# DELMARVA POWER 1991 ANNUAL REPORT

**TEAMS OF CREATIVE AND COMMITTED EMPLOYEES WORKED TOGETHER TO PRODUCE ANOTHER YEAR OF EXCELLENT RESULTS. TEAMWORK IS A KEY STRATEGY FOR CONTINUED SUCCESS IN THE 1990s.**

## FINANCIAL HIGHLIGHTS

| | 1991 | 1990 | Percent Increase (Decrease) |
|---|---|---|---|
| Revenues | **$844.8 million** | $811.2 million | 4.1 |
| Net Income | **$ 93.2 million** | $ 37.3 million | 149.9 |
| Earnings Per Share of Common Stock | **$ 1.69** (1) | $ 0.60 (2) | 181.7 |
| Dividends Declared Per Share of Common Stock | **$ 1.54** | $ 1.54 | 0.0 |
| Average Shares of Common Stock Outstanding | **50,581,689** | 47,534,272 | 6.4 |
| Common Stock Book Value Per Share | **$ 13.42** | $ 12.84 | 4.5 |
| Construction Expenditures (3) | **$181.8 million** | $187.8 million | (3.2) |
| Internally Generated Funds (4) | **$ 96.1 million** | $112.6 million | (14.6) |
| Electric Sales | **11,441,466 mwh** | 11,081,211 mwh | 3.3 |
| Electric Customers (year end) | **373,502** | 368,277 | 1.4 |
| Average Annual Residential Usage | **9,843 kwh** | 9,524 kwh | 3.3 |
| Gas Sales | **15.52 million mcf** | 16.07 million mcf | (3.4) |
| Gas Transported | **2.61 million mcf** | 2.19 million mcf | 18.9 |
| Total Gas and Transportation Sales | **18.13 million mcf** | 18.26 million mcf | (0.7) |
| Gas Customers (year end) | **87,351** | 85,044 | 2.7 |
| Average Annual Residential Usage | **80.24 mcf** | 83.29 mcf | (3.7) |

(1) Includes $0.25 for the cumulative effect of a change in accounting for unbilled revenues.

(2) Includes an $0.89 write-off of subsidiary joint venture investments.

(3) Excludes Allowance for Funds Used During Construction.

(4) Net cash provided by operating activities less common and preferred dividends.

**THE 1991 ANNUAL REPORT IS PRINTED ON RECYCLED PAPER. THE COVER STOCK CONTAINS 100% POST CONSUMER WASTE. PAPER FOR THE INSIDE PAGES CONTAINS AT LEAST 10% POST CONSUMER WASTE.**

SERVING • CONSERVING • DELMARVA

◀ THROUGHOUT 1991, WORKERS HANDLED OUTAGES WITH SPEED AND SKILL. PROGRAMS THAT STRESS THE IMPORTANCE OF SERVICE RELIABILITY HELPED TO DECREASE TOTAL AVERAGE CUSTOMER OUTAGE TIME BY NEARLY 20 MINUTES COMPARED TO 1990.


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**BY RECYCLING OFFICE PAPER, EMPLOYEES AT TWO COMPANY LOCATIONS CUT TRASH DISPOSAL COSTS BY MORE THAN $2,500 AND KEPT MORE THAN 64 TONS OF PAPER OUT OF LANDFILLS. MORE OFFICE WORKERS WILL RECYCLE PAPER IN 1992.**

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**COAL FUELED NEARLY HALF (45%) OF THE ELECTRICITY DELMARVA POWER MADE IN 1991. SINCE COMPANY PLANTS BURN LOW SULFUR-CONTENT COAL, THE COMPANY CAN MEET NEW FEDERAL CLEAN AIR STANDARDS WITH LESS ADDITIONAL EXPENSE THAN MANY OTHER UTILITIES.**

## DEAR STOCKHOLDER

1991 was a good year. Teams of creative, committed, and caring employees again produced excellent results. For example, the Company's customer favorability rating of 82% continued to be the highest among 23 utilities surveyed by our pollster; a new, on-budget, 109-megawatt combustion turbine began generating electricity ahead of schedule; lost-time accidents–four–were the fewest in the Company's history; environmental stewardship programs drew extraordinary responses from customers; progress in reducing customer outages exceeded goals; power plant and customer service workers handled a surprising 8.7% jump in peak electricity demand with few problems; and customer participation in energy management and conservation programs was ahead of plan.

Earnings performed as expected, $1.69 per share, at a time when the Company is building new power plants and is pursuing rate increases to recover construction costs.


The accomplishments of 1991 are detailed on the following pages. We would like to use the remainder of this letter to discuss our plans to:

- succeed in a changing industry
- provide energy to a growing service territory at the lowest reasonable price for customers and with a fair return for stockholders.

### PREPARING FOR CHANGE

Over the last decade, changes to the utility industry have been significant. For example, customers have become more knowledgeable and influential. Clean air, drinkable water, pristine wetlands, and beautiful beaches have become increasingly important to the people of the service territory. Deregulation, transmission access, and non-utility generators are altering the industry's traditional structure. The labor force is becoming increasingly diverse in race, age, and gender. And more change is ahead.

How has Delmarva Power prepared for the '90s? We have developed several strategies that employ flexibility and balance.

Delmarva Power focuses on satisfying customers and recognizes that customers are the ultimate judge of value. People at the Company work hard, through face-to-face contact and surveys, to learn about customers' changing needs. Then, with that information, employees strive to balance improving service and reducing costs. An example of this is the use of computers in some Company vehicles. These computers help workers organize jobs so customers can be informed more precisely as to when service workers will arrive. This improves productivity and reduces customer irritation.

The 82% favorability rating in the 1991 customer survey reflects the success of our customer focus. These efforts are discussed further on pages 9 to 11.

The Company's "Serving & Conserving Delmarva" environmental stewardship program balances our obligation to serve customers with the responsibility to preserve the environment of the Delmarva Peninsula. Program activities range from the donation of ecologically valuable wetlands to the recycling of coal ash.

Customers who know about "Serving & Conserving Delmarva" consistently give the Company higher marks in the annual survey than those who do not. More information about environmental activities appears on pages 13 and 14.

Delmarva Power takes an open but conservative approach to changes within the industry. For example, 27 bidders responded to our request for proposals to provide us with 150 megawatts of electricity in the middle 1990s. The Company was pleased with the number of outside bidders that offered proposals. However, we are concerned that many of the bids may not be price competitive. Evaluators will weigh both price and reliability considerations and take a cautious, middle path to reach a decision.

In the area of work force diversity, strategies to develop a participative work culture were started in the early 1980s. These strategies have matured to

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**THE BOARD OF DIRECTORS ELECTED HOWARD E. COSGROVE (SEATED) PRESIDENT AND CHIEF OPERATING OFFICER. THE POSITION HAD BEEN HELD BY NEVIUS M. CURTIS (STANDING) WHO IS ALSO CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER. MR. CURTIS WILL CONTINUE IN THOSE POSITIONS BUT ANNOUNCED THAT HE PLANNED TO RETIRE FROM THEM DURING THE LAST HALF OF 1992.**

**Mr. Cosgrove began his career with Delmarva Power in 1966 as an industrial engineer in the marketing department. From 1975 through 1979, he was manager of financial planning and analysis. In late 1979, he was elected vice president of finance and accounting and chief financial officer. In 1984, Mr. Cosgrove was elected senior vice president of operations and engineering. He was elected executive vice president in 1985. Since 1986, he has been a member of the Board of Directors.**

**Mr. Cosgrove received a Bachelor of Science degree in Mechanical Engineering from the University of Virginia and a Masters of Business Administration degree from the University of Delaware. He also completed the Advanced Management Program at Harvard University.**


▲ **MORE THAN 95% OF EMPLOYEES REMAINED INJURY FREE IN 1991. ONE REASON FOR THIS EXCELLENT PERFORMANCE IS THE "ACTIONS PREVENT ACCIDENTS" PROGRAM, WHICH INCREASES AND REWARDS INDIVIDUAL AWARENESS, COMMITMENT, AND ACTION DIRECTED TOWARD PREVENTING ACCIDENTS. AS A RESULT OF THIS PROGRAM, MACHINIST FRED BRAMBLE DESIGNED AN AUTOMATIC "FEED" SYSTEM THAT ALLOWS POWER PLANT WORKERS TO DO THEIR JOBS SAFER AND FASTER.**

help make Delmarva Power a true quality company. Looking ahead, a Company-wide committee, composed of people that represent various ranks, races, ages, and genders, is working to enhance this participative work style for the purpose of improving productivity.

## MEETING ENERGY NEEDS

Delmarva Power is in a construction cycle. This means that, over the next few years, the Company will be financing as well as building facilities.

The economic development of the Delmarva Peninsula during the mid to late 1980s has been dramatic. Since 1984, the demand for electricity at peak periods has grown nearly 50%. This is about four times greater than peak growth for the entire decade between 1975 and 1984. The 1991 electricity peak and sales increases over the previous year, 8.7% and 3.3% respectively, demonstrated that, even with a recession, the service territory's economy is still growing.

While growth in the 1980s increased revenues, it also depleted generating reserves. Generating capacity dropped from 37.1% beyond peak demand in 1984 to 3.3% at the end of 1988. About 15% to 20% is normal for the industry.

In the mid-1980s, Delmarva Power developed a plan, called Challenge 2000, to take on the challenges of growing energy needs. As opposed to one big, new power plant, Challenge 2000 provides a blend of options including conservation, power purchases, and small power plants to meet load growth in bite-sized pieces. This minimizes costs.

The plan, called "Save Some, Buy Some, Build Some," also provides flexibility, meaning various aspects can be accelerated or slowed as conditions change. Through 1991, this strategy yielded a pre-summer reserve level of 18.3%, but the higher-than-expected 1991 summer peak now leaves reserves at 8.8%.

All aspects of the Challenge 2000 program continue. Part of Challenge 2000 includes the planned 1993 completion of a new 160-megawatt combined-cycle unit at Hay Road and a 150-megawatt power plant for the middle 1990s. Under the current plan, through a competitive bidding process, the second plant may be built by one of the

27 power project developers who recently submitted proposals to the Company.

The cost of new power plants, energy management equipment, and transmission and distribution equipment need to be included in charges to customers. Generally, these costs were not included in the 1991 rates. A major effort of 1991 was to seek base rate increases to cover these costs, along with the cost of inflation since the last rate increase requests were filed in the early 1980s.

**ADJUSTING PRODUCT PRICES**

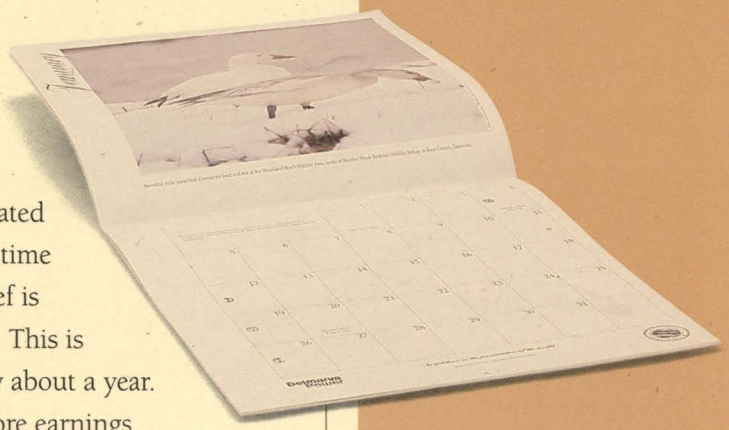
Core utility earnings declined substantially in 1991. For a complete look at earnings see page 18.

Some might ask why rate cases were not filed earlier. The answer is "regulatory lag," the period between the time a company can demonstrate that earnings have deteriorated and the time rate relief is granted. This is typically about a year. Thus, core earnings could be expected to decline in that period, as they did.

A key part of our presentation to regulators was that the Company is in a construction cycle designed to serve the healthy economy of the service territory. We asked regulators to grant the rate relief necessary to attract the lowest cost capital in all financial markets.

Since the last round of rate cases in the early 1980s, customer favorability has increased from 46% to 82%. Operation and maintenance expenses per kilowatt-hour (other than fuel) have remained relatively flat while the industry average has increased 37%. Even with the proposed rate increases, the price of electricity will be substantially lower than it was in 1983.

Delmarva Power has had a good track record and has asked regulators to act accordingly. Their positive response, in the form of modest rate relief to support increased customer demand, is



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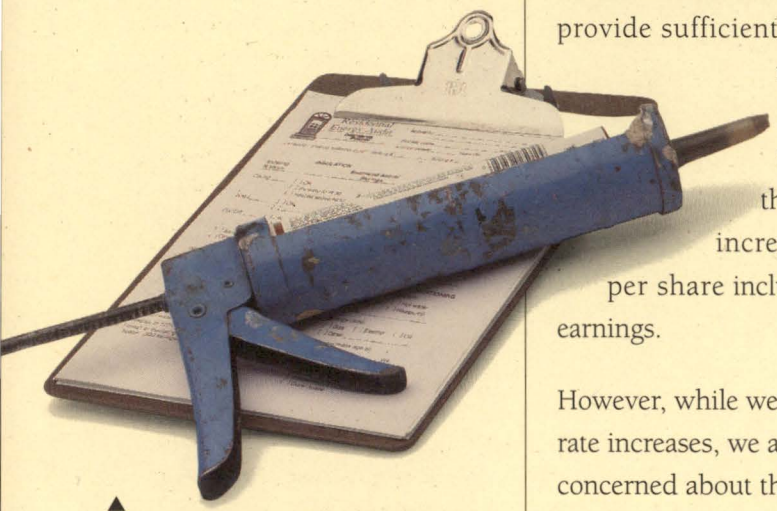
**DELMARVA POWER PRINTED A 1992 "SERVING & CONSERVING DELMARVA" CALENDAR TO PROVIDE CUSTOMERS WITH ENERGY-SAVING ADVICE. THE CALENDAR ALSO BENEFITTED THE ENVIRONMENT. THE COMPANY AND PEOPLE WHO PURCHASED THE CALENDAR DONATED $22,600 TO THE NATURE CONSERVANCY, AN INTERNATIONAL NATURE PRESERVE AND WILDLIFE PROTECTION GROUP. THE PROCEEDS FROM SALES OF THE CALENDAR WILL HELP TO FUND NATURE CONSERVANCY PROJECTS IN DELAWARE, MARYLAND, AND VIRGINIA.**

**DELMARVA POWER FORESTERS HAVE TURNED MORE THAN 8,000 ACRES OF ELECTRIC TRANSMISSION LINE RIGHT-OF-WAY PROPERTY INTO WILDLIFE HABITATS FOR ANIMALS AND PLANTS.**

◀
**MORE THAN 465 BLUEBIRD AND WOOD DUCK HOUSES HAVE BEEN PLACED ON DELMARVA POWER RIGHT-OF-WAY PROPERTY. THESE STRUCTURES PROVIDE NESTING SITES FOR THESE BIRDS.**



▲ **ABOUT 225 LOW-INCOME CUSTOMERS IN DELAWARE AND MARYLAND RECEIVED WATER HEATER WRAPS, LOW-FLOW SHOWER HEADS, WEATHER STRIPPING AND CAULKING FROM DELMARVA POWER'S Y.E.S. PROGRAM. THE NEW PROGRAM OFFERS CUSTOMERS AN OPPORTUNITY TO REDUCE THEIR ENERGY USE.**

critical to the Company's financial health and progress.

Based on a rate settlement agreement in Maryland and assuming reasonable decisions by regulators in other jurisdictions, the rate increases should provide sufficient additional revenue in 1992 to offset the absence of the one-time increase of $.25 per share included in 1991 earnings.

However, while we are seeking rate increases, we are also concerned about the effects of recession on our customers. Individual residential customers may be facing personal cutbacks. Businesses in our service territory use energy and need to keep their products competitive. To keep rate increase requests at a minimum, we have worked hard to contain costs and improve productivity. Delmarva Power's average prices for electricity and natural gas still rank low in the region.

Finally, the 1991 performance of the nonutility subsidiary businesses shows the previous year's problems are behind us. Currently, we are working to grow remaining subsidiary assets, but the impact on future earnings should be small. A more detailed discussion about nonutility subsidiaries can be found on pages 23 and 24.

**SUMMARY**

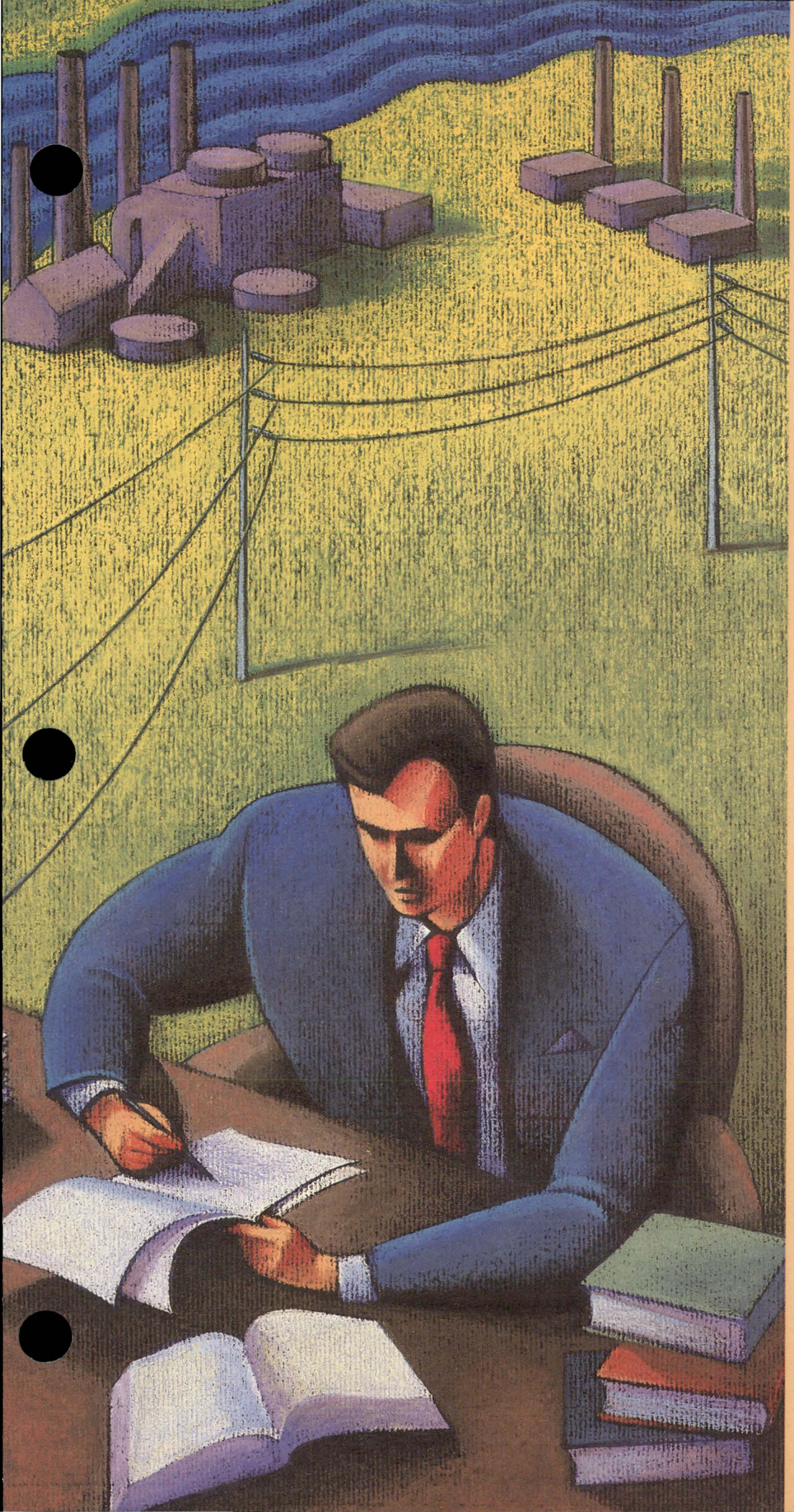
These are the challenges ahead and the strategies developed to meet them. To succeed, we will need the energy, creativity, and dedication of skilled employees. Their performance in 1991 demonstrates they have those tools. We thank them and look forward to working with them in 1992.

