DELMARVA POWER

energy supply

customer satisfaction

teamwork

1992 Annual Report

FINANCIAL HIGHLIGHTS

	1992		1991		Percent Increase (Decrease)
Revenues [1]	$ 864.0	million	$ 855.8	million	1.0
Net Income	$ 98.5	million	$ 93.2	million	5.7
Earnings Per Share of Common Stock	$ 1.69 [2]		$ 1.69 [3]		—
Dividends Declared Per Share of Common Stock	$ 1.54		$ 1.54		—
Average Shares of Common Stock Outstanding (000)	53,456		50,581		5.7
Common Stock Book Value Per Share	$ 13.77		$ 13.42		2.6
Construction Expenditures [4]	$ 207.4	million	$ 181.8	million	14.1
Internally Generated Funds [5]	$ 130.3	million	$ 96.1	million	35.6
Electric Sales	11,520,811	mwh	11,460,280	mwh	0.5
Interchange Deliveries	998,679	mwh	1,113,423	mwh	(10.3)
Electric Customers (year end)	379,819		373,502		1.7
Average Annual Residential Usage	9,680	kwh	9,843	kwh	(1.7)
Gas Sales	17.01	million mcf	15.57	million mcf	9.2
Gas Transported	3.16	million mcf	2.61	million mcf	20.9
Total Gas Sold and Transported	20.17	million mcf	18.18	million mcf	10.9
Gas Customers (year end)	89,659		87,351		2.6
Average Annual Residential Usage	88.71	mcf	80.24	mcf	10.6

(1) Includes interchange delivery revenues of $30.6 million in 1992 and $33.5 million in 1991.
(2) Includes $0.21 per share from settlement of the Peach Bottom lawsuit.
(3) Includes $0.25 per share for the Cumulative Effect of a Change in Accounting for Unbilled Revenues.
(4) Excludes Allowance For Funds Used During Construction.
(5) Net cash provided by operating activities less common and preferred dividends.

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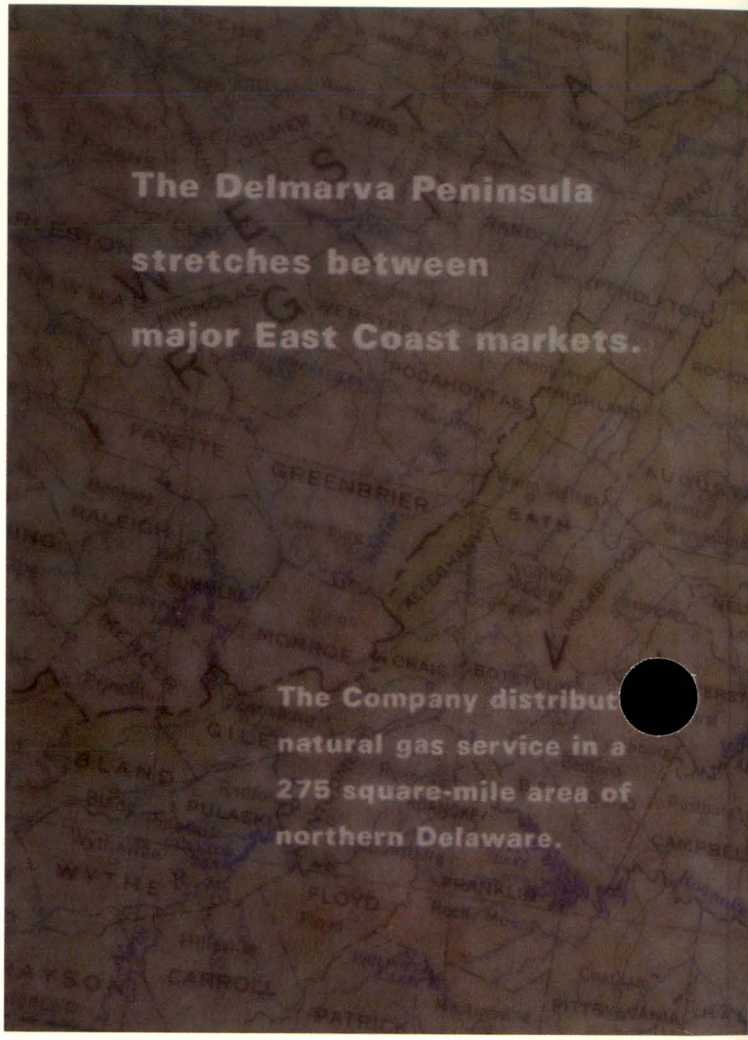
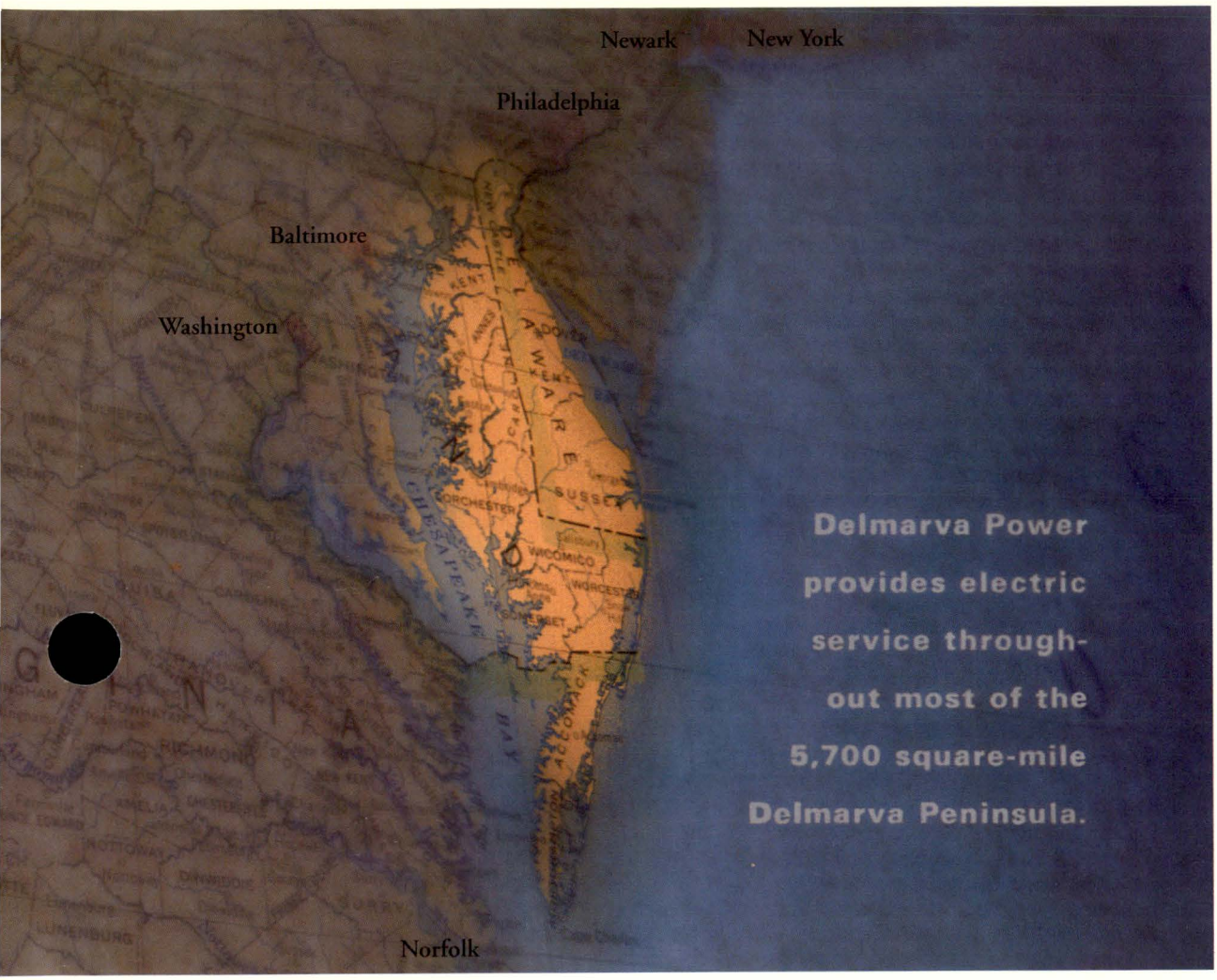
The mission of Delmarva Power is to provide gas, electricity, and energy-related services to our customers in a safe, reliable, and customer-focused manner at competitive prices with an adequate return to investors.



