ATLANTIC ENERGY
ANNUAL REPORT 1990

THE POWER TO SHAPE THE FUTURE

Contents

Notice of Annual Meeting

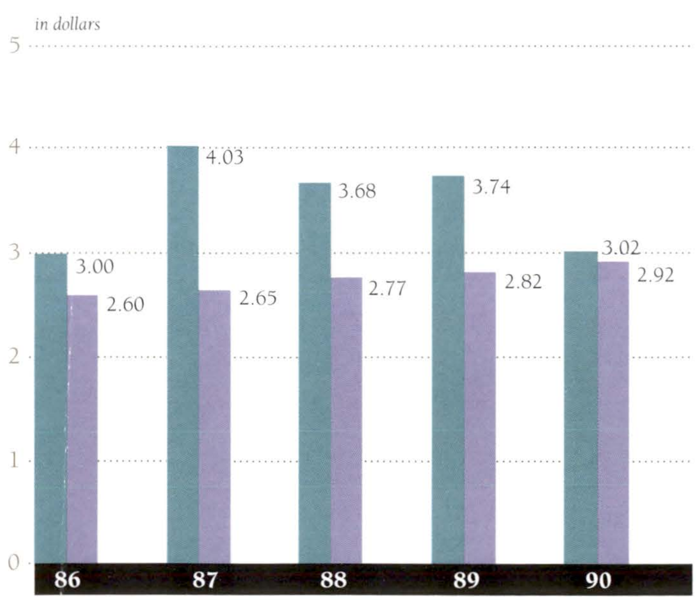
The 1991 Annual Meeting of Shareholders will be held on Wednesday, April 24, 1991 at Wheaton Village, Millville, New Jersey. A Notice of Annual Meeting will be mailed in March to those shareholders entitled to vote.

Corporate Address:
1199 Black Horse Pike
Pleasantville, New Jersey 08232
(609) 645-4500

Financial Highlights

Results of Operations 1990-1988

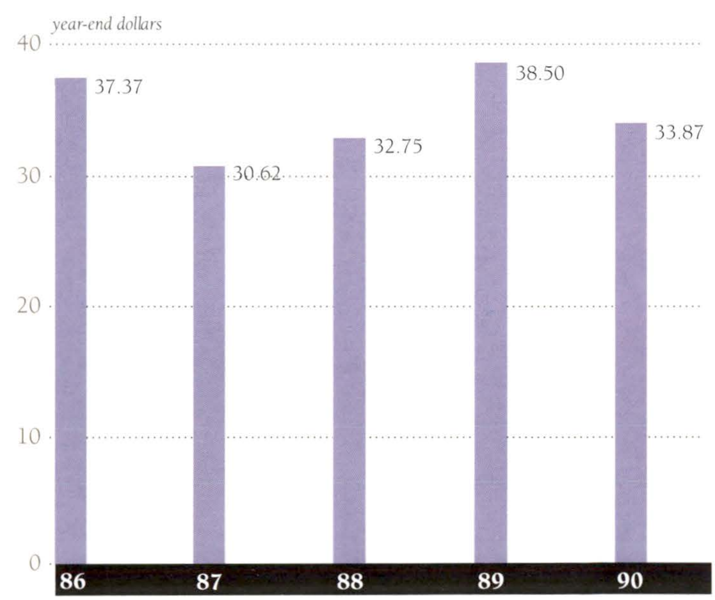
	1990	% Change 1990-1989	1989	% Change 1989-1988	1988
Earnings Per Common Share	**$ 3.02**	(19.3)	$ 3.74	1.6	$ 3.68
Dividends Paid Per Common Share	**$ 2.92**	3.5	$ 2.82	1.8	$ 2.77
Book Value Per Common Share	**$ 28.73**	0.7	$ 28.54	5.1	$ 27.16
Return on Average Common Equity	**10.57%**	(22.5)	13.64%	(4.1)	14.22%
Electric Operating Revenues *($000)*	**$ 716,779**	1.7	$ 705,020	4.3	$ 675,859
Operating Expenses *($000)*	**$ 592,217**	3.8	$ 570,275	3.1	$ 553,080
Net Income *($000)*	**$ 68,879**	(14.9)	$ 80,964	12.2	$ 72,171
Utility Cash Construction Expenditures *($000)*	**$ 166,818**	15.0	$ 145,081	14.1	$ 127,099
Total Assets *($000)*	**$2,006,010**	7.6	$1,864,461	12.3	$1,660,286
Sales of Electricity (KWH) *(000)*	**7,756,867**	1.8	7,617,784	3.6	7,350,280
Price Paid Per Kilowatt-hour (All Customers)	**9.288¢**	1.4	9.161¢	1.2	9.055¢
Total Electric Customer Accounts (Year-end)	**449,717**	1.3	444,018	2.2	434,262
Number of Shareholders — Common Stock (Year-end)	**42,295**	(2.5)	43,383	(2.5)	44,473
Number of Atlantic Electric Employees (Year-end)	**2,055**	1.7	2,021	(3.4)	2,092



lantic Energy Earnings and Dividends Paid Share of Common Stock

EARNINGS DIVIDENDS

Earnings per share of Common Stock is net income divided by the average number of common shares outstanding. Dividends paid per share is the sum of the quarterly dividend payments made in January, April, July and October.



Atlantic Energy Market Price Per Share of Common Stock

This is the closing price of Atlantic Energy's Common Stock on the last trading date of each year, as reported by the New York Stock Exchange Composite Transactions listing.

Letter To Shareholders

E.D. Huggard   J.L. Jacobs

After enjoying three of the best earnings years in your Company's history, earnings per share declined in 1990 to $3.02 from $3.74 in 1989. This 19 percent setback is expected to be temporary. It is the result of reduced sales growth from mild weather, a predicted downturn in economic activity, increased shares outstanding and our inability to fully recover purchased power costs in a timely fashion.

Your management has already taken action with respect to the 1990 financial results by filing a formal request in September with the New Jersey Board of Public Utilities for a rate increase of $113 million. By the time this case is decided later this year, it will have been almost five years since our last general base rate increase. All that while, we have been meeting our customers' growing electricity needs. We made capital investments and experienced added operating costs which now require regulatory action. A significant rate increase will be needed in 1991 to reverse the 1990 earnings decline and address the problems that prompted the recent downgrade of some of our securities.

In June, your Board of Directors increased the regular quarterly dividend by $.02 per share to $.74. Our 38 consecutive years of increases in dividends paid is a record that speaks for itself — a commitment to dividend growth!

By far, the primary business of Atlantic Energy is Atlantic Electric — the utility. Kilowatt-hour sales grew 1.8 percent and 7,100 new customers were added. This growth, while not matching previous years' impressive increases, reflects strong future potential. We achieved a new level of peak demand in 1990 of 1,741 megawatts, a 2.4 percent increase over 1989. Aggressive load management programs helped to reduce the peak by about 57 megawatts.

During 1990, we achieved most of our performance objectives. We are quite proud of 1990's safety record — it was the safest year in our history! We also achieved our objectives in rate stability, reliability and quality of service rendered to our customers. Performance of our jointly-owned nuclear units improved as Peach Bottom turned in a full year of service, and other units were recognized for outstanding operating performance.

The most significant challenge for any electric utility is to accurately forecast future requirements and effectively implement the optimum plan to meet those requirements. During 1990, we installed a new 82-megawatt combustion turbine and have begun construction of another such unit to be completed in mid-1991. In addition, our contracted 569 megawatts of cogeneration is intended to help meet our capacity demand in the mid-1990s. These are components of a comprehensive integrated resource plan that also includes cost-effective measures on customers' side of the meter to enhance energy efficiency and reduce the demand for expensive, new capacity. Our planning process also provides for contingencies. In November, we filed a contingent

Certificate of Need for a combined-cycle unit that would be built in the event that planned cogeneration projects are delayed or cancelled, or load grows faster than expected.

In all of our planning, we continue to embrace a strategy which we call, *Strength Through Planned Diversity*. Our generation is derived from capacity sources that are appropriate to our size and fuel supply which is well diversified, with over 75 percent of our energy produced by coal and nuclear power. This has enhanced our ability to hold down costs and improve reliability, while focusing mostly on domestic resources.

We will be impacted by the acid rain provisions of the recently amended Clean Air Act. Compliance action will be required by 1995 at our wholly-owned B.L. England Generating Station as well as at two western Pennsylvania coal-fired units in which we have a small ownership interest. While we have not yet fully established our strategy, studies are advanced to the point where we can expect to achieve compliance with little impact on financial and operating conditions.

Our challenge in a growth-oriented service area entails careful planning of transmission and distribution as well as generation. We continually update master plans in these areas and assign high priority to their implementation. The combined effect on all of these plans requires a construction program which will exceed $500 million over the next three years — a financing challenge which we expect to meet while maintaining a favorable capital structure.

In a service territory where nearly half of our utility revenues come from residential customers, we can expect some degree of revenue stability during all cycles of economic activity. In future years, we expect to further enhance revenues through a very comprehensive marketing strategy. This marketing strategy is intended to give customers a variety of services that offer convenience, satisfaction and value, and makes Atlantic Electric the customers' choice for energy services.

We have always had a deep-rooted conviction that great opportunity exists in the electric utility business in South Jersey. We have established both customer- and shareholder-oriented goals to pursue these opportunities and we have linked those goals to management compensation.

The electric utility business continues to experience fundamental structural change and we continue to work with our regulators and others to mold that change to the advantage of our shareholders and our customers.

That change has also provided opportunities in the nonregulated activities of Atlantic Energy. Atlantic Generation has started construction of a 117-megawatt cogeneration plant in our service territory through its participation in the Pedricktown Cogeneration Limited Partnership. We are also pursuing development of two other cogeneration projects. These investments have excellent prospects for earnings enhancement in the next few years. However, in 1990, Atlantic Generation's development costs produced a loss of $.05 per share.

ATE Investment contributed $.06 per share in 1990 through its leveraged lease activities, but future tax-advantaged investments may be limited in this subsidiary. Atlantic Southern Properties experienced a slight operating loss equal to about $.02 per share in 1990, as the area real estate market was relatively quiet.

Future nonregulated investments will probably be limited to cogeneration and independent power projects through Atlantic Generation and other rewarding business opportunities that are functionally related to the electric utility business and that will support the growth in our service territory.

The management and Board of Directors of your Company are grateful for your loyalty and support. We are confident that we have the power to shape the future. That confidence springs from a philosophy built upon our respect and concern for customers and our desire to let employees realize their highest potential. The result, we believe, is a safe and rewarding investment. That is our commitment to you.

For the Board of Directors,

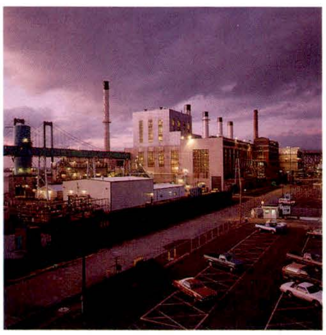
E.D. Huggard
Chairman and Chief Executive Officer

J.L. Jacobs
President

January 31, 1991

The Top Stories of 1990

HAPPY BIRTHDAY, OLD FRIEND



Deepwater Station

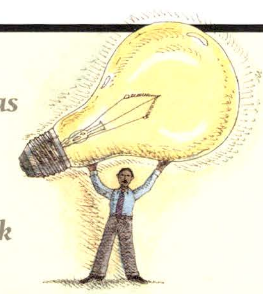
□ In June, Atlantic Electric's Deepwater Station celebrated its 60th year of continuous service to southern New Jersey. Built in 1930 at a cost of $13 million, it was hailed as "the last word in efficiency and economy." Today, Deepwater is still going strong. With a net capability of 308 megawatts, it provides over 25 percent of Atlantic Electric's wholly-owned generation and operates Atlantic Electric's most efficient unit.

MORE POWER TO YOU

□ On May 31, Cumberland Unit #1, an 82-megawatt "peaking" unit began commercial operation in time to serve Atlantic Electric's customers during the summer peak demand. In 1991, a second 82-megawatt "peaking" unit will be completed. Both of these units use natural gas as their primary fuel source.

□ On June 1, Atlantic Electric began purchasing 200 megawatts of capacity and energy under a four-year arrangement with Philadelphia Electric Company. Also on June 1, Atlantic Electric began purchasing 20 megawatts of capacity under a two-year arrangement with Pennsylvania Power & Light Company. The purchase will increase to 35 megawatts in 1991.

On July 5, 1990, a new peak demand of 1,741 megawatts was recorded. Reserve margin at time of peak was 10.9 percent. Load management programs reduced demand at time of peak by about 57 megawatts.



SAFETY TOPS THE RECORDS

□ The safest year in Atlantic Electrics' history was recorded in 1990. Employees' safe work habits on the job and on the road reduced the number of "lost time accidents" – work related accidents that cause employees to lose days away from their jobs.

□ Over 40 employees at Atlantic Electric's Salem Operations center set a record by working one million hours without a lost time accident. In each of the last three years, New Jersey's Governor has recognized this group for their safe work habits.

□ The 186 employees at the B. L. England Generating Station completed one full year without a lost time accident in 1990. This is the first time in over ten years that this record has been set at a generating station.

□ Atlantic Electric's Communications Department has worked 21 years without a lost time accident.

□ The President's Award is an annual recognition of employees who make extraordinary contributions to Atlantic Electric's operations, performance and service. Don Kelly, John Herman and Larry Stone, employees of the Construction Department, received this award for their heroic actions to save an infant's life. In making the award, President Jerry Jacobs called the workers the "kind of caring, compassionate human beings that Atlantic Electric is proud to employ."

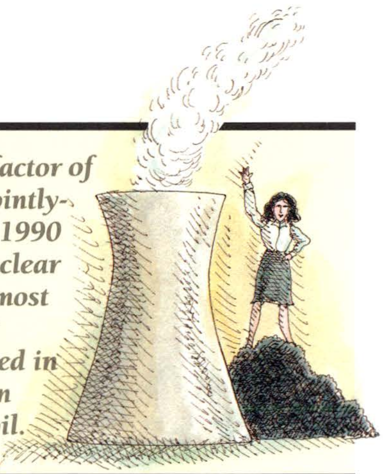
NIGHT LIGHTS, BRIGHT LIGHTS

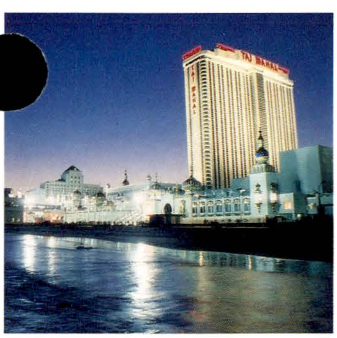
□ Several hundred Residential, Commercial and Industrial customers made their homes and businesses brighter and more secure by signing up for Atlantic Electric's Night Guard Lighting Program. For a modest monthly fee, Atlantic Electric will design, purchase and install energy-efficient, low-maintenance night lighting for customers. By all accounts, it's a success. The program exceeded its lighting goals by 200 percent.

□ One of the most visible participants in the Night Guard Lighting Program, the Trump Taj Mahal Casino Resort, is a bright addition to Atlantic City's skyline. Before its April opening, Atlantic Electric representatives showed our new customer how it could save money and

Atlantic Electric's 1990 cash construction expenditures totalled $166.8 million, plus $4.0 million in Allowance for Funds Used During Construction.

The combined capacity factor of Atlantic Electric's five jointly-owned nuclear units for 1990 was 70.2%. Coal and nuclear fuel sources provided almost 80 percent of customers' energy needs, and resulted in a savings of $145 million compared to the use of oil.





Trump Taj Mahal Casino Resort

use energy wisely. The result – 26 energy-efficient floodlights illuminate the building's grand exterior.

NUCLEAR UNITS GET HIGH SCORES

□ The Hope Creek Nuclear Generating Station received a rating of '1' from the Institute of Nuclear Power Operations, a nuclear industry peer group. This rating recognizes excellence in all aspects of plant operations, maintenance and administration.

□ Hope Creek set a new station record for the number of days of continuous run.

□ Two of Atlantic Electric's jointly-owned units, Hope Creek and Peach Bottom Unit 3, were rated among the top ten internationally for availability of boiling water reactors.

□ The Salem Nuclear Generating Station matched its dual-unit continuous run record.

THE FINANCIAL PAGE

□ On July 5, Atlantic Electric issued and sold 500,000 shares of its $8.20 No Par Preferred Stock at a price to the public of $100 per share. Atlantic Electric used the funds for general corporate purposes including construction costs and the repayment of short term debt.

□ During 1990, Atlantic Energy's Dividend Reinvestment and Stock Purchase Plan provided over $13.3 million in new Common Equity. An additional $1.8 million of common equity was raised through the operation of Atlantic Electric's employee benefit plans. These funds were allocated to Atlantic Energy's subsidiaries for their respective capital and operating needs.

□ In January 1991, Standard & Poor's lowered its ratings on Atlantic Electric's senior secured debt to 'A' from 'A+' and its ratings on Atlantic Electric's preferred stock and senior unsecured debt to 'A-' from 'A'.

□ On September 27, Atlantic Electric filed a petition with the New Jersey Board of Public Utilities seeking a $113 million increase in base rates. This petition seeks to recover the cost of a power purchase arrangement, capital investments in new plant and equipment and the increased costs of operation. Atlantic Electric is requesting a 13.7 percent return on equity and an overall return of 11.13 percent. A decision on the request is expected in the second half of 1991.