Sincerely,

Nev Curtis
Chairman & Chief Executive Officer

Howard Cosgrove
President & Chief Operating Officer

February 6, 1992



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**A MAJOR EFFORT OF 1991 WAS TO SEEK BASE RATE INCREASES TO COVER THE COSTS OF NEW POWER PLANTS, ENERGY MANAGEMENT EQUIPMENT, AND NEW AND UPGRADED TRANSMISSION AND DISTRIBUTION EQUIPMENT. THESE COSTS, ALONG WITH THE COST OF INFLATION SINCE THE EARLY 1980s WHEN BASE RATE REQUESTS WERE LAST FILED, WERE NOT INCLUDED IN 1991 RATES.**

▲
**TO HELP IMPROVE RELIABILITY FOR CUSTOMERS, GAS DIVISION EMPLOYEES ARE REPLACING OLD NATURAL GAS PIPES. THE PIPE REPLACEMENT PROJECT, WHICH BEGAN IN 1986, IS A 10-YEAR PLAN THAT WILL REPLACE ABOUT 90 MILES OF UNCOATED, UNWRAPPED STEEL PIPE INSTALLED PRIOR TO 1948 WITH NEW POLYETHYLENE PIPE. TO DATE, ABOUT 59 MILES OF PIPE HAVE BEEN REPLACED.**

## FINANCIAL RESULTS

Delmarva Power earnings increased to $1.69 per share from $.60 per share in 1990. There were three main reasons for the increase:

- a one-time accounting change for unbilled revenues that added $.25 per share
- the absence of last year's write-off and operating losses from nonutility subsidiaries, which had decreased 1990 earnings by $1.10 per share
- a 3.3% increase in electric sales.

Core utility earnings declined to $1.66 per share from $1.70 in 1990. This decrease was expected and reflects the cost of the Company's increased investment in additional facilities to meet customers' growing energy needs, inflation since the last base rate increases in the early 1980s, and compliance with stricter environmental requirements. These higher costs were partly offset by the Company's accounting method change for revenues that remain unbilled at the end of a calendar month. The one-time accounting change, effective as of January 1, 1991, more closely matches revenues with expenses.

Nonutility subsidiaries earned $.03 per share, compared to a loss of $1.10 in 1990. The positive earnings in 1991 resulted from gains on the sales of assets. Further details are discussed on pages 23 and 24.

To reverse deteriorating earnings caused by growing core utility expenses, the Company filed a series of rate cases in 1991. See page 38 for a complete discussion of rate case filings.

With rate cases pending, the Board of Directors decided to sustain the dividend level at 38 ½¢ per quarter or an indicated annual rate of $1.54.

In addition, Delmarva Power bonds held strong ratings, A+ by Standard & Poor's, A+ by Duff and Phelps, and A2 by Moody's Investor Service. During 1991, Moody's downgraded the Company's credit ratings for senior secured debt from A1 to A2. This change was the result of the agency's uncertainty about future rate relief necessary to support higher capital requirements and associated

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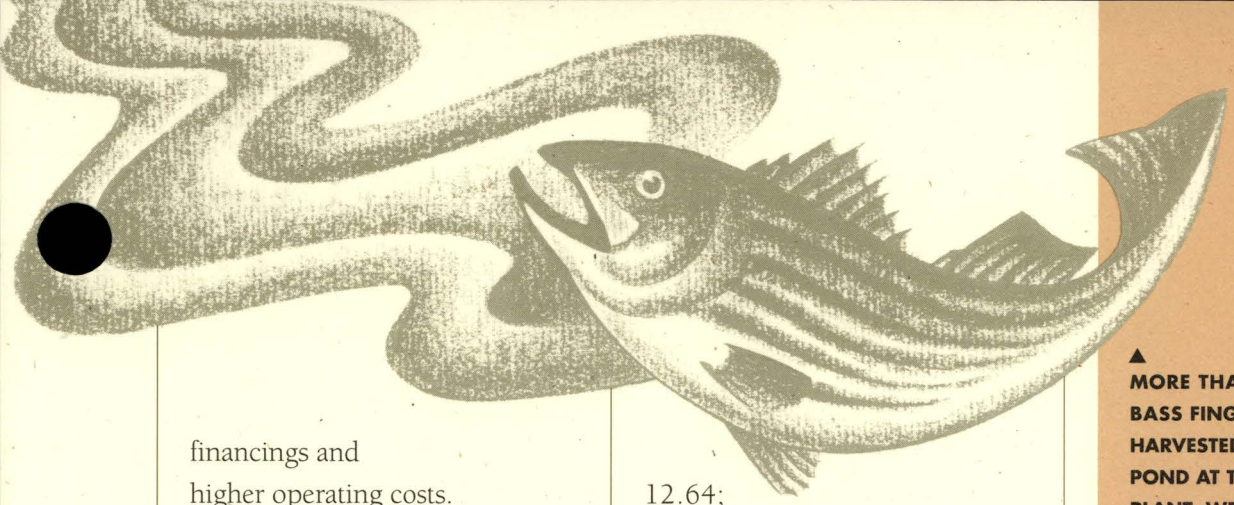
**BOY SCOUT ADDISON YANITO AND HUNDREDS OF OTHER CHILDREN LEARNED ABOUT ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION THROUGH "SCOUTING FOR ENERGY" ACTIVITY KITS SPONSORED BY THE COMPANY.**



financings and higher operating costs.

The price of common stock increased 17.2%, to $21 1/4 at the end of 1991 from $18 1/8 at the end of 1990.

## CUSTOMER FOCUS

Serving a diverse population requires Delmarva Power to be responsive to customers' changing needs.

By improving productivity and containing costs, the Company has kept prices stable since the early 1980s. For example, the 1991 price of electricity for a typical Delaware residential customer was 11% lower than in 1983 or about 30% lower when adjusted for inflation. Even with the proposed base rate increase, the monthly bill for a typical Delaware residential customer using 750 kilowatt-hours per month would be about 8% lower than it was in 1983.

Delmarva Power prices remained regionally competitive. Electric price comparisons (for all customer categories in cents per kilowatt-hour for 12 months ended November 30, 1991) are as follows: New York, 12.64; Philadelphia, 9.49; Newark, N.J., 9.15; Baltimore, 7.55; Delmarva Peninsula, 6.51; Norfolk, Va., 6.26.

Natural gas price comparisons (in cents per 100 cubic-feet for 12 months ended November 30, 1991) are as follows: New York,72.76; Philadelphia, 70.26; Newark, N.J., 57.42; Baltimore, 56.90; Wilmington, Del., 46.03; and Norfolk, Va., 44.27.

Each year the Company commissions a residential customer opinion survey to see how our performance is measured by the community we serve. For 1991, the survey found that 82% of the customers surveyed gave the Company a favorable rating compared with 46% in 1982. Service reliability, reasonable rates, and customer service were the top reasons customers gave the Company a favorable rating.

In other surveys designed to evaluate day-to-day Company activities, more than eight out of 10 customers gave Delmarva Power's customer service employees favorable ratings. Nearly nine out of 10 customers

▲ **MORE THAN 26,000 STRIPED BASS FINGERLINGS (ROCKFISH), HARVESTED FROM THE COMPANY'S POND AT THE VIENNA POWER PLANT, WERE RELEASED INTO THE NANTICOKE RIVER IN 1991. EMPLOYEE VOLUNTEERS HAVE HELPED TO RAISE OVER 105,000 ROCKFISH IN THE PAST SIX YEARS.**

**HAY ROAD UNIT #3, A 109-MEGAWATT COMBUSTION TURBINE (CT), WAS COMPLETED AND PLACED IN SERVICE ON TIME AND UNDER BUDGET. WITH THIS ADDITIONAL GENERATING CAPACITY, THE COMPANY WAS ABLE TO MEET THE RECORD PEAK DEMAND FOR ELECTRICITY OF 2,430 MEGAWATTS.**

**THROUGH CONTRIBUTIONS OF STOCKHOLDERS AND CUSTOMERS, THE GOOD NEIGHBOR ENERGY FUND CONTRIBUTED OVER $1.5 MILLION DURING THE LAST EIGHT YEARS TO MORE THAN 16,000 CUSTOMERS HAVING TROUBLE PAYING ENERGY BILLS.**

**DELMARVA POWER TEAMS ARE FINDING WAYS TO UTILIZE 300,000 TONS OF COAL ASH PRODUCED EACH YEAR AT ITS EDGE MOOR AND INDIAN RIVER POWER PLANTS. FOR MANY YEARS, MUCH OF THE ASH, A COMBUSTION BY-PRODUCT, WAS PLACED INTO LANDFILLS, BUT SOME OF IT IS NOW BEING USED ON VARIOUS CONSTRUCTION AND ENVIRONMENTAL PROJECTS.**

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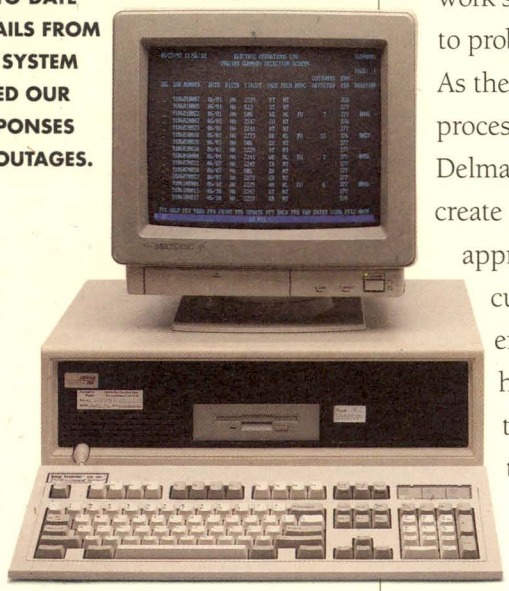
**"OPERATIONS LOG," A NEW COMPUTER SYSTEM, ALLOWS CUSTOMER SERVICE REPRESENTATIVES TO INSTANTLY PASS ON INFORMATION FROM CUSTOMER OUTAGE CALLS TO OPERATIONS EMPLOYEES. THE QUICK, UP-TO-DATE DETAILS FROM THE SYSTEM SPEED OUR RESPONSES TO OUTAGES.**



who lost power during storms felt the Company deserved positive ratings for its ability to restore service.

The Company continues to develop a more participative work style where people closest to problems solve the problems. As the participative skills process has matured and as Delmarva Power has strived to create a work environment that appreciates and incorporates cultural diversity, more employees at all levels have had opportunities to advance new ideas and to improve existing methods of performing their work.

Working in teams, employees set high goals and suggest innovations that are efficient and cost effective. For example, Delmarva Power can now figure out in less than a week how much it owes in annual Maryland property taxes. This calculation had taken two to three months before a team of eight employees from the accounting and engineering groups created a new time-saving computer system.

The construction drafting group created an index to save time when someone is looking for a specific drawing. The engineering and construction departments are using a new, more accurate measurement device that takes about one-tenth the time of the old method to check equipment for its susceptibility to lightning damage. These checks help to improve electric service reliability.

As a result of ongoing debt refinancing efforts, the Company will save $2.6 million in annual interest expense.

Working together, employees achieved six of the eight goals of the Corporate Performance Incentive Plan. Through the achievement of the plan's wellness goal over the last four years, absenteeism has decreased by nearly one day per employee per year.

Delmarva Power's absenteeism rate is one of the lowest among utilities in the region.

Employees are also working together to continually improve the health and safety of individuals. About 500 employees improved their health by exercising regularly through a Company-wide health program. In 1991, more than 95% of employees remained injury-free. Employees also set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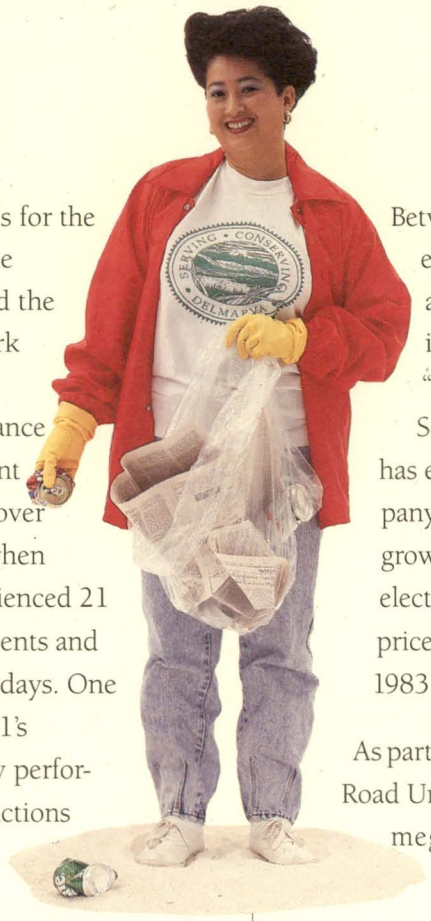
**TO FINANCE ONGOING CONSTRUCTION, DELMARVA POWER SOLD 3.5 MILLION SHARES OF NEW-ISSUE COMMON STOCK. THIS SALE DID NOT HAVE A NEGATIVE PRICE EFFECT ON SHARES HELD BY CURRENT STOCKHOLDERS.**

all-time records for the fewest lost-time injuries (4) and the fewest lost work days (43). The 1991 performance was a significant improvement over 1990 results when workers experienced 21 lost-time accidents and 299 lost work days. One reason for 1991's excellent safety performance is the Actions Prevent Accidents program, which increases and rewards individual commitment, awareness, and action directed toward preventing accidents.




## ENERGY SUPPLY

The Company's Challenge 2000 plan continued to assure customers an adequate, reliable supply of electricity at competitive prices. Challenge 2000 uses a flexible approach that blends customer energy conservation and load management programs ("Save Some"), power purchases ("Buy Some"), and new power plants ("Build Some"). This approach enables Delmarva Power to quickly respond to changes in demand, technology, and governmental regulations.

Between 1984 and 1991, electricity demand at peak periods increased nearly 50%. "Save Some, Buy Some, Build Some," has enabled the Company to keep up with the growing demand for electricity and to keep prices about 10% below 1983 levels.

As part of "Build Some," Hay Road Unit #3, a 109-megawatt combustion turbine (CT), was completed and placed in service on time and under budget. With this additional generating capacity, the Company's pre-summer capacity reserve margin increased to about 18%. This represents a significant improvement over the past two years.

The Company is also constructing a combined-cycle unit at Hay Road and plans to place it in service by the summer of 1993. The unit will use exhaust heat from the three existing CTs to cleanly and efficiently generate 160 megawatts of electricity.

Under "Buy Some," the Company will purchase 48 megawatts of peaking-unit generation from Star Enterprise of Delaware City, Delaware, for 26 years beginning

◀ **MORE THAN 3,000 VOLUNTEERS, INCLUDING ESTHER PEREZ AND ABOUT 200 OTHER EMPLOYEES, CLEANED UP 18 TONS OF TRASH ALONG DELAWARE SHORELINES DURING A BEACH CLEAN-UP DAY. THE EVENT WAS CO-SPONSORED BY DELMARVA POWER AND THE DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL.**

**THE WILDLIFE HABITAT ENHANCEMENT COUNCIL RECOGNIZED DELMARVA POWER WITH A SPECIAL AWARD FOR ITS ENVIRONMENTAL WORK ALONG THE NANTICOKE RIVER. THE COMPANY ALSO RECEIVED A GOVERNOR'S SALUTE TO EXCELLENCE AWARD FROM THE STATE OF MARYLAND CHESAPEAKE BAY CRITICAL AREA COMMISSION FOR FUNDING A MARSH RESTORATION PROJECT IN ST. MICHAELS.**

**BY IMPROVING PRODUCTIVITY AND CONTAINING COSTS, THE COMPANY HAS KEPT PRICES STABLE SINCE THE EARLY 1980S. EVEN WITH PROPOSED RATE INCREASES, THE PRICE OF ELECTRICITY WILL BE LOWER THAN IT WAS IN 1983.**

**THE COMPANY IS CONSTRUCTING A COMBINED-CYCLE UNIT AT HAY ROAD AND PLANS TO PLACE IT IN SERVICE BY THE SUMMER OF 1993. THE UNIT WILL USE EXHAUST HEAT FROM THREE EXISTING COMBUSTION TURBINES TO CLEANLY AND EFFICIENTLY GENERATE 160 MEGAWATTS OF ELECTRICITY.**

▶ **MEMBERS OF THE SHAREHOLDER SERVICES DEPARTMENT ASSISTED 3,936 INVESTORS WHO CALLED THE COMPANY'S TOLL-FREE NUMBER, (800) 365-6495. EMPLOYEES HANDLE CALLS TO THE SPECIAL TELEPHONE LINE FROM 8 A.M. TO 5 P.M., MONDAY THROUGH FRIDAY.**

in June 1992. Star's generating unit, adjacent to its oil refinery, was selected in 1989 from among 10 proposals because it posed the least developmental risk and the lowest cost to customers. The unit, formerly owned by the Company, was purchased by Star at the end of 1991 and will be operated under contract by Delmarva Power.

Also, as part of "Buy Some," the Company received 27 proposals from power project developers to supply the Company with 150 megawatts of electricity by the mid-1990s. During the next few months, Delmarva Power will evaluate the 27 proposals. The evaluation will determine if purchasing power from one of these proposed projects would benefit the Company's customers more than a Delmarva Power-built generating unit. If none of the bids shows an advantage for customers and investors, Delmarva Power will build a natural gas-fired, 150-megawatt combined-cycle unit.

▶ **EMPLOYEES HAVE RECYCLED MORE THAN 4,000 POUNDS OF ALUMINUM CANS AND DONATED THE PROCEEDS TO COMMUNITY NON-PROFIT AGENCIES.**

"Save Some" consists of energy management and energy conservation programs. Based on the amount of electricity demand they can trim at summer peak, Delmarva Power's "Save Some" programs are among the best in the region.

As of the end of 1991, more than 43,000 residential customers and 72 large commercial and industrial customers are participating in Energy For Tomorrow (EFT) and Peak Management (PM), respectively. In exchange for credits on their electricity bills, during peak summer periods, residential customers who participate in EFT allow the Company to cycle their central air conditioners, heat pumps, and electric water heaters. Large commercial and industrial customers who participate in PM reduce their use to prearranged levels when notified by the Company. With these two programs, Delmarva Power can now reduce load by approximately 80 megawatts during peak periods.

Forty-eight commercial and industrial customers have joined the Company's indoor lighting

program. To date, this "Save Some" program has reduced peak demand for electricity by two megawatts. Participants reduce their energy needs and cost by converting to energy-efficient indoor lighting. The program offers customers surveys of their facilities, written recommendations that identify where lighting quality and efficiency can be improved, and rebates, ranging from $100 to $10,000, that provide an additional incentive to make changes. Delmarva Power's goal for the lighting program is to reduce peak load by 10 to 20 megawatts by the year 2000.

Delmarva Power will continue to market existing "Save Some" programs, to expand energy efficiency programs, such as Cool Storage and Load Shifting, and to explore other proposed energy conservation programs through a collaborative process with regulators and customers.

## ENVIRONMENTAL STEWARDSHIP

"Serving & Conserving Delmarva" is the Company's environmental stewardship program that seeks to balance the obligation to serve customers with the responsibility to protect and preserve the environment of the Delmarva Peninsula.

As part of "Serving & Conserving Delmarva," the Company has begun a one-year pilot program to use and evaluate natural gas vehicles. Five of the Company's fleet vehicles have been converted to operate on compressed natural gas. As an alternative to gasoline, compressed natural gas is expected to reduce operating costs. And because it is clean-burning, non-toxic, and non-corrosive, it does not contribute to smog.

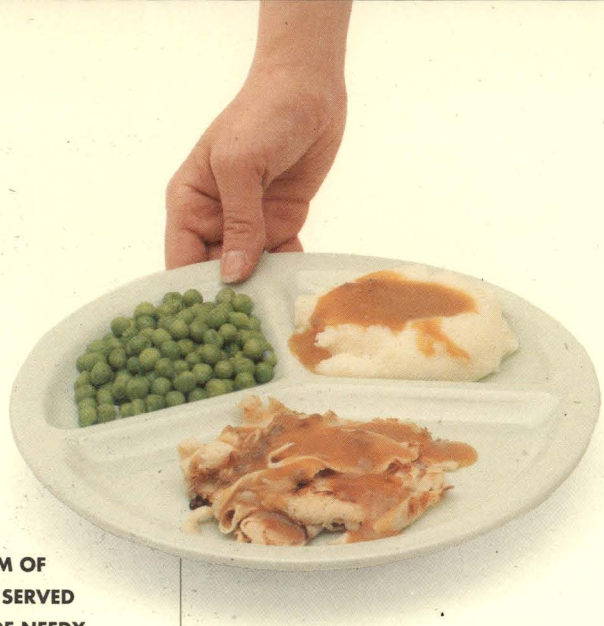
A key part of the 1991 program was the Company's efforts to create greater customer awareness and use of energy-saving products and to inform customers of the association between saving energy and preserving the environment. For example, Delmarva Power offered 1,000 compact fluorescent light bulbs, 1,000 low-flow shower heads, and 1,000 water heater blankets in prize drawings. About 78,000 customers registered for these giveaways. 11,300 "Serving & Conserving Delmarva" 1992 calendars were sold. The Company contributed $22,600 to The Nature Conservancy from the calendar sales proceeds.