The Delmarva Peninsula stands out as one of the most distinctive geographical features on the East Coast. Centrally located between major East Coast markets, the peninsula lies 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 Delaware, portions of nine Eastern Shore Counties of Maryland, and the



two Eastern Shore Counties of Virginia. In addition, the Company distributes natural gas service in a 275 square-mile area of northern Delaware.

To serve this region, Delmarva Power maintains an electric system with 2,684 megawatts of generation capacity, 1,326 miles of transmission lines, 10,781 miles of distribution lines, and a natural gas system with 1,339 miles of gas main.

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

Our 379,819 electric customers and 89,659 natural gas customers are served by 2,842 employees working in 13 customer service locations on the peninsula. Division headquarters stand in Christiana, Delaware; Harrington, Delaware; and Salisbury, Maryland. Corporate headquarters are located in Wilmington, Delaware.

Delmarva Power directors elected Howard E. Cosgrove chairman and chief executive officer on October 1, 1992. Cosgrove joined the Company in 1966 and has served as a board member since 1986.

Dear Stockholder:

Thank you. The entire Delmarva Power team appreciates and respects your investment in our Company, your interest in our performance, and your trust in us. I also want to add my personal thanks for your confidence in me as chairman and chief executive officer.

As you read this year's report, please remember two important points:

- The pace of change in our business is accelerating, and the uncertainties are increasing.
- Delmarva Power is positioned to meet the challenges and opportunities that come with this change.

This letter will address the uncertainties developing in our industry and will discuss the principles guiding our success in the '90s. It will also highlight the strengths that position us to take advantage of the challenges ahead.

Industry Uncertainty

Our industry is becoming less predictable for several reasons. These include regulatory change, an uncertain national economy, increasing environmental concern, and pending rate cases.

The recently enacted National Energy Policy Act has opened utility markets to increased competition. Under the law, utilities and other companies can more easily invest in power generation projects and gain access to transmission systems of other utilities. For example, one of our customers, Old Dominion Electric Cooperative, has announced it will buy part of its electric supply from another utility in about two years. In the natural gas business, Federal Energy Regulatory Commission Order 636 is altering the way Delmarva Power and other local distribution companies buy and manage their gas supplies.

The economy remains uncertain. Across the nation, interest rates have stayed low. This reduces the returns that regulators feel comfortable granting to utilities. Large companies, such as General Motors Corporation, which operate facilities

in the service territory, continue to restructure to compete better in national and international markets. However, despite the recession, the Delmarva Penisula's population and businesses continue to grow.

Concern for the environment is still on the rise. Often this concern results in legislation that affects the way we do business. The full effects of the Clean Air Act Amendments of 1990 are still unclear. And, legislators are debating proposals for broad energy taxes along with proposals to deal with global warming.

Finally, in setting prices, the regulatory process always carries some uncertainty. This is especially true in 1993 because the Company will have rate cases pending in all of its jurisdictions. These decisions will be important to the financial health of the Company.

In facing these challenges, Delmarva Power will prosper because of our strengths:

- Diverse service territory
- High customer approval rating
- Low regional prices
- Productive and progressive employees.

Guiding Principles

During the 1980s, Delmarva Power performed well because we focused strategies and actions on three well-defined principles:

1. Satisfy customers and gain their trust
2. Provide a reliable supply of energy at competitive prices
3. Develop people to form a dynamic Company team.

Although some strategies and actions will be different in the '90s, we believe that keeping our efforts focused on these three principles will bring us financial and operating successes similar to those in the '80s.

Delmarva Power's energy supply plan includes saving energy, buying energy from other suppliers, and building and owning new power plants such as the Hay Road facility.

On October 1, 1992, Nevius M. Curtis retired from Delmarva Power & Light Company. As chief executive officer since 1981 and chairman of the board since 1983, Nev led efforts to strengthen the Company and position it for the challenges ahead. We will miss his wisdom, insight, and dedication to the respect of individuals. The board of directors and the Delmarva Power team thank Nev for his leadership and wish him and his family a happy future.

Customer Satisfaction. Customer confidence is crucial to our success. We need our customers to be able to say they trust us to charge fair prices, to locate plants properly, and to run them well. People at the Company work hard to understand customers' changing needs through surveys and face-to-face contacts. With that information, employees then work to balance improving service and controlling cost. To respond to customers' concern about the environment and to maintain customer favorability, we strive to balance our obligation to serve customers with our responsibility to preserve the environment. Since 1982, the percentage of customers rating the Company favorably in the annual survey moved from 46 percent to 83 percent. This is the highest rating among 23 utilities polled by an independent survey company.

Energy Supply. In 1987, to meet rising demand for electricity, Delmarva Power developed a flexible, balanced plan called Challenge 2000. We accelerate, slow, or modify the plan to respond to changing energy demands, changing energy markets, fluctuating fuel prices, and emerging technologies. Challenge 2000's three-element approach includes saving energy, buying energy from other suppliers, and building and owning power plants. This plan is critical to the Company's success and has been instrumental in keeping our electricity prices about 50 percent less than in neighboring Pennsylvania and New Jersey.

