	14	16	29	(2.29)%
17,239	16,449	15,604	16,520	15,693	13,962	13,172	2.06 %
70,183	69,608	69,092	68,608	67,784	66,631	66,364	1.20 %
4,233	4,075	4,057	3,967	3,846	3,712	3,773	3.50 %
165	160	166	167	155	131	163	(0.06)%
19	19	18	16	16	16	21	(2.68)%
1	1	1	1	1	1	1	0.00 %
74,601	73,863	73,334	72,759	71,802	70,491	70,322	1.33 %
298,203	309,043	322,804	343,063	328,420	262,159	270,006	0.81 %
6,922,416	6,965,904	7,778,929	7,673,420	7,570,944	6,378,705	6,016,095	1.42 %

As of January 1, 1989

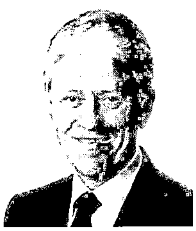
Elwood P. Blanchard, Jr.
Vice Chairman of the Board of Directors and member of the Executive Committee of E. I. du Pont de Nemours & Company *(a diversified chemical, energy and specialty products company)*
Wilmington, Delaware
(Term expires in 1991)

John R. Cooper
Director of Environmental Affairs of E. I. du Pont de Nemours & Company *(a diversified chemical, energy and specialty products company)*
Wilmington, Delaware
(Term expires in 1990)

Howard E. Cosgrove
Executive Vice President of the Company
(Term expires in 1989)

Nevius M. Curtis
Chairman of the Board, President and Chief Executive Officer of the Company
(Term expires in 1990)

Sally V. Hawkins
Director, President and Chief Executive Officer of Delaware Broadcasting Company and President and General Manager of Station WILM
(radio broadcasting)
Wilmington, Delaware
(Term expires in 1991)



H. Ray Landon
Executive Vice President of the Company
(Term expires in 1991)

Donald W. Mabe
President and Chief Executive Officer of Perdue Farms Incorporated
(integrated poultry company)
Salisbury, Maryland
(Term expires in 1990)

James T. McKinstry
Director and Partner, Law Firm of Richards, Layton & Finger
Wilmington, Delaware
(Term expires in 1989)

James O. Pippin, Jr.
Director, President and Chief Executive Officer of the Centreville National Bank of Maryland, Centreville, Maryland
(Term expires in 1989)

David D. Wakefield
Senior Vice President of Morgan Guaranty Trust Company of New York, New York, New York
(Term expires in 1990)

Lida W. Wells
Director and President of Wells Agency, Inc. *(general real estate and development agency)*
Milford, Delaware
(Term expires in 1989)

Executive Committee
Nevius M. Curtis, Chairperson;
David D. Wakefield, Vice Chairperson;
Howard E. Cosgrove, Sally V. Hawkins, James T. McKinstry

Audit Committee
John R. Cooper, Chairperson;
James T. McKinstry, James O. Pippin, Jr.

Nominating Committee
Sally V. Hawkins, Chairperson;
Nevius M. Curtis, James O. Pippin, Jr.

Compensation Committee
Elwood P. Blanchard, Jr., Chairperson;
Donald W. Mabe, David D. Wakefield

Investment Committee
David D. Wakefield, Chairperson;
Nevius M. Curtis, Donald W. Mabe, James O. Pippin, Jr.

Special Directors' Committee on Peach Bottom
James T. McKinstry, Chairperson;
John R. Cooper

As of January 1, 1989

Nevius M. Curtis
Chairman of the Board, President and Chief Executive Officer

Howard E. Cosgrove
Executive Vice President

H. Ray Landon
Executive Vice President

Roger D. Campbell
Senior Vice President and President, Delmarva Capital Investments, Inc.

Paul S. Gerritsen
Vice President and Chief Financial Officer

Donald E. Cain
Vice President

Wayne A. Lyons
Vice President

Thomas S. Shaw, Jr.
Vice President

Donald P. Connelly
Secretary

Richard H. Evans
Vice President, Corporate Communications

Barbara S. Graham
Treasurer

Kenneth K. Jones
Vice President, Planning

Ralph E. Klesius
Vice President, Engineering

James P. Lavin
Comptroller-Corporate and Chief Accounting Officer

Dennis R. McDowell
Comptroller-Operating

Frank J. Perry, Jr.
Vice President, Gas Division

Dale G. Stoodley
Vice President and General Counsel

Duane C. Taylor
Vice President, Information Systems

D. Wayne Yerkes
Division Vice President, Southern Division

Several management changes became effective January 1, 1989. James P. Lavin, formerly Assistant Comptroller, became Comptroller-Corporate and Chief Accounting Officer; Dennis R. McDowell, formerly Assistant Comptroller, became Comptroller-Operating; and Dale G. Stoodley, formerly General Counsel, became Vice President and General Counsel.