Delmarva Power started a pilot program to help low-income


▲
**FIELDMAN FRANK McQUAY FUELS ONE OF THE FIVE COMPANY VEHICLES THAT HAVE BEEN CONVERTED TO OPERATE ON COMPRESSED NATURAL GAS. AS AN ALTERNATIVE TO GASOLINE, COMPRESSED NATURAL GAS IS EXPECTED TO REDUCE OPERATING COSTS AND POLLUTANTS.**

**WORKERS HANDLED EMERGENCY SITUATIONS WITH EXPERTISE. IN EARLY JULY, CREWS BATTLED 104 MILE-PER-HOUR WIND GUSTS AND UPROOTED TREES TO RESTORE ELECTRIC SERVICE TO ABOUT 10,000 CUSTOMERS IN DELAWARE.**

**THE CENTREVILLE CUSTOMER SERVICE TEAM MADE SOME IMPRESSIVE GAINS IN 1991, ACCORDING TO A RECENT SURVEY. FOR EXAMPLE, 99% OF CUSTOMERS GAVE THE TEAM A POSITIVE RATING ON RESOLVING PROBLEMS, COMPARED TO 87% IN 1990.**



▶ **TWICE A MONTH, A TEAM OF EMPLOYEE VOLUNTEERS SERVED MEALS TO HUNDREDS OF NEEDY PEOPLE AT WILMINGTON'S EMMANUEL DINING ROOM.**

customers better manage their energy use and become aware of how energy conservation helps protect the environment. The Y.E.S. (Your Energy Savings) program, is designed to help customers increase the comfort of their homes and reduce the amount of money they spend on energy. About 225 program participants received a free energy efficiency education and free installation of energy-saving products and materials.

The Company has constructed a 500-foot smokestack at the Indian River power plant to solve an infrequent air pollution problem. Emissions from the Indian River plant near Millsboro, Delaware, had the potential to exceed national air quality regulations about six to ten times a year when the wind blew from a particular direction. The stack was completed ahead of schedule and below budget.

Customers who are aware of the "Serving & Conserving Delmarva" program are more likely to give the Company a positive rating, according to the 1991 Customer Opinion Survey. At a recent roundtable discussion, area environmentalists and opinion leaders applauded our environmental efforts.

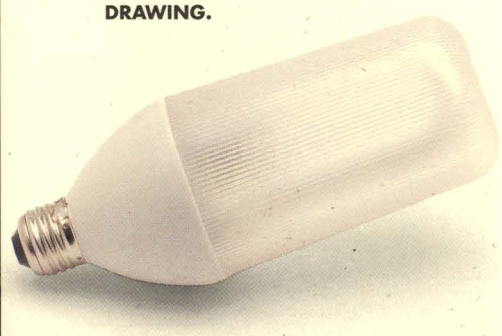
Delmarva Power employee involvement is vital to the success of "Serving & Conserving Delmarva." This year, employees collected 18 tons of trash along Delaware's coastline areas and offered educational information at Earth Day events throughout the Delmarva Peninsula.

Since Delmarva Power burns low-sulfur fuels in most of our power plants, the Company should be able to comply with the Clean Air Act's emission reductions through the year 2000, with relatively little expense compared to many other utilities. However, when the Company adds new power plants, meeting the emissions cap may have a greater cost impact.

## FUTURE GROWTH

The economy of the Delmarva Peninsula was solid in 1991 compared to other parts of the

▼ **AS PART OF ITS "SERVING & CONSERVING DELMARVA" PROGRAM, THE COMPANY AWARDED 1,000 COMPACT FLUORESCENT LIGHT BULBS. ABOUT 40,000 CUSTOMERS REGISTERED TO WIN THE ENERGY-SAVING BULBS. BASED ON THE LARGE CUSTOMER RESPONSE, THE COMPANY WILL OFFER COMPACT FLUORESCENT LIGHT BULBS IN A 1992 PRIZE DRAWING.**



country. The region's diverse blend of industries (chemicals, food processing, automobiles, agriculture, finance, plastics, and recreation) makes the demand for electricity and natural gas here less affected by fluctuations in the national economy than in many other areas of the U.S.

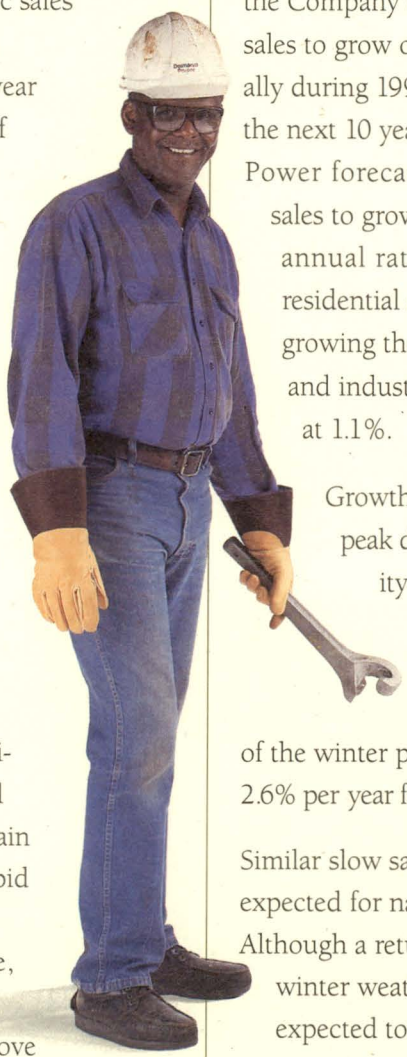
In fact, after a week of sweltering temperatures in July, Delmarva Power customers set a new peak demand for electricity of 2,430 megawatts. This was an 8.7% increase from the previous mark. Total electric sales increased by 3.3% compared to last year and the number of electric customers increased by 1.4% to 373,502. Natural gas and transportation sales decreased 0.7% compared to 1990 due to a mild winter. The number of natural gas customers increased by 2.7% to 87,351.

The Company anticipates that the local economy will remain stable in 1992. Rapid growth in the finance, insurance, and real estate markets, which drove the Delmarva Peninsula's boom in the 1980s, has disappeared. Work force reductions, designed to restructure for competitiveness, have been announced at several large, local chemical companies. In contrast, the Hewlett-Packard Company plans to open a 350,000 square-foot research and manufacturing center that will boost Delaware's economy in 1992.

With the slow recovery from the recession and the restructuring of the local chemical industry, the Company expects electricity sales to grow only 1.8% annually during 1992 and 1993. For the next 10 years, Delmarva Power forecasts electricity sales to grow at an average annual rate of 2.0%, with residential space heating sales growing the fastest at 4.5% and industrial sales lagging at 1.1%.

Growth of the summer peak demand for electricity is expected to average 1.7% per year through 2001. Growth of the winter peak will average 2.6% per year for the same period.

Similar slow sales growth is expected for natural gas. Although a return to normal winter weather in 1992 is expected to push natural gas



**PRODUCTION TEAMS RAN COMPANY POWER PLANTS EFFICIENTLY. THE EQUIVALENT AVAILABILITY RATE IN 1991 WAS 84.1% COMPARED TO THE MOST RECENT INDUSTRY AVERAGE OF 80.4%. DURING JULY, WHEN THE DEMAND FOR ELECTRICITY IS HIGH, COMPANY PLANTS HAD AN EVEN BETTER AVAILABILITY OF 96.3%.**

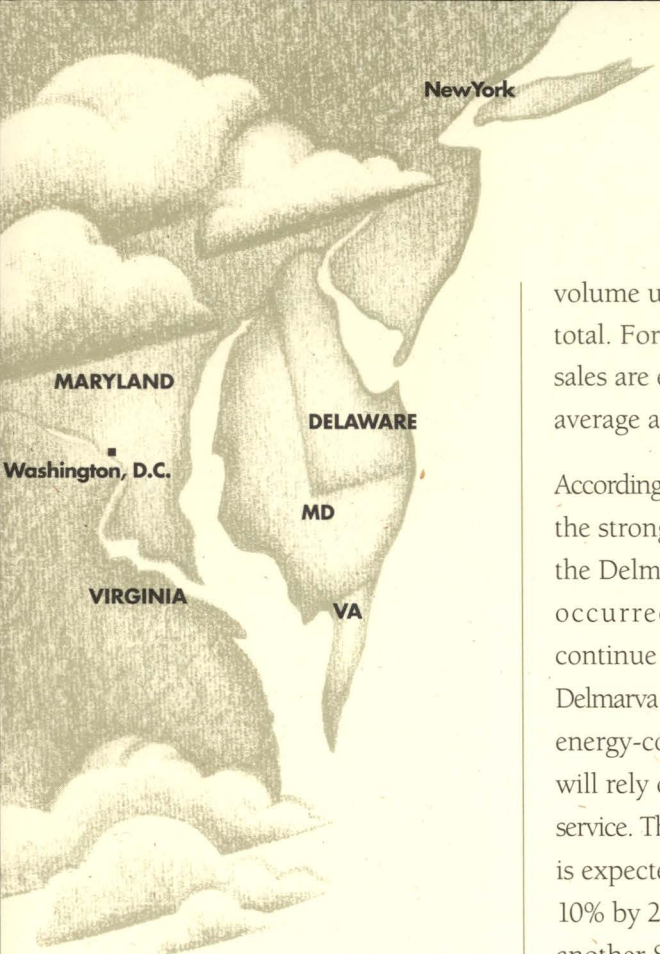
**DELMARVA POWER PROVIDED $3,000 TO CLASSROOM TEACHERS IN THE SERVICE AREA WHO CONDUCTED SPECIAL CLASSROOM PROJECTS THAT TEACH STUDENTS ABOUT ENERGY AND THE ENVIRONMENT.**

**THE SALISBURY METER DEPARTMENT BEGAN A SOLVENT RECOVERY SYSTEM THAT RE-USES CHEMICALS THAT TEST AND CLEAN PROTECTIVE RUBBER GLOVES AND OTHER EQUIPMENT.**

**MEMBERS OF THE SYSTEM OPERATIONS DEPARTMENT SAVED THE COMPANY $1.2 MILLION IN ENERGY PRODUCTION COSTS BY PURCHASING EXCESS POWER FROM PHILADELPHIA ELECTRIC COMPANY.**

◀

**EMPLOYEES, SUCH AS TOM JACKSON FROM VIENNA POWER PLANT, SET ALL-TIME RECORDS FOR THE FEWEST LOST-TIME INJURIES (4) AND THE FEWEST LOST WORK DAYS (43). TOM AND OTHER VIENNA POWER PLANT EMPLOYEES ALSO COMPLETED EIGHT YEARS WITH NO LOST-TIME INJURIES.**




▲ THE DELMARVA PENINSULA'S DIVERSE BLEND OF INDUSTRIES MAKES THE DEMAND FOR ELECTRICITY AND NATURAL GAS HERE LESS AFFECTED BY FLUCTUATIONS IN THE NATIONAL ECONOMY THAN IN MANY OTHER AREAS OF THE U.S.

volume up 9.2% over last year's total. For the long term, firm sales are expected to grow at an average annual rate of 1.2%.

According to the 1990 U.S. Census, the strong population growth on the Delmarva Peninsula that occurred in the 1980s will continue through the '90s. For Delmarva Power, that means more energy-consuming households will rely on the Company for service. The peninsula population is expected to increase more than 10% by 2000 and then increase another 8% by 2010.

## SERVICE AREA

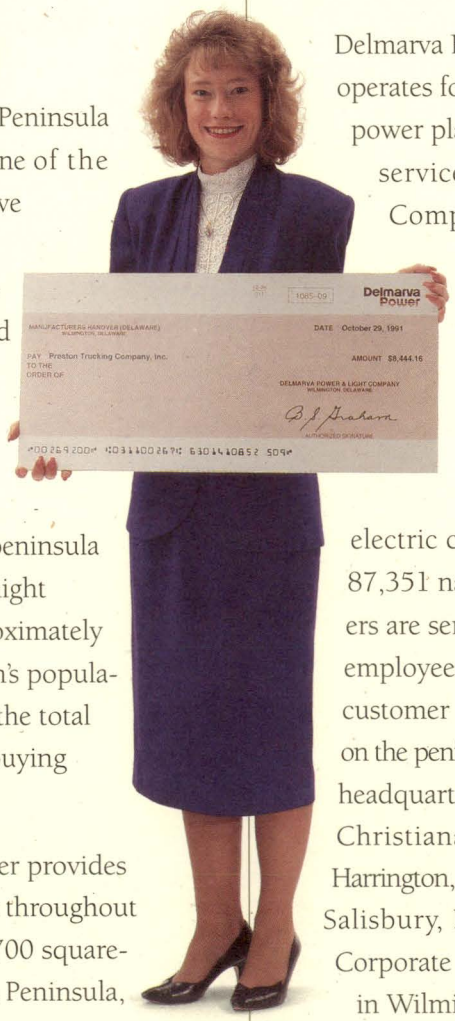
The Delmarva Peninsula stands out as one of the most distinctive geographical features on the East Coast. And it is centrally located between major East Coast markets. The peninsula is within overnight access to approximately 1/3 of the nation's population and 1/3 of the total U.S. effective buying income.

Delmarva Power provides electric service throughout most of the 5,700 square-mile Delmarva Peninsula, which includes the entire state of Delaware, portions of nine Eastern Shore Counties of Maryland and the two Eastern Shore Counties of Virginia. In addition, the Company distributes gas service in a 275 square-mile area of northern Delaware.

To serve this region, Delmarva Power maintains an electric system with 2,645 megawatts of generation capacity, 1,324 miles of transmission lines, 10,606 miles of distribution lines, and a natural gas system with 1,286 miles of gas main.

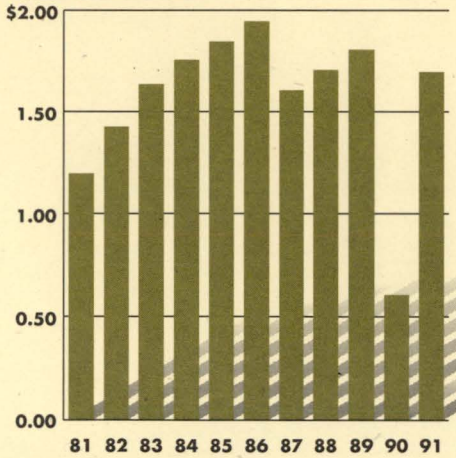
Delmarva Power owns and operates four fossil fuel power plants within the service territory. The Company shares ownership of two coal plants and two nuclear plants outside the service territory.

Our 373,502 electric customers and 87,351 natural gas customers are served by 2,817 employees working in 13 customer service locations on the peninsula. Division headquarters are in Christiana, Delaware; Harrington, Delaware; and Salisbury, Maryland. Corporate headquarters is in Wilmington, Delaware.

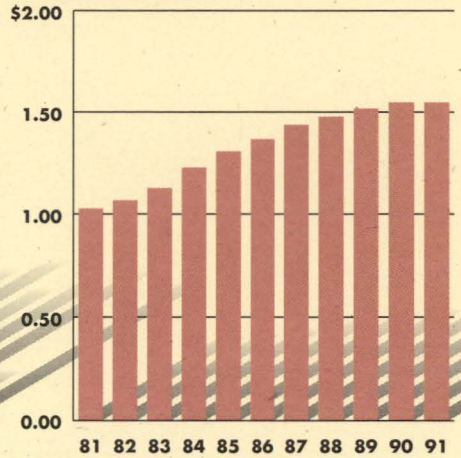



▶ MARKETING GENERAL MANAGER LOUISE MORMAN PRESENTED THIS "BIG" $8,444 CHECK TO PRESTON TRUCKING COMPANY. PRESTON WAS ONE OF THE FIRST COMPANIES IN MARYLAND TO PARTICIPATE IN DELMARVA POWER'S COMMERCIAL AND INDUSTRIAL LIGHTING PROGRAM. THIS PROGRAM OFFERS CUSTOMERS REBATES AS AN INCENTIVE TO IMPROVE LIGHTING EFFICIENCY IN THEIR FACILITIES.

EARNINGS PER SHARE OF COMMON STOCK

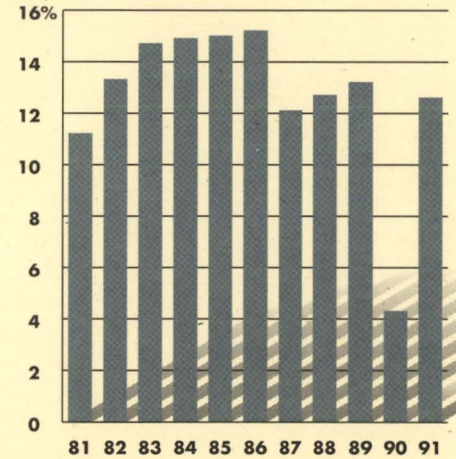



DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

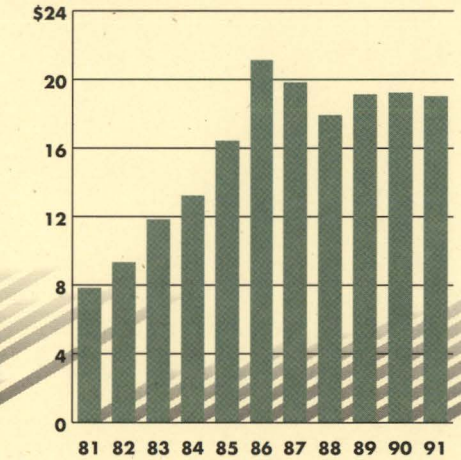



EARNINGS PERFORMED AS EXPECTED, $1.69 PER SHARE, AT A TIME WHEN THE COMPANY IS BUILDING NEW POWER PLANTS AND IS PURSUING RATE INCREASES TO RECOVER CONSTRUCTION COSTS. THESE CHARTS REFLECT KEY FINANCIAL INFORMATION ABOUT THE COMPANY.

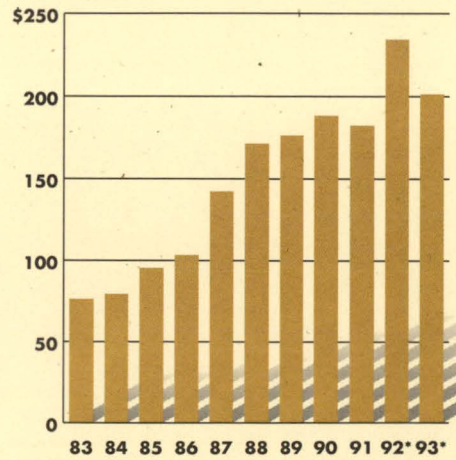
RETURN ON AVERAGE COMMON EQUITY




AVERAGE COMMON STOCK MARKET PRICE

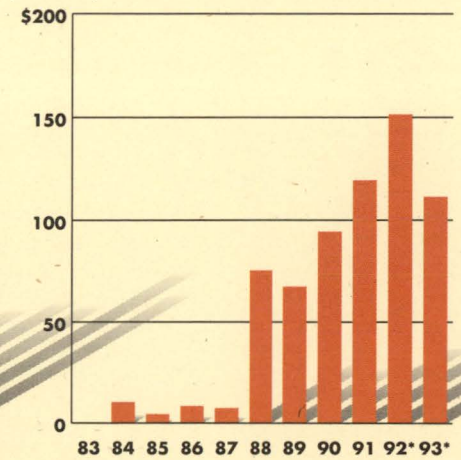



UTILITY CONSTRUCTION EXPENDITURES
(in millions)




*Forecast

UTILITY EXTERNAL FINANCINGS
(in millions)




*Forecast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## RESULTS OF OPERATIONS

### EARNINGS

The earnings per share of common stock attributed to the core utility business and nonutility subsidiaries are shown below. The discussion of nonutility subsidiary earnings begins on page 23.

| | **1991** | 1990 | 1989 |
|---|---|---|---|
| Core Utility | | | |
| Operations | $1.41 | $1.70 | $1.69 |
| Cumulative effect of a change in accounting for unbilled revenues (See Note 1 – Unbilled Revenues) | 0.25 | — | — |
| Nonutility Subsidiaries | 0.03 | (1.10) | 0.11 |
| Total | $1.69 | $0.60 | $1.80 |

### DIVIDENDS

On December 23, 1991, with several rate cases pending, the Board of Directors decided to sustain the quarterly common stock dividend at its current level of 38 ½ cents per share or an indicated annual level of $1.54 per share.