Teamwork. Employees are essential to managing change. Delmarva Power continues to build on a participative workstyle where people closest to the problems help solve the problems. We provide training and development programs that stress teamwork and the value of each individual's contribution to the team. And, we have worked hard to inform and educate employees about the industry changes and the principles that will help us to succeed. As a result, more employees at all levels have had opportunities to advance new ideas and to improve existing methods of performing their work. Teamwork has helped us to keep increases in operating and maintenance expenses per kilowatt-hour to about one percent per year since 1982 compared to the national average for utilities of about five percent per year. In addition, we believe the benefits carry over to our relationships with our customers.

The next section of this report will provide you with more details about how we have applied these three principles.

Financial Perspective

Turning to our 1992 financial performance, earnings closed at $1.69 per share, compared to $1.69 per share in 1991. Both years contained one-time gains: 21 cents in 1992 and 25 cents in 1991. Core utility earnings were $1.47 versus $1.41 in 1991. The increase was primarily due to higher rates, which were offset by unusually mild summer weather and increased operating costs. As we assess the uncertainties of industry changes and pending rate relief, we believe that holding the quarterly dividend at 38 1/2 cents is appropriate. You can find a more thorough financial review on pages 20 to 29.

We believe we can convert the Company's strengths into improved financial performance and profits for shareholders. We foresee an improving economy and economic development on the Delmarva Peninsula, enhanced by very competitive energy prices. With the progress we have made in managing our prices and customer satisfaction, the Company should receive above-average returns from regulators and should benefit from the new and developing markets.

Around the Company, I see people preparing for change, people making an extra effort for customers, and people managing energy resources well. Delmarva Power's 2,800 team members thrive on challenges and can turn them into opportunities. I thank them for their efforts and look forward to working with them.

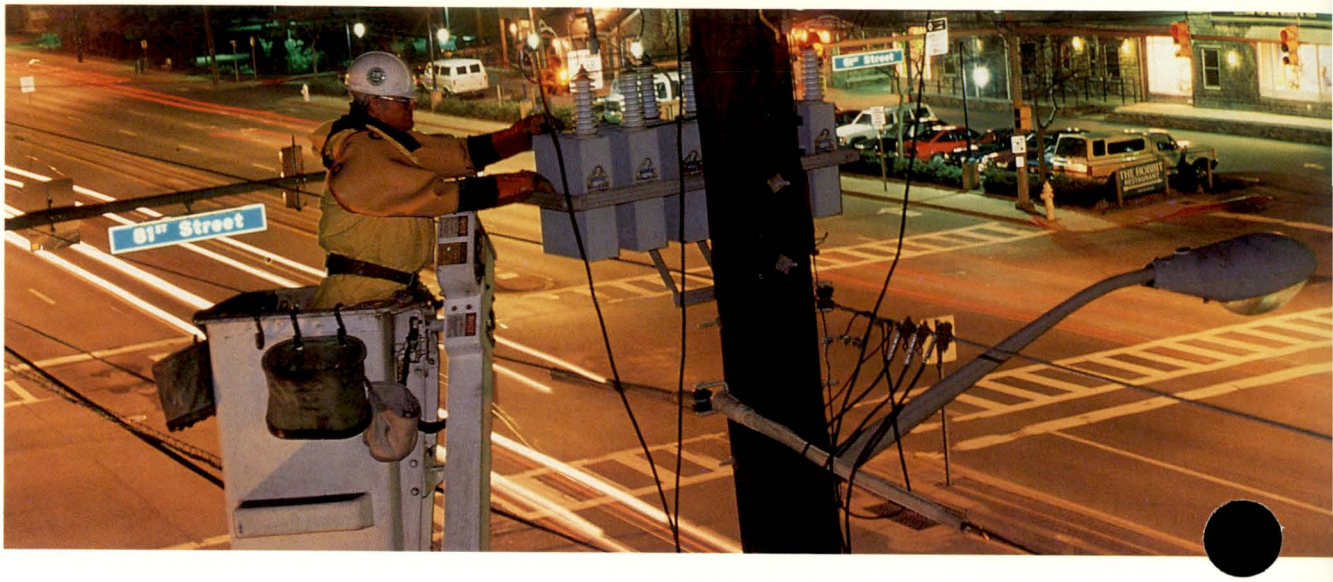
Sincerely,

Howard Cosgrove

Howard E. Cosgrove
Chairman of the Board and Chief Executive Officer

Employees work hard to limit customer outage time. In 1992, the Company exceeded its service reliability goal.

We try to anticipate customers' changing needs through surveys and face-to-face contacts.



Competitive prices help keep customers satisfied and stimulate economic growth in our service area. Delmarva Power's prices for energy—both electricity and natural gas—are among the best in the region.

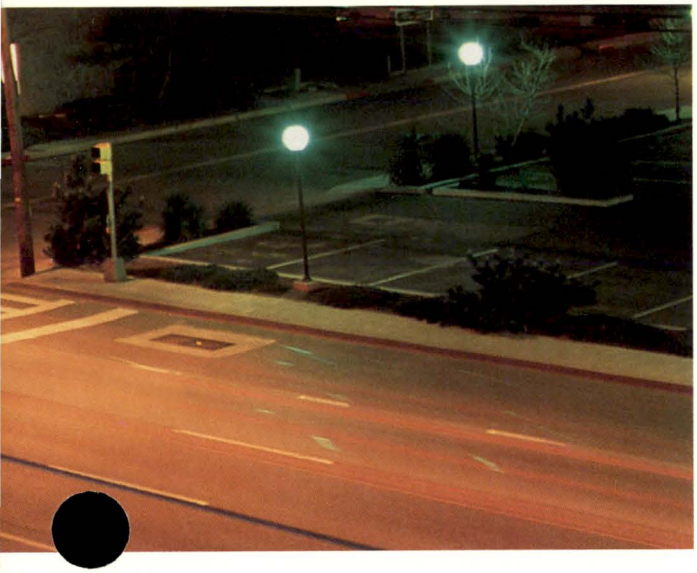
Here is how electric prices compare (for all customer categories in cents per kilowatt-hour for 12 months ended September 30, 1992): •New York 10.83 •Philadelphia 9.09 •Newark, N.J. 9.07 •Baltimore 7.06 •Norfolk, Va. 6.19 •Delmarva Peninsula (Delmarva Power) 6.13.

Locally, Delmarva Power prices are low. For a typical 1,000-kilowatt commercial/industrial customer, such as a mid-sized office building or small factory, the Company's prices are about 10 percent less than the Choptank Electric Cooperative, about 15 percent less than the City of Dover, and about 20 percent less than the Delaware Electric Cooperative.

We have kept prices stable as well as competitive. Even with proposed rate increases anticipated for mid-1993, the prices for typical Delaware and Maryland residential customers using about 750 kilowatt-hours per month in the summer, for example, will be about two percent lower than in the mid-1980s. When adjusted for inflation, these residential prices remain about 30 percent lower than prices in the mid-1980s.