HOLLY CITY, USA

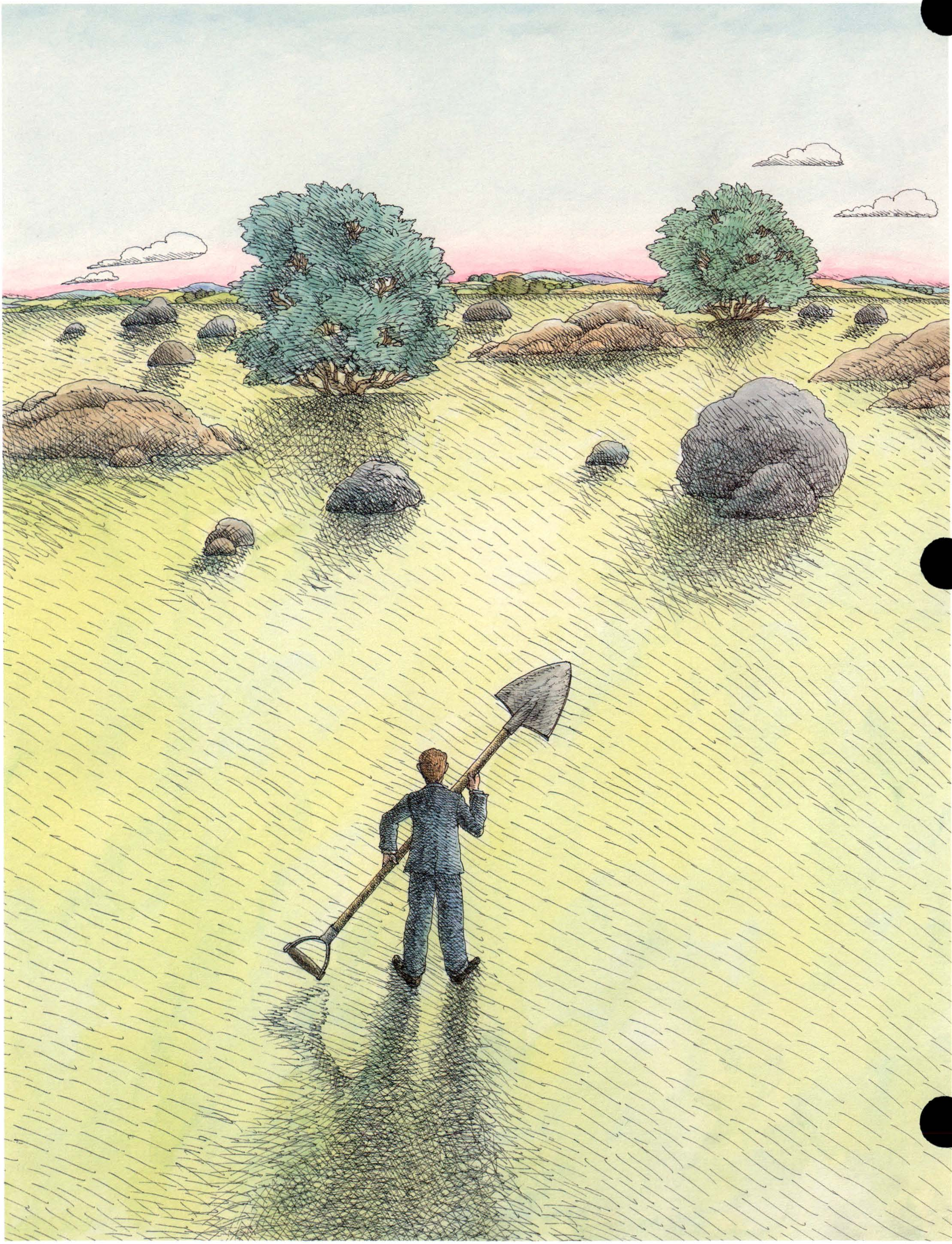
□ Atlantic Electric announced that it would rejuvenate its 40-acre holly orchard located on a 1,600-acre tract of land in Millville, New Jersey. The 50-year-old orchard will be replanted with new seedlings from an existing stock of over 3,000 mature trees, representing most of the varieties of holly found in the United States. When restoration is complete, the holly farm will be the site of a meeting and exhibit house that will become a center for tourism and community activity in southern New Jersey.

AGI MAKES COGENERATION PROGRESS

□ In June, construction started on a 117-megawatt cogeneration facility that will be built and operated by Cogeneration Partners of America, a partnership arrangement that includes Atlantic Generation, Inc. The facility, located at the BF Goodrich plant in Pedricktown, New Jersey, will supply 106 megawatts of capacity and energy to Atlantic Electric. It is expected to be completed in 1992.

□ Cogeneration Partners of America will manage the construction and operation of a 50-megawatt cogeneration facility in Binghamton, New York. Excess electricity generated from the project will be sold to New York State Electric & Gas under a power purchase agreement.

Construction at the Pedricktown site



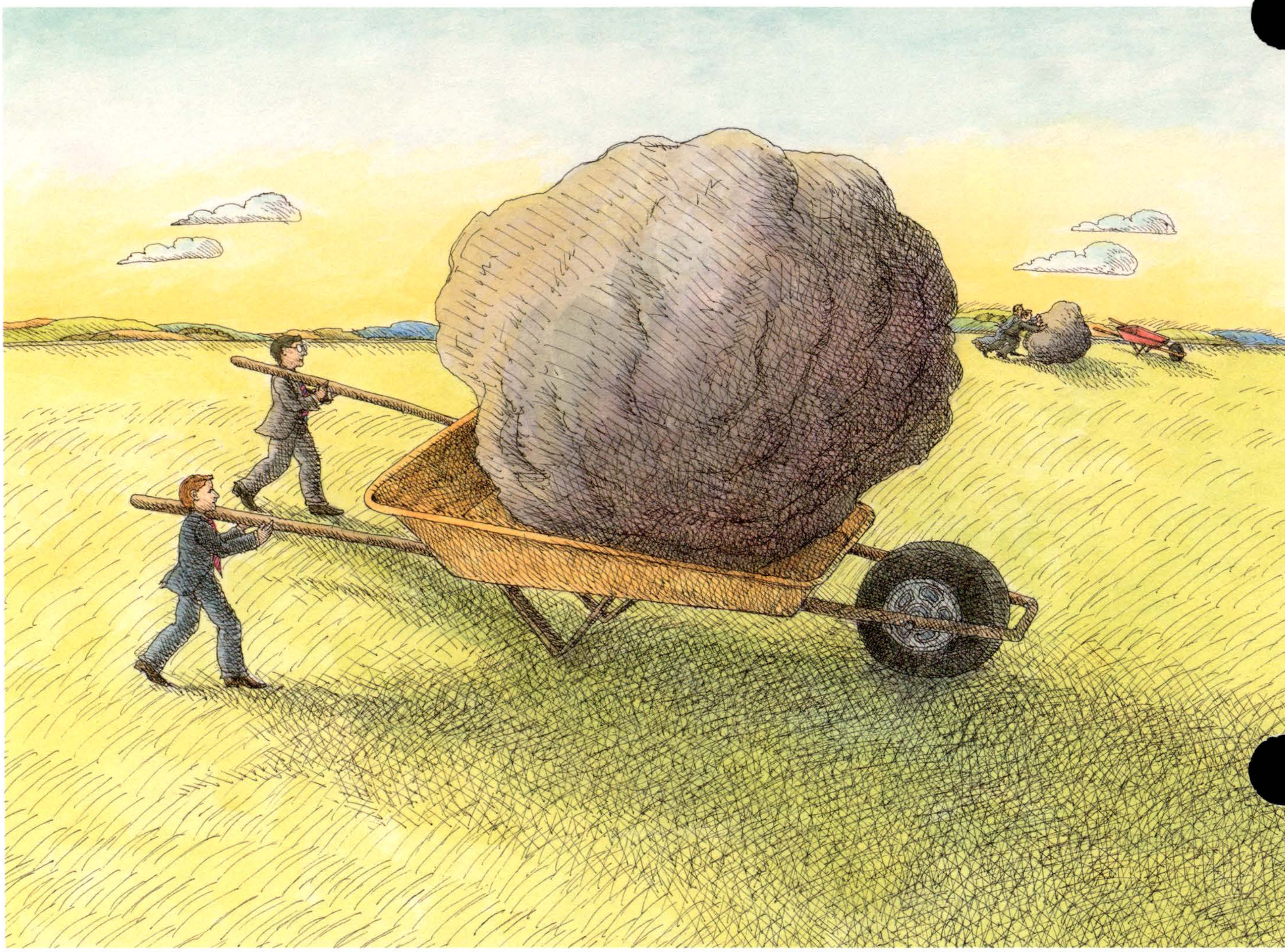
WE HAVE ...

THE POWER TO SHAPE THE FUTURE

For the past several years, our success has been shaped by growth. A robust local economy brought increases in sales, new customers and peak load. We were challenged to manage growth, finding new ways to supply electricity while keeping it reliable and affordable. Manage it we did, and our work gave us strong financial results.

In the decade of the 1990s, different factors will shape success. Because of industry trends which we, too, will experience, growth has slowed. Kilowatt-hour sales and peak load will grow at less than half the rate of recent history. We will begin to feel the effects of competition as some of our larger customers become self-generators. Although these factors will make it difficult to set new financial records over the next few years, we will remain strong. Our time and efforts will be spent breaking new ground and preparing to harvest the opportunities and success of years to come.

Do we have the power to shape the future? You bet we do! The power comes from building partnerships with our customers — getting them to choose us for all of their energy needs and making sure our electricity represents value to them. The power comes from empowering employees in a more competitive environment, encouraging them to think creatively, solve problems and make decisions. And, the power comes from maintaining diversity — in our future energy supply, our generating stations and our fuel sources.



THE POWER COMES FROM PARTNERSHIPS

The power to shape the future comes from building partnerships with our customers, working together to achieve our mutual goals of energy efficiency and affordable prices. It's giving our customers complete service from start to finish. It's being competitive, getting customers to choose Atlantic Electric for their energy services.

Good, working partnerships don't happen overnight. We've been building them for years.

Good, working partnerships don't happen overnight. We've been building them for years. We reorganized internally to provide more specialized and responsive customer service. We created more and re opportunities for customers to tell us their concerns and needs at consumer roundtables, industrial conferences and one-on-one. We listened to customers' suggestions and renewed our commitment to provide choices that save energy and give them more control over how they spend their energy dollar.

Our commitment is underscored by the variety of marketing programs we can now offer customers. Time-of-Use rates allow customers to save money by using electricity during off-peak hours. Summer Savers customers get paid for allowing Atlantic Electric to switch off major appliances when our system demand is reaching a peak. Two programs, Save-A-Watt and the Night Guard Lighting Program, offer efficient, cost-effective lighting to area homes and businesses. Through the Home Energy Savings Program, we can help customers determine areas in their home where minor improvements (such as weather stripping and insulation) can provide long-term savings.

Our partnerships with customers don't stop with a list of programs. Personalized attention, like helping a community college solve its heating and air conditioning needs, investigating the latest technology for a glass manufacturer or winterizing the house next door, makes for good relationships with customers in the long run.

Our commitment is underscored by the variety of marketing programs we can now offer customers.

We see a renewed concern for energy independence and security. As domestic energy sources become more important for meeting energy needs, we know that the lasting partnerships we cultivate today will produce bountiful results in the future.

TO BE THE BEST...

One very special partnership will yield a B.E.S.T. Home in 1991. Vocational students in Millville, New Jersey are gaining valuable experience building a B.E.S.T. Home with help from Atlantic Electric. Once the house is completed, it will be sold by auction in the community, where the successful bidder can begin enjoying "energy saving tomorrows" right away.

Why build an all-electric home? To help our customers, our partners, get the most out of their energy dollar. One of our marketing programs is proving that electricity is the right choice for all of a home's energy needs.

Customers in the market for a new home have told us that they want comfort, reliability and energy efficiency — all at a reasonable cost. We set out to find the "B.E.S.T. Home" for our customers, an all-electric home Built for Energy Saving Tomorrows. The B.E.S.T. Home brings together the latest technology in insulation, appliances, windows, construction techniques, and heating and cooling systems. The "best" part — customers save energy dollars for the long haul.

Atlantic Electric works with customers throughout the B.E.S.T. Home process. We inspect and certify the home at several stages during its construction and make sure that all work meets our exacting standards. Once the home is completed, our Comfort Assurance program sees to it that customers are completely satisfied with the operation of the home's heating and cooling systems.

The first B.E.S.T. Home was built in a growing area of Cape May County. Right now, there are 52 B.E.S.T. Homes scheduled to be built in Atlantic Electric's service area. And, judging from the enthusiasm of the 200 area builders who attended our recent B.E.S.T. Home conference, we could see more of these homes in the near future.

THE POWER COMES FROM CREATIVITY

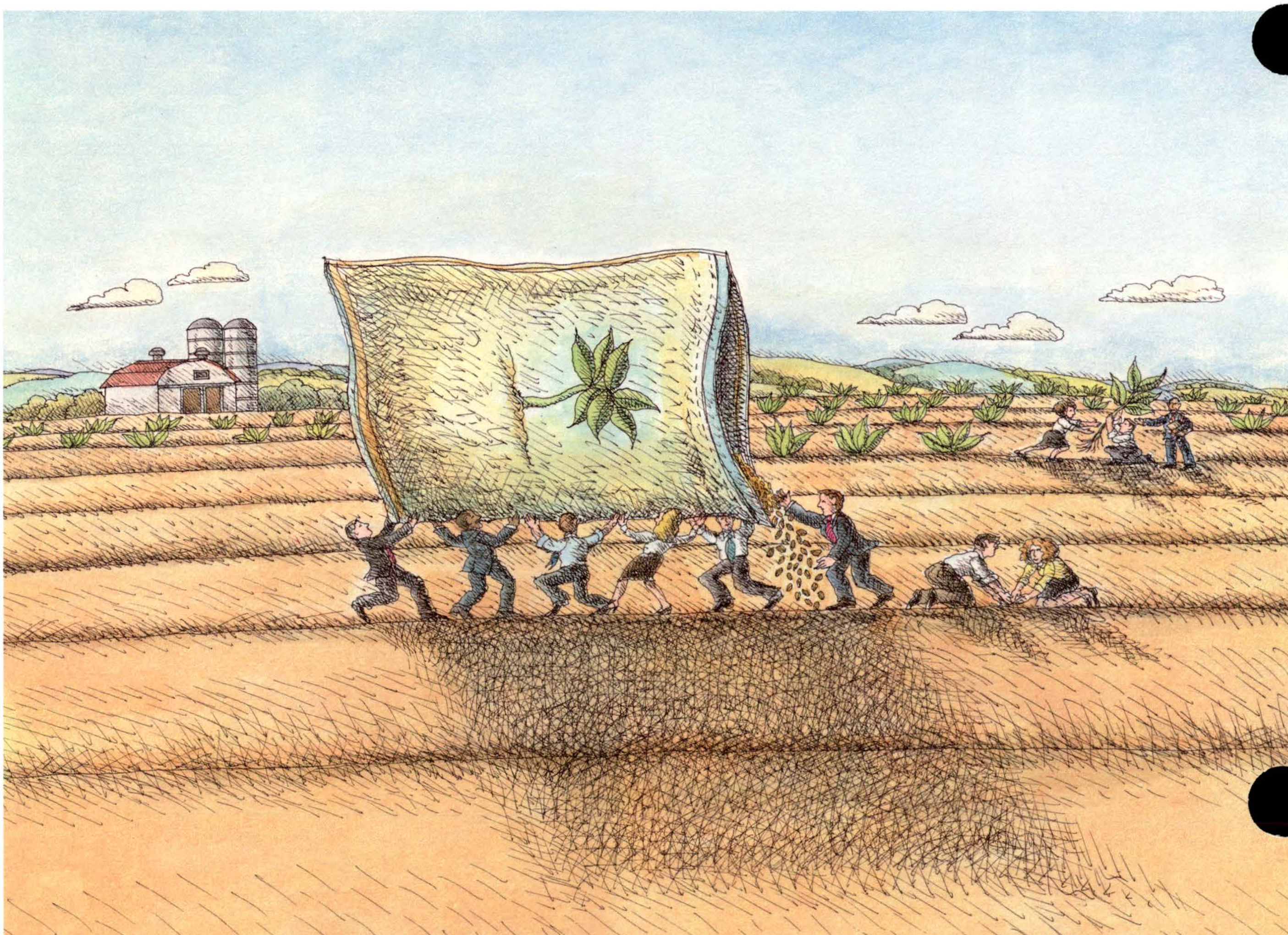
Success in an increasingly competitive world requires many critical elements: alertness, imagination, prompt decision-making and responsiveness. A company able to call upon such talents has a strategic advantage that is hard to beat.

It is our good fortune to have enthusiastic, creative and dedicated employees. Even though the number of utility customers has increased significantly over the past five years, the size of our workforce is now

It is our good fortune to have enthusiastic, creative and dedicated employees.

about the same as it was in 1985. The best part is, while costs have been controlled, service has been improved.

To enhance our success and to further encourage our employees, we carefully developed our own Employee Involvement Program and began to imple-



nt it throughout the utility. Guided by President Jerry Jacobs, the program focuses on empowering employees — encouraging them to work together to make decisions about how to improve their jobs and the Company. He has met personally with over 700 employees over the past year, to bring them his perspective on the process and to gain their support. His endorsement of the program is clear: "We have good, motivated, intelligent people with lots of ideas who know their jobs best." He added, "There's no limit to what we can achieve when employees have the resources and the decision-making power right on the front lines."

The program is working well at Atlantic Electric. At the end of 1990, ten percent of Atlantic Electric's workforce were members of Employee Involvement teams. Their efforts are making a difference. In our Customer Service area, teams have found ways to eliminate paperwork and to shorten the processing time for orders to connect or disconnect service. The Customer Payment area increased productivity by changing work schedules to better match the flow of payments received. Employees at the Deepwater Station heightened their efficiency by streamlining their procedures for purchasing materials.

'There's no limit to what we can achieve when employees have the resources and the decision-making power right on the front lines.'
—Jerry Jacobs

These examples are but a few of the many cases where employees' efforts and accomplishments have shown us that we already have the talents needed to move forward. Their enthusiasm, energy and creativity are sowing the seeds of success and giving us the power to shape the future.

SMALL BUT MIGHTY...

Investor Records goes to great lengths to provide quality service to shareholders. The team recently visited the New York Stock Exchange to expand their knowledge of securities markets. Pictured are: (l to r) Carol Johns, Judy Somers, Kathy Taggart, Stephanie Scola, MaryAnn Lindsay, Audrey Lucy, Debbie Silipena and Marie Stecher.

Keeping track of over 42,000 shareholders and providing them with the full spectrum of services are big responsibilities. Many companies use several firms to do the work. But, at Atlantic Energy, the eight dedicated people in the Investor Records area (our first Employee Involvement team) do it all with courtesy, precision and style.

The Investor Records area keeps track of shares bought and sold, transfers certificates to new owners and complies with applicable laws and regulations. "The company saves money as its own transfer agent," explains MaryAnn Lindsay, Investor Records supervisor. "But most of all, we can give our shareholders better service. We have more control over when transfers are done, we can turn things around usually in a day and we can give shareholders complete service for their account," she added.

With the help of a top-notch computer system, Investor Records can handle most shareholders' requests with the touch of a few buttons. The system is an important tool, used to keep and manage records, generate checks, print certificates and prepare statistics. Investor Records' operations and their mastery of the system have been used as models for many other companies considering bringing their shareholder services in-house.

THE POWER COMES FROM MANY SOURCES

Several years ago, Atlantic Electric decided that the best way to give customers reliable, affordable energy was to have many different sources of generating capacity and to use different types of fuel. We gave that strategy a name, *Strength Through Planned Diversity*, and made it the heart of our business. It's a strategy that believes in the motto, "Don't put all of your eggs in one basket." We haven't, and our business has benefited from it. It's a strategy that is even more valid in today's competitive business environment. We've expanded this strategy to include energy produced by nonutility power producers, demand-side management programs and energy conservation. These elements now constitute important parts of our plans to meet future energy needs.

The best way to give customers reliable, affordable energy is to have many different sources of generating capacity and to use different types of fuel.

Atlantic Electric has several long-term arrangements with nonutility power producers, primarily cogenerators, to supply energy in the near future. When these projects come on-line, they would provide for additional operating diversity and the use of several different fuel types.

The way customers use electricity will also play an important role in meeting future energy needs. Successful demand-side management programs that control energy use during peak times, along with customers' energy conservation efforts, result in energy savings. Energy saved by one customer can be available for another.