### CORE UTILITY EARNINGS

The 29¢ per share decline in 1991 earnings of core utility operations compared to 1990 occurred mainly because customer rates had not yet been raised to recover financing and operating costs associated with new utility plant added to the Company's electric and gas systems. The Company's construction expenditures have risen over the past several years in order to meet customers' growing energy needs and to comply with environmental regulations. Operation, maintenance, depreciation, and financing costs also normally rise when capital additions are made to utility systems. The new utility plant was partly financed in 1991 by the issuance of common stock. The dilutive effect of the additional common shares outstanding reduced earnings per share by 9¢. The adverse effect on earnings per share of the financing and operating cost increases was partly offset by productivity gains and by additional base electric revenues attributed to a 3.3% increase in 1991 kilowatt-hour (kWh) sales.

After excluding the effect of two unusual items on 1989 earnings per share, 1990 core utility earnings per share decreased in comparison to 1989. This decrease was primarily due to financing and operating expenses associated with plant added to the Company's electric and gas systems. Replacement power costs related to the shutdown of the Peach Bottom Atomic Power Station (Peach Bottom) decreased 1989 earnings per share by 18.5¢, and a one-time credit adjustment for previously expensed spare parts at certain jointly-owned generating plants increased 1989 earnings per share by 5¢.

As discussed in Note 6 to the Consolidated Financial Statements, the Company requested rate increases in several regulatory jurisdictions during 1991. The Delaware Public Service Commission is expected to render a decision during the first quarter of 1992 on the Company's request for a $24.6 million annual rate increase. In Maryland, an annual retail electric base rate increase of $5.5 million, effective January 1, 1992, was approved in December 1991. In the Company's resale jurisdiction, a request for a $5.0 million annual rate increase has been filed. Furthermore, the Company has requested a $4.8 million annual increase in Delaware gas base rates. Timely and adequate rate relief will be necessary over the next several years since the Company expects continued downward pressure on utility earnings from costs associated with new utility plant to be added in the near future.

## ELECTRIC REVENUES AND SALES

As discussed in "Utility Revenues" in Note 1 to the Consolidated Financial Statements, customer rates are set through fuel adjustment clauses and base rate proceedings. Thus, the two basic components of electric and gas utility revenues are "fuel revenues" and "base revenues." Fuel revenues generally do not affect net income since the expense recognized for fuel costs is adjusted to match the fuel costs billed to customers (fuel revenues). The amount of under or over-recovered fuel costs is deferred until it is subsequently recovered from or returned to utility customers.

Total 1991 electric revenues increased $42.6 million from 1990 due to a $20.4 million increase in base revenues and a $22.2 million increase in fuel revenues. The increase in 1991 base electric revenues was primarily due to a 3.3% rise in total kWh sales. The major factors driving sales growth continued to be growth in the total number of customers and increased usage per customer. The total number of electric customers increased by 1.4% in 1991 in comparison to 2.0% in 1990 and 2.7% in 1989. Customer growth has slowed over the past several years due to weaker economic conditions. The residential and commercial customer sales classes accounted for about two-thirds of 1991 electric revenues and provided most of the increase in base electric revenues. Residential and commercial sales grew in 1991 at rates of 5.0% and 4.0%, respectively. A 1.2% decrease in industrial sales, attributed to the economic downturn, was tempered by the diverse mix of industrial customers served by the Company.

Total 1990 electric revenues increased $30.1 million from 1989 due to a $10.5 million increase in base revenues and a $19.6 million increase in fuel revenues. The 1990 increase in base electric revenues was primarily due to a 2.3% increase in total kWh sales. Residential sales growth of 1.1% in 1990 was relatively low compared to recent prior years due to milder winter weather. The 1990 commercial sales growth rate of 3.6% slowed from 1989 due to diminished growth in the financial services industry. Industrial sales growth of 3.9% was surprisingly strong in 1990 as economic conditions had started to weaken.

## GAS REVENUES, SALES AND TRANSPORTATION

The Company earns gas revenues from the sale of gas to customers and also from transporting gas through the Company's system for some customers who purchase gas directly from gas producers and pipelines. Gas revenues decreased by $8.6 million in 1991 due to decreases in base revenues and fuel revenues of $1.2 million and $7.4 million, respectively. Fuel revenues decreased since rates charged to customers to recover gas fuel costs were reduced in 1991 to reflect lower prices paid for purchased gas. The decrease in base revenues was attributed to a 3.4% decline in sales (excluding transportation) due to mild winter weather, the sluggish economy, and more customers transporting gas directly from gas producers and pipelines. In total, gas sales and gas transported decreased by 0.7% in comparison to 1990.

In 1990, gas revenues decreased by $6.9 million in comparison to 1989 mainly as a result of the Company crediting $6.2 million to customers' bills in order to return over-recovered gas fuel costs. The $6.2 million bill credit did not affect net income, since fuel costs also decreased by $6.2 million. Gas sales decreased 3.5% in 1990 due to milder winter weather and some customers transporting gas from producers and pipelines. In total, 1990 gas sales and gas transported increased by 5.4% in comparison to 1989.

## OPERATION, MAINTENANCE, AND DEPRECIATION EXPENSES

Operation and maintenance expenses increased by $21.4 million in 1991 in comparison to 1990 mainly due to increased costs for operating and maintaining the electric transmission and distribution systems to serve the Company's growing number of customers, higher expenses at the jointly-owned nuclear power plants, and higher administrative and general expenses. Future increases in operation and maintenance expenses are expected due to additions of new utility plant to serve customers' growing energy needs, aging of existing utility plant, and normal inflationary pressures. Depreciation expense increased $6.3 million in 1991 primarily due to additions to electric utility plant which included the installation of a third combustion turbine at Hay Road in June 1991. Continued increases in depreciation expense are expected as new utility plant is added.

1990 operation and maintenance expenses increased by $7.6 million over 1989 expenses primarily due to higher payroll and other costs of serving the growing number of customers connected to the Company's electric and gas systems. Expenses decreased at Peach Bottom since costs related to the restart effort were incurred in 1989. Offsetting the Peach Bottom decrease in expenses was an increase due to a one-time $3.9 million credit in 1989 for previously expensed spare parts at certain jointly-owned generating units. Depreciation expense increased $6.1 million in 1990 due mainly to additions to the electric system.

## ELECTRIC FUEL AND NET PURCHASED POWER EXPENSES

The components of the changes in electric fuel and net purchased power expenses are shown in the table below.

Comparative Increase (Decrease) From Prior Year in Electric Fuel and Net Purchased Power Expenses

| (Dollars in Millions) | 1991 | 1990 |
|---|---|---|
| Average Cost of Electric Fuel and Net Purchased Power | $ (7.8) | $(10.5) |
| Increased kWh Output | 11.1 | 0.0 |
| Deferral of Energy Costs | 21.1 | 12.4 |
| Total | $24.4 | $ 1.9 |

The 1991 "Average Cost of Electric Fuel and Net Purchased Power" decreased from 1990 mainly due to lower oil and gas prices and a decrease in the cost of purchased power. In November 1991, Unit 2 at the Salem Nuclear Generating Station was shut down due to equipment failure as discussed in Note 16 to the Consolidated Financial Statements. The Company does not expect the shutdown to have a material impact on the cost of fuel in 1992. In 1991, the Company's total kWh output was provided by coal generation (45%), nuclear generation (15%), oil generation (15%), gas generation (7%), and purchased power (18%).

The 1990 "Average Cost of Electric Fuel and Purchased Power" decreased from 1989 primarily due to increased low cost nuclear generation and a decrease in the cost of purchased power. Nuclear generation increased in 1990 mainly due to greater availability of the Peach Bottom units which were shut down during most of 1989 (as discussed in Note 16 to the Consolidated Financial Statements). Higher oil prices mitigated the overall decrease in the average fuel cost.

## UTILITY FINANCING COSTS

Interest charges on debt of the core utility business were $67.0 million in 1991, $62.8 million in 1990, and $59.1 million in 1989. The increases were primarily due to higher average debt balances required to finance the Company's increased investment in utility plant. The increases in interest charges were moderated by lower interest rates on variable rate demand bonds, lower average amounts of short-term debt outstanding, and lower interest rates on refinancing bonds. Dividends on preferred stock decreased $0.8 million in 1991, mainly due to lower dividend rates paid on the auction rate preferred stock series. In 1990, dividends on preferred stock increased $1.4 million, since $45 million of preferred stock was issued in August 1989 to finance the Company's investment in utility plant.

Debt and equity financing costs capitalized on utility capital expenditures totaled $7.6 million in 1991, $5.5 million in 1990, and $7.5 million in 1989. The variances between years in capitalized financing costs are principally the result of fluctuations in the average balance of construction work-in-progress (CWIP). Average 1991 CWIP balances were higher than 1990 mainly due to greater average cumulative expenditures on the new Hay Road No. 3 combustion turbine, the combined cycle addition to the Hay Road combustion turbines, and the new stack for the Indian River plant. Average 1990 CWIP balances were lower than 1989 chiefly due to completion of the first two combustion turbines at Hay Road in 1989.

## CAPACITY AND LOAD

On June 1, 1991, the Company placed the Hay Road No. 3 combustion turbine into service, which added 109 megawatts (MW) of capacity to the electric system. On July 23, 1991, the Company recorded an all-time peak load of 2,430 MW, an increase of 8.7% over the 1990 peak load of 2,235 MW. The peak load was much higher than expected due to abnormally hot weather. The Company's generating capacity of 2,645 MW at the time of the peak provided an 8.8% reserve margin, or about one-half of the 19% reserve margin that was expected under normal weather conditions. On a long-term basis, the Company's objective is to meet the PJM Interconnection reserve requirements which are expected to range between 15% to 20% for the Company. Since the 1991 peak load was increased substantially by the hot weather, the Company does not expect its peak load to grow beyond the 1991 level over the next few years if weather conditions are normal. Over the next ten years, the Company expects its peak load to grow at an average annual rate of 1.7%.

The Challenge 2000 Plan is the Company's strategy for providing reliable electric service at competitive rates to customers. The plan combines customer-oriented conservation alternatives, called demand-side options, and the use of various generation technologies, called supply-side options. The strategy can be characterized as "Save Some, Buy Some, Build Some." The plan is flexible and can be adapted to lower or higher than anticipated load growth. As of December 31, 1991, the demand side ("Save Some") of Challenge 2000 had enrolled over 43,000 residential customers and about 110 commercial and industrial customers which provide the Company with the ability to reduce its peak load by 180 MW or about 7%. The supply side of the Challenge 2000 Plan combines the use of power purchases ("Buy Some") and the construction of new generating capacity ("Build Some"). In 1992, the Company will begin to purchase 48 MW of capacity from the Delaware City Power Plant that was sold to Star Enterprise in December 1991, as discussed in Note 13 to the Consolidated Financial Statements. In 1993, the Company plans to place in-service a 160 MW combined cycle addition to the Hay Road combustion turbines. In 1996, the purchase of 150 MW of base-load capacity is planned. The Company is evaluating 27 bids received from parties interested in supplying all or a portion of the 150 MW of capacity in 1996.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital resources are internally generated funds (net cash provided by operating activities less common and preferred dividends) and external financings. These resources provide capital for the Company's utility construction program and other capital requirements, such as repayment of maturing debt and capital lease obligations.

In 1991, internally generated funds represented 53% of utility construction expenditures in comparison to 60% for 1990, and 61% for 1989. During 1989 through 1991, the difference between utility construction expenditures and internally generated funds was primarily funded through external financings. The Company raised $119.3 million in 1991, $93.8 million in 1990, and $66.6 million in 1989 from external financings (net of refinancings).

The Company raised $87.9 million in 1991, compared to $16.8 million in 1990, and $15.2 million in 1989 from the issuance of common equity. Common stockholders' equity as a percentage of total capitalization (including long-term debt due within one year and variable rate demand bonds) increased from 40.1% as of December 31, 1990 to 42.7% as of December 31, 1991. Book value per share of common stock increased from $12.84 as of December 31, 1990 to $13.42 as of December 31, 1991.

During 1991, the Company issued $117.0 million of long-term debt at an average interest rate of 7.92% and repurchased $85.6 million of long-term debt which had an average interest rate of 10.92%. Although these long-term debt financings (discussed under "Long-Term Debt" of Note 3 to the Consolidated Financial Statements) increased long-term debt by $31.4 million, annualized interest requirements did not increase due to the lower rates of the new debt. Long-term debt and variable rate demand bonds as a percent of total capitalization decreased from 51.0% as of December 31, 1990 to 49.1% as of December 31, 1991.

Capital resources available to the Company for short-term financing needs include commercial paper, loan participation agreements, and lines of credit. As of December 31, 1991, $75 million in lines of credit were available for the short-term financing needs of the Company.

In 1991, the total of internally generated funds and external financings (net of refinancings) exceeded utility construction expenditures, which was the main cause of the $19.7 million increase in cash and cash equivalents.

During 1990, the Company began financing its share of nuclear fuel for the Salem and Peach Bottom nuclear plants through a nuclear fuel energy contract which is considered a capital lease. In 1990, the Company received $18.7 million from the transactions, and capital lease obligations increased by $47.5 million. The balances of the long-term portion of capital lease obligations as of December 31, 1991 and 1990 were $29.3 million and $32.4 million, respectively.

Capital requirements for the period 1992-1993 are estimated to be $470 million, including $434 million for utility construction (excluding AFUDC). These estimates include $29 million of capital expenditures related to compliance with provisions of the Clean Air Act (CAA). An additional $91 million of capital expenditures during 1994-2000 are also included in the Company's current plan for compliance with the CAA. In addition to these capital expenditures, the Company expects that more costly, lower sulfur fuels may be burned in its generating units in order to comply with the CAA. The Company's plan for compliance with the CAA may change since various alternatives continue to be evaluated and many regulations associated with the CAA have not yet been promulgated.

In 1990, the New Jersey Department of Environmental Protection issued Public Service Electric and Gas (PSE&G), the Salem nuclear plant operator, a draft permit that would require construction of cooling towers and a shutdown of the plant during the construction period. PSE&G is opposing the draft permit. If the cooling towers are constructed, the Company would incur substantial replacement power costs during the construction period and estimated capital costs of $40 million or more. The Company's forecasts of 1992-1993 capital expenditures do not include possible additional costs for the construction of cooling towers for Salem.

The Company anticipates that $210 million will be generated internally during 1992-1993, which represents 45% of estimated capital requirements and 48% of estimated utility construction expenditures. The balance is expected to be externally financed. The Company's forecast of internally generated funds reflects an average annual electric sales growth rate of 1.8% during 1992-1993 in comparison to growth rates of 3.3% in 1991, 2.3% in 1990, and 5.9% in 1989. The Company's forecast of internally generated funds also includes expected on-going rate relief to recover additional costs related to new utility facilities to be constructed.

The Company estimates its external financing requirements to be $260 million during 1992-1993. The Company's preliminary plans to satisfy its estimated need for external financings during 1992-1993 include issuing $100 million of long-term debt, $50 million of preferred stock, and $110 million (market value) of common stock.

The Company's planned financing mix should result in a capital structure that is within the target ranges of 44-49% debt, 8-10% preferred stock, and 42-46% common stock. The planned financing mix is also expected to result in continued improvement of the Company's debt to equity ratio and fixed charge coverage ratio. The Company's ratio of pre-tax earnings to fixed interest charges (computed according to Securities and Exchange Commission regulations) was 2.6 for 1991. As of December 31, 1991, the Company's senior debt was rated A2 by Moody's Investor

Service, A+ by Standard & Poors, and A+ by Duff & Phelps. Moody's downgraded the credit rating of the Company's senior debt from A1 to A2 during 1991 due to increased capital requirements and the need for additional financing and rate relief. The Company's objective is to maintain its financial parameters within the ranges that warrant a strong "A" bond rating. The Company will need to obtain timely and adequate rate relief from the regulatory commissions in order to maintain its current bond ratings.

## NONUTILITY SUBSIDIARIES

Information on the Company's nonutility subsidiaries in addition to the following discussion can be found in the following Notes to the Consolidated Financial Statements: Note 1 (Significant Accounting Policies); Note 8 (Write-off of Subsidiary Joint Venture Investments); Note 9 (Gains on Subsidiary Transactions); and Note 20 (Consolidated Condensed Financial Statements of Subsidiaries).

Nonutility subsidiaries earned $.03 per share in 1991. Gains from sales of purchase options on leveraged leases, which contributed $.07 to 1991 earnings per share, were partly offset by operating losses from the Pine Grove Landfill and accruals for potential settlements of litigation. In 1990, the nonutility subsidiaries had reported a loss of $1.10 per share which was principally due to a write-off of joint venture investments and to the operating losses of the projects that were written off. As discussed in Note 8, in December 1990, the Company wrote off its $62,534,000 investment in the Redding Power, Burney Forest Products, and Glendon Energy joint venture projects which reduced 1990 net income by $42,497,000 ($.89 per share). The losses on the operations of these projects during 1990 reduced earnings per share by $.18. Since the investment in these projects was written off in 1990 and the Company is no longer funding the projects' losses, losses from the projects' 1991 operations were not recorded in accordance with the equity method of accounting. In August 1991, the bank which had financed Redding Power took title to the project in consideration for the outstanding loan balance. The Burney Power Plant continues to operate and all fuel requirements are being provided by outside suppliers. The sawmill, which was intended to produce finished lumber and provide fuel for the power plant, has been sub-leased. In addition, the outstanding bank debt at Burney was restructured in 1991. The restructured debt provides the project greater flexibility in meeting its debt obligations.

Total subsidiary revenues (including gains) were $16.4 million in 1991 compared to $17.1 million in 1990. The decrease was mainly due to the disposition of certain operations, partly offset by a $4.4 million pre-tax gain on sales of purchase options on leveraged leases and a $3.1 million increase in landfill and waste hauling revenues. Revenues from management services decreased by $2.0 million due to the disposition of the Redding Power project which had been managed by the subsidiaries. Subsidiary investment income declined $3.1 million in 1991 due to interest income that was accrued in 1990 on loans to joint ventures that were subsequently written off in December 1990. Also, revenues from a sawmill operation decreased by $2.0 million since the operation was discontinued in 1990. Revenues from the subsidiaries' landfill and waste hauling businesses increased by $3.1 million due to higher tonnage received by the Pine Grove Landfill and the acquisition of a waste hauling business in late 1990. The start-up loss incurred by the Pine Grove Landfill in 1990 was reduced considerably in 1991 as sales volume and revenue grew.

The subsidiaries financed their 1991 investments, which were primarily construction costs of the Pine Grove Landfill, mainly from the sales proceeds of purchase options on leveraged leases, internally generated funds from the landfill operation, and tax benefit payments. The subsidiaries receive tax benefit payments resulting from inclusion of their income or loss in the Company's consolidated tax return. Subsidiary debt increased from $8.9 million as of December 31, 1990 to $12.0 million as of December 31, 1991. This net increase was attributed to a call during 1991 on an $8.0 million equity letter of credit (classified as an accrued liability as of December 31, 1990), partly offset by $4.9 million of loan repayments. About $11.1 million of the subsidiary debt balance is now structured as a step-down revolving credit agreement, which terminates in December 1993. This agreement is collateralized by the leveraged lease portfolio and certain other subsidiary assets. The Company expects that the cash requirements of the subsidiaries over the next several years will be met by cash flows from subsidiary operations, borrowings, and asset sales.

After excluding the December 1990 write-off of joint venture investments, the subsidiaries 1990 loss per share was $.21 in comparison to earnings per share of $.11 in 1989. The 1989 earnings of the subsidiaries included a $5.6 million pre-tax gain on the sale of a partial interest in the Burney project which increased net income by $4.8 million ($.10 per share). The 1989 earnings also reflected the write-off of a $1.9 million investment which reduced net income by $1.3 million ($.03 per share). After excluding these items, the remaining decrease in subsidiary earnings from 1989 to 1990 was attributed to larger operating losses from Redding Power and Burney Forest Products, investment tax credits recorded on these projects in 1989, and a start-up loss on the 1990 operations of the Pine Grove Landfill.