For natural gas, here is how prices compare (for all customer categories in cents per 100 cubic-feet for 12 months ended September 30, 1992): •New York 69.75 •Philadelphia 64.32 •Norfolk, Va. 56.20 •Baltimore, 55.38 •Newark, N.J. 52.99 •Wilmington, Del. (Delmarva Power) 47.42.

The efforts of this Ocean City lineman ensure that customers have electricity when they need it. Reliable service is a top reason customers rate us favorably.



Each year, Delmarva Power commissions a residential customer opinion survey to see how the community feels about our performance. For 1992, the survey found that 83 percent of the customers surveyed gave the Company a favorable rating. This rating has improved continuously from 46 percent in 1982. Customers list service reliability, reasonable rates, and customer service as the top reasons for their favorable rating. The Company's mark was the highest among 23 electric and natural gas utilities surveyed by our pollster during the past year. The average favorability rating among these utilities equaled 70 percent.

The Company looks for ways to serve customers better. One example of this is the Resource Management System. The computer-based system automates service order dispatching and scheduling, leading to increased productivity for the Company and increased satisfaction for customers. Resource Management enables the Company to limit the time customers spend waiting for a service person to arrive. The system even calls customers to confirm appointments electronically.

Answer Line also makes our service more convenient for customers. In 1992, the Company introduced this new 24-hour telephone system to Northern Division customers. Previously, when customers reported outages during "off-hours," they often received a busy signal due to the large volume of calls and limited staff. Now, with Answer Line, more customers get through on the first try. Answer Line provides outage updates, records customer outage information, and automatically sends this information to employees trying to restore service. This data improves our ability to pinpoint and dispatch help to problem areas. In addition, Answer Line records up to 10,000 meter readings called in by customers each month. This saves customers time, identifies inaccurate readings, and helps customers provide correct information. These readings go directly into the Company's billing computer system, which eliminates data entry and estimated bills and saves us money. According to industry figures, Delmarva Power customer-use rate for Answer Line is twice as high as customer-use rates for similar programs offered by other utilities.

The Resource Management System enables the Company to limit the time customers spend waiting for a service person to arrive.

The Delaware Department of Transportation used about 260,000 tons of recycled fly ash from Company power plants to construct part of the new highway to the Delaware beaches.

Employees at the Vienna power plant spend some of their spare time raising striped bass at the Company's hatchery. More than 150,000 fish raised at the Company's two hatcheries have been placed into the Chesapeake Bay and Delaware River.

Environmental efforts improve the quality of life in the service area. "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. Delmarva Power received the 1992 Wildlife Habitat Enhancement Council award for our efforts to maintain and enhance environmentally sensitive land near the Vienna power plant in Maryland. Only nine other U.S. companies received this honor.

The striped bass population in the Delaware River received a healthy boost from another "Serving & Conserving Delmarva" project. Federal and state officials released 40,711 striped bass, raised at the Company's Edge Moor hatchery, into the river. Including the Company's hatchery at the Vienna power plant, more than 150,000 bass have been placed into the Chesapeake Bay and Delaware River.

As part of the "Serving & Conserving Delmarva" program, the Company began using retreaded

More than 1,800 volunteers cleared 13 tons of litter from Delaware waterways during the Company-sponsored Coastal Cleanup Day.

tires on Company trucks. These tires cost about 67 percent less than new tires; perform as well as new tires, with no loss in safety or comfort; and reduce the amount of old tires that end up in landfills on the peninsula.

"Serving & Conserving Delmarva" also seeks 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 energy-efficient compact fluorescent bulbs, 1,000 refrigerator efficiency kits, and 1,000 environmentally friendly travel mugs in prize drawings. About 86,000 customers registered for the lottery for these products. From the proceeds of 1993 "Serving & Conserving Delmarva" calendar sales, the Company contributed $12,540 to The Nature Conservancy.

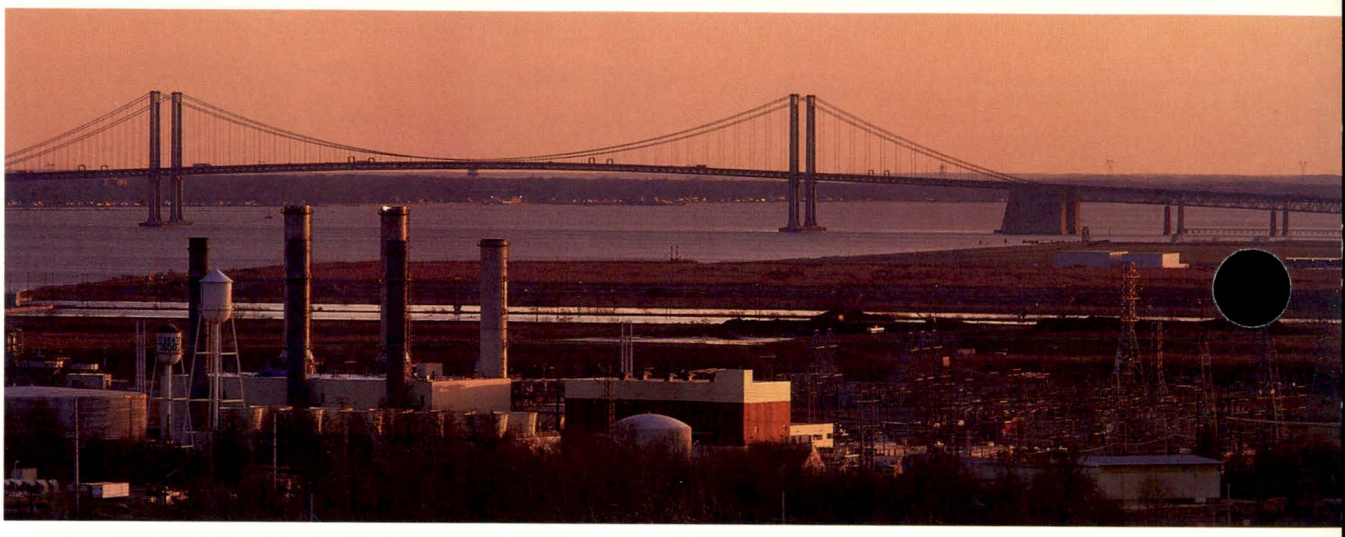
Employee involvement is part of our environmental stewardship program's success. This year, the Company formed Green Teams. These teams represent a cross section of employees at each Company location. Green Teams plan recycling programs and other activities to improve the environment. So far, projects at various Company locations recycled nearly 600 tons of paper while saving the Company more than $24,000 in trash disposal costs.

Employees rallied to cut Company electricity use by 913,000 kilowatt-hours during the last half of 1992. Delmarva Power has set a goal to reduce electricity use by 2.4 million kilowatt-hours per year by 1996. This goal supports the Company's energy supply plan that includes conservation in its balanced approach. It also demonstrates to customers that we are committed to saving energy.

In addition, for the second consecutive year, the Company sponsored Delaware Coastal Cleanup Day. More than 1,800 volunteers cleared litter from Delaware waterways during this year's event.