Traditional utility-supplied capacity will continue to be essential for providing reliable, affordable electricity. Atlantic Electric's generating sources include base load and peaking units that we own and operate ourselves. We also own small portions of units operated by other utilities and have arrangements with neighboring utilities for the purchase of energy and capacity. Altogether, there are over 30 generating units that Atlantic Electric can call on to meet customers' energy needs. If one of those units is not available to generate electricity, we can rely on the other units to carry the load. And, these units use different fuel sources. In fact, some of them can burn more than one fuel. If fuel supplies are disrupted or become uneconomical, other fuels can be used to a greater degree.

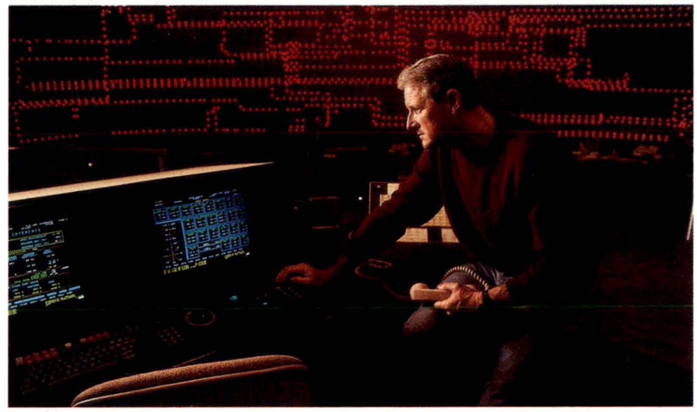
It's a strategy that believes in the motto, 'Don't put all of your eggs in one basket.'

We have learned that it is best to depend on fuel supplies that are native to our country. In the last five years, over 75 percent of the energy generated by Atlantic Electric has been provided by coal and nuclear fuel. Compared to the use of oil, this has saved customers almost $500 million.

Customers expect reliable, affordable energy. With Atlantic Electric's broad range of generating sources, fuel and energy management techniques, the prospects for continuing good service and customer satisfaction are great indeed.

KEEPING TRACK OF THE POWER...

Atlantic Electric's system control center uses state-of-the-art technology to monitor and direct generating station output, measure the load on transmission lines, track weather conditions and pinpoint any trouble spots on the system. Pictured: Frank Mooney, Jr., shift supervisor.



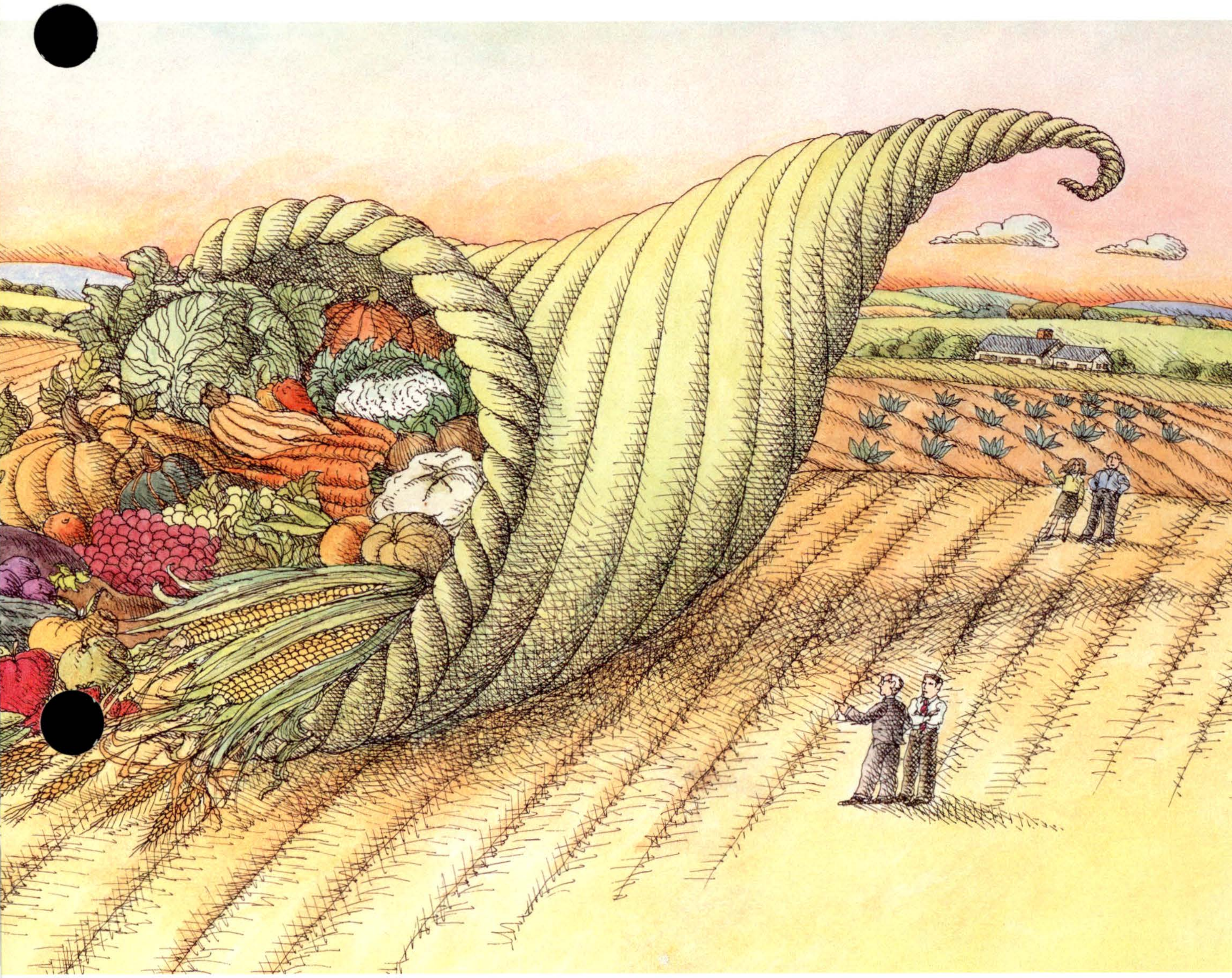
How does Atlantic Electric keep track of all the generating units and their various fuel sources? The answer is Atlantic Electric's system control center. On any given day, the center coordinates energy supply from our own base load and peaking units.

The center is linked to the Pennsylvania-New Jersey-Maryland Interconnection, (the "PJM") which integrates Atlantic Electric's operations with those of neighboring utilities. The PJM provides pricing and availability information about the units owned by its eleven members. In addition, the PJM makes it possible to schedule and operate all the units in the system, using the most economical ones first. These operations become even more critical when the demand for electricity reaches a peak.

In 1990, Atlantic Electric's system reached its peak on July 5th. We knew conditions were in place to set a new peak, as hot, humid weather started to settle in over the service territory. The system control center and the PJM were ready for the record demand that would be placed on the utility network. As the day progressed, the demand for energy increased right along with the temperature. The system control center coordinated this growing demand with available generating units. Atlantic Electric was ready. Within hours, the temperature reached 95° and the demand for electricity reached a record level of 1,741 megawatts. Our units delivered the maximum output possible.

Peak demand may happen just a few times each year. But, handling it is all in a day's work for the system control center.

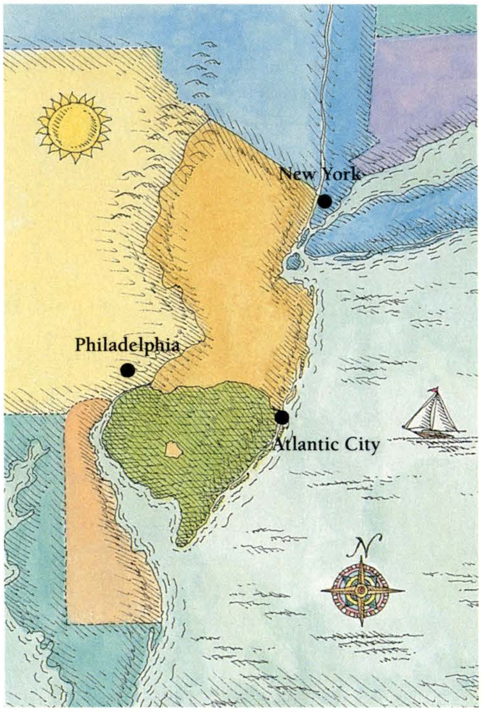
HARVESTING THE FUTURE



A prosperous future reflects careful preparation, teamwork and sound business strategies in the present. It comes from doing ordinary tasks in an extraordinary way.

At Atlantic Energy, the power to shape the future is with us today. It is found in management's commitment of time and resources to listen and learn what customers expect from an electric utility, and then developing energy services at competitive prices to satisfy their needs. It is found in the skill, talent and enthusiasm of employees who are given the opportunity to make decisions that make meaningful contributions to their work. And, it is found in our diversity, a business strategy that has served us well in the past and will continue to do so.

These elements, with proper cultivation and attention, hold the promise for Atlantic Energy's success for years to come. Our labors today will bring a harvest of plenty, rich with services and value for our customers and growth for our shareholders.



Atlantic Electric serves almost 450,000 customers in a 2,700 square-mile area in the southern one-third of New Jersey. Peak load has occurred during the summer months. Major businesses include gaming, stone, clay, glass, chemical, petroleum, rubber and food processing.

Residential Customers

Sales to Residential customers increased 0.1% in 1990 as a result of over 6,300 new customers added to the system. Average use per customer decreased because of milder temperatures in the 1990 heating season.

For the ten-year period 1985 - 1995:	1985	1990	% Annual Growth Rate '85-'90	Est. 1995	Est. % Annual Growth Rate '90-'95
Sales (billion kwh)	2.638	**3.268**	4.4%	3.720	2.6%
% of Total Sales	43	**42**	—	43	—
Average Use (kwh)	7,643	**8,251**	1.5%	8,527	0.7%
Peak (Mw)	680	**895**	5.6%	941	1.0%

Commercial Customers

Sales to Commercial customers increased 5.0% in 1990 as a result of increased customer usage. Sales to 12 hotel/casinos increased 18.9% and comprise 6.8% of total sales.

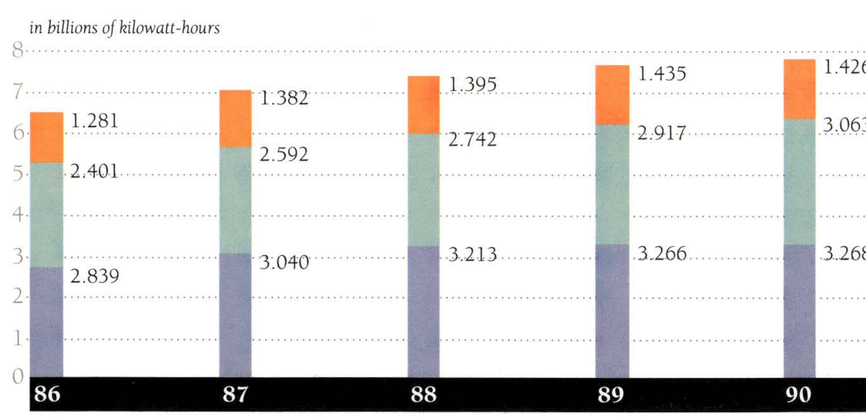
For the ten-year period 1985 - 1995:	1985	1990	% Annual Growth Rate '85-'90	Est. 1995	Est. % Annual Growth Rate '90-'95
Sales (billion kwh)	2.299	**3.063**	5.9%	3.491	2.7%
% of Total Sales	37	**40**	—	41	—
Average Use (kwh)	51,945	**60,927**	3.2%	63,715	0.9%
Peak (Mw)	562	**671**	3.6%	737	1.9%

Industrial & Other Customers

Sales to Industrial & Other customers decreased 0.6% in 1990 as a result of a decrease in the number of customers.

For the ten-year period 1985 - 1995:	1985	1990	% Annual Growth Rate '85-'90	Est. 1995	Est. % Annual Growth Rate '90-'95
Sales (billion kwh)	1.263	**1.426**	2.5%	1.351	(1.1)%
% of Total Sales	20	**18**	—	16	—
Average Use (000 kwh)*	1181.3	**1373.7**	3.1%	1272.5	(1.5)%
Peak (Mw)	190	**175**	(1.6)%	146	(3.6)%

*Industrial Customers Only



Atlantic Electric Energy Sales by Customer Class

RESIDENTIAL COMMERCIAL INDUSTRIAL AND OTHER

The growth in kilowatt-hour sales is determined by how many new customers are added, how much electricity each customer uses and weather conditions. Since 1985, kilowatt-hour sales have increased an average of 4.6% each year as a result of customer additions and increased usage per customer.

Contents

Management's Discussion and Analysis of Financial Condition and Results of Operation

Atlantic Energy, Inc. and Subsidiaries

Atlantic Energy, Inc. (the Company) is the parent of a consolidated group consisting of the following wholly-owned subsidiaries: Atlantic City Electric Company (ACE), Atlantic Southern Properties, Inc. (ASP), Atlantic Generation, Inc. (AGI) and ATE Investment, Inc. (ATE). ACE, the primary subsidiary, is a regulated electric utility which has a wholly-owned subsidiary that operates certain generating facilities. ASP owns, develops and manages commercial real estate property. AGI is engaged in the development of cogeneration and alternate energy projects through various partnership arrangements. ATE manages capital investments for the Company.

The Company's business plan has been and will continue to be concentrated on the operations of ACE. Approximately 95% of consolidated assets belong to the utility. With respect to the nonutility businesses, the Company follows a conservative and modest strategy: investments will be made only in activities that utilize familiar management resources, provide acceptable return in relation to the level of risk and are functionally related to the utility business. The Company adjusts and restructures the business plans and operations of the nonutility companies as necessary to reflect changes in consolidated tax position, economic conditions in the service territory and operating results. As a result, management expects to direct resources to the activities of AGI and the development of alternate power projects, principally cogeneration. ASP and ATE will continue to manage their existing investments. With respect to ASP and ATE, new investments would be undertaken in light of the Company's consolidated tax position, economic conditions and an acceptable balance of risk and reward.

Nonutility operations for 1990, 1989 and 1988 resulted in losses amounting to $275,000, $1.9 million and $2.0 million, net of income tax benefits, or $.01, $.09 and $.10 per share, respectively. ATE has provided positive results to consolidated earnings from its investments in leveraged leases. Due to a general slowdown in real estate activity and a continuing over-supply of local rental office space, ASP's results continue to show losses. AGI continues to experience operating losses due to higher than expected costs incurred in connection with certain cogeneration projects.

FINANCIAL RESULTS

Consolidated operating revenues for the twelve months ended December 31, 1990, 1989 and 1988 were $716.8 million, $705.0 million and $675.9 million, respectively. The increased revenues reflect increases in sales of energy and, in 1990, the effects of a provisional base rate increase granted in June.

Consolidated earnings per share for 1990 were $3.02 on net income of $68.9 million, compared with $3.74 on net income of $81.0 million in 1989 and $3.68 on net income of $72.2 million in 1988. The decrease in net income and earnings per share in 1990 from 1989 reflects higher operating expenses, primarily associated with the purchase of capacity from Philadelphia Electric Company (PE), which commenced June 1, 1990. Net income for 1990 was also affected by increases in depreciation expense, the amount of taxes recorded, interest expense and Preferred Stock dividend requirements of ACE. Earnings per share were also affected by an increase in the average number of shares of Common Stock outstanding during 1990. The increase in earnings per share in 1989 from 1988 is primarily due to higher net income resulting from higher sales of energy, offset in part by increases in operating expenses. Earnings per share were also affected by an increase in the average number of shares of Common Stock outstanding in 1989. Earnings in 1989 and 1988 were impacted by regulatory actions relating to the shutdown of the Peach Bottom Atomic Power Station. The per share impacts of those actions amounted to reductions of $.30 and $.34, respectively, in 1989 and 1988.

In June 1990, the quarterly dividend on Common Stock was increased by $.02 to $.74 per share, or an annual rate of $2.96 per share. This is the 38th consecutive year in which cash dividends paid were increased. Information with respect to Common Stock for the period 1988-1990 is as follows:

	1990	1989	1988
Dividends Paid Per Share	**$ 2.92**	$ 2.82	$ 2.77
Book Value Per Share	**$ 28.73**	$28.54	$27.16
Annualized Dividend Yield	**8.7%**	7.5%	8.4%
Return on Average Common Equity	**10.6%**	13.6%	14.2%
Total Return (Dividends paid plus change in share price)	**(4.4)%**	26.2%	16.0%
Market to Book Value	**118%**	135%	121%
Price/Earnings Ratio	**11**	10	9
Closing Price – New York Stock Exchange	**$33.875**	$38.50	$32.75

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company commenced its business under a holding company structure in November 1987. Since its inception, the Company's cash flows have been dependent on the cash flows of its subsidiaries, primarily ACE. Principal cash inflows of the Company are the payment of dividends to it by ACE and funds provided by the issuance of new Common Stock. Principal cash outflows of the Company are investments (capital contributions and advances) in its subsidiaries and the payment of dividends to common shareholders. Cash invested in ACE is utilized primarily for the construction of utility generating, transmission and distribution facilities, redemption and maturity of long and short term debt, and redemption of Preferred Stock. Cash invested in the nonutility subsidiaries is utilized primarily for the development of commercial real estate, the development of nonutility power generation projects and investments in financial assets.

To facilitate the activities and operations of the subsidiaries, certain credit support agreements exist between the Company and ATE and between the Company and ASP. In addition, agreements between the Company and each of its subsidiaries provide for allocation of tax liabilities and benefits generated by the respective subsidiaries.

In 1990, 1989 and 1988, the Company recorded $67.1 million, $62.4 million and $54.5 million, respectively, in dividends from ACE. Other sources of funds utilized by the Company include the issuance of common equity through public offerings, the operation of the Dividend Reinvestment and Stock Purchase Plan (DRP) and ACE's employee benefit plans, as follows:

Issuance of Common Stock *($000)*	**1990**	1989	1988
Public Offerings			
Shares issued	**-**	2,200,000	1,300,000
Proceeds	**-**	$69,850	$42,641
DRP			
Shares issued	**379,599**	339,603	355,047
Proceeds	**$13,372**	$11,719	$11,680
Employee Benefit Plans			
Shares issued	**50,672**	8,716	9,995
Proceeds	**$ 1,753**	$ 326	$ 332

The Company's current financing plans for 1991-1993 contemplate the issuance of approximately $150.0 million in additional common equity.

In 1990, the Company declared $67.1 million in dividends to its common shareholders, and made $10.6 million in capital contributions and advances, net of repayments, to its subsidiaries. In 1989 and 1988, the Company declared $62.4 million and $54.5 million, respectively, in dividends. In 1989 and 1988, the Company made $83.7 million and $51.4 million, respectively, in advances and capital contributions to its subsidiaries.

ACE

Cash construction expenditures for the 1988-1990 period amounted to $439.0 million and included expenditures for two new combustion turbine units and upgrades to existing transmission and distribution facilities. ACE's current estimate of construction expenditures for the 1991-1993 period is $519.0 million, an increase of 18.2% from the prior three-year period. These estimated expenditures reflect the addition of new generating equipment as well as major improvements to transmission and distribution facilities.