## IMPACT OF ACCOUNTING STANDARDS

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106), which becomes effective in 1993. SFAS No. 106 requires employers, if obligated or committed to provide postretirement benefits other than pensions, to recognize their obligation on an accrual basis. The Company currently expenses these costs as paid. (See Note 11 to the Consolidated Financial Statements.) The Company's preliminary estimate of its postretirement benefit transition obligation is $100 million, and the estimated increase in annual expense, including 20 year amortization of the transition obligation, is $13 million.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes," which becomes effective in 1993 and supersedes SFAS No. 96 (issued in 1987). Similar to SFAS No. 96, the new accounting standard requires the use of the liability method of accounting for income taxes. The Company has not determined the exact impacts SFAS No. 109 will have on its financial statements. However, the analyses done on the very similar SFAS No. 96 indicate that SFAS No. 109 should not have a material effect on the Company's results of operations. However, the total amount of assets and liabilities on the consolidated balance sheet is expected to increase. See Note 2 to the Consolidated Financial Statements for additional information.

## REPORTS OF MANAGEMENT AND INDEPENDENT ACCOUNTANTS

### REPORT OF MANAGEMENT

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

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

Coopers & Lybrand, independent accountants, are engaged to audit the financial statements and express their opinion thereon. Their audits are conducted in accordance with generally accepted auditing standards, which include a review of selected internal controls to determine the nature, timing, and extent of audit tests to be applied.

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

Nevius M. Curtis
Chairman and
Chief Executive Officer

Paul S. Gerritsen
Vice President and
Chief Financial Officer

### REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets and statements of capitalization of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1991 and 1990, and the related consolidated statements of income, changes in common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1991 and 1990, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for unbilled revenues in 1991.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 7, 1992

## CONSOLIDATED STATEMENTS OF INCOME

| (Dollars in Thousands)<br>For the Years Ended December 31 | **1991** | 1990 | 1989 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Electric | $751,076 | $708,476 | $678,396 |
| Gas | 71,222 | 79,836 | 86,742 |
| Steam | 22,509 | 22,926 | 24,569 |
| | 844,807 | 811,238 | 789,707 |
| **OPERATING EXPENSES** | | | |
| Electric fuel and net purchased power | 252,072 | 227,617 | 225,758 |
| Gas purchased | 38,140 | 46,576 | 52,653 |
| Operation and maintenance | 245,497 | 224,141 | 216,583 |
| Depreciation | 88,720 | 82,439 | 76,327 |
| Taxes other than income taxes | 35,430 | 34,939 | 31,829 |
| Income taxes | 46,241 | 49,152 | 47,136 |
| | 706,100 | 664,864 | 650,286 |
| **OPERATING INCOME** | 138,707 | 146,374 | 139,421 |
| **OTHER INCOME** | | | |
| Write-off of joint venture investments | — | (62,534) | (1,929) |
| Equity in losses of joint ventures | — | (12,772) | (2,667) |
| Allowance for equity funds used during construction | 4,199 | 2,845 | 3,730 |
| Income taxes on other income | 2,992 | 24,596 | 3,002 |
| Other | 1,574 | 2,470 | 8,095 |
| | 8,765 | (45,395) | 10,231 |
| **INCOME BEFORE INTEREST CHARGES** | 147,472 | 100,979 | 149,652 |
| **INTEREST CHARGES** | | | |
| Debt | 68,458 | 64,308 | 62,222 |
| Other | 2,087 | 2,359 | 1,943 |
| Capitalized interest | (3,579) | (2,999) | (5,821) |
| | 66,966 | 63,668 | 58,344 |
| **EARNINGS** | | | |
| Income before cumulative effect of a change in accounting principle | 80,506 | 37,311 | 91,308 |
| Cumulative effect of a change in accounting for unbilled revenues | 12,730 | — | — |
| Net income | 93,236 | 37,311 | 91,308 |
| Dividends on preferred stock | 7,977 | 8,784 | 7,427 |
| Earnings applicable to common stock | $85,259 | $28,527 | $83,881 |
| **AVERAGE SHARES OF COMMON STOCK OUTSTANDING** (Thousands) | 50,581 | 47,534 | 46,687 |
| **EARNINGS PER AVERAGE SHARE OF COMMON STOCK:** | | | |
| Before cumulative effect of a change in accounting principle | $1.44 | $ 0.60 | $ 1.80 |
| Cumulative effect of a change in accounting for unbilled revenues | 0.25 | — | — |
| Total earnings per share | $1.69 | $ 0.60 | $ 1.80 |
| **DIVIDENDS DECLARED PER SHARE** | $1.54 | $ 1.54 | $ 1.51 |
| **PRO FORMA AMOUNTS ASSUMING RETROACTIVE APPLICATION OF NEW ACCOUNTING METHOD FOR UNBILLED REVENUES:** | | | |
| Net income | $80,506 | $35,152 | $94,388 |
| Earnings per average share of common stock | $1.44 | $ 0.55 | $ 1.86 |

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in Thousands)<br>For the Years Ended December 31 | 1991 | 1990 | 1989 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $93,236 | $37,311 | $91,308 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 99,313 | 93,118 | 82,856 |
| Allowance for equity funds used during construction | (4,199) | (2,845) | (3,730) |
| Investment tax credit adjustments, net | (2,844) | (3,199) | (3,220) |
| Deferred income taxes, net | 12,870 | (128) | 37,358 |
| Net change in: | | | |
| Accrued unbilled revenues | (21,371) | — | — |
| Accounts receivable | (5,157) | (1,629) | (11,797) |
| Inventories | (171) | (16,255) | 4,464 |
| Accounts payable | (12,428) | 8,190 | 1,254 |
| Other current assets & liabilities* | 22,338 | 6,449 | (17,508) |
| Equity in net losses of joint ventures | — | 12,772 | 2,667 |
| Write-off of joint venture investments | — | 62,534 | 1,929 |
| Other, net | (462) | (1,862) | (2,109) |
| Net cash provided by operating activities | 181,125 | 194,456 | 183,472 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Construction expenditures, excluding AFUDC | (181,820) | (187,823) | (175,843) |
| Capitalized interest | (3,579) | (2,999) | (5,821) |
| Change in working capital for construction | 14,538 | 389 | (2,782) |
| Proceeds from sales of ownership interests in: | | | |
| Utility plant and inventory | 4,733 | — | — |
| Nuclear fuel - Salem | — | 18,706 | — |
| Nonutility joint venture | — | — | 12,113 |
| Cash flows from leveraged leases: | | | |
| Sale of purchase options | 5,375 | — | — |
| Other | 4,750 | (1,649) | (7,280) |
| Investment in subsidiary projects and operations | (4,504) | (20,495) | (27,257) |
| Decrease in marketable securities | — | 14,808 | 17,132 |
| Funds held by trustee | (2,036) | (8,974) | (4,545) |
| Other, net | (1,189) | 894 | 2,083 |
| Net cash used by investing activities | (163,732) | (187,143) | (192,200) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends: Common | (77,097) | (72,881) | (69,738) |
| Preferred | (7,947) | (9,024) | (7,036) |
| Issuances: Long-term debt | 117,000 | 94,111 | 20,000 |
| Common stock | 87,900 | 16,792 | 15,235 |
| Preferred stock | — | — | 45,000 |
| Redemptions: Long-term debt | (86,794) | (15,573) | (15,637) |
| Preferred stock | — | (877) | (13,515) |
| Principal portion of capital lease payments | (10,593) | (8,495) | (864) |
| Net change in short-term debt | (12,250) | (6,200) | 8,500 |
| Other, net | (7,900) | (2,331) | 478 |
| Net cash provided/(used) by financing activities | 2,319 | (4,478) | (17,577) |
| Net change in cash and cash equivalents | 19,712 | 2,835 | (26,305) |
| Beginning of year cash and cash equivalents | 27,129 | 24,294 | 50,599 |
| End of year cash and cash equivalents | $46,841 | $27,129 | $24,294 |

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

See accompanying Notes to Consolidated Financial Statements.

## ASSETS

| (Dollars in Thousands)<br>As of December 31 | 1991 | 1990 |
|---|---|---|
| **UTILITY PLANT—AT ORIGINAL COST** | | |
| Electric | $2,264,200 | $2,112,198 |
| Gas | 146,264 | 134,311 |
| Steam | 108 | 24,982 |
| Common | 129,613 | 123,198 |
| | 2,540,185 | 2,394,689 |
| Less: Accumulated depreciation | 849,852 | 812,419 |
| Net utility plant in service | 1,690,333 | 1,582,270 |
| Construction work-in-progress | 86,699 | 95,911 |
| Leased nuclear fuel, at amortized cost | 39,885 | 42,774 |
| | 1,816,917 | 1,720,955 |
| **OTHER PROPERTY AND INVESTMENTS** | | |
| Investment in leveraged leases | 78,771 | 83,852 |
| Other investments | 6,511 | 6,296 |
| Other property, net | 53,425 | 54,228 |
| Funds held by trustee | 17,800 | 14,962 |
| | 156,507 | 159,338 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 46,841 | 27,129 |
| Accounts receivable: | | |
| Customers | 62,407 | 62,055 |
| Accrued unbilled revenues | 21,371 | — |
| Other | 12,864 | 8,059 |
| Inventories, at average cost: | | |
| Fuel (coal, oil, and gas) | 44,425 | 49,271 |
| Materials and supplies | 36,435 | 36,939 |
| Prepayments | 7,290 | 6,572 |
| Deferred income taxes, net | 7,762 | 9,862 |
| | 239,395 | 199,887 |
| **DEFERRED CHARGES AND OTHER ASSETS** | | |
| Unamortized debt expense | 9,954 | 8,983 |
| Deferred recoverable plant costs | 10,225 | 11,920 |
| Other | 30,720 | 24,632 |
| | 50,899 | 45,535 |
| Total | $2,263,718 | $2,125,715 |

See accompanying Notes to Consolidated Financial Statements.

## CAPITALIZATION AND LIABILITIES

| (Dollars in Thousands)<br>As of December 31 | 1991 | 1990 |
|---|---|---|
| **CAPITALIZATION** (See Statements of Capitalization) | | |
| Common stock | $ 118,505 | $ 107,751 |
| Additional paid-in capital | 346,509 | 271,694 |
| Retained earnings | 241,569 | 235,247 |
| Total common stockholders' equity | 706,583 | 614,692 |
| Preferred stock | 136,365 | 136,365 |
| Long-term debt | 770,146 | 741,032 |
| | 1,613,094 | 1,492,089 |
| **CURRENT LIABILITIES** | | |
| Short-term debt | 11,050 | 15,300 |
| Long-term debt due within one year | 2,079 | 716 |
| Variable rate demand bonds | 41,500 | 41,500 |
| Accounts payable | 53,155 | 56,183 |
| Taxes accrued | 13,170 | 8,938 |
| Interest accrued | 14,101 | 13,744 |
| Dividends declared | 20,459 | 18,588 |
| Current capital lease obligation | 12,747 | 12,747 |
| Deferred energy costs | 3,026 | (8,605) |
| Other | 31,324 | 31,282 |
| | 202,611 | 190,393 |
| **DEFERRED CREDITS AND OTHER LIABILITIES** | | |
| Deferred income taxes, net | 341,276 | 330,493 |
| Deferred investment tax credits | 54,407 | 57,251 |
| Long-term capital lease obligation | 29,337 | 32,354 |
| Other | 22,993 | 23,135 |
| | 448,013 | 443,233 |
| Commitments and Contingencies (Notes 12, 16, 17, and 18) | — | — |
| Total | $2,263,718 | $2,125,715 |

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CAPITALIZATION

| (Dollars in Thousands)<br>As of December 31 | | | 1991 | 1990 |
|---|---|---|---|---|
| **COMMON STOCKHOLDERS' EQUITY** | | | | |
| Total Common Stockholders' Equity [1] | | | $706,583 | $614,692 |
| **CUMULATIVE PREFERRED STOCK** | | | | |
| Par value $1 per share, 10,000,000 shares authorized, none issued | | | | |
| Par value $25 per share, 3,000,000 shares authorized, none issued | | | | |
| Par value $100 per share, 1,800,000 shares authorized | | | | |
| Series | Shares outstanding (1991 and 1990) | Call price per share | | |
| 3.70%–4.56% | 240,000 and 240,000 | $103–$105 | 24,000 | 24,000 |
| 5.00%–7.88% | 512,800 and 512,800 | $103–$104 | 51,280 | 51,280 |
| Adjustable—6.28% [2] | 160,850 and 160,850 | $103 | 16,085 | 16,085 |
| Auction rate—4.86% [2] | 450,000 and 450,000 | $100 | 45,000 | 45,000 |
| | | | 136,365 | 136,365 |
| **LONG-TERM DEBT** | | | | |
| First Mortgage Bonds: | | | | |
| Maturity | Interest Rates | | | |
| 1994 | 4 5/8% | | 25,000 | 25,000 |
| 1997 | 6 3/8% | | 25,000 | 25,000 |
| 1998–2002 | 7%–8 3/4% | | 150,000 | 158,100 |
| 2003–2004 | 6.6%–8% | | 43,200 | 77,150 |
| 2008 | 9 5/8% | | 50,000 | 81,900 |
| 2014–2021 | 7.15%–10 1/8% | | 273,500 | 226,000 |
| | | | 566,700 | 593,150 |
| Other Bonds, due 2011–2017, 7.15%–7.50% | | | 54,500 | 53,500 |
| Pollution Control Notes: | | | | |
| Series 1973, due 1992–1998, 5.60%–5.75% | | | 6,800 | 6,950 |
| Series 1976, due 1992–2006, 7 1/8%–7 1/4% | | | 34,500 | 34,500 |
| | | | 41,300 | 41,450 |
| Medium Term Notes, due 2002, 9.27% | | | 4,000 | 4,000 |
| Medium Term Notes, due 2004, 8.30% | | | 35,000 | — |
| Medium Term Notes, due 2020–2021, 9.68% | | | 61,000 | 39,000 |
| | | | 100,000 | 43,000 |
| First Mortgage Notes, 9.65% [3] | | | 9,322 | 9,788 |
| Other Obligations, due 1992–2001, 10.22% | | | 971 | 1,610 |
| Unamortized premium and discount, net | | | (568) | (750) |
| Subtotal | | | 772,225 | 741,748 |
| Less: Long-Term Debt due within one year | | | 2,079 | 716 |
| Total Long-Term Debt | | | 770,146 | 741,032 |
| Total Capitalization | | | 1,613,094 | 1,492,089 |
| Variable Rate Demand Bonds [4] | | | 41,500 | 41,500 |
| **Total Capitalization with Variable Rate Demand Bonds** | | | $1,654,594 | $1,533,589 |

(1) Refer to Consolidated Statements of Changes in Common Stockholders' Equity for additional information.
(2) Average rate during 1991.
(3) Repaid through monthly payments of principal and interest over 15 years ending November 2002.
(4) Classified under current liabilities as discussed in Note 5 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

| (Dollars in Thousands) For the Three Years Ended December 31, 1991 | Common Shares Outstanding | Par [1] Value | Additional Paid-in Capital | Retained Earnings | **Total** |
|---|---|---|---|---|---|
| **BALANCE AS OF JANUARY 1, 1989** | 46,170,002 | $103,883 | $241,727 | $267,567 | $613,177 |
| Net Income | | | | 91,308 | 91,308 |
| Cash dividends declared: | | | | | |
| Common stock ($1.51) | | | | (70,517) | (70,517) |
| Preferred stock | | | | (7,427) | (7,427) |
| Issuance of common stock: | | | | | |
| DRIP [2] | 824,428 | 1,854 | 13,381 | | 15,235 |
| Expenses | | | (31) | | (31) |
| Preferred stock: | | | | | |
| Issuance | | | (782) | | (782) |
| Redemptions and Retirements | | | 2,656 | (978) | 1,678 |
| **BALANCE AS OF DECEMBER 31, 1989** | 46,994,430 | 105,737 | 256,951 | 279,953 | 642,641 |
| Net Income | | | | 37,311 | 37,311 |
| Cash dividends declared: | | | | | |
| Common stock ($1.54) | | | | (73,225) | (73,225) |
| Preferred stock | | | | (8,784) | (8,784) |
| Issuance of common stock: | | | | | |
| DRIP [2] | 891,328 | 2,006 | 14,723 | | 16,729 |
| Stock options | 3,600 | 8 | 55 | | 63 |
| Expenses | | | (29) | | (29) |
| Redemption of preferred stock | | | (6) | (8) | (14) |
| **BALANCE AS OF DECEMBER 31, 1990** | 47,889,358 | 107,751 | 271,694 | 235,247 | 614,692 |
| Net Income | | | | 93,236 | 93,236 |
| Cash dividends declared: | | | | | |
| Common stock ($1.54) | | | | (78,937) | (78,937) |
| Preferred stock | | | | (7,977) | (7,977) |
| Issuance of common stock: | | | | | |
| Public Offering | 3,500,000 | 7,875 | 56,000 | | 63,875 |
| DRIP [2] | 1,126,802 | 2,535 | 18,640 | | 21,175 |
| Stock options | 150,450 | 339 | 2,471 | | 2,810 |
| Other issuance | 2,354 | 5 | 35 | | 40 |
| Expenses | | | (2,331) | | (2,331) |
| **BALANCE AS OF DECEMBER 31, 1991** | 52,668,964 | $118,505 | $346,509 | $241,569 | $706,583 |

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

(2) Dividend Reinvestment and Common Share Purchase Plan.

See accompanying Notes to Consolidated Financial Statements.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### NATURE OF BUSINESS

The Company is predominantly a public utility that provides electric service on the Delmarva Peninsula in an area consisting of about 5,700 square miles with a population of approximately one million. The Company also provides gas service in an area consisting of about 275 square miles with a population of approximately 452,000 in northern Delaware, including the City of Wilmington. In addition, the Company has wholly-owned subsidiaries engaged in nonutility activities.

### FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Delmarva Energy Company, Delmarva Industries, Inc., Delmarva Services Company and Delmarva Capital Investments, Inc. and its subsidiaries. Delmarva Capital Investments, Inc. accounts for its 20% to 50% investments in joint ventures with the equity method.

The results of operations of the Company's nonutility subsidiaries are reported in the consolidated statements of income as "Other income" with the exceptions of interest charges and capitalized interest, which are reported in those respective classifications. Refer to Notes 8, 9, and 20 for financial information about the Company's subsidiaries.

In conformity with generally accepted accounting principles, the accounting policies reflect the financial effects of rate regulation and decisions issued by regulatory commissions having jurisdiction over the Company's utility business.

For purposes of the Statement of Cash Flows, the Company considers highly liquid marketable securities and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Certain reclassifications, not affecting income, have been made to amounts reported in prior years to conform to the presentations used in 1991.

### UTILITY REVENUES

Fuel and energy costs billed to customers (fuel revenues) are based on rates in effect in fuel adjustment clauses, which are adjusted periodically to reflect cost changes and are subject to regulatory approval. Other amounts billed to customers (base revenues) are dependent on rates determined in base rate proceedings before regulatory commissions. See Note 6 to the Consolidated Financial Statements for a discussion of current base rate proceedings.

### UNBILLED REVENUES

Prior to 1991, the Company recorded revenues as billed to its customers on a monthly-cycle billing basis. At the end of each month, there was an amount of unbilled electric and gas service that had been rendered from the last meter reading to the month-end. In December 1991, effective as of January 1, 1991, the Company began recording base revenues for services provided but not yet billed to more closely match revenues with expenses. The effect of the change on 1991 income before the cumulative effect of a change in accounting principle was not material. The cumulative effect of the one-time change in accounting for unbilled revenues increased 1991 net income by $12,730,000 ($0.25 per share).

### FUEL EXPENSE

Fuel costs charged to the Company's results of operations are generally adjusted to match fuel costs included in customer billings (fuel revenues). The difference between fuel revenues and actual fuel costs incurred is reported on the balance sheet as "deferred energy costs." The deferred balance is subsequently recovered from or returned to utility customers.

The Company's share of nuclear fuel costs relating to jointly-owned nuclear generating stations is charged to fuel expense on a unit of production basis, which includes a factor for spent nuclear fuel disposal costs pursuant to the Nuclear Waste Policy Act of 1981. The Company is collecting future storage and disposal costs for spent fuel as authorized by the regulatory commissions in each jurisdiction and is paying such amounts quarterly to the United States Department of Energy. See Note 12 for a discussion of the Company's financing arrangements for nuclear fuel.

**DEPRECIATION EXPENSE**

The annual provision for depreciation on utility property is computed on the straight-line basis using composite rates by classes of depreciable property. The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.7% for 1991, 3.6% for 1990, and 3.7% for 1989. The Company's share of the estimated cost of decommissioning (decontaminating and removing) nuclear plant is included in depreciation expense. See Note 15 to the Consolidated Financial Statements on nuclear decommissioning.