Clean-burning natural gas supplied by this new pipeline will fuel electric generating units at Delmarva Power's Hay Road power plant.

As part of "Build Some," the Hay Road complex (below) will generate 496 megawatts when it is completed in mid-1993. Under "Buy Some," the Company began a 26-year purchase agreement for 48 megawatts with Star Enterprise of Delaware City, Delaware (near right). All these new townhomes (far right) include energy switches that help the Company to reduce demand for electricity during peak summer periods. "Save Some" programs such as this one should reduce load by 350 megawatts by the year 2003.



The 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, markets, technology, and governmental regulations. Between 1984 and 1992, electricity demand at peak periods increased nearly 50 percent. "Save Some, Buy Some, Build Some," has enabled the Company to keep up with the growing demand for electricity and to keep prices at about 1983 levels.

"Save Some," helps to delay the need for expensive new power plants. This element of Challenge 2000 consists of load management and conservation programs that the Company offers to all types of customers. Delmarva Power considers itself a leader in this area with the ability to manage eight percent of its load during peak periods compared to the regional average of four percent.

Load management programs offer bill credits and pricing options to customers who lower their energy demand during peak use periods. For example, residential customers participating in Energy For Tomorrow receive bill credits for allowing the Company to cycle their air conditioners, heat pumps, and electric water heaters a few times during the summer. More than 53,500 customers participate in this program.

Recently approved conservation programs will promote energy efficiency standards for new construction of homes and commercial buildings. Some programs will entice customers to install energy-efficient equipment by offering rebates for these installations. Other conservation programs will make energy-efficient products such as compact fluorescent bulbs available to residential customers at discount prices. These programs are the result of a joint research and design process involving Delmarva Power and various state agencies from Maryland and Delaware.

By the year 2003, "Save Some" programs should reduce load by more than 350 megawatts. This overall load reduction represents a savings of about $188 million (1992 dollars), which approximately equals the building costs for three small power plants.

Under "Buy Some," the Company began a 26-year purchase agreement for 48 megawatts of peaking capacity from Star Enterprise of Delaware City, Delaware. Star's generating unit, next to its oil refinery, was selected in 1989 from among 10 proposals because it provided the lowest cost to Delmarva Power customers.

Also in 1992, Delmarva Power evaluated 27 proposals from power project developers to supply electricity to the Company in the mid-1990s.

The Company selected two projects. The first, the Delaware Clean Energy Project, proposes to build a 165-megawatt power plant at the Star Enterprise Delaware City refinery for service in 1996 or 1997, at the Company's option. The project will gasify and burn petroleum coke, a refinery waste product, to generate electricity. The second project, proposed by National Energy Resources Corporation (NERC) of Avon, Connecticut, features a 33-megawatt power plant that NERC will build near Wilmington, Delaware, by 1997. NERC will fuel this plant with waste paper and petroleum coke. The Company plans to achieve about half of the reserve margin through power purchases. That totals about 250 megawatts or about nine percent of the 2003 peak demand.

As part of "Build Some," the Company plans to complete a combined-cycle unit, called Hay Road 4, in 1993. The unit will use exhaust heat from three existing combustion turbines at Hay Road to cleanly and efficiently generate 160 megawatts of electricity. The plant is on schedule and budget. Toward the turn of the century, Delmarva Power plans to build and own a 300-megawatt pulverized coal power plant near Vienna, Maryland. We began the licensing process for this plant in 1992. Also, the Company will upgrade existing units at the Indian River power plant to extend the lives of the units and to reduce emissions.

Ninety-six percent of employees said that Delmarva Power is a good place to work.

The Company continues to develop a more participative workstyle where people closest to problems solve the problems. Delmarva Power has worked to create an environment that appreciates and recognizes the value of teamwork while respecting the contribution of each individual member of the team. As the participative process has matured, more employees at all levels have had opportunities to advance new ideas and to improve existing methods of performing their work.

For example, during the last 10 years, employees have controlled costs well. Delmarva Power's non-fuel operating and maintenance costs per kilowatt-hour have increased only 11 percent, while the industry average has increased more than 60 percent. Working in teams, employees set high goals and suggest innovations that are efficient and cost effective.

Employees achieved seven of the eight corporate goals in 1992. Through the achievement of the wellness goal over the last five years, absenteeism has decreased by more than one day per employee per year. This accomplishment saved the Company approximately $2 million since 1988. Employees are also working together to continually improve the health and safety of individuals. In 1992, lost work days due to illness decreased by 20.8 percent. More than 96 percent of employees remained injury-free. In addition, Delmarva Power's WellTrak employee wellness program received an award of excellence from the Delaware Center for Wellness. The center selected WellTrak from among several

Teamwork, demonstrated by this Northern Division line crew, enabled the Company to hold expenses significantly below industry average.

area corporate health promotion programs to recognize its commitment to healthy lifestyles.

According to the 1992 Employee Survey, nearly all employees, 96 percent, agree that Delmarva Power is a "a good place to work" and nine out of ten agree that Delmarva Power is becoming a more customer-focused company. In addition, three quarters of employees feel the Company has a commitment to:

- Treat employees with respect
- Apply participative management
- Give serious consideration to employee ideas and suggestions.

The Company strives to act as a good citizen and encourages employees to participate in the communities they serve. As part of the highly successful Radio Watch® program, employees continued to summon aid for people in the community by using radios in Company vehicles. Through the Gatekeeper program, trained employee volunteers linked 200 older customers with community services since 1989. In one case, Delmarva Power employees helped a 105-year-old woman pay bills and arrange house cleaning.

The 1992 Employees United Way Campaign raised nearly $270,000 to help people in need, and the Good Neighbor Energy Fund contributed more than $2 million during the last 10 years to customers having trouble paying energy bills.

Delmarva Power received the Outstanding Corporate Leadership Award for community philanthropic activities and involvement from the National Society of Fund Raising Executives' Brandywine Chapter. In addition, the Company's finance & accounting group received the 1992 State of Delaware Governor's Outstanding Volunteer Award. This group, which plans a different project quarterly, raised funds to assist the families of military personnel serving in Desert Storm, cleaned a newly constructed Ronald McDonald House, donated clothes to the Adopt-A-Family program, served meals for needy guests at the Emmanuel Dining Room, collected food to benefit the Southbridge Neighborhood House, and performed many other volunteer activities.

The Company's finance & accounting group received the State of Delaware Governor's Outstanding Volunteer Award for collecting food for the homeless and other efforts to help people in the community.

Wilmington's St. Francis Hospital added natural gas service in 1992. For the next 20 years, firm gas sales are expected to grow by 1.5 percent per year.

Delmarva Power is well positioned to meet the challenges and opportunities of competition and change in the industry. Our service territory is healthy, diverse, and growing. Our customers view us favorably, and our prices continue to be nationally and regionally competitive.