ACE also utilizes cash for mandatory redemptions of Preferred Stock and maturities of long term debt. Optional redemptions of securities are reviewed on an ongoing basis with a view toward reducing the overall cost of funds. Redemptions and maturities of Preferred Stock (at par or stated value) and First Mortgage Bonds for the period 1988-1990 are shown below:

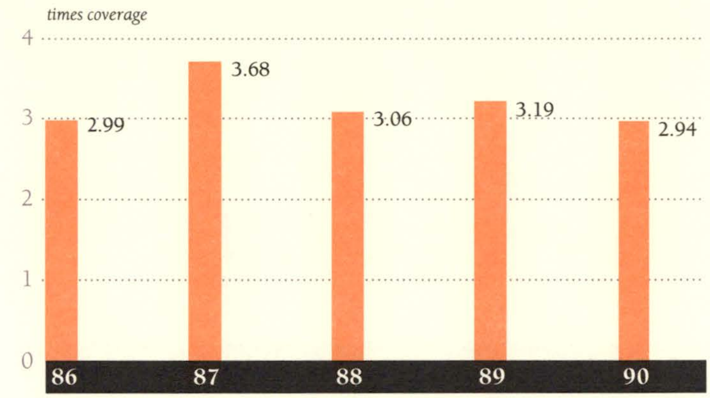
	1990	1989	1988
Preferred Stock (number of shares)			
9.96%	**8,000**	8,000	8,000
$8.25	**2,500**	2,500	2,500
$9.45	**–**	30,000	40,000
Amount *(000)*	**$ 1,050**	$ 4,050	$ 5,050
First Mortgage Bonds Principal Amount Retired *(000)*	**$21,215**	$15,800	$10,000

In October 1990, ACE redeemed $21.215 million principal amount of First Mortgage Bonds, 11½% Series due 2015 at a redemption price of 108.53%. In December 1989, $13.025 million principal amount of 11⅞% Series First Mortgage Bonds due 1993 were redeemed at a price of 101.52%.

Scheduled debt maturities and mandatory Preferred Stock sinking fund requirements aggregate $33.0 million for the years 1991-1993.

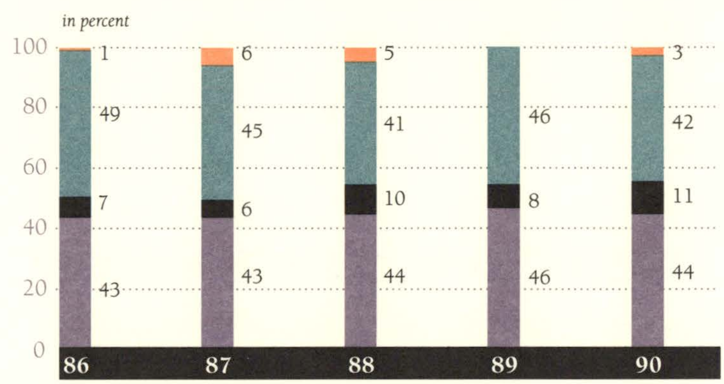
ACE's cash flows from operating activities after dividends on Preferred Stock and Common Stock (internal generation) amounted to $75.2 million, or 45.1% of 1990 construction expenditures. In 1989 and 1988, ACE's internal generation was $58.8 million and $63.9 million, and represented 40.5% and 50.3%, respectively, of construction expenditures.

For the three-year period 1991-1993, ACE's internal generation is expected to average 50.1% of currently estimated construction expenditures. However, actual levels may vary within the period based upon specific amounts of construction expenditures and internally generated funds in the individual years.



Atlantic Electric Pre-Tax Interest Coverage Ratio

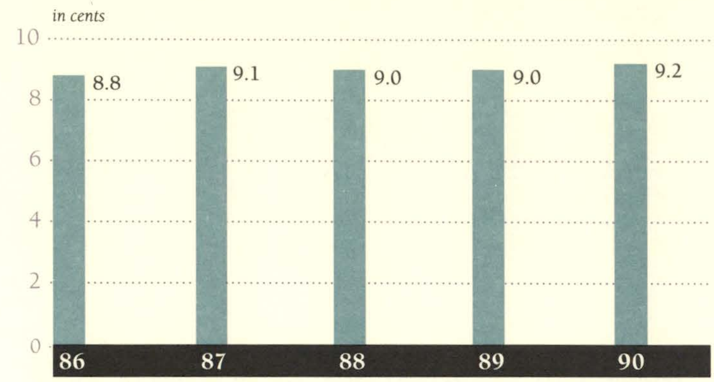
This ratio measures the ability of Atlantic Electric to meet its interest payments to creditors. It is the number of times that interest charges are "covered" by earnings before the payment of income taxes. For an 'A' rated company, pre-tax coverage should be between 2.5 and 4.0.



Atlantic Energy Year-End Capitalization

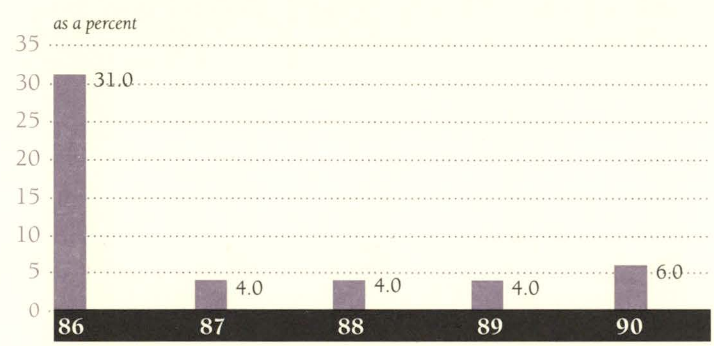
COMMON EQUITY | PREFFERED STOCK
LONG TERM DEBT | SHORT TERM DEBT

Atlantic Energy's capitalization is the relative proportion of equity funds provided by its owners, common and preferred shareholders, and borrowed funds provided by creditors, holders of short and long term debt securities.



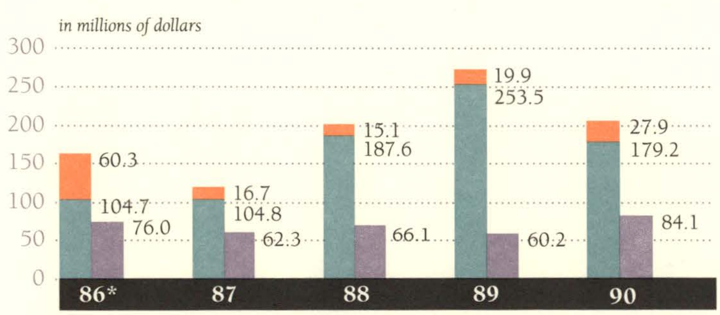
Atlantic Electric Average Booked Revenue per Kilowatt-Hour

This is Atlantic Electric's total revenue divided by total kilowatt-hours as recorded on the books of the company. It represents the average amount of revenue received for each kilowatt-hour sold.



Atlantic Energy AFDC as a Percent of Net Income

Atlantic Energy's net income includes an accounting allowance for the cost of borrowed and equity funds used for some construction projects. Because AFDC represents a non-cash addition to net income, it is preferable to maintain a low ratio.



Atlantic Energy Cash Requirements and Internal Generation of Funds

CONSTRUCTIONS & OTHER | INTERNAL CASH GENERATION

MATURITIES, RETIREMENTS, SINKING FUNDS

This compares the amount of cash expenditures for construction and other capital needs to the amount of cash that is generated internally from the company's operations after the payment of dividends to shareholders. The difference between the amount of cash that is required and the amount of cash that is generated internally is the amount of funds that will have to be raised in the capital markets.

**Excludes certain optional retirements*

On an interim basis, ACE finances that portion of its construction costs and other capital requirements in excess of internally generated funds through the issuance of unsecured short term debt consisting of commercial paper and borrowings from banks. Permanent financing by ACE is undertaken by the issuance of its long term debt and Preferred Stock, and from capital contributions from the Company. ACE's nuclear fuel requirements associated with its jointly-owned units have been financed through arrangements with nonaffiliated corporations.

In July 1990, ACE received proceeds of $49.9 million from the issuance and sale of 500,000 shares of $8.20 No Par Preferred Stock. ACE also received $13.5 million in capital contributions from the Company during 1990. In October 1989, ACE issued and sold $135 million principal amount of First Mortgage Bonds, 9¼% Series due 2019. ACE also received $69.3 million in capital contributions from the Company during 1989. In 1988, ACE received proceeds of $60.0 million from the issuance of 600,000 shares of $8.53 No Par Preferred Stock, and received $40.0 million in capital contributions from the Company.

During the three-year period 1991-1993, ACE expects to issue $150.0 million in First Mortgage Bonds and Preferred Stock, and to receive $134.0 million in capital contributions from the Company.

Between October 1989 and January 1991, two major rating agencies lowered their ratings on ACE's senior debt to a rating equivalent to 'A' and Preferred Stock to a rating equivalent to 'A-'. In taking these actions, the agencies cited ACE's on-going construction program and its continuing need for external financing and growing capacity requirements. The effect of these actions will be to increase ACE's financing costs.

Provisions of ACE's charter, mortgage and debenture agreements can limit, in certain cases, the amount and type of additional financing which may be used. At December 31, 1990, ACE's estimated additional funding capacities amounted to $362.6 million of First Mortgage Bonds, or $335.2 million of Preferred Stock, or $313.5 million of unsecured debt. These amounts are not necessarily additive.

ASP

ASP's real estate investment to date has been the purchase and improvement of a 275,000 square-foot office and warehouse facility in Atlantic County, New Jersey, of which approximately 56% of the office space is leased to ACE. As of December 31, 1990, ASP's investment has been funded by capital contributions from the Company and borrowings under a loan agreement with ATE. ASP's current agreement with ATE provides for the repayment of such borrowings on or before May 31, 1991, but this date may be extended. ASP estimates that its business activities in the 1991-1993 period will be limited to the development of the existing property and that additional investment will not be significant. ASP's cash flows from operating activities are principally affected by rental income and financing expenses.

ATE

ATE's operations commenced in 1988 and to date it has invested in leveraged leases of three commercial aircraft and two containerships. Through December 31, 1990, its cash outlay for that equipment was $60.9 million. ATE also has made loans to ASP totaling $6.5 million. Additional capital requirements associated with lease investments include deferred equity payments in future years of $8.4 million. As of December 31, 1990, ATE obtained funds for its business activities and loans to ASP through capital contributions and advances of $11.6 million, net of repayments, from the Company. Funds also have been provided by a revolving credit and term loan facility. At year-end 1990, borrowings under the $70 million facility totaled $38.9 million. Future investments by ATE will be undertaken with respect to the Company's consolidated tax position. ATE's cash flows from operations are expected to be provided from lease rental receipts, realization of tax benefits and loan repayments from ASP.

AGI

Net cash outlays for investments by AGI for the period 1988-1990 totaled $12.3 million. AGI's activities are represented by partnership interests in cogeneration development projects. Such activities have been funded by a combination of capital contributions, loans and advances. At December 31, 1990, $14.3 million has been invested in AGI by the Company. AGI's current business plan for the period 1991-1993 is to invest up to an additional $12.0 million in cogeneration, generation and alternate power projects. AGI's business activities are primarily directed toward developing new proj-ects and therefore it does not yet generate cash from operations.

RESULTS OF OPERATION

Operating results are dependent upon the performance of the subsidiaries, primarily ACE. Since ACE is the principal subsidiary within the consolidated group, the operating results presented in the Consolidated Statement of Income are those of ACE, after elimination of transactions among members of the consolidated group. Results of the nonutility companies are reported in Other Income.

Revenues

Operating Revenues-Electric increased $11.8 million or 1.7% in 1990 to $716.8 million, compared to $705.0 million in revenues in 1989. Total revenues in 1989 increased $29.1 million or 4.3% over 1988. Components of the overall changes are shown below:

(in millions)	**1990**	1989
Base and Unbilled Revenues	**$ 16.2**	$ (15.8)
Levelized Energy Clauses	**(17.5)**	20.5
Kilowatt-hour Sales	**13.1**	24.4
Total	**$ 11.8**	$ 29.1

Base revenues in 1990 increased as a result of a $41.6 million provisional base rate increase ordered effective June 20, 1990. Base revenues decreased in 1989 primarily as a result of a $21.8 million rate reduction ordered in April 1988, mainly reflecting the effects in 1988 of the Tax Reform Act of 1986. Base revenues in 1989 were also affected by revenue credits to ACE's customers of $9.7 million resulting from the regulatory treatment of the Peach Bottom outages. Levelized Energy Clause (LEC) revenues decreased in 1990, reflecting a net decrease in LEC revenues of $35.8 million ordered effective June 20, 1990. LEC revenues in 1989 increased as a result of a $62.1 million rate increase ordered effective in April 1988.

Overall, the combined effects of changes in rates charged to customers and kilowatt-hour sales resulted in increases of 1.7% and 0.5% in revenues per kilowatt-hour in 1990 and 1989, respectively. These matters are discussed under "Sales."

Changes in operating revenues in the future will result from changes in customer rates and general economic conditions in the service area, as well as the impacts of load management and conservation programs instituted by ACE and cogeneration projects established within the service territory.

Sales

Changes in kilowatt-hour sales are generally due to changes in the average number of customers and average customer use, which is affected by economic and weather conditions.

Energy sales statistics, stated as percentage changes from the previous year, are shown below:

Customer Class	**1990**			1989		
	Sales	Avg Use	Avg # of Cust	Sales	Avg Use	Avg # of Cust
Residential	**0.1%**	**(1.6)%**	**1.6%**	1.6%	(0.9)%	2.6%
Commercial	**5.0**	**3.4**	**1.5**	6.4	4.0	2.3
Industrial	**(0.3)**	**0.3**	**(0.6)**	3.1	3.7	(0.6)
Other	**(7.6)**	**(5.5)**	**(2.2)**	(4.3)	(3.8)	(0.5)
Total	**1.8**	**0.2**	**1.6**	3.6	1.1	2.6

Increases in total kilowatt-hour sales in 1990 and 1989 are primarily a result of increased numbers of customers in the Residential and Commercial classes and higher average use by Commercial customers. In 1990, sales to Residential and Commercial customers were adversely affected by milder weather during the 1990 heating season. The slight increase in sales to Residential customers in 1990 was due to an increase in the number of customers. Commercial sales increased 5.0%, due to higher average use per customer and an increase in the number of customers in that class including the opening of a new hotel-casino. Industrial sales declined slightly in 1990 as a result of a general economic slowdown, notably in the construction sector. In 1990, economic growth in ACE's service area reflected the overall general economic weakness in the northeastern United States, with a strong local downturn in construction activity affecting sales to all customer classes.

Costs and Expenses

Total Operating Expenses increased 3.8% and 3.1% in 1990 and 1989, respectively. Excluding depreciation and taxes, operating expenses increased 2.1% and 3.9% in 1990 and 1989, respectively. Information with respect to those changes is outlined below.

Net Energy Costs reflect the amount of energy needed to meet load requirements, as well as the various fuel and purchased power sources used and the operation of the LECs. Annual fuel, interchange and purchased power costs reflect changes in the availability of low-cost generation from both owned and purchased sources and in the unit prices of the fuel sources used, as well as changes in the needs of other utilities participating in the Pennsylvania-New Jersey-Maryland Interconnection.

The cost of energy is recovered through base rates and by the operation of LECs. Earnings are not directly affected by Net Energy Costs because such costs are adjusted to match amounts recovered through revenues. In any period, the actual amount of LEC revenue recovered from customers will be greater or less than the actual amount of fuel cost incurred in that period. Such respective overrecovery or underrecovery of current fuel cost is recorded on the Consolidated Balance Sheet as a liability or an asset as appropriate. These amounts are recognized in the Consolidated Statement of Income as Deferred Energy Costs during the period in which they are subsequently recovered through the LECs.

Fuel expenses decreased in 1990 compared with 1989 as a result of increased availability of nuclear generation from the Peach Bottom Station. Increased fuel expenses in 1989 compared with 1988 are due primarily to higher levels of kilowatt-hour sales. Interchange expenses in 1990 and 1989 decreased as a result of improved availability of wholly- and jointly-owned sources and, in 1990, the purchase of energy from PE. Deferred Energy Costs increased in 1990 and 1989 as a result of overrecovery of fuel cost. The 1990 average fuel cost per kilowatt-hour was 1.66¢ compared with 1989 and 1988 average fuel cost per kilowatt-hour of 1.96¢ and 1.99¢, respectively. The decrease in 1990 average fuel cost per kilowatt-hour is due to a 30% increase in nuclear generation and the purchase of energy from PE. The average fuel cost for 1989 was lower than 1988 because of increased nuclear generation and lower unit fuel prices. The 1988 average fuel cost per kilowatt-hour reflects generation from higher cost coal sources.

Operations and Maintenance expenses amounted to $243.3 million in 1990 and include costs associated with jointly-owned generating units and purchased power sources. Costs of purchased power, exclusive of fuel, principally reflect purchases of capacity under long term arrangements.

Operations expenses increased by 14.0% in 1990 to $191.0 million primarily due to increased capacity charges relating to a four-year purchase power arrangement with PE. Operations expenses increased 3.1% in 1989 and reflect increases in purchased capacity and employee benefits. Maintenance expenses decreased 5.2% and 7.5% in 1990 and 1989, respectively, reflecting the completion of major nuclear unit overhauls at jointly-owned nuclear facilities that were underway in 1988 and 1989. In addition, the implementation of various cost containment programs by management have been successful in controlling the growth of certain expenses.

Costs associated with certain long term purchase power arrangements are deferred on the Consolidated Balance Sheet since rates are levelized to collect those costs over the term of the arrangements. The balance of such Unrecovered Purchased Power Costs at December 31, 1990 was $124.9 million, compared to $103.0 million at December 31, 1989.

Depreciation and Amortization expense increased 6.3% to $62.1 million in 1990 and reflects variances in depreciation expense resulting from the cost and mix of electric utility plant in-service and the respective in-service dates. Gross Receipts and Franchise Taxes increased 4.7% to $87.3 million in 1990 due to an increased level of revenues subject to the tax.

Federal Income Taxes increased 17.7% to $26.9 million in 1990. Federal Income Taxes decreased by 13.6% in 1989. Changes in Federal Income Taxes are detailed in Note 2 of the Notes to Consolidated Financial Statements.

Interest Charges before the Allowance for Borrowed Funds Used During Construction rose to $56.4 million in 1990 compared to $53.3 million in 1989 and $52.2 million in 1988. Interest on Long Term Debt in 1990 increased as a result of the issuance in October 1989 of $135 million of First Mortgage Bonds, 9¼% Series due 2019. At December 31, 1990 and 1989, ACE's embedded cost of Long Term Debt was 9.2% compared with 9.1% at year-end 1988. Interest on Short Term Debt decreased in 1990 as the result of lower average balances outstanding and lower average interest rates. The increase in short term interest expense in 1989 over 1988 reflects higher average balances and higher average interest rates. Other Interest Expense in 1988 includes payments to customers resulting from the overrecovery of LEC revenues in prior years, as ordered by the New Jersey Board of Public Utilities (BPU), and interest on deposits from third parties for cogeneration projects.