**INCOME TAXES**

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

**ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AND CAPITALIZED INTEREST**

Allowance for Funds Used During Construction (AFUDC) is included in the cost of utility plant and represents the cost of borrowed and equity funds used to finance construction of new utility facilities. Capitalized interest includes interest capitalized on qualifying nonregulated assets of the Company's subsidiaries and allowance for borrowed funds used during construction. Capitalized interest on nonregulated assets is included in the cost of "Other property and investments." On the income statement, capitalized interest is recorded as a reduction of interest charges and allowance for equity funds used during construction is reflected as "Other income."

AFUDC was capitalized on utility plant construction at the rates of 9.9% in 1991, 9.8% in 1990, and 10.0% in 1989.

**LEVERAGED LEASES**

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

**FUNDS HELD BY TRUSTEE**

Funds held by trustee generally includes deposits in the Company's external nuclear decommissioning trusts and unexpended restricted or tax exempt bond proceeds including any earnings on such trust funds.

**UNAMORTIZED DEBT DISCOUNT, PREMIUM AND EXPENSE**

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

**DEFERRED CHARGES**

The Company defers expense recognition of certain costs in accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." The deferred charge is subsequently amortized to expense on a straight-line basis over the period that the cost is recovered through customer rates.

## 2. INCOME TAXES

**COMPONENTS OF CONSOLIDATED INCOME TAX EXPENSE**

| (Dollars in Thousands) | | 1991 | 1990 | 1989 |
|---|---|---|---|---|
| Operation: | | | | |
| Federal: | Current | $32,021 | $30,764 | $22,534 |
| | Deferred | 8,940 | 11,720 | 18,746 |
| State: | Current | 6,664 | 6,992 | 4,762 |
| | Deferred | 1,460 | 2,875 | 4,314 |
| Investment tax credit adjustments, net | | (2,844) | (3,199) | (3,220) |
| Income taxes on operations | | 46,241 | 49,152 | 47,136 |
| Other income: | | | | |
| Federal: | Current | (5,017) | (9,888) | (17,351) |
| | Deferred | 2,320 | (14,862) | 14,352 |
| State: | Current | (102) | 15 | 51 |
| | Deferred | (193) | 139 | (54) |
| Income taxes on other income | | (2,992) | (24,596) | (3,002) |
| Income taxes on cumulative effect of a change in accounting for unbilled revenues | | 8,520 | — | — |
| Total income tax expense | | $51,769 | $24,556 | $44,134 |

Investment tax credits utilized to reduce federal income taxes payable amounted to $879,000 in 1990 and $3,808,000 in 1989. The 1989 investment tax credits utilized include $3,429,000 for the completion of two nonregulated power plants that were considered transitional property under the Tax Reform Act of 1986. Investment tax credits of the Company's subsidiary operations, which are accounted for on the flow-through method, are reflected in the above table as a reduction of federal current income taxes, under "Other income."

As of December 31, 1991, the Company had $2.2 million of alternative minimum tax credits available for carry forward as a reduction of taxes payable in years that the regular corporate tax liability exceeds the minimum tax.

The Company has not provided deferred income taxes of approximately $91 million, based on current income tax rates, related to cumulative timing differences of $228 million before the adoption of full tax normalization for ratemaking purposes by regulatory authorities. The Company is collecting the unnormalized taxes in its rate jurisdictions either on a levelized basis over the life of the related plant facilities or when actually paid to taxing authorities.

**RECONCILIATION OF EFFECTIVE INCOME TAX RATE**

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

| | 1991 | | 1990 | | 1989 | |
|---|---|---|---|---|---|---|
| (Dollars in Thousands) | **Amount** | **Rate** | Amount | Rate | Amount | Rate |
| Statutory federal income tax expense | $49,302 | 34% | $21,035 | 34% | $46,050 | 34% |
| Increase (decrease) in taxes resulting from: | | | | | | |
| Exclusion of AFUDC for income tax purposes | (1,328) | (1) | (899) | (1) | (1,445) | (1) |
| Depreciation not normalized | 2,103 | 1 | 509 | 1 | 1,358 | 1 |
| ITC amortization/flow-through | (3,456) | (2) | (4,229) | (7) | (7,160) | (5) |
| State income taxes, net of federal tax benefit | 6,120 | 4 | 6,614 | 11 | 5,989 | 4 |
| Other, net | (972) | (1) | 1,526 | 2 | (658) | — |
| Income tax expense | $51,769 | 35% | $24,556 | 40% | $44,134 | 33% |

**COMPONENTS OF DEFERRED INCOME TAXES**

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

| (Dollars in Thousands) | **1991** | 1990 | 1989 |
|---|---|---|---|
| Depreciation | $ 3,119 | $24,909 | $33,648 |
| Deferred energy costs | (4,805) | 857 | 4,512 |
| Capitalized overhead costs | (2,871) | (2,171) | (2,261) |
| Deferred recoverable plant costs | (448) | (448) | (448) |
| Pollution control amortization | (831) | (844) | (914) |
| ADR repair allowance | 2,112 | 2,803 | 3,789 |
| Unbilled revenues | 4,932 | (1,707) | (2,734) |
| Alternative minimum tax | 3,848 | (6,146) | — |
| Write-off of joint venture investments | 6,170 | (20,261) | (656) |
| Other, net | 1,644 | 2,880 | 2,422 |
| Total | $12,870 | $ (128) | $37,358 |

**ACCOUNTING STANDARDS**

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." SFAS No. 109 becomes effective in 1993 and supersedes SFAS No. 96 (issued in 1987). It requires the use of the liability method which recognizes deferred income taxes for the tax consequences of temporary differences by applying statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Also, deferred tax assets and liabilities are adjusted currently for the effects of changes in tax laws or rates. SFAS No. 109 reduces the complexity of SFAS No. 96 and eases certain restrictions on the recognition of deferred tax assets.

The Company has not determined the exact impacts SFAS No. 109 will have on its financial statements. However, the analysis done on the very similar SFAS No. 96 indicates that SFAS No. 109 should not have a material effect on the Company's results of operations, since the Company is primarily a regulated enterprise. The total amount of assets and liabilities on the consolidated balance sheet is expected to increase. The expected increase is due to recognition of additional tax liabilities for the tax benefits flowed through to customers partially offset by the reduction of existing accumulated deferred income taxes as a result of reduction in the federal income tax rates, and for other temporary differences. Generally, the increased deferred tax liabilities and assets will be offset by corresponding regulatory assets and liabilities.

## 3. CAPITALIZATION

### COMMON STOCK

1) In April 1991, the Company registered an additional 6,000,000 shares of common stock with the Securities and Exchange Commission to provide for the continued issuance of stock through the Dividend Reinvestment and Common Share Purchase Plan (DRIP). As of December 31, 1991, 5,401,787 shares of common stock were reserved for issuance through the DRIP.

2) The Company has a nonqualified stock option plan for certain employees. Options are priced at the actual market value on the grant date. As of December 31, 1991, 321,900 shares were available to be granted under the nonqualified stock option plan. Changes in stock options are summarized below.

| | 1991 | | 1990 | |
|---|---|---|---|---|
| | **Number of Shares** | **Option Price** | Number of Shares | Option Price |
| Outstanding: | | | | |
| Beginning of year balance | 306,750 | $17 ½–$21 ¼ | 190,100 | $17 ½–$17 ¾ |
| Options granted | 117,750 | $18 ⅛ | 120,250 | $21 ¼ |
| Options exercised | 150,450 | $17 ½–$17 ¾ | 3,600 | $17 ½–$17 ¾ |
| End of year balance | 274,050 | $17 ½–$21 ¼ | 306,750 | $17 ½–$21 ¼ |
| Exercisable | 156,300 | $17 ½–$21 ¼ | 186,500 | $17 ½–$17 ¾ |

### RETAINED EARNINGS

The current first mortgage bond indenture restricts the amount of consolidated retained earnings available for cash dividend payments on common stock to $35,000,000 plus accumulations after June 30, 1978. The amount available at December 31, 1991 was approximately $162,242,000.

### PREFERRED STOCK

1) The annual preferred dividend requirements on all outstanding preferred stock at December 31, 1991 are $7,594,000. (Preferred dividend requirements on the Adjustable and Auction Rate Series were computed based on the average rate during December 1991.) If preferred dividends are in arrears, the Company may not declare common stock dividends or acquire its common stock. The series of preferred stock currently outstanding may be redeemed at the option of the Company at any time, in whole or in part at the various redemption prices fixed for each series (ranging from $100 to $105 at December 31, 1991).

2) In December 1989, the Company retired 17,200 shares of its $100 par value 7.88% Series Preferred Stock.

3) During 1989, the Company reacquired 119,150 shares of its $100 par value Adjustable Rate Preferred Stock for $9,294,000. These shares were retired in December 1989, and the excess of the par value over the acquisition cost was credited to paid-in-capital.

4) In August 1989, the Company issued 450,000 shares of $100 par value Auction Preferred Stock. The dividend is based on the rate determined every 49 days by auction procedures. The weighted average dividend rate was 4.86% in 1991, 6.41% in 1990, and 6.82% in 1989.

5) All shares of the 9% series, which were subject to mandatory redemption provisions, had been redeemed as of December 31, 1990. The Company redeemed 8,766 and 16,000 shares of the 9% series at $100 per share during 1990 and 1989, respectively.

### LONG-TERM DEBT

1) Annual sinking fund requirements for the First Mortgage Bonds may be reduced by an amount not exceeding 60% of the bondable value of property additions. For the years 1989-1991, property additions satisfied the sinking fund requirements. Substantially all utility plant of the Company now or hereafter owned is subject to the lien of the related Mortgage and Deed of Trust.

2) In January 1991, the Company issued $7 million of 9.95% unsecured Medium Term Notes, which mature on December 1, 2020. The proceeds from the Medium Term Notes were used to fund the Company's on-going construction program and for other general purposes relating to the Company's utility business.

3) On July 2, 1991, the Company issued, through the Delaware Economic Development Authority, $59 million of tax-exempt revenue bonds. The issue consisted of $20 million of 7.30% Gas Facilities Revenue Bonds (Series A Bonds) which mature on July 1, 2021, $34.5 million of 7.15% Pollution Control Refunding Revenue Bonds (Series B Bonds) which mature on July 1, 2018, and $4.5 million of 7.15% Gas Facilities Refunding Revenue Bonds (Series C Bonds) which mature on July 1, 2021. The proceeds from the Series A Bonds are being used to finance additions to the Company's gas system. On August 2, 1991, the proceeds from the Series B and C Bonds were used to refinance $39 million of revenue bonds that were due in 2001 to 2011 and had interest rates of 11 ¾% and 12%. The Series A, B, and C Bonds are collateralized by $59 million, in total, of First Mortgage Bonds issued by the Company and held by the Trustee. Accordingly, these series are classified in the Consolidated Statement of Capitalization as First Mortgage Bonds.

   On August 2, 1991 the Company issued, through the Delaware Economic Development Authority, $1 million of 7.15% Electric Facilities Refunding Revenue bonds (Series D Bonds) which mature on July 1, 2011. On September 4, 1991 the proceeds from the Series D Bonds were used to refinance $1 million of revenue bonds that were due in 2011 and were originally issued at an interest rate of 12%.

4) In November 1991, the Company issued, in total, $50 million of unsecured Medium Term Notes (MTN) which included $35 million of 13 year, 8.30% MTN and $15 million of 30 year, 8.96% MTN. In November 1991, $11.5 million of the proceeds were used to repurchase a like amount of outstanding 10 ⅛% First Mortgage Bonds, due in 2016. The remaining proceeds from the MTN were primarily used in December 1991 to refund $33,950,000 of 10% First Mortgage Bonds, due in 2004.

5) On February 4, 1992, the Company issued $50 million of 8.5% First Mortgage Bonds which mature on February 1, 2022. The Company plans to use the proceeds in March 1992 to repurchase the remaining $48.5 million of 10 ⅛% First Mortgage Bonds, due in 2016.

6) Maturities of long-term debt and sinking fund requirements during the next five years are as follows: 1992-$6,089,000; 1993-$6,184,000; 1994-$31,449,000; 1995-$6,455,000; 1996-$6,516,000. The Company expects that the sinking fund requirements (discussed in item 1 above) of $4,010,000 per year will be satisfied by property additions during the next 5 years.

7) The annual interest requirements on long-term debt at December 31, 1991 are $63,656,000.

## 4. SHORT-TERM DEBT

As of December 31, 1991, the Company had bank lines of credit of $75 million. The Company is generally required to pay commitment fees for these lines. Such lines of credit are periodically reviewed by the Company, at which time they may be renewed or cancelled.

As of December 31, 1991, the subsidiaries had an $11.1 million step-down revolving credit agreement with several banks. This agreement, which terminates in December 1993, is collateralized by the leveraged lease portfolio and certain other subsidiary assets.

## 5. VARIABLE RATE DEMAND BONDS

A total of $41.5 million of Variable Rate Demand Bonds were outstanding as of December 31, 1991 and 1990. Although Variable Rate Demand Bonds are classified as current liabilities, the Company intends to use the Variable Rate Demand Bonds as a source of long-term financing by setting the bonds' interest rates at market rates and, if advantageous, by utilizing one of the fixed rate/fixed term conversion options of the bonds. The bonds are due on demand or at maturity in the years 2014 to 2017. Average annual interest rates on the Variable Rate Demand Bonds were 4.51% for 1991, 6.09% for 1990, and 6.53% for 1989.

## 6. REGULATION AND RATE MATTERS

The Company is subject to regulation with respect to its retail utility sales by the Delaware and Maryland Public Service Commissions (DPSC and MPSC, respectively) and the Virginia State Corporation Commission (VSCC), which have broad powers over rate matters, accounting and terms of service. Gas sales are subject to regulation by the DPSC. The Federal Energy Regulatory Commission (FERC) exercises jurisdiction with respect to the Company's accounting systems and policies and the transmission and sale at wholesale (resale) of electric energy and the production, transportation and pricing of natural gas purchased by the Company's gas division. The percentage of operating revenues regulated by each Commission for the year ended December 31, 1991 was as follows: DPSC 62%, MPSC 21%, VSCC 3%, and FERC 11%. Nonregulated steam operating revenues were 3% of total revenues.

1) On May 31, 1991, partly based on forecasted data, the Company filed an application with the DPSC for an annual $30.9 million base rate increase in its Delaware retail electric jurisdiction. During the rate case, the Company reduced its requested rate increase to $24.6 million mainly due to updating for actual data. The DPSC is expected to render a decision on the case in the first quarter of 1992. The cost recovery of approximately $9 million of assets is at issue in the case, and an unfavorable decision on this issue by the DPSC could result in a write-off in 1992. As permitted by Delaware law, the Company increased its Delaware retail electric rates by $24.6 million or 5.9% annually, effective as of January 1, 1992, subject to refund.

2) On August 30, 1991, the Company requested an annual $11.8 million increase in Maryland retail electric base rates, partly based on forecasted data. Updated actual data provided during the rate case indicated a $9.2 million rate increase request. On December 30, 1991, the MPSC approved a settlement agreement for a $5.5 million or 3.3% rate increase, effective as of January 1, 1992, which was three months earlier than expected.

3) On December 20, 1991, the Company filed an application with the FERC requesting an annual increase in resale electric base rates of $5.0 million, or approximately 5.3%. The rate filing is the first request by the Company to raise resale electric base rates in four years. The Company's proposal to put temporary rates into effect on February 19, 1992, subject to refund, was recently approved by the FERC.

4) The Company filed an application for a $4.8 million or 6.5% annual increase in Delaware gas base rates on July 2, 1991. As permitted by Delaware law, the Company increased gas base rates effective February 2, 1992, subject to refund. The present schedule for the gas case indicates a DPSC decision in the third quarter of 1992.

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

| (Dollars in Thousands) | 1991 | 1990 | 1989 |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest, net of capitalized amount | $65,788 | $62,440 | $55,839 |
| Income taxes, net of refunds | $37,397 | $21,635 | $16,877 |

During 1990, the Company incurred a capital lease obligation of $47,489,000 as a result of financing Peach Bottom and Salem nuclear fuel through a nuclear fuel energy contract. The Company received $18,706,000 of proceeds from the 1990 sale of its interest in the Salem nuclear fuel. Refer to Note 12 to the Consolidated Financial Statements for additional information about the nuclear fuel energy contract.

## 8. WRITE-OFF OF SUBSIDIARY JOINT VENTURE INVESTMENTS

In 1987, the Company began investing in Redding Power and Burney Forest Products which are located in northern California. These investments have been accounted for with the equity method. Each joint venture project consisted of a wood-burning power plant and a sawmill that was intended to provide fuel for the power plant and to produce finished lumber. Substantial operating losses from the projects were recorded in 1989 and 1990 primarily due to unfavorable conditions in the timber and lumber markets. Both projects were in default on their loans by December 1990.

In 1987, the Company also began investing in a waste-to-energy, joint venture project (Glendon Energy) planned to be located in Pennsylvania. An environmental permit issued by the Pennsylvania Department of Environmental Resources contained a condition which, based on legislation adopted well after the project was underway, restricted the siting of the facility. The Company's appeal of the siting condition was denied by the Environmental Hearing Board in December 1990.

Due to the circumstances discussed above, in December 1990, management determined that the future cash flows of these projects would not be sufficient to recover the book value of the Company's investment. Accordingly, in December 1990's accounting, the Company recorded a $62,534,000 pre-tax charge to earnings ($42,497,000 after-tax or $.89 per share) to write off the investments in these joint venture projects. In accordance with the equity method of accounting, 1991 losses from these projects have not been recorded since the investments were written off in December 1990 and the Company is no longer funding the projects' losses.

## 9. GAINS ON SUBSIDIARY TRANSACTIONS

In 1991, the sale of purchase options on the residual values of assets owned through leveraged lease arrangements increased net income by $3,685,000 ($.07 per share). In 1989, the sale of a partial interest in the Burney Forest Products joint venture increased net income by $4,753,000 ($.10 per share). The gains on these transactions are reported in "Other income."

## 10. PENSION PLAN

The Company has a defined benefit pension plan covering all regular employees. The benefits are based on years of service and the employee's compensation. The Company's funding policy is to contribute each year the net periodic pension cost for that year. However, the contribution for any year will not be less than the minimum required contribution nor greater than the maximum tax deductible contribution. There were no pension contributions in 1991, 1990 or 1989.

The following table reconciles the plan assets and liabilities to the funded status of the plan as of December 31, 1991 and 1990. Pension plan assets consist primarily of equity and bond securities.

### ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS

| (Millions of Dollars) | **1991** | 1990 |
|---|---|---|
| Accumulated benefit obligation | | |
| Vested | $206.0 | $170.7 |
| Nonvested | 20.7 | 19.8 |
| | 226.7 | 190.5 |
| Effect of estimated future compensation increases | 110.2 | 88.8 |
| Projected benefit obligation | 336.9 | 279.3 |
| Plan assets at fair value | 448.6 | 363.3 |
| Excess of plan assets over projected benefit obligation | 111.7 | 84.0 |
| Unrecognized prior service cost | 10.0 | 6.0 |
| Unrecognized net gain | (75.5) | (40.6) |
| Unrecognized net transition asset | (43.1) | (46.4) |
| Prepaid pension cost | $ 3.1 | $ 3.0 |

### COMPONENTS OF NET PENSION COST

| (Millions of Dollars) | **1991** | 1990 | 1989 |
|---|---|---|---|
| Service cost—benefits earned during period | $ 9.8 | $ 10.9 | $ 9.5 |
| Interest cost on projected benefit obligation | 21.9 | 20.9 | 19.1 |
| Actual return on plan assets | (96.3) | 7.2 | (57.6) |
| Net amortization and deferral | 64.5 | (41.1) | 28.4 |
| Net pension cost | $ (0.1) | $ (2.1) | $ (0.6) |

### ASSUMPTIONS

| | **1991** | 1990 | 1989 |
|---|---|---|---|
| Discount rates used to determine projected benefit obligation as of December 31 | 7.00% | 7.75% | 7.25% |
| Rates of increase in compensation levels | 6.50% | 6.50% | 6.50% |
| Expected long-term rates of return on assets | 8.00% | 8.00% | 8.00% |

## 11. POST-RETIREMENT BENEFITS

The Company provides health care and life insurance benefits for retired employees and their spouses. Substantially all of the Company's employees may become eligible for these benefits if they reach normal retirement age while still working for the Company. The Company recognizes the cost of providing these benefits by expensing the costs as paid. These costs totalled $4,176,000, $3,386,000, and $3,177,000 for 1991, 1990 and 1989, respectively.