The economy of the Delmarva Peninsula showed some strength in 1992 compared to other parts of the country. The region's blend of industries (chemicals, food processing, 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. Delmarva Power's low energy prices also help the economy. They help to attract new customers and encourage increased production at local plants when managers of large companies have options in other geographic areas.

The Company anticipates that the local economy will improve in '93, but not return to the level of the late 1980s.

With the slow recovery from the recession and the restructuring of some local industries, the Company expects electricity sales to grow 3.6 percent and 2.2 percent in 1993 and 1994, respectively. For the next 20 years, Delmarva Power forecasts electricity sales to grow at an average annual rate of 2.0 percent, with residential space heating sales growing the fastest at 2.6 percent and industrial sales at 1.6 percent. Growth of the summer and winter peak demands for electricity are expected to average 2.5 percent per year through 2002.

Similar sales growth is expected for natural gas. For the long term, firm sales are expected to grow at an average annual rate of 1.5 percent.

The population of the Delmarva Peninsula continues to grow. This means more people will rely on the Company for service.

As part of the ongoing strategic planning process, the Company reorganized to focus talent on the opportunities developing in the changing energy industry. The effort is led by Paul S. Gerritsen, former chief financial officer, and includes Louise M. Morman, former general manager of marketing. It also includes the regulatory department since this team seeks to develop and advocate strategic pricing alternatives that respond to customers' needs.

The team and the Company have already been confronted by two challenging events. Old Dominion Electric Cooperative has announced it would purchase 150 megawatts of electricity from another utility in about two years. This is equivalent to about two years of load growth or approximately $25 million in net annual electric revenues. Also, General Motors announced it would close its Boxwood Road assembly plant in 1996. This plant uses about one percent of the electricity and three percent of the natural gas sold by Delmarva Power.

Because of the lead time and the number of options available to us, we cannot, at this time, estimate the effect, if any, on earnings of these actions. Some of those options or potential mitigating events include additional load growth, competitive sales of any excess capacity to other wholesale customers outside our service area, resetting rates to recover investments in plant and equipment, and modifications to the Company's Challenge 2000 plan, which may postpone capacity additions and their attendant costs.

Thus, for the short term, our ability to increase earnings will continue to be affected by the economy, regulation, and competition both inside and outside our own territory. Over the long haul, earnings will depend more on our ability to meet capital requirements associated with meeting our customers' energy needs and our environmental responsibility, as well as continued supportive regulation in an increasingly changing and competitive environment.

However, we approach the challenges of change as a financially strong Company with a skilled and effective team of employees. With your support and our team's continued strong performance, we will build upon our record of excellence and face the future with confidence.

Natural gas-powered vehicles provide Delmarva Power with new business opportunities. This new Company fueling station will encourage other local companies to use natural gas vehicles.

Directors as of December 31, 1992, pictured left to right

Howard E. Cosgrove Chairman of the Board, President and Chief Executive Officer of the Company; member since 1986; serves on executive, investment, and nuclear oversight committees; term expires in 1995.

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; member since 1981; serves on audit and nuclear oversight committees; term expires in 1993.

Sarah I. Gore Human Resources Associate, W. L. Gore & Associates Inc., (a high technology manufacturing company), Newark, Delaware; member since 1990; serves on compensation committee; term expires in 1994.

David D. Wakefield Executive Secretary Longwood Foundation, Inc., Wilmington, Delaware; former Chairman and President of J. P. Morgan Delaware (a commercial banking subsidiary of J. P. Morgan and Co. Incorporated), Wilmington, Delaware; member since 1984; serves on compensation, executive, and investment committees; term expires in 1993.

James T. McKinstry Partner and Director, Richards, Layton & Finger (a law firm), Wilmington, Delaware; member since 1987; serves on audit, executive, and nuclear oversight committees; term expires in 1995.

Nevius M. Curtis Former Chairman of the Board and Chief Executive Officer of the Company; member since 1979; serves on executive, investment, and nominating committees; term expires in 1993.

Audrey K. Doberstein President of Wilmington College, Wilmington, Delaware; member since 1992; serves on nominating committee; term expires in 1995.

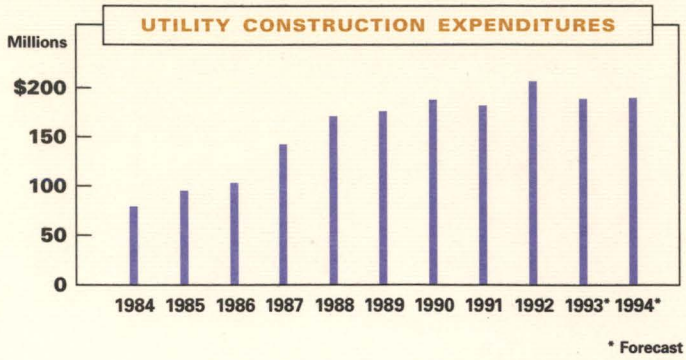
Elwood P. Blanchard Jr. Former Vice Chairman of the Board of Directors and member of the Office of the Chairman of E. I. du Pont de Nemours & Company (a diversified chemical, energy, and specialty products company), Wilmington, Delaware; and Chairman of the Board of Du Pont Canada, Mississauga, Ontario, Canada; member since 1988; serves on compensation, executive, and investment committees; term expires in 1994.

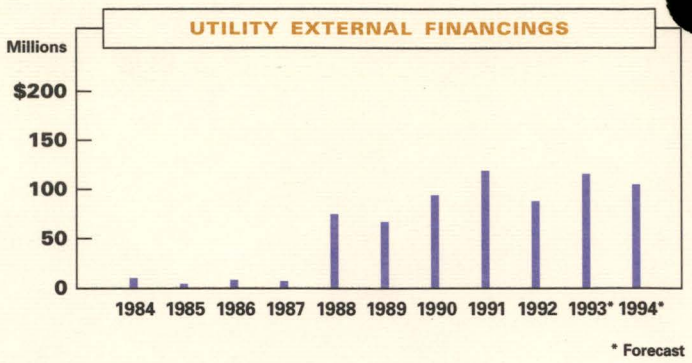
H. Ray Landon Executive Vice President of the Company; member since 1988; term expires in 1994.

Donald W. Mabe Former President and Chief Executive Officer of Perdue Farms Incorporated (an integrated poultry company), Salisbury, Maryland; member since 1986; serves on compensation, investment, and nominating committees; term expires in 1993.

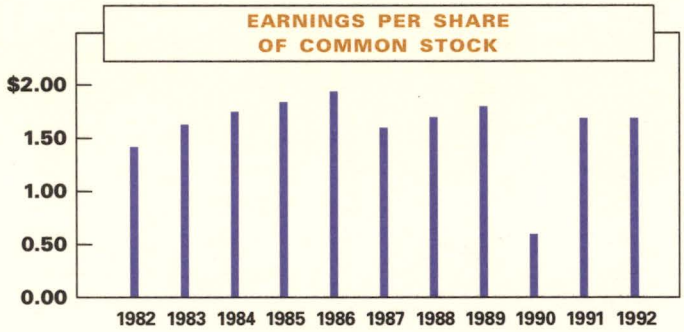
James C. Johnson III President of Loyola Capital Corporation and its primary subsidiary, Loyola Federal Savings Bank, Baltimore, Maryland; member since 1992; serves on audit committee; term expires in 1995.