The Allowance for Funds Used During Construction (AFDC) including both the Borrowed Funds portion, which reduces interest expense, and the Equity Funds portion, shown under Other Income, was $4.0 million in 1990, $2.8 million in 1989 and $3.2 million in 1988. The allocation of AFDC is a function, among other factors, of the amount of construction in progress.

Increased Preferred Stock Dividend Requirements for 1990 reflect the issuance in July of 500,000 shares of $8.20 No Par Preferred Stock, and for 1989 reflect the issuance in September 1988 of 600,000 shares of $8.53 No Par Preferred Stock. These increased requirements were offset in part by the effects of sinking fund payments for the 9.96% and $8.25 Series of Preferred Stock in each of the three years, and in 1989 and 1988 for the $9.45 No Par Preferred Stock. Embedded cost of Preferred Stock was 7.7% at December 31, 1990, and 7.5% at December 31, 1989 and 1988.

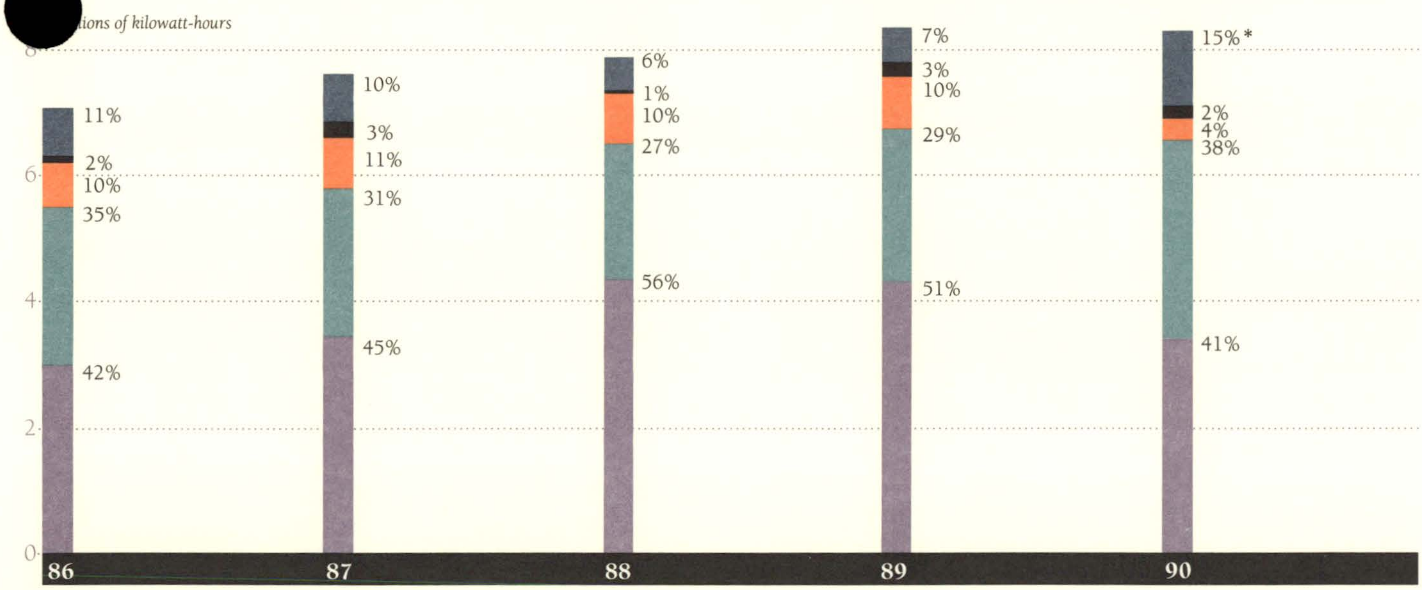
OUTLOOK

The nature of the electric utility business is capital intensive. ACE's ability to generate cash flows from operating activities and its continued access to the capital markets is affected by the timing and adequacy of rate relief, competition and the economic vitality of its service territory.

Income of ACE has been and may continue to be affected by the operational performance of nuclear generating facilities. In July 1990, the BPU revised the nuclear performance standards for electric utilities under its jurisdiction. These are considered generally more stringent than previous standards and could result in higher penalties, depending on the actual performance of jointly-owned nuclear units in which ACE has an ownership interest.

The financial performance of ACE also will be affected in the future by the level of sales of energy and the impacts of regulation. In September 1990, ACE filed a request for a $113.0 million increase in base rates. A decision on the request is expected in the second half of 1991. The amount earned on capital investments by the utility is subject to general business conditions and regulation. Other issues which may impact the electric utility business include public health, safety and environmental legislation.

Recent Federal legislation has served to encourage the development of electric generating facilities by nonutilities. Development of several such projects is currently underway in ACE's service territory. It is estimated that, if all such projects were to be completed, by 1994 these projects could displace the equivalent of 5.5% and 3.9% of 1990 kilowatt-hour sales and revenues, respectively. That effect could be offset to some extent by natural growth in the service territory and additional efforts by ACE to reduce the impact of the potential loss of kilowatt-hour sales and revenues. As a result of economic conditions in the service territory,



Atlantic Electric Total Sources and Costs of Energy

'86	'87	'88	'89	'90	*in cents per kilowatt-hour*
2.48	3.07	3.40	2.86	1.59*	INTERCHANGE
3.80	3.55	4.77	3.35	3.21	NATURAL GAS
4.09	3.47	3.43	3.46	4.65	OIL
[illegible]	0.93	0.89	0.87	0.83	NUCLEAR
[illegible]	1.85	2.05	2.09	2.06	COAL
1.81	1.92	1.99	1.96	1.66	YEARLY AVERAGE

For each of the last five years, coal and nuclear fuel sources combined have produced 75% of Atlantic Electric's total energy requirements. These fuels are produced within the United States and are the most inexpensive compared to other fuels.

* *Includes purchased power from PE*

ACE estimates that the rate of growth of overall sales of energy will be slower than that experienced in recent years, the extent of which presently is not determinable. The amount and timing of ACE's projected construction program is premised on the availability of generating capacity from nonutility sources described above. If for any reason these projects are delayed or do not materialize, or if load growth is greater than estimated, it may become necessary for ACE to increase its construction program. Such an increase would put additional burdens on ACE to generate cash from operations and on ACE's financing programs.

Amendments to the Clean Air Act enacted in 1990 relating to acid rain and limitations on emissions at electric generating plants will require modifications at certain of ACE's facilities, and compliance will cause ACE to incur additional operating and/or capital costs, the exact extent of which has not yet been determined.

The New Jersey Department of Environmental Protection (NJDEP) has proposed modifications to certain environmental permits at the Salem Nuclear Generating Station. The Salem owners have opposed these modifications. Compliance with the NJDEP proposed modifications would require the construction of cooling towers, at costs which could be substantial, and would require extended outages upon completion of construction in order to be integrated with the existing systems.

Certain accounting standards applicable to the Company have been issued by the Financial Accounting Standards Board but not yet adopted by the Company. One standard, effective in 1992, relates to the accounting for income taxes and is not expected to have a material effect on the results of operations or financial position. Another standard, effective in 1993, relates to the accounting for post-retirement benefits other than pensions and will significantly increase the annual costs of benefits recognized in future years over the amount currently recognized. This impact should be lessened by continued contributions to the trusteed plan as well as through rate regulation.

INFLATION

Inflation affects the level of operating expenses and also the cost of new utility plant placed in service. Traditionally, the rate making practices that have applied to ACE have involved the use of historical test years and the actual cost of utility plant. However, the ability to recover increased costs through rates, whether resulting from inflation or otherwise, depends upon the frequency, timing and results of rate case decisions.

Report of the Audit Committee

Atlantic Energy, Inc. and Subsidiaries

The Audit Committee of the Board of Directors is composed solely of independent directors. The members of the Audit Committee are: Richard B. McGlynn, Chairman, Jos. Michael Galvin, Jr., Gerald A. Hale, Matthew Holden, Jr., Madeline H. McWhinney and Harold J. Raveche. The Committee held six meetings during fiscal year 1990.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommended to the Board of Directors, subject to shareholder ratification, the selection of the Company's independent public accountants. The Audit Committee discussed with the internal auditors and the independent public accountants the overall scope and specific plans for their respective audits. The Committee also discussed the Company's consolidated financial statements and the adequacy of the Company's internal control structure with the independent public accountants. The Committee met regularly with the Company's internal auditors and independent public accountants, without management present, to discuss the results of their examinations, their evaluations of the Company's internal control structure and the overall quality of the Company's financial reporting. The meetings also were designed to facilitate any private communication with the Committee desired by the internal auditors or independent public accountants.

Richard B. McGlynn
Chairman, Audit Committee

REPORT OF MANAGEMENT

The management of Atlantic Energy, Inc. and it subsidiaries is responsible for the preparation of the financial statements presented in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management made informed judgments and estimates, as necessary, relating to events and transactions reported. Management is also responsible for the preparation of other financial information included elsewhere in this Annual Report.

Management has established a system of internal accounting and financial controls and procedures designed to provide reasonable assurance as to the integrity and reliability of financial reporting. This system is examined by management on a continuing basis for effectiveness and efficiency. Management believes that, as of December 31, 1990, the system of internal accounting and financial controls is adequate to accomplish its objectives. Management also recognizes its responsibility for fostering a strong ethical climate in which the Company's affairs are conducted according to the highest standards of corporate conduct. This responsibility is characterized and reflected in the Company's code of ethics and business conduct policy.

The financial statements have been audited by Deloitte & Touche, Certified Public Accountants. The auditors provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. Their examination is based on procedures believed by them to provide reasonable assurance that the financial statements are not misleading and includes a review of the Company's internal control structure and tests of transactions.

The internal auditing function conducts audits and appraisals of the Company's accounting and other operations, and evaluates the financial and operational control procedures which have been established, and compliance with those procedures. Both Deloitte & Touche and the internal auditors periodically make recommendations concerning the Company's internal control structure, and management responds to such recommendations as appropriate in the circumstances. None of the recommendations made for the year ended December 31, 1990 represented significant deficiencies in the design or operation of the Company's internal control structure.

J L Jacobs

J. L. Jacobs
President

J. G. Salomone
Vice President and Treasurer

Independent Auditors' Report

Atlantic Energy, Inc. and Subsidiaries

Deloitte & Touche

Certified Public Accountants
One World Trade Center
New York, New York 10048

To the Shareholders and the Board of Directors
of Atlantic Energy, Inc.:

We have audited the accompanying consolidated balance sheets of Atlantic Energy, Inc. and subsidiaries as of December 31, 1990 and 1989 and the related consolidated statements of income, changes in common shareholders' equity, and of cash flows for each of the three years in the period ended December 31, 1990. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Energy, Inc. and its subsidiaries at December 31, 1990 and 1989 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles.

Deloitte & Touche

January 31, 1991

Consolidated Statement of Income

Atlantic Energy, Inc. and Subsidiaries

Thousands of Dollars	1990	For the Years Ended December 31 1989	1988
Operating Revenues-Electric	**$716,779**	$705,020	$675,859
Operating Expenses:			
Energy:			
Fuel	**134,493**	149,808	145,225
Interchange	**6,799**	17,312	18,138
Deferred Costs	**20,136**	6,604	(3,838)
Net Energy Costs	**161,428**	173,724	159,525
Operations	**190,951**	167,435	162,362
Maintenance	**52,351**	55,203	59,649
Depreciation and Amortization	**62,141**	58,485	54,799
Gross Receipts and Franchise Taxes	**87,314**	83,396	80,556
Federal Income Taxes	**26,917**	22,865	26,471
Other Taxes	**11,115**	9,167	9,718
Total Operating Expenses	**592,217**	570,275	553,080
Operating Income	**124,562**	134,745	122,779
Other Income:			
Allowance for Equity Funds Used During Construction	**1,727**	—	359
Miscellaneous Income-Net	**7,585**	5,450	4,362
Total Other Income	**9,312**	5,450	[illegible]
Income Before Interest Charges	**133,874**	140,195	[illegible]
Interest Charges:			
Interest on Long Term Debt	**54,803**	47,131	44,506
Interest on Short Term Debt	**1,510**	5,231	4,958
Other Interest Expense	**109**	909	2,723
Total Interest Charges	**56,422**	53,271	52,187
Allowance for Borrowed Funds Used During Construction	**(2,226)**	(2,805)	(2,823)
Net Interest Charges	**54,196**	50,466	49,364
Preferred Stock Dividend Requirements of Subsidiary	**(10,799)**	(8,765)	(5,965)
Net Income	**$ 68,879**	$ 80,964	$ 72,171
Average Number of Shares of Common Stock Outstanding (in thousands)	**22,795**	21,634	19,593
Per Common Share:			
Earnings	**$3.02**	$3.74	$3.68
Dividends Declared	**$2.94**	$2.85	$2.74
Dividends Paid	**$2.92**	$2.82	$2.77

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statement of Cash Flows

Atlantic Energy, Inc. and Subsidiaries

Thousands of Dollars	1990	For the Years Ended December 31 1989	1988
Cash Flows Of Operating Activities:			
Net Income	$ 68,879	$ 80,964	$ 72,171
Deferred Purchased Power Costs	(21,840)	(19,660)	(18,110)
Deferred Energy Costs	20,136	8,560	(3,838)
Noncash items affecting operating activities:			
Preferred Stock Dividend Requirements of Subsidiary	10,799	8,765	5,965
Depreciation and Amortization	62,141	58,485	54,799
Allowance for Funds Used During Construction	(3,953)	(2,805)	(3,182)
Investment Tax Credit Adjustments—Net	(2,349)	(2,449)	(217)
Deferred Income Taxes—Net	15,177	17,616	14,642
Net Decrease (Increase) in Other Working Capital	11,669	(18,880)	(2,591)
Other—Net	1,290	902	4,939
Net Cash Provided by Operating Activities	161,949	131,498	124,578
Cash Flows Of Investing Activities:			
Utility Cash Construction Expenditures	(166,818)	(145,081)	(127,099)
Leveraged Lease Investments	3,993	(27,777)	(32,615)
Leased Property	(10,576)	(9,229)	(5,144)
Nuclear Decommissioning Trust Fund Deposits	(1,920)	(3,263)	(5,561)
Nonutility Property and Equipment	(129)	(3,536)	(4,214)
Removal Costs	(3,912)	(4,286)	(8,963)
Other—Net	(4,200)	(4,548)	708
Net Cash Used by Investing Activities	(183,562)	(197,720)	(182,888)
Cash Flows Of Financing Activities:			
Proceeds from Long Term Debt	—	150,183	26,500
Retirement and Maturity of Long Term Debt	(28,625)	(15,998)	(10,000)
Increase (Decrease) in Short Term Debt	43,950	(61,000)	(2,700)
Proceeds from Capital Lease Obligations	10,576	9,229	5,144
Common Stock Issued	15,106	81,244	54,563
Preferred Stock Issued	50,000	—	60,000
Redemption of Preferred Stock	(1,050)	(4,050)	(5,050)
Dividends on Preferred Stock	(10,799)	(8,765)	(5,965)
Dividends on Common Stock	(67,085)	(62,395)	(54,455)
Other—Net	(4,329)	(4,044)	90
Net Cash Provided by Financing Activities	7,744	84,404	68,127
Net Increase (Decrease) in Cash and Temporary Investments	(13,869)	18,182	9,817
Cash and Temporary Investments, beginning of year	37,539	19,357	9,540
Cash and Temporary Investments, end of year	$ 23,670	$ 37,539	$ 19,357
Supplemental Schedule of Payments:			
Interest	$ 58,080	$ 52,817	$ 48,922
Federal income taxes	$ 19,279	$ 14,284	$ 10,822

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheet

Atlantic Energy, Inc. and Subsidiaries

Thousands of Dollars	December 31 1990	1989
Assets		
Electric Utility Plant:		
In Service:		
Production	$ 953,342	$ 897,238
Transmission	281,431	268,258
Distribution	494,807	454,819
General	119,892	104,962
Total In Service	1,849,472	1,725,277
Less Accumulated Depreciation	504,202	459,223
Net	1,345,270	1,266,054
Construction Work in Progress	114,622	81,240
Land Held for Future Use	5,073	6,459
Leased Property—Net	57,971	33,146
Electric Utility Plant—Net	1,522,936	1,386,899
Nonutility Property and Investments:		
Investment in Leveraged Leases	75,156	73,217
Nuclear Decommissioning Trust Fund	11,784	9,235
Nonutility Property and Equipment—Net	15,003	15,336
Other Investments and Funds	7,425	7,463
Total Nonutility Property and Investments	109,368	105,[illegible]
Current Assets:		
Cash and Working Funds	18,670	15,189
Temporary Cash Investments	5,000	22,350
Accounts Receivable:		
Utility Service	48,461	53,062
Miscellaneous	17,767	13,067
Allowance for Doubtful Accounts	(2,000)	(1,800)
Unbilled Revenues	34,849	38,904
Fuel (at average cost)	26,262	21,776
Materials and Supplies (at average cost)	28,221	31,404
Prepayments	12,113	13,694
Deferred Taxes	7,476	—
Deferred Energy Costs	—	8,725
Total Current Assets	196,819	216,371
Deferred Debits:		
Property Abandonment Costs	9,443	10,287
Unrecovered Purchased Power Costs	124,880	103,040
Deferred Energy Costs	10,360	10,360
Unamortized Debt Costs	22,379	22,537
Other	9,825	9,716
Total Deferred Debits	176,887	155,940
Total Assets	**$2,006,010**	**$1,864,4[illegible]**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Thousands of Dollars	December 31 1990	1989
Liabilities and Capitalization		
Capitalization:		
Common Shareholders' Equity:		
Common Stock, no par value;		
50,000,000 shares authorized	$ 436,343	$ 421,237
Retained Earnings	223,749	222,163
Total Common Shareholders' Equity	660,092	643,400
Preferred Stock of Atlantic Electric:		
Not Subject to Mandatory Redemption	40,000	40,000
Subject to Mandatory Redemption	122,350	73,400
Long Term Debt	575,577	606,379
Total Capitalization	1,398,019	1,363,179
Current Liabilities:		
Preferred Stock Redemption Requirement	1,050	1,050
Long Term Debt due within one year	48,900	44,500
Capital Lease Obligations due within one year	686	636
Short Term Debt	43,950	—
Accounts Payable	61,890	46,877
Taxes Accrued	10,776	10,224
Interest Accrued	13,128	13,399
Dividends Declared	20,127	18,357
Customer Deposits	2,777	2,773
Deferred Taxes	—	880
Deferred Energy Costs	11,412	—
Other	20,997	27,813
Total Current Liabilities	235,693	166,509
Deferred Credits and Other Liabilities:		
Deferred Investment Tax Credits	61,597	63,946
Deferred Income Taxes	236,068	212,535
Obligations under Capital Leases	57,285	32,510
Other	17,348	25,782
Total Deferred Credits and Other Liabilities	372,298	334,773
Commitments and Contingent Liabilities (Note 10)		
Total Liabilities and Capitalization	$2,006,010	$1,864,461

Consolidated Statement of Changes in Common Shareholders' Equity

Atlantic Energy, Inc. and Subsidiaries

Thousands of Dollars	Shares	Common Stock	Retained Earnings
Balance, December 31, 1987	18,346,519	$285,430	$186,294
Common stock issued:			
Public offerings	1,300,000	42,551	
Other	365,042	12,012	
Net income			72,171
Capital stock expense of subsidiary			(416)
Common stock dividends			(54,455)
Balance, December 31, 1988	20,011,561	339,993	203,594
Common stock issued:			
Public offerings	2,200,000	69,730	
Other	334,156	11,514	
Net income			80,964
Common stock dividends			(62,395)
Balance, December 31, 1989	22,545,717	421,237	222,163
Common stock issued	430,271	15,106	
Net income			68,879
Capital stock expense of subsidiary			(208)
Common stock dividends			(67,085)
Balance, December 31, 1990	**22,975,988**	**$436,343**	**$223,749**

As of December 31, 1990, there were 50 million shares authorized of no par value Common Stock. Common Stock issued during 1990, and other issuances in 1989 and 1988, were for the Dividend Reinvestment and Stock Purchase Plan (DRP) and ACE employee benefit plans. At December 31, 1990, 575,751 and 81,384 shares were reserved for issuance under the DRP and ACE employee benefit plans, respectively.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

Atlantic Energy, Inc. (the Company) is the parent of a consolidated group consisting of the following wholly-owned subsidiaries: Atlantic City Electric Company (ACE), Atlantic Generation, Inc. (AGI), Atlantic Southern Properties, Inc. (ASP) and ATE Investment, Inc. (ATE). ACE is a public utility primarily engaged in the generation, transmission, distribution and sale of electric energy. Rates for service are regulated by the New Jersey Board of Public Utilities (BPU). ACE's service territory encompasses 2,700 square miles within the southern one-third of New Jersey. The majority of ACE's customers are residential and commercial. ACE, with its wholly-owned subsidiary that operates certain generating facilities, is the primary company within the consolidated group. AGI and its wholly-owned subsidiaries are engaged in the development of cogeneration power projects through various partnership arrangements. ASP owns, develops and manages a commercial office and storage facility located in southern New Jersey. The operations of ATE are predominately investments in leveraged leases for property used in the airline and shipping industries.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. AGI accounts for its partnership investments using the equity method by recognizing its proportionate share of the results of operations of the partnerships. The results of operations of the nonutility companies are not significant and are classified under Other Income in the Consolidated Statement of Income.