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106), which becomes effective in 1993. SFAS No. 106 requires employers, if obligated or committed to provide postretirement benefits other than pensions, to recognize their obligation on an accrual basis. The cost of the postretirement benefit obligation is to be attributed to the period of employee service ending on the date the employee first becomes eligible for the postretirement benefits. The Company's preliminary estimate of its postretirement benefit obligation, measured as of January 1, 1991, is approximately $100 million, and the estimated annual expense under SFAS No. 106 will be approximately $13 million higher in 1993 than the expense for actual benefits paid. These amounts may be affected by the related ratemaking treatment the regulatory commissions decide to be appropriate, which may not be known until 1993 or later. The Company's estimate of its obligation and expense under SFAS No. 106 are based on an assumed 20-year amortization of the transition obligation and on a healthcare cost trend rate of 15% currently, which decreases gradually to 6% over a 20 year period. A liability will be recorded for the amount of the SFAS No. 106 obligation that has been accrued but not paid or funded.

## 12. COMMITMENTS

The Company estimates that approximately $233,500,000, excluding AFUDC, will be expended for utility construction in 1992. Also, in order to ensure adequate supplies of fuel, the Company has certain commitments under long-term fuel supply contracts. Excluding nuclear fuel discussed below, the Company's commitments under its long-term fuel supply contracts are $72,958,000 in 1992, $62,858,000 in 1993, $39,158,000 in 1994, $34,858,000 in 1995, and $31,658,000 in 1996.

During 1990, the Company entered into a nuclear fuel energy contract in order to finance its share of nuclear fuel for Peach Bottom and Salem. Payments under the nuclear fuel energy contract, which is accounted for as a capital lease, are based on the quantity of nuclear fuel consumed by Peach Bottom and Salem. The Company's obligation under the contract is generally the net book value of the nuclear fuel financed.

The Company leases an 11.9% interest in the Merrill Creek Reservoir. The lease is considered an operating lease and payments over the remaining lease term, which ends in 2032, are $173 million in aggregate.

The Company also leases certain distribution facilities, transportation equipment, and various other facilities and equipment under long-term lease agreements. Minimum commitments as of December 31, 1991 under all non-cancellable lease agreements (excluding payments under the nuclear fuel energy contract which cannot be reasonably estimated) are as follows: 1992-$6,799,000; 1993-$6,497,000; 1994-$6,220,000; 1995-$6,195,000; 1996-$6,226,000; after 1996-$160,176,000; total - $192,113,000. Approximately 90% of the minimum commitments shown above are payments due under the Company's Merrill Creek Reservoir lease.

Rentals charged to operating expenses were as follows:

| (Dollars in Thousands) | **1991** | 1990 | 1989 |
|---|---|---|---|
| Interest on nuclear fuel capital lease | $ 1,633 | $ 1,550 | $ — |
| Interest on other capital leases | 345 | 405 | 457 |
| Amortization of nuclear fuel capital lease | 10,242 | 7,832 | — |
| Amortization of other capital leases | 351 | 663 | 864 |
| Operating leases | 14,507 | 10,575 | 8,829 |
| | $27,078 | $21,025 | $10,150 |

## 13. DELAWARE CITY POWER PLANT

In December 1991, the Company sold to Star Enterprise the Delaware City Power Plant and related inventory for their net book values of $2.6 million and $2.1 million, respectively. Prior to the sale, the Company had operated the Delaware City Power Plant which had provided electricity and steam to an adjacent refinery owned by Star Enterprise. The power plant also provided 40 megawatts of capacity for the Company's electric system. The sale of the plant resulted from Star Enterprise exercising a long-standing contractual option to purchase the plant at net book value. The plant contributed $0.03 to earnings per share in 1991. Pursuant to a contract between the Company and Star Enterprise, the Company will operate the plant for a fee, from January 1992 to June 1995.

The Company and Star Enterprise also have an agreement which provides for the sale of 48 megawatts of the plant's capacity to the Company over a 26 year period beginning in June 1992. Under the terms of the agreement, the Company will incur a capacity charge based on the plant's availability and an energy charge based on kWh delivered. If the plant is not available, there is no minimum capacity charge. The maximum capacity charge for a twelve month period is $3.4 million, if the plant's availability exceeds 85 percent.

## 14. JOINTLY-OWNED PLANT

The Company's balance sheet includes its proportionate share of assets and liabilities related to jointly-owned plant. The Company's share of operating and maintenance expenses of the jointly-owned plant is included in the corresponding expenses in the statements of income. The Company is responsible for providing its share of financing for the jointly-owned facilities. Information with respect to the Company's share of jointly-owned plant as of December 31, 1991 is as follows:

| (Dollars in Thousands) | Ownership Share | Megawatt Capability Owned | Plant in Service | Accumulated Depreciation | Construction Work in Progress |
|---|---|---|---|---|---|
| Nuclear: | | | | | |
| Peach Bottom | 7.51% | 157 MW | $117,652 | $ 47,785 | $ 5,041 |
| Salem | 7.41% | 164 MW | 185,221 | 72,466 | 8,896 |
| Coal-Fired: | | | | | |
| Keystone | 3.70% | 63 MW | 14,688 | 6,058 | 1,301 |
| Conemaugh | 3.72% | 63 MW | 14,941 | 6,879 | 403 |
| Transmission Facilities | Various | | 4,464 | 1,726 | — |
| Total | | | $336,966 | $134,914 | $15,641 |

## 15. NUCLEAR DECOMMISSIONING

In compliance with regulations of the Nuclear Regulatory Commission (NRC), the Company has a plan to fund its share of the future costs of decommissioning (decontaminating and removing) the Peach Bottom and Salem nuclear reactors over the remaining life of the plants. The Company has established external trust funds ($9.2 million balance at December 31, 1991) to begin to externally fund its share of future decommissioning costs. The trust fund balances are included in "Funds held by trustee" on the balance sheet. The Company's accrued liability for decommissioning the Peach Bottom and Salem nuclear reactors, which is reflected in the accumulated reserve for depreciation, was $22.0 million as of December 31, 1991.

The Company estimates its share of future decommissioning costs to be $53.5 million, which is the NRC minimum funding requirement. The Company is currently collecting in its Delaware and Maryland jurisdictions a sufficient amount from its customers to satisfy the NRC minimum funding requirement. The Company's resale rate filing on December 20, 1991 would also provide for recovery of the NRC minimum funding requirement.

## 16. NUCLEAR POWER PLANTS

### PEACH BOTTOM

On March 31, 1987, the NRC ordered the shutdown of Peach Bottom for a variety of problems including operator inattention. The Company has a 7.51% ownership interest in Peach Bottom which is operated by Philadelphia Electric Company (PE). Peach Bottom has two generating units, Unit 2 and Unit 3, which the NRC allowed to be restarted in April 1989 and November 1989, respectively. Since the Company did not recover replacement power costs attributed to the shutdown from its customers, 1989 net income was reduced by $13.9 million (18.5¢ per share).

On July 27, 1988, the Company and Atlantic Electric Company, as co-owners, filed a lawsuit against PE in the U.S. District Court of New Jersey to recover losses incurred during the period that Peach Bottom was shut down by the NRC. The lawsuit charges PE with breach of contract and negligence for failing to manage and operate the nuclear plant in a safe and efficient manner. The amount of relief the Company is seeking in the lawsuit is unspecified. Public Service Electric and Gas Company (also a co-owner of Peach Bottom) also filed a similar lawsuit against PE. These suits continued to be in the discovery phase as of December 31, 1991. The suits are expected to reach the trial stage in mid-1992.

### SALEM

The Company has a 7.41% ownership interest in Salem Units 1 and 2, which are operated by Public Service Electric and Gas Company. On November 9, 1991, a turbine overspeed condition caused significant equipment damage at Salem Unit 2. The Company's share of equipment repair costs is estimated to be $5 to $6 million, which is expected to be covered by insurance. Salem Unit 2 had been scheduled to begin reducing power in December 1991 in preparation for a three-month refueling and maintenance outage scheduled to begin January 4, 1992. The unit is now expected to return to service by mid-summer 1992. During the outage, the Company expects to incur replacement power costs of $150,000 to $200,000 per week. The Company's insurance for replacement power costs, which provides coverage for the incident, begins after the first 21 weeks of an outage or about April 1992. Insurance coverage is then available in the amount of $225,000 per week for 52 weeks and reduced amounts for two years thereafter. Due to the Company's insurance coverage and the previously scheduled three-month refueling and maintenance outage, the Company expects to incur incremental replacement power costs for about eight weeks. The anticipated net replacement power costs and equipment repair costs are not expected to have a material effect on the Company's financial position or results of operations.

## 17. ENVIRONMENTAL MATTERS

The Company is subject to regulation with respect to the environmental and ecological effects of its operations, including air and water quality control, solid waste disposal and limitation on land use by various federal, regional, state, and local authorities. The Company has incurred, and expects to continue to incur, capital expenditures and operating costs because of environmental and ecological considerations and requirements. Federal and state statutes authorize governmental agencies to compel responsible parties to remediate or clean up certain abandoned or uncontrolled hazardous waste sites. Although the Company has received notification of its status as a potentially responsible party at several such sites, the Company does not expect remediation and other potential costs related to the sites to have a material effect on the Company's financial position or results of operations.

## 18. CONTINGENCIES

### 1) NUCLEAR INSURANCE

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

| (Millions of Dollars) Type and Source of Coverage | Aggregate Maximum Coverage | Retrospective Assessment for a Single Incident [2] |
|---|---|---|
| Public Liability | | |
| Private | $ 200 | |
| Price Anderson Assessment [1] | 7,607 | $ 19.7 [3] |
| | $ 7,807 [4] | |
| Nuclear Worker Liability [5] | $ 200 | $ 1.0 |
| Property Damage: [6] | | |
| Peach Bottom [7] | $ 1,200 | $ — |
| Salem [8] | $ 1,200 | $ 1.1 |
| All Units [9] | $ 1,250 | $ 1.1 |
| Replacement Power: | | |
| Nuclear Electric Insurance Limited (NEIL) [10] | $ 3.5 [11] | $ 1.1 |

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

(2) The Company's share of the maximum retrospective assessment for a single incident based on the Company's ownership share of the nuclear power units.

(3) The maximum retrospective assessment of $66.15 million per nuclear reactor is subject to periodic inflation indexing. The Company owns a joint and undivided interest in the Peach Bottom and Salem nuclear power facilities. In the event that all other co-owners are unable to fund their share of the retrospective assessment, the Company's maximum retrospective assessment would be $264.6 million.

(4) Limit of liability under the Price-Anderson Act for each nuclear incident. If claims from a nuclear incident exceed the $7.8 billion limit, Congress could impose a revenue raising measure on the nuclear industry to pay claims.

(5) American Nuclear Insurers provide coverage against the potential liability from workers claiming exposure to the hazard of nuclear radiation.

(6) The Company is a self insurer, to the extent of its ownership interest, for any property loss in excess of the stated amounts.

(7) For property damage to the Peach Bottom nuclear power facilities, the Company and its co-owners have private insurance up to $1.2 billion.

(8) For property damage to the Salem nuclear power facilities, the Company and its co-owners have $500 million of insurance with Nuclear Mutual Limited (NML), a utility-owned insurance company, and $700 million with private insurers.

(9) All units are insured by Nuclear Electric Insurance Limited (NEIL II) for losses in excess of $500 million.

(10) A utility-owned mutual insurance company provides coverage against extra expense incurred in obtaining replacement power during prolonged accidental outages of nuclear power units.

(11) Maximum weekly indemnity for 52 weeks which commences after the first 21 weeks of an outage. Also provides $2.4 million weekly for the second 52 week period and $1.2 million weekly for a third 52 week period.

### 2) OTHER

The Company is involved in certain other legal and administrative proceedings before various courts and governmental agencies concerning rates (Note 6 to the Consolidated Financial Statements), fuel contracts, tax filings, and other matters. The Company expects that the ultimate disposition of these proceedings will not have a material effect on the Company's financial position or results of operations.

## 19. SEGMENT INFORMATION

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

| (Dollars in Thousands) | **1991** | 1990 | 1989 |
|---|---|---|---|
| **Operating Revenues:** | | | |
| Electric | $751,076 | $708,476 | $678,396 |
| Gas | 71,222 | 79,836 | 86,742 |
| Steam | 22,509 | 22,926 | 24,569 |
| Total | $844,807 | $811,238 | $789,707 |
| **Operating Income:** | | | |
| Electric | $129,295 | $137,210 | $129,260 |
| Gas | 7,115 | 7,263 | 8,390 |
| Steam | 2,297 | 1,901 | 1,771 |
| Total | $138,707 | $146,374 | $139,421 |
| **Net Utility Plant: (1) (2)** | | | |
| Electric | $1,704,422 | $1,621,655 | $1,500,822 |
| Gas | 112,421 | 98,992 | 86,728 |
| Steam | 74 | 308 | 428 |
| | 1,816,917 | 1,720,955 | 1,587,978 |
| **Other Identifiable Assets:** | | | |
| Electric | 187,819 | 167,771 | 139,393 |
| Gas | 18,203 | 17,966 | 19,547 |
| Steam | 2,590 | 3,432 | 4,592 |
| | 208,612 | 189,169 | 163,532 |
| **Assets Not Allocated: (3)** | 238,189 | 215,591 | 277,151 |
| Total Assets | $2,263,718 | $2,125,715 | $2,028,661 |
| **Depreciation Expense:** | | | |
| Electric | $83,363 | $77,395 | $71,171 |
| Gas | 5,247 | 4,758 | 4,220 |
| Steam | 110 | 286 | 936 |
| Total | $88,720 | $82,439 | $76,327 |
| **Construction Expenditures: (4)** | | | |
| Electric | $163,399 | $171,581 | $161,708 |
| Gas | 18,302 | 16,176 | 14,135 |
| Steam | 119 | 66 | — |
| Total | $181,820 | $187,823 | $175,843 |

(1) Includes construction work-in-progress and allocation of common utility property.

(2) Stated net of the respective accumulated provisions for depreciation.

(3) Includes assets of the Company's subsidiaries. See Note 20.

(4) Excludes allowance for funds used during construction.

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

## 20. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS OF SUBSIDIARIES

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

### CONSOLIDATED CONDENSED SUBSIDIARY STATEMENTS OF INCOME

| (Dollars In Thousands) | **1991** | 1990 | 1989 |
|---|---|---|---|
| Revenues and Gains: | | | |
| Landfill and waste hauling | $ 6,154 | $ 3,066 | $ — |
| Management services | 2,939 | 4,968 | 3,007 |
| Sawmill operations | — | 2,044 | 3,370 |
| Other revenues | 1,728 | 2,812 | 3,114 |
| Investment income | 1,122 | 4,214 | 4,770 |
| Gain on sale of: | | | |
| Options on leverage leases | 4,445 | — | — |
| Interest in joint venture | — | — | 5,605 |
| | 16,388 | 17,104 | 19,866 |
| Costs and Expenses: | | | |
| Operating expenses | 16,449 | 17,932 | 13,697 |
| Equity in losses of joint ventures | — | 12,772 | 2,667 |
| Write-off of joint venture investments | — | 62,534 | 1,929 |
| Interest expense | 1,704 | 1,720 | 2,280 |
| Capitalized interest | (143) | (373) | (2,019) |
| | 18,010 | 94,585 | 18,554 |
| Income (loss) before income taxes | (1,622) | (77,481) | 1,312 |
| Income tax (benefit) | (2,900) | (25,195) | (3,702) |
| Net income (loss) | $ 1,278 | $(52,286) | $ 5,014 |
| Earnings (loss) per share of common stock attributed to subsidiaries | $ 0.03 | $ (1.10) | $ 0.11 |

### CONSOLIDATED CONDENSED SUBSIDIARY BALANCE SHEETS

(Dollars In Thousands)

| Assets | At December 31 **1991** | 1990 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 14,601 | $ 8,610 |
| Deferred income taxes | 2,093 | 3,589 |
| Other | 2,546 | 1,319 |
| | 19,240 | 13,518 |
| Noncurrent assets: | | |
| Investment in: | | |
| Leveraged leases | 78,771 | 83,852 |
| Limited partnerships | 4,650 | 5,446 |
| Joint ventures | 1,861 | 850 |
| Property, plant & equipment: | | |
| Landfill & waste hauling | 24,555 | 23,786 |
| Oil & gas exploration | 3,898 | 4,390 |
| Real estate & other | 2,134 | 2,319 |
| Other assets | 2,969 | 2,148 |
| Total | $138,078 | $136,309 |

| Liabilities and Stockholder's Equity | At December 31 **1991** | 1990 |
|---|---|---|
| Current liabilities: | | |
| Debt due within one year | $ 11,211 | $ 7,441 |
| Other | 11,729 | 13,789 |
| | 22,940 | 21,230 |
| Noncurrent liabilities: | | |
| Long-term debt | 810 | 1,469 |
| Deferred income taxes | 70,110 | 69,256 |
| Other | 4,725 | 6,141 |
| | 75,645 | 76,866 |
| Stockholder's Equity | 39,493 | 38,213 |
| Total | $138,078 | $136,309 |

## 21. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

| Quarter Ended | Operating Revenue | Operating Income | Net Income (Loss) | Earnings (Loss) Applicable to Common Stock | Average Shares Outstanding | Earnings (Loss) per Average Share |
|---|---|---|---|---|---|---|
| | | (Dollars in Thousands) | | | (In Thousands) | |
| 1991 | | | | | | |
| March 31 | $ 218,805 | $ 36,700 | $ 25,024 | $ 22,943 | 48,149 | $0.48 |
| Adjustment* | (4,715) | (2,858) | 9,872 | 9,872 | — | 0.20 |
| March 31 Restated | 214,090 | 33,842 | 34,896 | 32,815 | 48,149 | 0.68 |
| June 30 | 195,834 | 27,985 | 12,957 | 10,957 | 49,586 | 0.21 |
| Adjustment* | 6,680 | 4,134 | 4,134 | 4,134 | — | 0.09 |
| June 30 Restated | 202,514 | 32,119 | 17,091 | 15,091 | 49,586 | 0.30 |
| September 30 | 238,411 | 49,060 | 33,754 | 31,792 | 52,115 | 0.62 |
| Adjustment* | (2,800) | (1,722) | (1,722) | (1,722) | — | (0.04) |
| September 30 Restated | 235,611 | 47,338 | 32,032 | 30,070 | 52,115 | 0.58 |
| December 31 | 192,592 | 25,408 | 9,217 | 7,283 | 52,476 | 0.13 |
| | $ 844,807 | $ 138,707 | $ 93,236 | $ 85,259 | 50,581 | $1.69 |
| 1990 | | | | | | |
| March 31 | $ 219,341 | $ 40,281 | $ 24,677 | $ 22,497 | 47,195 | $0.48 |
| June 30 | 184,730 | 28,263 | 12,186 | 9,969 | 47,421 | 0.21 |
| September 30 | 227,933 | 51,820 | 35,104 | 32,919 | 47,646 | 0.69 |
| December 31 | 179,234 | 26,010 | (34,656) | (36,858) | 47,875 | (0.78) |
| | $ 811,238 | $ 146,374 | $ 37,311 | $ 28,527 | 47,534 | $0.60 |

*As discussed under "Unbilled Revenues" in Note 1 to the Consolidated Financial Statements, in December 1991, the Company changed its method of accounting for unbilled revenues, effective January 1, 1991. As shown above, the first three quarters of 1991 were restated to reflect the effects of the accounting change. The adjustment to restate the first quarter of 1991 includes an increase in net income of $12,730,000 ($0.25 per share) for the one-time cumulative effect of the accounting change. The change in accounting for unbilled revenues did not have a material effect on net income and earnings per share in the fourth quarter of 1991.

As discussed in Note 8, in the fourth quarter of 1990, net income was decreased by $42,497,000 (89¢ per share) due to the write-off of the Company's investment in certain joint venture subsidiary projects.