Quarterly Common Stock Dividends and Price Ranges

The Company's common stock is listed in the New York and Philadelphia Stock Exchanges and has unlisted trading privileges on the Cincinnati, Midwest and Pacific Stock Exchanges.

The Company had 52,705 holders of common stock as of December 31, 1988.

	Dividend	Price	
1988	**Declared**	**High**	**Low**
First Quarter	**$.36½**	**$19¼**	**$17⅛**
Second Quarter	**.36½**	**19**	**16½**
Third Quarter	**.36½**	**18⅝**	**16¾**
Fourth Quarter	**.37½**	**17¾**	**16⅞**

	Dividend	Price	
1987	Declared	High	Low
First Quarter	$.35⅓	$23⅜	$21
Second Quarter	.35⅓	21⅛	18⅜
Third Quarter	.35⅓	20¾	18¼
Fourth Quarter	.36½	19¾	16¼

Shareholder Services

Carol C. Conrad, Assistant Secretary
Delmarva Power & Light Company
800 King Street, P.O. Box 231
Wilmington, Delaware 19899
Telephone (302) 429-3355.

Stock Symbol

Common Stock, DEW-listed on the New York and Philadelphia Stock Exchanges.

Annual Meeting

The Annual Meeting will be held on April 25, 1989 at 11:00 a.m. in the Clayton Hall, University of Delaware, Newark, Delaware.

Additional Reports

To supplement information in this Annual Report, a Financial and Statistical Review (1978-1988) and the Form 10-K are available upon request. Please write to Shareholder Services, Delmarva Power, 800 King Street, P.O. Box 231, Wilmington, Delaware 19899.

Trustees

First Mortgage Bonds
Chemical Bank
New York, New York.

Other Bonds and Notes
Mellon Bank (DE) N.A.
Wilmington, Delaware.

Bank of Delaware
Wilmington, Delaware.

Wilmington Trust Company
Wilmington, Delaware.

Irving Trust Company
New York, New York.

Citibank
New York, New York.

Transfer Agents and Registrars

Preferred Stock

Wilmington Trust Company
Corporate Trust Division
Rodney Square North
Wilmington, Delaware 19890.

Common Stock

Wilmington Trust Company
Corporate Trust Division
Rodney Square North
Wilmington, Delaware 19890.

Manufacturers Hanover Trust Company
Stock Transfer Department
P.O. Box 24935
Church Street Station
New York, New York 10249.

Regulatory Commissions

Federal Energy Regulatory Commission
825 North Capitol Street, N.E.
Washington, D.C. 20246.

Delaware Public Service Commission
1560 S. duPont Highway
Dover, Delaware 19901.

Maryland Public Service Commission
American Building
231 East Baltimore Street
Baltimore, Maryland 21201.

Virginia State Corporation Commission
P.O. Box 1197
Richmond, Virginia 23209.

Duplicate Mailings

You may be receiving more than one copy of the Annual Report because of multiple accounts within your household. The Company is required to mail an Annual Report to each name on the shareholder list unless the shareholder requests that duplicate mailings be eliminated. To eliminate duplicate mailings, please send a written request to Shareholder Services, and enclose the mailing labels from the extra copies.

MRAZ DESIGN

Dividend Reinvestment and Common Stock Purchase Plan

More than 30 percent of our common shareholders of record are now participating in the Dividend Reinvestment and Common Stock Purchase Plan. If you are not participating, you may want to consider the benefits of joining this Plan. It is an opportunity for owners of our common stock to reinvest cash dividends and/or invest additional cash, up to $25,000 per calendar year, to purchase additional shares of common stock.

Shares of common stock to be purchased under the Plan may be either newly issued shares or shares purchased in the open market, depending on the financing needs of the company. There is no service fee.

A Prospectus with the plan description and an enrollment authorization card may be obtained by writing to Delmarva Power and Light Company, Shareholder Services, P.O. Box 231, Wilmington, DE 19899.

-NOTICE-

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-NOTICE-

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