Regulation

The accounting policies and rates of ACE are subject to the regulations of the BPU and in certain respects to the Federal Energy Regulatory Commission (FERC). All significant accounting policies and practices used in the determination of rates are also used for financial reporting purposes.

Electric Operating Revenues

Revenues are recognized when electric energy services are rendered, and include estimates for amounts unbilled at the end of the period for energy used subsequent to the last billing cycle.

Electric Utility Plant

Property is stated at original cost. Generally, the plant is subject to a first mortgage lien. The cost of property additions, including replacement of units of property and betterments, is capitalized. Included in certain property additions is an Allowance for Funds Used During Construction (AFDC) which is defined in the applicable regulatory system of accounts as the cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFDC has been calculated using a semi-annually compounded rate of 8.95%, as approved by the BPU, for the years presented.

Deferred Energy Costs and Revenues

As approved by the BPU, ACE has Levelized Energy Clauses which are based on projected energy costs and include provisions for prior period underrecoveries or overrecoveries. The recovery of energy costs is made through levelized rates over the period of projection. Any underrecovery or overrecovery of costs is deferred in balance sheet accounts as an asset or liability as appropriate. These deferrals are recognized in the Consolidated Statement of Income during the period in which they are subsequently recovered through the clauses.

Depreciation

ACE provides for straight-line depreciation based on the estimated remaining life of transmission and distribution property, and based on the estimated average service life for all other depreciable property. Depreciation applicable to certain nuclear plant includes amounts provided for decommissioning. The overall composite rate of depreciation was approximately 3.6% in each of the years presented. Accumulated depreciation is charged with the cost of depreciable property retired together with removal costs less salvage and other recoveries. Depreciable property of the nonutility companies is insignificant.

Nuclear Fuel

Fuel costs associated with ACE's participation in jointly-owned nuclear generating stations, including spent nuclear fuel disposal costs, are charged to Fuel Expense based on the units of thermal energy produced.

Income Taxes

Deferred Federal and State income taxes are provided on all significant current transactions for which the timing of reporting differs for book and tax purposes. Investment tax credits from utility property, which are used to reduce current Federal income taxes, are deferred on the Consolidated Balance Sheet and recognized in book income over the life of the related property. The Company and its subsidiaries file a consolidated Federal income tax return. Income taxes are allocated to each of the companies within the consolidated group based on the separate return method.

Property Abandonments and Disallowances of Plant Costs

A loss is recognized if the carrying amounts of abandoned utility assets exceed the present value of future revenues to be generated by those assets. Any disallowance of the cost of a newly completed utility plant, including an indirect disallowance which provides no return on investment of any portion of the plant, is recognized as a loss.

Property Abandonment Costs, which are stated at their net present value on the Consolidated Balance Sheet, consist of ACE's investment in the following as of December 31, 1990:

Investment	Remaining Recovery Period (years)	Unamortized Cost *($000)*
Offshore Nuclear Generating Units	8 ½	$1,729
Nuclear Generating Unit	7	6,261
Unrecovered Nuclear Fuel Advances	10 ¼	3,559
Proposed Plant Site costs	5 ¼	3,113

Out of an investment level fixed by the BPU for ratemaking purposes of $217.4 million associated with the construction of the Hope Creek Generating Station, $3.4 million are excluded from rate base for purposes of computing a return on the investment.

Since no return on these costs was granted by the BPU, the excess of the carrying value of the assets over their discounted present value was recognized as a loss at the date of abandonment. Such discount is being restored to income by accretion over the amortization period allowed for ratemaking.

Unrecovered Purchased Power Costs

ACE has agreements for the purchase of 125 megawatts (MW) of capacity and related energy from Pennsylvania Power and Light Company (PP&L) under two Capacity and Energy Sales Agreements (the PP&L Agreements). The PP&L Agreements provide for the purchase of capacity and energy from PP&L's Susquehanna nuclear Unit 1 and Unit 2 through September 30, 1991, and then from certain PP&L coal-fired units through September 30, 2000. Through September 30, 1991, the estimated costs to be incurred for purchases of capacity and associated energy from the Susquehanna units will exceed the levelized costs to be recovered from customers. As authorized by the BPU, such unrecovered costs are being accumulated and deferred as Unrecovered Purchased Power Costs. Related deferred taxes have been provided. The level of rates approved by the BPU is designed to recover these deferred costs and associated carrying charges during the balance of the contract period. Differences between the actual costs incurred and those estimated in the agreements are subject to recovery under usual cost recovery procedures.

Nuclear Decommissioning Trust

ACE established a trust to fund the future decommissioni costs related to the nuclear units in which it has an ownership interest. Funding is based upon estimates and forecasts of decommissioning costs. ACE has received favorable Internal Revenue Service (IRS) rulings that the current fundings of the trust are deductible for Federal income tax purposes. ACE has deposited $10.7 million into the trust fund balance of $11.8 million at December 31, 1990, with the difference representing net earnings of the trust. In accordance with a BPU approved stipulation, ACE is required to deposit an additional $9.2 million by 1993. This represents the amounts previously collected from customers and provided for, but not yet funded.

Other

Debt premium, discount and expenses of ACE are amortized over the life of the related debt. Costs associated with debt reacquired by refundings are amortized over the life of the newly issued debt as permitted by the BPU in accordance with FERC guidelines. Temporary investments considered as cash equivalents for Consolidated Statement of Cash Flows purposes represent purchases of highly liquid debt instruments maturing in three months or less.

Certain prior year amounts have been reclassified to conform to the current year reporting.

NOTE 2. FEDERAL INCOME TAXES

($000)	1990	Years Ended December 31 1989	1988
The components of Federal income tax expense are as follows:			
Current	$ 16,652	$ 9,711	$ 11,483
Deferred	12,292	14,554	14,677
Investment Tax Credits Recognized on Leveraged Leases	(752)	(1,000)	(727)
Total Federal Income Tax Expense	28,192	23,265	25,433
Less Amounts Included in Other Income	1,275	400	(1,038)
Federal Income Taxes Included in Operating Expenses	$ 26,917	$ 22,865	$ 26,471
Deferred Federal income taxes result from the following:			
Liberalized Depreciation	$ 11,156	$ 9,564	$ 12,096
Unbilled Revenues	(2,848)	(2,848)	(2,848)
Unrecovered Purchased Power Costs	5,845	5,104	4,577
Deferred Energy Costs	(5,781)	(2,750)	(36)
Costs Associated with Reacquired Debt	(409)	(1,089)	(1,195)
Leveraged Leases	7,932	10,279	3,582
Deferred Investment Tax Credits	(2,349)	(2,449)	(217)
Other-Net	(1,254)	(1,257)	(1,282)
Deferred Federal Income Tax Expense	$ 12,292	$ 14,554	$ 14,677
A reconciliation of the reported Federal income tax expense compared to the expected Federal income taxes computed by applying the statutory rate follows:			
Net Income	$ 68,879	$ 80,964	$ 72,171
Preferred Stock Dividend Requirements of Subsidiary	10,799	8,765	5,965
Federal Income Tax Expense (as below)	28,192	23,265	25,433
Book Income Subject to Tax	$107,870	$112,994	$103,569
Statutory Federal Income Tax Rate	34%	34%	34%
Income Tax Computed at the Statutory Rate	$ 36,676	$ 38,418	$ 35,213
Items for which deferred taxes are not provided:			
Difference Between Tax and Book Depreciation	4,661	2,437	591
Investment Tax Credits	(3,277)	(3,519)	(3,257)
Reversal of Excess Deferred Taxes	(5,678)	(5,934)	(5,578)
Removal Costs	(2,245)	(2,659)	(3,874)
Other-Net	(1,945)	(5,478)	2,338
Total Federal Income Tax Expense	$ 28,192	$ 23,265	$ 25,433
Effective Federal Income Tax Rate	26%	21%	25%

In 1990 and 1989 the Company's computed Alternative Minimum Tax (AMT), attributable to nonutility operations, exceeded its regular tax by $9.4 million and $5.9 million, respectively. This results in a cumulative AMT credit at December 31, 1990 of $15.3 million. The AMT credit is available for indefinite carryforward against future tax payable, to the extent that the regular tax payable exceeds future AMT payable.

At December 31, 1990, the cumulative amount of deferred Federal income taxes which have not been provided on timing differences, principally depreciation, amounted to approximately $50 million.

Federal income tax returns for 1983 and prior years have been examined by the IRS. The IRS has proposed certain deficiencies in taxes for 1980 through 1983. The Company has protested the proposed deficiencies and is of the opinion that the final settlement of its Federal income tax liabilities for these years will not have a material adverse effect on its results of operations or financial position.

The Financial Accounting Standards Board (FASB) issued a statement entitled "Accounting for Income Taxes" which was originally effective for years after 1989. The statement changes the recording methodology relating to deferred income taxes to a liability approach. The principal impacts to the Company relate to the recording, on a current basis, of changes in tax rates and the recording of deferred tax liabilities not previously recorded by ACE. The FASB currently is reexamining certain provisions contained in the original statement and in so doing has delayed its application until 1992. The Company expects the impacts of this change to be lessened due to rate regulation. In the opinion of management, the impacts of the final provisions are not expected to have a material effect on results of operations or financial position.

NOTE 3. RATE MATTERS OF ACE

Energy Clause Proceedings

ACE's energy clauses are subject to annual review by the BPU.

In March 1988, the BPU authorized an increase in annual energy clause revenues, effective April 1988, of $62.1 million. The increase is net of a reduction of $5.4 million in revenue resulting from the disallowance of $4.8 million of replacement energy costs due to the application of the BPU mandated nuclear performance standard for 1987. This net increase was compressed into the remainder of 1988.

In September 1988, ACE filed petitions with the BPU seeking to continue its existing energy clauses through 1989. Although ACE's petitions supported alternative rates that would increase energy clause revenues by $9.3 million, the petitions requested deferral of a sufficient level of prior period underrecovered fuel costs to maintain existing rates. ACE requested that such deferrals be considered in connection with the next change in energy clause rates but not later than January 1, 1990. In January 1989, ACE amended its petitions to request a net increase in energy revenues of $9.3 million. Contained in these amended petitions was an alternative for energy clause rates to utilize a cost basis of 18 months rather than the usual 12 months. This alternative would produce a net increase of $4.5 million in annual energy clause revenues. The petitions also provided for a reduction in revenue of $5.3 million for the application of the nuclear performance standard regarding 1988 nuclear operations disallowing the recovery of $4.6 million of replacement energy costs from customers. Earnings for 1988 were reduced by a provision in the amount of such disallowance. An initial decision of the Administrative Law Judge rendered in June 1989 approved the 18-month period and found that certain capacity costs requested to be collected in energy clause revenues are more appropriately recovered through base rates. This decision also recommended a five-year amortization of unrecovered deferred energy costs related to certain generator outages at the Salem Nuclear Generating Station.

In January 1990, ACE and other parties signed a joint position which included recommendations designed to settle certain contested issues in the proceeding. The joint position provided for an increase in annual base rate revenues of $41.6 million for ACE's four-year power purchase agreement of 200 MW of capacity and associated energy from Philadelphia Electric Company (PE). Coincident with the base rate increase, energy clause revenues were to be decreased by a like amount. A level of PE capacity costs in excess of those recovered through the base rate increase would have been deferred and recovered through the energy clause over successive three-year periods commencing June 1, 1991. ACE also agreed that it would not, except under certain circumstances, further increase base rates before October 1, 1992. The BPU approved a motion by ACE to reopen the record in the proceeding to accept additional evidence as presented by the joint position.

In May 1990, the BPU announced that it was rejecting the joint position, ruling that the capacity costs associated with the PE purchase were reasonable, but only would be considered within a formal base rate proceeding. ACE was granted a provisional base rate increase of $41.6 million effective June 1, 1990. The provisional base rate increase was implemented June 20, 1990 and $17.9 million of such revenue has been recognized through December 31, 1990. Capacity costs including those not covered by the provisional rates are being charged to operating expenses as incurred. Through December 31, 1990, $27.5 million of PE capacity costs have been charged to operations. A motion to the pending base rate case proceeding, as discussed below under 'Base Rate Case Proceedings', was filed in November 1990 seeking BPU approval to defer the costs not covered by the provisional rates. In December 1990, the BPU rendered an oral decision denying ACE's motion.

In March 1990, ACE filed proposed LEC tariffs with the BPU for the period June 1, 1990 through May 31, 1991, which reflected the terms of the joint position discussed above. As a result of the May 1990 BPU action, in June 1990 ACE amended its request to provide for a decrease in annual LEC revenues of $26.2 million. This request included recovery over three years of the Salem costs deferred since 1984 amounting to $10.4 million, recovery of interest associated with certain overrecovery and underrecovery issues which previously had been paid to customers and retention of a portion of the fuel and energy savings associated with the PE power purchase agreement. In June 1990, the BPU approved an interim net decrease in LEC revenues of $35.8 million effective June 20, 1990. The BPU has transferred the proceeding to the Office of Administrative Law for hearings regarding the ratemaking treatment of the Salem deferred costs, certain interest calculations on overrecoveries and underrecoveries and ACE's proposal to retain a portion of the fuel savings associated with the PE agreement. ACE at this time cannot predict the final determination of these issues.

Base Rate Case Proceedings

The BPU in April 1988 ordered a decrease in base rates of $21.8 million primarily to reflect the lower corporate Federal income tax rates effective in 1988 resulting from the Tax Reform Act of 1986.

In compliance with the May 1990 BPU provisional rate order discussed under 'Energy Clause Proceedings', in September 1990, ACE filed a petition with the BPU requesting an increase in base rate revenues of $112.989 million on an annual basis. ACE requested that the increase become effective no later than July 1, 1991. Additionally in this filing, ACE requested that the $41.6 million provisional base rate revenue increase granted by the BPU effective June 20, 1990, as discussed in 'Energy Clause Proceedings', be confirmed and continued in permanent rates. Also, ACE has requested recovery of the first year costs of the PE agreement not covered by the provisional increase, plus full recovery of the costs for the remaining three years of the agreement. In its filing, ACE is seeking to increase its net rate base by an additional $400 million and has requested an overall rate of return of 11.13% and a return on common equity of 13.7%. ACE currently has an authorized overall return of 11.42% and a return on common equity of 14.1%. Hearings are scheduled for April, May and June 1991, with a decision expected in the second half of 1991.

Other Rate Proceedings

ACE is a 7.51% owner of the Peach Bottom Atomic Power Station, which is operated by PE. The units were ordered shut down by the Nuclear Regulatory Commission (NRC) in March 1987 and could not be restarted without their approval. Proceedings were initiated before the BPU to determine whether the base rate revenues stemming from the investment in the station should be made interim and subject to refund to customers while the units were out of operation under the NRC order. In February 1988, the BPU ruled that base rate revenues of $27.6 million associated with the Peach Bottom facilities were interim and subject to refund pending the outcome of further investigations. In April 1988, the BPU approved a stipulation among ACE and other affected parties resolving all matters related to the Peach Bottom NRC outages from March 31, 1987 through December 31, 1988. The stipulation provided, among other things, for a revenue credit to ACE's customers of $5.3 million, which was given in June 1988.

The Peach Bottom units continued to be out of operation at December 31, 1988. In March 1989, the BPU approved a stipulation which resolved rate treatment for Peach Bottom for 1989. This stipulation provided for an initial revenue credit to ACE's customers of $5.7 million that was applied in April 1989 and covered 12 unit-months of nonoperation. Any additional unit-month of nonoperation would result in an additional revenue credit of $750,000 and would be applied to customers' future bills.

PE received approval from the NRC in April 1989 to restart Peach Bottom Unit 2. In July 1989, the unit was considered to have returned to commercial operation in accordance with the provisions of the stipulation. In October 1989, the NRC lifted its March 1987 shutdown order permitting PE to operate both units under normal NRC regulations and review. In December 1989, Unit 3 was connected to the Pennsylvania-New Jersey-Maryland Interconnection. In January 1990, Unit 3 was considered to have returned to commercial operation.

Under the terms of the stipulation, in November 1989, ACE's customers received revenue credits of $2.0 million for the nonoperation of Unit 3 during July, August and September. In February 1990, ACE provided customers with additional revenue credits of $1.8 million for the nonoperation of Unit 3 during October, November and December 1989, satisfying the terms of the stipulation. Provisions for the above credits were made against 1989 earnings.

In July 1990, the BPU revised certain aspects of its nuclear plant performance standards, effective January 1, 1990. The target capacity factor of 70% remains unchanged, but the zone of reasonable performance has been narrowed to between 65% and 75%. Rewards and penalties, based on replacement power costs, are to be calculated to the boundaries of the zone of reasonable performance with penalties calculated incrementally in steps. The revised standards are to be incorporated in ACE's tariffs for electric service, but the performance standards will not apply to plants designated not used and useful. For 1990, the performance of ACE's nuclear units was within the zone of reasonable performance.