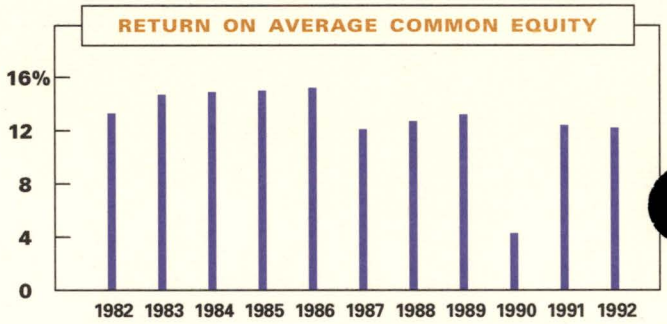
FINANCIALS



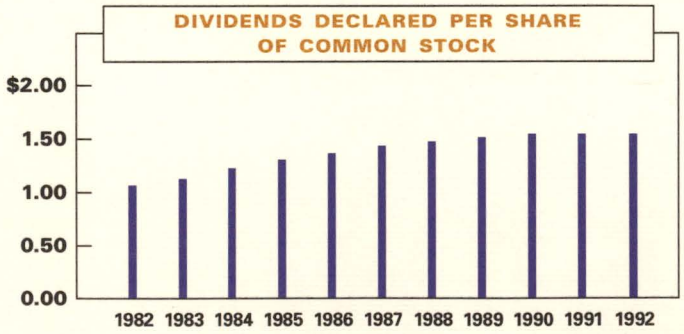


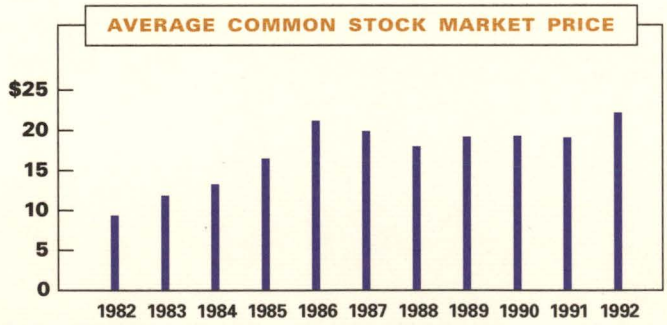
Delmarva Power expects construction expenditures to increase at a manageable rate to meet customer energy needs and stricter environmental regulations. The Company will finance these expenditures with a combination of internally generated cash and external financing.





Future earnings growth will depend on the Company's ability to raise prices to reflect increasing levels of construction expenditures and to provide investors with a fair return on their investment.





During the past 10 years, investors have earned a 16.9% annual return through a combination of dividends and stock price appreciation. The January 1993 yield of 6.8% was above the average yield of "A"-rated utilities.

SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)	Year Ended December 31,				
	1992	1991	1990	1989	1988
Operating Data					
Operating Revenues [1]	$864,044	$855,821	$812,217	$796,614	$786,501
Operating Income	$143,711	$136,410	$144,473	$137,650	$127,577
Income Before Cumulative Effect of a Change in Accounting Principle	$98,526	$80,506	$37,311	$91,308	$84,721
Cumulative Effect of a Change in Accounting for Unbilled Revenues	—	$12,730	—	—	—
Net Income	$98,526	$93,236	$37,311	$91,308	$84,721
Electric Sales (kWh 000)	11,520,811	11,460,280	11,081,211	10,828,839	10,225,043
Interchange Deliveries (kWh 000)	998,679	1,113,423	726,090	894,402	1,413,150
Gas Sales (mcf 000)	17,013	15,574	16,069	16,645	16,154
Gas Transported (mcf 000)	3,155	2,610	2,194	677	2
Common Stock Data					
Earnings Per Share of Common Stock					
Before Cumulative Effect of a Change in Accounting Principle	$1.69	$1.44	$0.60	$1.80	$1.70
Cumulative Effect of a Change in Accounting for Unbilled Revenues	—	$0.25	—	—	—
Total Earnings Per Share	$1.69	$1.69	$0.60	$1.80	$1.70
Dividends Declared Per Share of Common Stock	$1.54	$1.54	$1.54	$1.51	$1.47
Average Shares Outstanding (000)	53,456	50,581	47,534	46,687	45,892
Year-End Common Stock Price	$23 ¼	$21 ¼	$18 ⅛	$20 ⅞	$17 ¾
Book Value Per Common Share	$13.77	$13.42	$12.84	$13.67	$13.28
Return on Average Common Equity	12.2%	12.4%	4.3%	13.2%	12.7%
Capitalization					
Variable Rate Demand Bonds (VRDB) [2]	$ 41,500	$ 41,500	$ 41,500	$ 41,500	$ 75,000
Long-Term Debt	787,387	770,146	741,032	662,544	609,687
Preferred Stock [3]	176,365	136,365	136,365	136,442	104,983
Common Stockholders' Equity	745,789	706,583	614,692	642,641	613,177
Total Capitalization with VRDB	$1,751,041	$1,654,594	$1,533,589	$1,483,127	$1,402,847
Other Information					
Total Assets	$2,374,793	$2,263,718	$2,125,715	$2,028,661	$1,907,790
Long-Term Capital Lease Obligation	$26,081	$29,337	$32,354	$2,071	$2,630
Construction Expenditures [4]	$207,439	$181,820	$187,823	$175,843	$171,102
Internally Generated Funds (IGF) [5]	$130,275	$96,081	$112,551	$106,698	$107,413
IGF as a Percent of Construction Expenditures	63%	53%	60%	61%	63%

(1) As discussed in Note 1 to the Consolidated Financial Statements, operating revenues were restated to include interchange delivery revenues and exclude steam revenues. Amounts included for interchange delivery revenues are $30.606 million in 1992, $33.523 million in 1991, $23.905 million in 1990, $31.476 million in 1989, and $41.162 million in 1988.

(2) Although Variable Rate Demand Bonds are classified as current liabilities, the Company intends to use the bonds as a source of long-term financing as discussed in Note 11 to the Consolidated Financial Statements.

(3) Includes preferred stock with mandatory redemption in 1989 and 1988.

(4) Excludes Allowance for Funds Used During Construction.

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

Earnings

The earnings per share of common stock attributed to the core utility business and nonutility subsidiaries are shown below.