## 10 YEARS OF REVIEW

| | | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|---|
| **ELECTRIC REVENUES** (Thousands) | Residential | $275,888 | $259,113 | $251,490 | $247,950 | $231,439 |
| | Commercial | 218,558 | 209,174 | 197,362 | 191,104 | 176,355 |
| | Industrial | 144,272 | 140,288 | 133,451 | 130,094 | 119,109 |
| | Resale, etc. | 104,819 | 93,179 | 90,206 | 90,220 | 79,180 |
| | Unbilled revenues, net | (73) | — | — | — | — |
| | Miscellaneous revenues | 7,612 | 6,722 | 5,887 | 8,185 | 6,284 |
| | Total electric revenues | $751,076 | $708,476 | $678,396 | $667,553 | $612,367 |
| **ELECTRIC SALES** (1,000 Kilowatt-Hours) | Residential | 3,236,616 | 3,081,943 | 3,049,882 | 2,944,477 | 2,732,018 |
| | Commercial | 3,098,599 | 2,979,738 | 2,875,681 | 2,734,069 | 2,536,399 |
| | Industrial | 3,105,338 | 3,142,439 | 3,025,653 | 2,729,409 | 2,611,218 |
| | Resale, etc. | 2,000,913 | 1,877,091 | 1,877,623 | 1,817,088 | 1,685,641 |
| | Total electric sales | 11,441,466 | 11,081,211 | 10,828,839 | 10,225,043 | 9,565,276 |
| **ELECTRIC CUSTOMERS** (End of Period) | Residential | 330,632 | 326,175 | 319,696 | 311,577 | 303,158 |
| | Commercial | 41,539 | 40,766 | 40,104 | 38,629 | 36,783 |
| | Industrial | 753 | 774 | 798 | 825 | 842 |
| | Resale, etc. | 578 | 562 | 562 | 547 | 525 |
| | Total electric customers | 373,502 | 368,277 | 361,160 | 351,578 | 341,308 |
| **GAS REVENUES** (Thousands) | Residential | $35,636 | $38,487 | $42,908 | $40,303 | $39,614 |
| | Commercial | 16,370 | 16,939 | 18,816 | 16,404 | 15,491 |
| | Industrial | 14,395 | 16,498 | 17,546 | 12,208 | 10,941 |
| | Interruptible | 3,412 | 6,714 | 6,714 | 8,309 | 11,136 |
| | Other customers | 140 | 105 | 92 | 66 | 160 |
| | Unbilled revenues, net | 194 | — | — | — | — |
| | Gas transported | 710 | 602 | 174 | 2 | — |
| | Miscellaneous revenues | 365 | 491 | 492 | 1,323 | 891 |
| | Total gas revenues | $71,222 | $79,836 | $86,742 | $78,615 | $78,233 |
| **GAS SALES** (Million Cubic Feet) | Residential | 6,410 | 6,484 | 6,795 | 6,797 | 6,364 |
| | Commercial | 3,653 | 3,452 | 3,562 | 3,333 | 2,992 |
| | Industrial | 4,398 | 4,418 | 4,245 | 3,229 | 2,693 |
| | Interruptible | 1,004 | 1,678 | 2,010 | 2,774 | 3,320 |
| | Other customers | 54 | 37 | 33 | 21 | 42 |
| | Total sales | 15,519 | 16,069 | 16,645 | 16,154 | 15,411 |
| | Gas transported | 2,610 | 2,194 | 677 | 2 | — |
| | Total gas sales and gas transported | 18,129 | 18,263 | 17,322 | 16,156 | 15,411 |
| **GAS CUSTOMERS** (End of Period) | Residential | 80,874 | 78,893 | 77,021 | 74,762 | 73,803 |
| | Commercial | 6,313 | 5,983 | 5,689 | 5,322 | 5,027 |
| | Industrial | 154 | 154 | 159 | 162 | 156 |
| | Interruptible | 9 | 13 | 13 | 16 | 15 |
| | Other customers | 1 | 1 | 1 | 1 | 1 |
| | Total gas customers | 87,351 | 85,044 | 82,883 | 80,263 | 79,002 |
| **STEAM SERVICE** | Electricity delivered (1,000 kilowatt-hours) | 339,009 | 316,948 | 343,698 | 292,688 | 354,842 |
| | Steam delivered (1,000 pounds) | 6,007,426 | 6,996,248 | 7,443,971 | 6,928,792 | 6,134,946 |

| 1986 | 1985 | 1984 | 1983 | 1982 | 1981 | Ten Year Average Annual Compound % Rate of Growth |
|---|---|---|---|---|---|---|
| $217,393 | $212,254 | $205,910 | $193,021 | $183,258 | $164,919 | 5.28 % |
| 169,157 | 168,957 | 156,507 | 140,809 | 137,434 | 123,099 | 5.91 % |
| 127,900 | 135,141 | 128,833 | 126,703 | 127,441 | 129,601 | 1.08 % |
| 80,291 | 79,399 | 79,235 | 68,991 | 73,469 | 73,602 | 3.60 % |
| — | — | — | — | — | — | — % |
| 7,499 | 9,830 | 13,678 | 12,728 | 13,168 | 12,898 | (5.14)% |
| $602,240 | $605,581 | $584,163 | $542,252 | $534,770 | $504,119 | 4.07 % |
| 2,496,099 | 2,256,922 | 2,249,270 | 2,136,265 | 2,026,398 | 1,996,647 | 4.95 % |
| 2,370,775 | 2,165,685 | 2,073,457 | 1,844,324 | 1,729,863 | 1,660,147 | 6.44 % |
| 2,753,902 | 2,606,466 | 2,569,572 | 2,600,492 | 2,255,673 | 2,454,685 | 2.38 % |
| 1,585,019 | 1,501,447 | 1,415,934 | 1,297,395 | 1,237,508 | 1,283,845 | 4.54 % |
| 9,205,795 | 8,530,520 | 8,308,233 | 7,878,476 | 7,249,442 | 7,395,324 | 4.46 % |
| 293,452 | 283,911 | 275,175 | 267,357 | 260,371 | 255,646 | 2.61 % |
| 35,089 | 33,189 | 31,548 | 30,525 | 29,966 | 29,450 | 3.50 % |
| 853 | 893 | 929 | 949 | 741 | 788 | (0.45)% |
| 517 | 492 | 502 | 434 | 434 | 434 | 2.91 % |
| 329,911 | 318,485 | 308,154 | 299,265 | 291,512 | 286,318 | 2.69 % |
| $43,145 | $39,224 | $ 40,933 | $36,694 | $36,505 | $34,123 | 0.43 % |
| 18,523 | 17,901 | 18,663 | 16,527 | 15,792 | 14,344 | 1.33 % |
| 16,995 | 19,762 | 22,940 | 23,232 | 20,112 | 22,259 | (4.27)% |
| 11,464 | 17,419 | 18,098 | 17,026 | 11,733 | 11,711 | (11.60)% |
| 142 | 130 | 160 | 115 | 53 | 61 | 8.66 % |
| — | — | — | — | — | — | — % |
| — | — | — | — | — | — | — % |
| 1,533 | 820 | 784 | 764 | 552 | 572 | (4.39)% |
| $91,802 | $95,256 | $101,578 | $94,358 | $84,747 | $83,070 | (1.53)% |
| 6,201 | 5,622 | 6,213 | 5,640 | 6,062 | 6,193 | 0.34 % |
| 2,906 | 2,742 | 2,971 | 2,677 | 2,768 | 2,704 | 3.05 % |
| 3,338 | 3,579 | 4,245 | 4,378 | 4,108 | 4,809 | (0.89)% |
| 3,471 | 3,734 | 3,769 | 3,723 | 2,656 | 2,802 | (9.75)% |
| 36 | 31 | 41 | 31 | 10 | 12 | 16.23 % |
| 15,952 | 15,708 | 17,239 | 16,449 | 15,604 | 16,520 | (0.62)% |
| — | — | — | — | — | — | — % |
| 15,952 | 15,708 | 17,239 | 16,449 | 15,604 | 16,520 | 0.93 % |
| 72,685 | 70,804 | 70,183 | 69,608 | 69,092 | 68,608 | 1.66 % |
| 4,693 | 4,417 | 4,233 | 4,075 | 4,057 | 3,967 | 4.76 % |
| 158 | 160 | 165 | 160 | 166 | 167 | (0.81)% |
| 14 | 15 | 19 | 19 | 18 | 16 | (5.59)% |
| 1 | 1 | 1 | 1 | 1 | 1 | 0.00 % |
| 77,551 | 75,397 | 74,601 | 73,863 | 73,334 | 72,759 | 1.84 % |
| 370,802 | 335,308 | 298,203 | 309,043 | 322,804 | 343,063 | (0.12)% |
| 6,627,130 | 6,794,105 | 6,922,416 | 6,965,904 | 7,778,929 | 7,673,420 | (2.42)% |

## SELECTED FINANCIAL DATA

| (Dollars in Thousands) For the Years Ended December 31 | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|
| **OPERATING DATA** | | | | | |
| Operating Revenues | $ 844,807 | $ 811,238 | $ 789,707 | $ 768,322 | $ 712,479 |
| Operating Income | $ 138,707 | $ 146,374 | $ 139,421 | $ 129,494 | $ 124,967 |
| Income Before Cumulative Effect of a Change in Accounting Principle | $ 80,506 | $ 37,311 | $ 91,308 | $ 84,721 | $ 79,803 |
| Cumulative Effect of a Change in Accounting for Unbilled Revenues | $ 12,730 | — | — | — | — |
| Net Income | $ 93,236 | $ 37,311 | $ 91,308 | $ 84,721 | $ 79,803 |
| Electric Sales (kWh 000) | 11,441,466 | 11,081,211 | 10,828,839 | 10,225,043 | 9,565,276 |
| Gas Sales (mcf 000) | 15,519 | 16,069 | 16,645 | 16,154 | 15,411 |
| Gas Transported (mcf 000) | 2,610 | 2,194 | 677 | 2 | — |
| **COMMON STOCK DATA** | | | | | |
| Earnings Per Share of Common Stock: | | | | | |
| Before Cumulative Effect of a Change in Accounting Principle | $ 1.44 | $ 0.60 | $ 1.80 | $ 1.70 | $ 1.60 |
| Cumulative Effect of a Change in Accounting for Unbilled Revenues | $ 0.25 | — | — | — | — |
| Total Earnings Per Share | $ 1.69 | $ 0.60 | $ 1.80 | $ 1.70 | $ 1.60 |
| Dividends Declared Per Share of Common Stock | $ 1.54 | $ 1.54 | $ 1.51 | $ 1.47 | $ 1.42 ½ |
| Average Shares Outstanding (000) | 50,581 | 47,534 | 46,687 | 45,892 | 45,717 |
| Year-End Stock Price | $ 21 ¼ | $ 18 ⅛ | $ 20 ⅞ | $ 17 ¾ | $ 18 |
| Book Value Per Share | $13.42 | $12.84 | $13.67 | $13.28 | $13.01 |
| **CAPITALIZATION** | | | | | |
| Variable Rate Demand Bonds (1) | $ 41,500 | $ 41,500 | $ 41,500 | $ 75,000 | $ — |
| Long-Term Debt (2) | 772,225 | 741,748 | 663,084 | 641,291 | 670,738 |
| Preferred Stock (3) | 136,365 | 136,365 | 137,242 | 105,783 | 106,583 |
| Common Stockholders' Equity | 706,583 | 614,692 | 642,641 | 613,177 | 594,975 |
| Total Capitalization | $1,656,673 | $1,534,305 | $1,484,467 | $1,435,251 | $1,372,296 |
| **CAPITALIZATION RATIOS** | | | | | |
| Variable Rate Demand Bonds | 2% | 3% | 3% | 5% | 0% |
| Long-Term Debt | 47% | 48% | 45% | 45% | 49% |
| Preferred Stock | 8% | 9% | 9% | 7% | 8% |
| Common Stockholders' Equity | 43% | 40% | 43% | 43% | 43% |
| Total Capitalization | 100% | 100% | 100% | 100% | 100% |
| **OTHER INFORMATION** | | | | | |
| Total Assets | $2,263,718 | $2,125,715 | $2,028,661 | $1,907,790 | $1,807,831 |
| Long-Term Capital Lease Obligation | $ 29,337 | $ 32,354 | $ 2,071 | $ 2,630 | $ 3,387 |
| Construction Expenditures (4) | $ 181,820 | $ 187,823 | $ 175,843 | $ 171,102 | $ 142,239 |
| Internally Generated Funds (IGF) (5) | $ 96,081 | $ 112,551 | $ 106,698 | $ 107,413 | $ 130,778 |
| IGF as a Percent of Construction Expenditures | 53% | 60% | 61% | 63% | 92% |
| Capacity Reserve at Time of Summer Peak | 8.8% | 12.0% | 10.1% | 3.3% | 9.3% |

(1) Variable rate demand bonds were reclassified from long-term debt to current liabilities as of December 31, 1988. The Company intends to use the bonds as a source of long-term financing as discussed in Note 5 to the Consolidated Financial Statements.

(2) Includes long-term debt due within one year.

(3) Includes preferred stock with mandatory redemption.

(4) Excludes allowance for funds used during construction.

(5) Net cash provided by operating activities less common and preferred dividends.

## DIRECTORS AS OF FEBRUARY 1, 1992




**ELWOOD P. BLANCHARD, JR.** Vice Chairman of the Board of Directors and member of the Office of the Chairman of E. I. du Pont de Nemours & Company (a diversified chemical, energy, and specialty products company), Wilmington, Delaware, and Chairman of the Board of DuPont Canada, Mississauga, Ontario, Canada, Term expires in 1994. **JOHN R. COOPER** Former Director of Environmental Affairs of E. I. du Pont de Nemours & Company (a diversified chemical, energy, and specialty products company), Wilmington, Delaware, Term expires in 1993. **HOWARD E. COSGROVE** President and Chief Operating Officer of the Company, Term expires in 1992. **NEVIUS M. CURTIS** Chairman of the Board and Chief Executive Officer of the Company, Term expires in 1993.




**SARAH I. GORE** Human Resources Associate, W. L. Gore & Associates Inc. (a high technology manufacturing company), Newark, Delaware, Term expires in 1994. **H. RAY LANDON** Executive Vice President of the Company, Term expires in 1994. **DONALD W. MABE** Former President and Chief Executive Officer of Perdue Farms Incorporated (an integrated poultry company), Salisbury, Maryland, Term expires in 1993. **JAMES T. MCKINSTRY** Director and Partner, Richards, Layton & Finger (a law firm), Wilmington, Delaware, Term expires in 1992.



**JAMES O. PIPPIN, JR.** Director, President, and Chief Executive Officer of the Centreville National Bank of Maryland, Centreville, Maryland, Term expires in 1992. **DAVID D. WAKEFIELD** Chairman and President of J. P. Morgan Delaware (a commercial banking subsidiary of J.P. Morgan and Co. Incorporated), Wilmington, Delaware, Term expires in 1993. **LIDA W. WELLS** Director and President of Wells Agency, Inc. (a general real estate and development agency), Milford, Delaware, Term expires in 1992.

## COMMITTEES AND OFFICERS

### AUDIT COMMITTEE

John R. Cooper, *Chairperson*; James T. McKinstry; James O. Pippin, Jr.; Lida W. Wells

### COMPENSATION COMMITTEE

Elwood P. Blanchard, Jr., *Chairperson*; David D. Wakefield, *Vice Chairperson*; Sarah I. Gore; Donald W. Mabe

### EXECUTIVE COMMITTEE

Nevius M. Curtis, *Chairperson*; David D. Wakefield, *Vice Chairperson*; Elwood P. Blanchard, Jr.; Howard E. Cosgrove; James T. McKinstry

### INVESTMENT COMMITTEE

David D. Wakefield, *Chairperson*; Elwood P. Blanchard, Jr.; Nevius M. Curtis; Donald W. Mabe; James O. Pippin, Jr.

### NOMINATING COMMITTEE

Lida W. Wells, *Chairperson*; Nevius M. Curtis; James O. Pippin, Jr.

### NUCLEAR OVERSIGHT COMMITTEE

James T. McKinstry, *Chairperson*; John R. Cooper; Howard E. Cosgrove

### OFFICERS AS OF FEBRUARY 1, 1992

Nevius M. Curtis, *Chairman of the Board and Chief Executive Officer*; Howard E. Cosgrove, *President and Chief Operating Officer*; H. Ray Landon, *Executive Vice President*; Paul S. Gerritsen, *Vice President and Chief Financial Officer*; Donald E. Cain, *Vice President, Administration*; Kenneth K. Jones, *Vice President, Planning*; Ralph E. Klesius, *Vice President, Engineering*; Wayne A. Lyons, *Vice President, Division Operations*; Frank J. Perry, Jr., *Vice President, Production*; Thomas S. Shaw, Jr., *Vice President and President, Delmarva Capital Investments, Inc.*; Dale G. Stoodley, *Vice President and General Counsel*; Jack Urban, *Vice President, Gas Division*; Donald P. Connelly, *Secretary*; Richard H. Evans, *Vice President, Corporate Communications*; Barbara S. Graham, *Treasurer*; James P. Lavin, *Comptroller-Corporate and Chief Accounting Officer*; Dennis R. McDowell, *Comptroller-Operating*; Duane C. Taylor, *Vice President, Information Systems*; D. Wayne Yerkes, *Vice President, Northern Division*

## DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN

More than 30 percent of the Company's common shareholders of record are now participating in the Dividend Reinvestment and Common Stock Purchase Plan. If you are not participating, you may want to consider the benefits of joining this plan. Under the plan, you can invest your cash dividends and also invest additional cash, up to $100,000 per calendar year, to purchase additional shares of common stock without a service fee.

Shares of common stock to be purchased under the plan may be either newly issued shares or shares purchased in the open market, depending on the financing needs of the Company.

You may obtain a prospectus with the plan description and an enrollment authorization card by writing to Delmarva Power & Light Company, Shareholder Services, P.O. Box 231, Wilmington, DE 19899.

## DUPLICATE MAILINGS

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

## STOCKHOLDER INFORMATION

### QUARTERLY COMMON STOCK DIVIDENDS AND PRICE RANGES

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

The Company had 55,359 holders of common stock as of December 31, 1991.

| 1991 | Dividend Declared | Price High | Price Low |
|---|---|---|---|
| First Quarter | $.38 1/2 | $19 1/8 | $16 5/8 |
| Second Quarter | .38 1/2 | 19 1/4 | 17 7/8 |
| Third Quarter | .38 1/2 | 20 1/8 | 18 1/4 |
| Fourth Quarter | .38 1/2 | 21 5/8 | 19 3/4 |

| 1990 | Dividend Declared | Price High | Price Low |
|---|---|---|---|
| First Quarter | $.38 1/2 | $21 3/8 | $19 1/8 |
| Second Quarter | .38 1/2 | 20 | 18 1/8 |
| Third Quarter | .38 1/2 | 19 3/8 | 17 |
| Fourth Quarter | .38 1/2 | 19 1/8 | 17 1/8 |

### SHAREHOLDER SERVICES

Carol C. Conrad, Assistant Secretary
Delmarva Power & Light Company
800 King Street, P.O. Box 231
Wilmington, Delaware 19899
Telephone (302) 429-3355 or toll free (800) 365-6495

### STOCK SYMBOL

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

### ANNUAL MEETING

The Annual Meeting will be held on April 28, 1992, at 11:00 a.m. in the Clayton Hall, University of Delaware, Newark, Delaware.

### REGULATORY COMMISSIONS

**Federal Energy Regulatory Commission**
Martin L. Allday - Chairperson
941 North Capitol Street, N.E.
Washington, D.C. 20246

**Delaware Public Service Commission**
Nancy M. Norling - Chairperson
1560 S. duPont Highway
P.O. Box 457
Dover, Delaware 19903-0457

**Maryland Public Service Commission**
Frank O. Heintz - Chairperson
American Building
231 East Baltimore Street
Baltimore, Maryland 21202-3486

**Virginia State Corporation Commission**
Preston C. Shannon - Chairperson
P.O. Box 1197
Richmond, Virginia 23209

### TRANSFER AGENTS AND REGISTRARS

**First Mortgage Bond Trustee**
Chemical Bank
55 Water Street, Suite 1820
New York, New York 10041

**Preferred Stock**
Wilmington Trust Company
Corporate Trust Division
Rodney Square North
Wilmington, Delaware 19890

**Common Stock**
Wilmington Trust Company
Corporate Trust Division
Rodney Square North
Wilmington, Delaware 19890

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

### ADDITIONAL REPORTS

To supplement information in this Annual Report, a Financial and Statistical Review (1981-1991) and the Form 10-K are available upon request. Please write to: Shareholder Services, Delmarva Power, 800 King Street, P.O. Box 231, Wilmington, Delaware 19899.

**ART DIRECTION & DESIGN:** SUSAN MURPHY MCGUANE
**ILLUSTRATION:** PAT MACHT **PHOTOGRAPHY:** CARLOS ALEJANDRO

Delmarva Power
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