NOTE 4. RETIREMENT BENEFITS

ACE and its subsidiary have a noncontributory defined benefit retirement plan covering substantially all their employees. Benefits are based on an employee's years of service and average final pay. The companies' policy is to fund pension costs within the guidelines of the minimum required by the Employee Retirement Income Security Act, and the maximum allowable as a tax deduction. Pension costs for 1990, 1989 and 1988 were $7.2 million, $6.8 million and $4.1 million, respectively. Approximately 70% of these costs were charged to operating expense and the remainder, which was associated with construction labor, was charged to the cost of new utility plant.

Net pension costs for 1990, 1989 and 1988 included the following components:

($000)	1990	1989	1988
Service cost—benefits earned during the period	$ 6,843	$ 6,094	$ 5,045
Interest cost on projected benefit obligation	16,179	14,294	12,053
Actual return on plan assets	3,060	(34,648)	(16,217)
Deferred gain (loss)	(18,755)	21,249	3,390
Expected return on plan assets	(15,695)	(13,399)	(12,827)
Amortization of unrecognized net transitional asset	(172)	(172)	(172)
Net periodic pension costs	$ 7,155	$ 6,817	$ 4,099

A reconciliation of the funded status of the plan as of December 31, 1990 and 1989 is as follows:

($000)	1990	1989
Fair value of plan assets	$189,000	$198,348
Projected benefit obligation	204,314	186,610
Plan assets (under) over projected benefit obligation	(15,314)	11,738
Unrecognized net transitional asset	(2,410)	(2,583)
Unrecognized net loss (gain)	19,178	(8,246)
Prepaid pension cost	$ 1,454	$ 909
Accumulated benefit obligation:		
Vested benefits	$158,473	$141,273
Non-vested benefits	3,111	3,000
Total	$161,584	$144,273

At December 31, 1990 approximately 60% of plan assets were invested in equity securities, 23% in fixed income securities and 17% in other investments.

The assumed rates used in determining the actuarial present value of the projected benefit obligation at year end were as follows:

	1990	1989
Weighted average discount	8.50%	8.25%
Anticipated rate of increase in compensation	6.00%	6.00%

The assumed long term rate of return on plan assets was 8.00% for 1990, 1989 and 1988.

In addition to pension benefits, the companies provide certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the companies. Benefits are provided through insurance companies and other plan providers whose premiums and related plan costs are based on the benefits paid during the year. ACE and its subsidiary established a qualified tax exempt trusteed plan in 1986 to fund these other postretirement benefits. Funding on behalf of active employees is based on the aggregate cost method over their service lives and is equivalent to normal cost. For current retirees, funding is based on current actual experience and amortization of expected benefits over the remaining life expectancy of the retiree group. The actuarial present value of accumulated other postretirement benefits under the plan was $45.2 million and $41.9 million at January 1, 1990 and 1989, respectively, notwithstanding the effects of new accounting standards discussed below. The cost of these benefits was $3.5 million for 1990, $3.4 million in 1989 and $3.2 million in 1988. The net asset value of the trust fund was approximately $8.7 million at December 31, 1990 and $8.0 million at December 31, 1989.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement requires employers to record the unfunded and unrecognized accumulated postretirement benefit obligation immediately or, alternatively, on a delayed basis over the plan participants' future service periods. The statement is effective for ACE beginning in 1993. ACE believes that the annual costs recognized for other postretirement benefits, as defined by the FASB statement, will increase significantly over current levels. Management believes that the financial impact of these benefits will be lessened by continued contributions to the trusteed plan as well as through rate regulation.

NOTE 5. JOINTLY-OWNED GENERATING STATIONS

ACE participates with other utilities in the construction and operation of several electric production facilities. The amounts shown represent ACE's share of each plant at December 31, including AFDC as appropriate.

	Keystone	Conemaugh	Peach Bottom	Salem	Hope Creek
Energy Source	Coal	Coal	Nuclear	Nuclear	Nuclear
Company's Share (%)	2.47	3.83	7.51	7.41	5.00
Electric Plant in Service *($000)*:					
1990	**9,507**	**15,435**	**112,902**	**182,316**	**230,677**
1989	8,951	15,168	106,695	176,150	229,068
Accumulated Depreciation *($000)*:					
1990	**2,833**	**5,165**	**42,300**	**62,828**	**26,691**
1989	2,652	4,590	38,071	55,293	19,193
Construction Work in Progress *($000)*:					
1990	**381**	**436**	**5,089**	**5,109**	**1,863**
1989	401	374	7,007	3,913	1,368
Operation and Maintenance Expenses (including fuel) *($000)*:					
1990	**4,855**	**8,358**	**27,340**	**19,154**	**8,458**
1989	4,768	7,740	25,871	19,851	8,772
1988	5,017	8,421	25,697	21,966	8,668
Generation (MWH):					
1990	**276,080**	**448,978**	**1,062,569**	**837,486**	**404,084**
1989	292,627	433,660	302,310	1,035,718	329,426
1988	298,785	469,092	—	991,322	347,570

ACE provides its own financing during the construction period for its share of the jointly-owned plants and includes its share of direct operations and maintenance expenses in the Consolidated Statement of Income.

Generation in 1988 for Peach Bottom is zero because the station was shutdown under order of the NRC (see Note 3).

NOTE 6. NONUTILITY COMPANIES

Assets of ASP consist primarily of a commercial real estate site with a book cost at December 31, 1990 and 1989 of approximately $15 million. Assets of AGI at December 31, 1990 and 1989, excluding accumulated equity in investments, are represented by contributions, loans and advances to the partnerships amounting to approximately $15 million and $14 million, respectively. Assets of ATE primarily are investments in leveraged leases which amount to approximately $75 million and $73 million at December 31, 1990 and 1989, respectively. The combined results of operations of these companies for 1990, 1989 and 1988 were losses of $275,000, $1.9 million and $2.0 million, respectively, net of income tax benefits of $231,000, $738,000 and $1.7 million, respectively.

NOTE 7. CUMULATIVE PREFERRED STOCK OF ACE

ACE has authorized 799,979 shares of Cumulative Preferred Stock, $100 Par Value, 2 million shares of No Par Preferred Stock and 3 million shares of Preference Stock, No Par Value. Information relating to outstanding shares at December 31 is shown in the table below.

		1990		1989		Current Redemption
Series	Par Value	Shares	Amount *($000)*	Shares	Amount *($000)*	Price
Not Subject to Mandatory Redemption:						
4%	$100	**77,000**	**$ 7,700**	77,000	$ 7,700	$ 105.50
4.10%	100	**72,000**	**7,200**	72,000	7,200	101.00
4.35%	100	**15,000**	**1,500**	15,000	1,500	101.00
4.35%	100	**36,000**	**3,600**	36,000	3,600	101.00
4.75%	100	**50,000**	**5,000**	50,000	5,000	101.00
5%	100	**50,000**	**5,000**	50,000	5,000	100.00
7.52%	100	**100,000**	**10,000**	100,000	10,000	103.01
Total			**$ 40,000**		$40,000	
Subject to Mandatory Redemption:						
9.96%	$100	**64,000**	**$ 6,400**	72,000	$ 7,200	$ 104.26
$8.25	None	**70,000**	**7,000**	72,500	7,250	105.51
[illegible]3	None	**600,000**	**60,000**	600,000	60,000	106.32
[illegible]0	None	**500,000**	**50,000**	—	—	—
Total			**123,400**		74,450	
Less portion due within one year			**1,050**		1,050	
Total			**$122,350**		$73,400	

Cumulative Preferred Stock Not Subject to Mandatory Redemption is redeemable solely at the option of ACE.

On August 1 of each year, 8,000 shares of the 9.96% Series must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. ACE redeemed 8,000 shares in each of the years 1990, 1989 and 1988.

On November 1 of each year, 2,500 shares of the $8.25 No Par Preferred Stock Series must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. ACE may redeem not more than an additional 2,500 shares on any sinking fund date without premium. ACE redeemed 2,500 shares in each of the years 1990, 1989 and 1988.

On November 1, 1989, ACE redeemed the remaining 30,000 shares of the $9.45 No Par Preferred Stock Series at $100 per share through the regular operation of the sinking fund.

Beginning November 1, 1994 and annually thereafter, [illegible]000 shares of the $8.53 No Par Preferred Stock Series [illegible] be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of ACE, not more than an additional 120,000 shares may be redeemed on any sinking fund date without premium. Refunding of this series is restricted prior to November 1, 1993 if the effective cost to ACE of any refunding issue is less than specified rates.

In July 1990, ACE issued and sold 500,000 shares of $8.20 No Par Cumulative Preferred Stock Series. Beginning August 1, 1996 and annually thereafter, 100,000 shares of this series must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of ACE, not more than an additional 100,000 shares may be redeemed on any sinking fund date without premium. Other than in connection with the sinking fund, this series is not redeemable prior to August 1, 2000, which is the calculated retirement date of the series.

The annual minimum sinking fund provisions of the above series aggregate $1.05 million in each of the years 1991 through 1993 and $13.05 million in each of the years 1994 and 1995.

NOTE 8. LONG TERM DEBT

Series	Maturity Date	December 31 1990	1989
		($000)	
Long term debt of ACE consists of the following:			
First Mortgage Bonds:			
4 ½ %	March 1, 1991	$ 10,000	$ 10,000
4 ½ %	July 1, 1992	10,350	10,350
4 ⅜ %	March 1, 1993	9,540	9,540
5 ⅛ %	February 1, 1996	9,980	9,980
8%	November 1, 1996	95,000	95,000
8 ⅞ %	September 1, 2000	19,000	19,000
8%	May 1, 2001	27,000	27,000
7 ½ %	April 1, 2002	20,000	20,000
7 ¾ %	June 1, 2003	29,976	29,976
7 ⅝ % Pollution Control	January 1, 2005	6,500	6,500
6 ⅜ % Pollution Control	December 1, 2006	2,500	2,500
11 ⅝ % Pollution Control Series A	May 1, 2011	39,000	39,000
10 ½ % Pollution Control Series B	July 15, 2012	850	850
7 ⅜ % Pollution Control Series A	April 15, 2014	18,200	18,200
10 ½ % Pollution Control Series C	July 15, 2014	23,150	23,150
11 ½ %	October 1, 2015	—	21,215
8 ⅞ %	May 1, 2016	125,000	125,000
8 ¼ % Pollution Control	July 15, 2017	4,400	4,400
9 ¼ %	October 1, 2019	135,000	135,000
Total		585,446	606,661
Debentures:			
5 ¼ %	February 1, 1996	2,267	2,267
7 ¼ %	May 1, 1998	2,619	2,619
Total		4,886	4,886
Unamortized Premium and Discount—Net		(4,755)	(5,168)
Total Long Term Debt of ACE		585,577	606,379
Revolving Credit and Term Loan of ATE	May 31, 1991	38,900	44,500
Less portion due within one year		48,900	44,500
Total Long Term Debt		$575,577	$606,379

In October 1990, ACE reacquired the remaining $21.215 million principal amount of First Mortgage Bonds, $11\frac{1}{2}\%$ Series due 2015 at a price of 108.53% of principal. The aggregate cost of this reacquisition was $1.5 million, net of related income taxes.

Deposits in sinking funds for retirement of debentures are required on February 1 of each year through 1995 for the $5\frac{1}{4}\%$ Debentures and on May 1 of each year through 1997 for the $7\frac{1}{4}\%$ Debentures in amounts in each case sufficient to redeem $100,000 principal amount plus, at the election of ACE, up to an additional $100,000 principal amount in each year. By December 31, 1990, ACE had reacquired and cancelled $733,000 and $581,000 principal amount of the $5\frac{1}{4}\%$ and $7\frac{1}{4}\%$ Debentures, respectively, towards its requirements for 1991 and subsequent periods.

Regular redemption prices currently are in effect for each series of first mortgage bonds, except for certain pollution control series for which redemption is restricted prior to specified dates. Also, certain pollution control series contain future sinking fund requirements. Redemption of certain series of the first mortgage bonds are restricted prior to specified dates if the redemption is for the purpose of refunding at effective interest costs to ACE of less than specified rates.

Current sinking fund requirements of $500,000 in connection with certain first mortgage bonds outstanding may be satisfied by certification of property additions as provided for in the related mortgage indentures.

ATE has a revolving credit and term loan agreement (Agreement) which provides for borrowings of up to $70 million during successive revolving credit and term loan periods. In accordance with provisions of the Agreement, the expiration of the revolving credit period was extended from May 31, 1990 to May 31, 1991. ATE may request a one year extension of the revolving credit period. Thereafter, the Agreement provides for repayment of borrowings in four equal semi-annual installments. Interest rates on borrowings are determined with reference to periodic pricing options available under the facility. Interest rates on borrowings in 1990 ranged from approximately 8.4% to 9.2%.

The aggregate amount of debt maturities, in addition to sinking fund requirements, of all long term debt outstanding at December 31, 1990 are $48.9 million in 1991, $10.35 million in 1992 and $9.54 million in 1993. No outstanding long term debt matures in 1994 and 1995.

NOTE 9. SHORT TERM DEBT AND COMPENSATING BALANCES

As of December 31, 1990, ACE had bank lines of credit of $129 million, all of which were available for use. ACE is required, with respect to $9 million of these credit lines, to maintain average compensating balances in demand deposits which are not significant or legally restricted. ACE is in compliance with such compensating balance arrangements. With respect to the remaining available credit lines, ACE paid commitment fees for which charges were not significant.

Short term debt outstanding at December 31 consisted of:

($000)	**1990**	1989	1988
Commercial Paper	**$43,950**	—	$51,000
Notes Payable to Banks	**—**	—	10,000
Total	**$43,950**	—	$61,000

Additional information regarding short term debt follows:

($000)	**1990**	1989	1988
For the year ended:			
Maximum amounts of total short term debt at any month end:			
Commercial Paper	**$46,850**	$76,550	$84,000
Notes Payable to Banks	**—**	$10,000	$10,000
Average amounts of short term debt (based on daily outstanding balances):			
Commercial Paper	**$16,979**	$50,015	$59,514
Notes Payable to Banks	**—**	$ 3,351	$ 2,80[illegible]
Weighted daily average interest rates on short term debt:			
Commercial Paper	**8.1%**	9.4%	7.6%
Notes Payable to Banks	**—**	9.6%	7.8%

NOTE 10. COMMITMENTS AND CONTINGENCIES

Construction Program

ACE's cash construction expenditures for 1991 are estimated at approximately $189 million. Current commitments for the construction of major production and transmission facilities approximate $100 million of which it is estimated approximately $54 million will be expended in 1991. These amounts exclude AFDC and customer contributions.

Insurance Programs

ACE is a member of certain insurance programs which provide coverage for decontamination and property damage to members' nuclear generating plants. Facilities at the Peach Bottom, Salem and Hope Creek Stations are insured against property damage losses up to $2.185 billion per site under these programs.

In addition, ACE is a member of an insurance program which provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specific conditions. Under the property and replacement power insurance programs, ACE could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. As of December 31, 1990, the maximum amount of retrospective premiums ACE could be assessed for losses during the current policy year was $5.64 million under these programs.

The Price-Anderson provisions of the Atomic Energy Act of 1954, as amended by the Price-Anderson Amendments Act of 1988, govern liability and indemnification for nuclear incidents. All nuclear facilities could be assessed, after exhaustion of private insurance, up to $66.15 million each, payable at $10 million per year, per reactor and per incident. Based on its ownership share of nuclear facilities, ACE could be assessed up to $30.9 million per incident. This amount would be payable at $4.67 million per year, per incident.

Purchased Energy and Capacity Arrangements

ACE has an arrangement for a limited term purchase of energy and capacity from Allegheny Power System (APS) which is subject to annual extensions. In addition, ACE can procure from selling members of the local power pool their available transmission capability entitlements through negotiated short term arrangements and a monthly competitive bidding process. Through these entitlement purchases ACE is able to purchase additional energy and capacity from APS and another utility's system. ACE also conducts energy transactions through separate arrangements with two other utilities.

ACE has an agreement with PE for the purchase of 200 MW of capacity and energy for a four-year period that began June 1, 1990. Under this agreement, ACE incurs a basic monthly charge aggregating on an annual basis approximately $48 million, $52 million, $56 million and $24 million in the respective years 1991 through 1994. The basic charge is subject to annual adjustment based on PE's actual annual nuclear capacity achieved. ACE also has an agreement with PP&L to provide for a capacity purchase of 20 MW through May 1991, and 35 MW thereafter through May 1992.

Additional sources of energy and capacity for use by ACE are expected to be made available from nonutility sources, principally cogenerators. ACE has currently contracted, and received BPU approval, to purchase an aggregate of 569 MW of energy and capacity from nonutility sources. To date, 181 MW are in the construction phase and 388 MW are scheduled to go to financial closing in 1991. Based on the terms and conditions of the existing agreements, ACE is obligated to construct 230 KV transmission facilities and to purchase certain specified minimum amounts of electric power annually from these sources. ACE currently expects the first of such facilities to be operational in 1991, with the remaining projects to be in operation through 1994. However, commencement of required minimum purchase payments is conditioned upon ultimate commercial operation, which can vary within agreed upon construction extension periods. Also, the amount of such payments is subject to adjustment for actual performance levels achieved by these facilities.

Environmental Matters

In October 1990, the New Jersey Department of Environmental Protection issued for public comment a Draft Permit pertaining to the Salem Station, of which ACE has a 7.41% ownership interest. The Draft Permit proposes that recirculating water cooling towers are necessary at the station to minimize adverse environmental impacts in the Delaware River. The Draft Permit does not provide for continued operation of the station during construction of the cooling towers. Public Service Electric and Gas Company (PS), the operator of the station, has advised ACE that it is not presently able to determine whether it is possible to design and construct cooling towers to meet the conditions in the Draft Permit. If it is possible to do so, PS advises that the design, licensing, construction and related system tie scenario could require at least four years. The overall cost associated with constructing the cooling towers, including replacement power costs incurred during station outage time, could approximate $2 billion. PS has advised ACE that it intends to vigorously defend against the proposed need to construct the cooling towers and that it is prepared to pursue all available remedies of any conditions that may be imposed by a Final Permit.

In November 1990, the Clean Air Act of 1970 was amended to provide for further restrictions on acid deposition and limitations on sulfur dioxide (SO_2) and other emission sources. Phase I of the legislation mandates certain controls by January 1, 1995, and Phase II mandates further controls by January 1, 2000. ACE's wholly-owned B. L. England Units 1 and 2 and its jointly-owned Conemaugh Units 1 and 2, in which ACE has an undivided 3.83% ownership interest, are specifically named in the legislation for emission reductions during Phase I. The jointly-owned Keystone Units 1 and 2, in which ACE has a 2.47% ownership interest, would require emission reductions during Phase II.

Compliance with the legislation will cause ACE to incur additional capital and/or operating costs. ACE's preliminary estimates indicate that the cost of compliance for SO_2 limitations for all affected units could ultimately increase rates charged to customers by approximately 5% based on 1990 revenues, pending appropriate regulatory approvals. The costs of certain power purchase arrangements between ACE and other electric utilities may also be affected by the legislation. Any capital costs that may be incurred to comply with this legislation are not included in ACE's current estimate of construction expenditures. Other provisions of the legislation will require capital and/or operating costs to reduce emissions of nitrogen oxide. Specific cost estimates for compliance with these provisions are not yet available.

ACE is involved in various other environmental matters initiated by governmental agencies. While it is not possible to predict the results of these matters, they are not expected to materially affect ACE's financial position. Additional pollution control expenditures may be required in the future if more stringent standards become applicable or when facilities are added or expanded. These additional amounts, beyond what is included under 'Construction Program,' as discussed above, are not presently determinable.

Other

In connection with the extended outage of the Peach Bottom Station under the 1987 NRC order, ACE has filed suit along with another co-owner of the station against PE. ACE is seeking compensatory and punitive damages resulting from the outage of the station, including the costs incurred for replacement energy necessitated by the outage. ACE is unable to predict the outcome of this litigation or its effect at this time.

NOTE 11. LEASES

ACE leases various types of property and equipment for use in its operations. Certain of these lease agreements are capital leases consisting of the following at December 31:

($000)	**1990**	1989
Production plant	**$13,521**	$13,521
Less accumulated amortization	**6,622**	5,986
Net	**6,899**	7,535
Nuclear Fuel	**51,072**	25,611
Leased property—net	**$57,971**	$33,146

ACE has a contractual obligation to purchase nuclear fuel for the Salem, Hope Creek and Peach Bottom nuclear generating stations from Pearl Fuel Corporation. The leasing arrangements with Pearl Fuel were amended and restated in March 1990 to include the fuel requirements for Peach Bottom in the amount of $28.9 million. The asset and related obligation for the leased fuel are reduced as the fuel is burned, and are increased as additional fuel purchases are made. No commitments for future payments beyond satisfaction of the outstanding obligation exist. Operating expenses for 1990, 1989 and 1988 include leased nuclear fuel costs of approximately $15.4 million, $8.6 million and $9.9 million, respectively, and rentals and lease payments for all other capital and operating leases of $4.2 million, $4.5 million and $5.5 million, respectively. Future minimum rental payments for all noncancellable lease agreements are not significant to ACE's operations.

NOTE 12. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Quarterly financial data, reflecting all adjustments necessary in the opinion of the Company for a fair presentation of such amounts, are as follows:

Quarter	Operating Revenues	Operating Income	Net Income	Earnings Per Share
1990	*($000)*	*($000)*	*($000)*	
1st	**$166,738**	**$ 28,247**	**$15,114**	**$ .67**
2nd	**165,132**	**25,407**	**12,111**	**.53**
3rd	**218,885**	**53,237**	**38,310**	**1.68**
4th	**166,024**	**17,670**	**3,344**	**.15**
Annual	**$716,779**	**$124,562**	**$68,879**	**$3.02**
1989				
1st	$160,773	$ 25,627	$12,624	$ .63
2nd	162,920	30,105	16,200	.76
3rd	207,333	51,628	38,971	1.74
4th	173,991	27,384	13,168	.58
Annual	$705,020	$134,745	$80,964	$3.74

Individual quarters may not add to the total due to rounding, as well as the effect on earnings per share of increasing average number of common shares outstanding.

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

Summary Financial and Statistical Review 1990-1985

Atlantic Energy, Inc. and Subsidiaries

	1990	1989	1988	1987	1986	1985
Atlantic Energy, Inc.						
Investor Information						
Operating Revenues *($000)*	**$ 716,779**	$ 705,020	$ 675,859	$ 648,173	$ 582,961	$ 579,733
Net Income *($000)*	**$ 68,879**	$ 80,964	$ 72,171	$ 73,765	$ 54,946	$ 46,150
Average Number of Shares Outstanding *(000)*	**22,795**	21,634	19,593	18,311	18,266	18,069
Earnings per Average Common Share	**$ 3.02**	$ 3.74	$ 3.68	$ 4.03	$ 3.00	$ 2.55
Total Assets (Year-end) *($000)*	**$2,006,010**	$1,864,461	$1,660,286	$1,499,381	$1,401,064	$1,319,027
Long Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption (Year-end) *($000)*	**$ 747,877**	$ 725,329	$ 594,461	$ 522,815	$ 534,822	$ 521,612
Capital Lease Obligations (Year-end) *($000)*	**$ 57,971**	$ 33,146	$ 32,880	$ 37,694	$ 37,603	$ 38,857
Dividends Declared on Common Stock	**$ 2.94**	$ 2.85	$ 2.74	$ 2.715	$ 2.61	$ 2.555
Dividend Payout Ratio	**97%**	75%	75%	66%	87%	99%
Book Value per Share (Year-end)	**$ 28.73**	$ 28.54	$ 27.16	$ 25.71	$ 24.37	$ 23.96
Price/Earnings Ratio (Year-end)	**11**	10	9	8	12	11
Times Fixed Charges Earned (pre-tax, Atlantic Electric)	**2.94**	3.19	3.06	3.68	2.99	3.06
Shareholders and Employees (Year-end):						
Common Shareholders	**42,295**	43,383	44,473	45,586	47,133	48,635
Employees (Atlantic Electric)	**2,055**	2,021	2,092	2,148	2,168	2,099
Atlantic City Electric Company (Principal Subsidiary)						
Facilities for Service						
Total Utility Plant *($000)*	**$2,027,138**	$1,846,122	$1,712,614	$1,602,801	$1,503,010	$1,438,643
Additions to Utility Plant *($000)*	**$ 170,772**	$ 147,886	$ 130,281	$ 105,521	$ 109,303	$ 105,213
Generating Capacity (Kilowatts) (a) (b)	**1,959,700**	1,879,700	1,807,700	1,660,700	1,660,700	1,605,700
Maximum Utility System Demand …owatts)	**1,741,000**	1,700,000	1,636,000	1,609,000	1,459,000	1,432,000
…city Reserve at Time of Peak … of Installed Generation)	**10.9%**	9.6%	9.5%	3.1%	9.1%	10.8%
Energy Supply (Thousands of kwh):						
Net Generation	**6,265,335**	6,260,942	5,863,119	6,157,938	5,966,600	5,817,254
Purchased and Interchanged—Net	**2,044,174**	2,110,554	2,209,777	1,483,685	1,131,900	1,049,393
Total System Load	**8,309,509**	8,371,496	8,072,896	7,641,623	7,098,500	6,866,647
Electric Sales (Thousands of kwh)						
Residential	**3,267,606**	3,265,918	3,213,010	3,040,410	2,839,114	2,638,121
Commercial	**3,063,069**	2,917,162	2,741,976	2,592,232	2,401,199	2,298,895
Industrial	**1,376,423**	1,380,832	1,339,005	1,323,567	1,222,981	1,204,971
All Others	**49,769**	53,872	56,289	58,191	58,120	57,685
Total (c)	**7,756,867**	7,617,784	7,350,280	7,014,400	6,521,414	6,199,672
Residential Electric Service (Average per Customer)						
Amount of Electricity Used During the Year (kwh)	**8,251**	8,382	8,460	8,281	7,982	7,643
Revenue for a Year's Service	**$ 844.37**	$ 840.34	$ 838.70	$ 838.08	$ 780.43	$ 778.77
Revenue per Kilowatt-hour	**10.23¢**	10.03¢	9.91¢	10.12¢	9.78¢	10.19¢
Customer Data (Average)						
Residential With Electric Heating	**81,479**	80,409	78,805	75,900	72,640	68,871
Residential Without Electric Heating	**314,529**	309,245	300,974	291,253	283,062	276,305
Total Residential	**396,008**	389,654	379,779	367,153	355,702	345,176
Commercial	**50,274**	49,509	48,398	46,775	45,359	44,256
Industrial	**1,002**	1,008	1,014	1,015	1,022	1,020
Other	**537**	549	552	554	554	554
Total Customers (c)	**447,821**	440,720	429,743	415,497	402,637	391,006
Operating Revenues *($000)*						
Energy Revenues:						
Residential	**$ 334,375**	$ 327,443	$ 318,520	$ 307,704	$ 277,601	$ 268,814
Commercial	**271,688**	256,199	240,890	231,498	211,023	209,880
Industrial	**96,766**	94,634	91,661	89,261	78,404	80,392
All Others	**9,668**	9,901	9,935	10,409	10,152	10,315
…tal Energy Revenues	**712,497**	688,177	661,006	638,872	577,180	569,401
…ed Revenues—Net	**(4,055)**	7,215	6,716	385	(1,813)	3,076
… Electric Revenues	**8,448**	9,765	8,137	8,916	7,594	7,256
Total (c)	**$ 716,890**	$ 705,157	$ 675,859	$ 648,173	$ 582,961	$ 579,733

(a) Excludes capacity allocated to a large industrial customer.
(b) Includes unit purchase of capacity under contracts with certain other utilities.
(c) Includes sales to an affiliate within the Atlantic Energy consolidated group.

Where should I send inquiries concerning my investment in Atlantic Energy, Inc.?

The Company serves as recordkeeping agent, dividend disbursing agent and also as Transfer Agent for Common Stock. Correspondence concerning such matters as the replacement of dividend checks or stock certificates, address changes, transfer of Common Stock certificates, Dividend Reinvestment and Stock Purchase Plan inquiries or any general information about the Company should be addressed to:

Atlantic Energy, Inc.
Investor Records
P.O. Box 1334
1199 Black Horse Pike
Pleasantville, New Jersey 08232
Telephone (609) 645-4506 or (609) 645-4507

Ms. S. D. McMillian, Secretary, is the corporate officer responsible for all investor services.

Does the Company have a Dividend Reinvestment and Stock Purchase Plan?

Yes. The Plan allows shareholders to automatically invest their cash dividends and/or optional cash payments in shares of the Company's Common Stock. Holders of record of Common Stock interested in enrolling in the Plan should contact Investor Records at the address above. In addition, shareholders whose stock is held in a brokerage account may be able to participate in the Plan. These shareholders should contact their broker for more information.

Where is the Company's stock listed?

Common Stock is listed on the New York, Pacific and Philadelphia Stock Exchanges. The trading symbol of the Company's Common Stock is ATE; however, newspaper listings generally use AtlEnrg or AtlanEngy.

The high and low sale prices of the Common Stock as reported in the Wall Street Journal as New York Stock Exchange—Composite Transactions for the periods indicated were as follows:

	1990		1989	
	High	**Low**	High	Low
First Quarter	**38 1/2**	**35 1/2**	33 3/4	32 1/2
Second Quarter	**37 7/8**	**34 7/8**	36	32 1/2
Third Quarter	**36 3/8**	**31 7/8**	38 1/8	35 1/2
Fourth Quarter	**34 3/4**	**32 3/8**	39 3/4	35

Is additional information about the Company available?

The annual report to the Securities and Exchange Commission on Form 10-K and other reports containing financial data are available to shareholders. Specific requests should be addressed to:

Atlantic Electric
Financial Services Department
P.O. Box 1264
1199 Black Horse Pike
Pleasantville, New Jersey 08232
Telephone (609) 645-4655 or (609) 645-4888

When are dividends paid?

The proposed record dates and payable dates for dividends on Common Stock are as follows:

Record Dates	Payable Dates
March 15, 1991	April 15, 1991
June 18, 1991	July 15, 1991
September 24, 1991	October 15, 1991
December 17, 1991	January 15, 1992

The following table indicates dividends paid per share in 1990 and 1989 on Common Stock:

	1990	1989
First Quarter	**$ .72**	$ .69
Second Quarter	**.72**	.69
Third Quarter	**.74**	.72
Fourth Quarter	**.74**	.72
Annual Total	**$2.92**	$2.82

Dividends paid on Common Stock in 1990 and 1989 were fully taxable. Some state and local governments may impose personal property taxes on shares held in certain corporations. Shareholders residing in those states should consult their tax advisors with regard to personal property tax liability.

Who is the trustee and interest paying agent for Atlantic Electric's bonds and debentures?

First Mortgage Bond recordkeeping and interest disbursing are performed by The Bank of New York, 101 Barclay Street, New York, New York 10286. Debenture recordkeeping and interest disbursing are performed by First Fidelity Bank, N.A., 765 Broad Street, Newark, New Jersey 07102.

Whom can I contact regarding the Preferred Stock of Atlantic Electric?

Atlantic Electric serves as recordkeeping agent, dividend disbursing agent and Transfer Agent for its Preferred Stock. Inquiries regarding such matters can be directed to Investor Records at the address listed above.

Who are the independent auditors for Atlantic Energy, Inc.?

Deloitte & Touche
Certified Public Accountants
One World Trade Center
New York, New York 10048

Officers of Atlantic Energy, Inc. and Subsidiaries

as of December 31, 1990

Officers of Atlantic Energy, Inc.

E. DOUGLAS HUGGARD
Chairman and Chief Executive Officer

JERROLD L. JACOBS
President

MEREDITH I. HARLACHER, JR.
Vice President

JOHN R. LILLY
Vice President

BRIAN A. PARENT
Vice President

J.G. SALOMONE
Vice President and Treasurer

SABRINA D. McMILLIAN
Secretary

J. DAVID McCANN
Assistant Treasurer and Assistant Secretary

Directors of Atlantic Energy's subsidiaries are: Messrs. Huggard, Harlacher, Jacobs, Parent and Salomone.

Officer of Atlantic Generation, Inc.

JOHN R. LILLY
President, Treasurer and Secretary

Officers of Atlantic Southern Properties, Inc.

JOHN R. LILLY
President

J. DAVID McCANN
Treasurer and Secretary

Officers of ATE Investment, Inc.

J.G. SALOMONE
President

LANCE E. COOPER
Vice President

JOHN R. LILLY
Vice President

J. DAVID McCANN
Treasurer and Secretary

Officers of Atlantic City Electric Company

	Years of Service
E. DOUGLAS HUGGARD Chairman and Chief Executive Officer	35
JERROLD L. JACOBS President and Chief Operating Officer	29
MEREDITH I. HARLACHER, JR. Senior Vice President—Corporate Planning And Services	25
BRIAN A. PARENT Senior Vice President—Utility Operations	23
J.G. SALOMONE Senior Vice President—Finance and Accounting	14
JOHN M. CARDEN Vice President—Customer Service	23
LANCE E. COOPER Vice President—Control and Assistant Treasurer	8
THOMAS E. FREEMAN Vice President—Human Resources	10
JAMES J. LEES Vice President—Marketing and Rates	20
HENRY K. LEVARI, JR. Vice President—Power Delivery	19
J. DAVID McCANN Vice President, Treasurer and Assistant Secretary	18
SABRINA D. McMILLIAN Secretary	5
MORGAN T. MORRIS III Vice President—Administrative Services	21
HENRY C. SCHWEMM, JR. Vice President—Production	21

as of December 31, 1990

JOS. MICHAEL GALVIN, JR.

Mr. Galvin, a Director since 1978, is president and chief executive officer of the South Jersey Health Corporation — The Memorial Hospital of Salem County. He is also immediate-past chairman of the board, New Jersey Hospital Association and a trustee for the Center of Health Affairs. He is currently a member of the Southern New Jersey Chamber of Commerce and of the editorial board of Modern Healthcare Magazine.

Committee Chairman: Personnel. Committee Membership: Audit; Energy, Operations & Research; Pension & Insurance.

GERALD A. HALE

Mr. Hale, a Director since 1983, is president of Hale Resources, Inc., an investment and management company. He serves as chairman and director of the Evans Clay Company, and as a director of New Jersey Manufacturers Insurance Company, New Jersey Business and Industry Association and Strong Systems, Inc.

Committee Chairman: Energy, Operations & Research. Committee Membership: Audit; Corporate Development; Personnel.

MATTHEW HOLDEN, JR.

Mr. Holden, a Director since 1981, is the Henry L. and Grace M. Doherty Professor of Government and Foreign Affairs at the University of Virginia. He is also an arbitrator and an energy and regulatory affairs consultant. He is a former commissioner of the Federal Energy Regulatory Commission and the Wisconsin Public Service Commission.

Committee Chairman: Pension & Insurance. Committee Membership: Audit; Corporate Development; Personnel.

CYRUS H. HOLLEY

Mr. Holley, executive vice president - Engelhard Corporation, was elected as a Director in early 1990. Mr. Holley joined Engelhard in 1979, where he has served in various executive positions. He is chairman of the Independent College Fund of New Jersey and is active in several civic and educational organizations.

Committee Membership: Corporate Development; Energy, Operations & Research; Finance & Investor Relations; Personnel.

E. DOUGLAS HUGGARD

Mr. Huggard, a Director since 1984, was elected Chairman and Chief Executive Officer in 1990, and has been Chief Executive Officer since 1985. He serves as a Director of all of the Company's subsidiaries and has been with the Company for 35 years. He is currently a director of the New Jersey State Chamber of Commerce and First Fidelity Bank of South Jersey.

Committee Membership: Ex-officio member of all committees except Audit.

JERROLD L. JACOBS

Mr. Jacobs was elected President and a Director of the Company in 1990 and serves as President and Chief Operating Officer of Atlantic Electric. He is a Director of all of the Company's subsidiaries and has been with the Company for 29 years. He is currently a director of the South Jersey Chamber of Commerce and is regional chairman of U.S. Savings Bonds sales.

Committee Membership: Ex-officio member of all committees except Audit.

RICHARD B. McGLYNN

Mr. McGlynn, Attorney at Law and partner in the law firm of Stryker, Tams & Dill, has been a Director since 1986. He is a member of the American, New Jersey State and Essex County Bar Associations, as well as the American Bar Foundation and the American Law Institute. He is a former commissioner of the New Jersey Board of Public Utilities and a former judge in Essex County, New Jersey.

Committee Chairman: Audit. Committee Membership: Corporate Development; Energy, Operations & Research; Finance & Investor Relations; Pension & Insurance.

MADELINE H. McWHINNEY

Miss McWhinney, a Director since 1983, is president of Dale, Elliott & Company, management consultants. She is a trustee of the Charles F. Kettering Foundation, the Institute of International Education and Management of Managers Mutual Funds.

Committee Chairman: Finance & Investor Relations. Committee Membership: Audit; Energy, Operations & Research; Pension & Insurance.

BERNARD J. MORGAN

Mr. Morgan, banking industry executive, was elected as a Director in 1988. He is a director of the Philadelphia Chamber of Commerce and St. Joseph's University.

Committee Chairman: Corporate Development. Committee Membership: Finance & Investor Relations; Pension & Insurance; Personnel.

HAROLD J. RAVECHÉ

Dr. Raveché, who became a Director in 1990, is president of the Stevens Institute of Technology. He is president of the Association of Independent Technological Universities, chairman of the board of trustees of the New Jersey Consortium for Surface Engineered Materials, a director of National Westminster Bank, NJ, and a member of the U.S. Council on Competitiveness.

Committee Membership: Audit; Corporate Development; Energy, Operations & Research; Finance & Investor Relations.

Jos. Michael Galvin, Jr.

Gerald A. Hale

Matthew Holden, Jr.

Cyrus H. Holley

E. Douglas Huggard

Jerrold L. Jacobs

Richard B. McGlynn

Madeline H. McWhinney

Bernard J. Morgan

Harold J. Raveché

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