	1992	1991	1990
Core Utility			
Operations	$1.47	$1.41	$1.70
Peach Bottom lawsuit settlement	0.21	—	—
Cumulative effect of a change in accounting for unbilled revenues	—	0.25	—
Nonutility Subsidiaries	0.01	0.03	(1.10)
Total	$1.69	$1.69	$0.60

Dividends

On December 29, 1992, the Board of Directors declared a common stock dividend of $0.38 ½ per share for the fourth quarter. The common dividend remained unchanged from the prior declaration. The Board believed it was appropriate to hold the quarterly common dividend constant while the Company assesses the impact of changes taking place within the utility industry and the uncertainties associated with rate relief. For 1992, dividends declared per share of common stock were $1.54.

Core Utility Earnings

Earnings per share from core utility operations increased by $0.06 in 1992 compared to 1991 primarily due to additional electric and gas revenues from higher customer base rates (which are discussed in Note 2 to the Consolidated Financial Statements). By February 1992, base rate increases had become effective in jurisdictions that regulate 97% of the Company's utility operating revenues. The additional revenues from higher customer base rates were partly offset by unfavorable effects of cooler summer weather on electric revenues, increased non-fuel expenses, and an increase in the average number of common shares outstanding.

Core utility earnings for 1992 and 1991 include earnings from one-time, unusual items, not related to ongoing utility operations. As discussed in Note 4 to the Consolidated Financial Statements, net income and earnings per share were increased in 1992 by $11,397,000 and $0.21, respectively, due to settlement of a lawsuit filed by the Company concerning the 1987–1989 shutdown of the Peach Bottom Atomic Power Station by the Nuclear Regulatory Commission. In 1991, as discussed in Note 1 to the Consolidated Financial Statements, a change in accounting for unbilled revenues increased net income and earnings per share by $12,730,000 and $0.25, respectively.

In 1991, earnings of core utility operations declined $0.29 per share compared to 1990 mainly because customer rates had not yet been raised to recover financing and operating cost increases associated with new utility plant added to the Company's electric and gas systems. The adverse effect on earnings per share of the financing and operating cost increases was partly offset by additional electric revenue attributed to a 3.4% increase in 1991 kilowatt-hour (kWh) sales.

Earnings of the Company's core utility operations over the past several years reflect the cycle which typically occurs as new utility plant is added and customer rate increases are necessary to recover cost increases associated with the new plant. Growing energy needs of the Company's customers and stricter environmental regulations have kept the construction program at a high but manageable level. As plant is added and costs rise, rates must be increased on a timely basis. Resetting customer rates through the regulatory process often results in a lag between the time when costs rise and when prices can be adjusted, causing earnings to temporarily decline.

On October 30, 1992, the Company filed applications with regulatory commissions for $61.8 million, in total, of proposed electric base rate increases. The rate increases are designed to recover higher costs, including the cost of the new Hay Road Unit 4 combined-cycle power plant, inflation, and costs associated with the accounting standard for postretirement benefits other than pensions. These new base rates are proposed to become effective immediately following the planned May 31, 1993 in-service date of Hay Road Unit 4. Even with the planned rate increases, the Company expects the price of electricity for its customers to be comparable to 1983 levels and competitive with other utilities in the region.

In October 1992, the Energy Policy Act of 1992 (the Energy Act) was enacted. The Energy Act is designed, among other things, to promote increased competition among utility and non-utility electric generators and contains provisions giving the Federal Energy Regulatory Commission (FERC) increased authority to order "wheeling" of electric power on the transmission systems of electric utilities. The transmission access provisions, which apply to wholesale (resale), but not retail, "wheeling" of power, allow a utility to recover all costs of transmission services.

As a result of the Energy Act, industry-wide resale markets are experiencing increased competition. In 1992, gross electric revenues from the Company's resale business were $96.5 million or 13% of electric sales revenues. In December 1992, Old Dominion Electric Company (ODEC), a resale customer, advised the Company that it has decided to terminate contracts with the Company for the purchase of up to 150 megawatts (MW) of electricity beginning December 1, 1994, and to purchase such electricity from another investor-owned utility. This load loss is equivalent to about two years of load growth, or up to approximately $25 million in non-fuel revenues.

The effect, if any, of the loss of up to 150 MW of ODEC's load on the Company's net income in 1995 and subsequent years is not determinable at this time, given the approximately two-year lead time before the termination, additional load growth, and the potential for mitigating action by the Company. In the interim, the Company is pursuing additional off-system sales to offset any loss of revenues and is considering the resetting of rates to recover any investments related to servicing ODEC's requirements. The Company also has the ability to modify its Challenge 2000 Plan to postpone capacity commitments and their attendant costs (including the postponement of a contract for the purchase of 165 MW of capacity).

Economic trends in the Company's service territory during 1992 were mixed. Positive developments included a drop in Delaware's unemployment rate to well below the national average. Also, the number of customers served by the Company grew by 1.7% in 1992 compared to 1.4% in 1991. On the downside, in December 1992, General Motors announced plans to close its Delaware manufacturing plant by 1996. The plant's closing could increase Delaware's unemployment rate by one or two percentage points. The direct impact on the Company's revenues from the loss of General Motors as a utility customer would be a decrease of approximately $7 million in gross operating revenues, which includes about $4 million of non-fuel revenues. Efforts continue by the State, the Company and other major businesses to avert the planned closing of the plant in 1996.

Components of 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. Rates for non-fuel costs billed to customers are dependent on rates determined in base rate proceedings before regulatory commissions. Changes in non-fuel revenues can directly affect the earnings of the Company. Fuel revenues, or fuel costs billed to customers, generally do not affect net income since the expense recognized as fuel costs is adjusted to match the fuel revenues. The amount of under- or over-recovered fuel costs is generally deferred until it is subsequently recovered from or returned to utility customers. As discussed under "Financial Statement Reclassifications" in Note 1 to the Consolidated Financial Statements, electric revenues also include interchange delivery revenues, which result from the sale of electric power to the Pennsylvania-New Jersey-Maryland (PJM) Interconnection and certain utilities. Interchange delivery revenues are reflected in the calculation of rates charged to customers under fuel adjustment clauses. Due to this rate-making treatment, interchange delivery revenues do not affect net income.

Electric Revenues and Sales

Details of the changes in the various components of electric revenues are shown below:

Comparative Increase (Decrease) in Electric Revenues from Prior Year

(Dollars in Millions)	1992	1991
Non-fuel Revenue		
Increased Base Rates	$27.4	$ 0.4
Sales Volume and Other	(5.1)	20.0
Fuel Revenue	(23.8)	22.2
Interchange Delivery Revenue	(2.9)	9.6
Total	$(4.4)	$52.2

The $27.4 million increase in 1992 non-fuel revenues over 1991 shown above as "Increased Base Rates" resulted from the increases in 1992 electric customer base rates discussed in Note 2 to the Consolidated Financial Statements.

The non-fuel revenue variances shown in the above table as "Sales Volume and Other" are attributable to changes in sales volume, sales mix, and other factors. In 1992, non-fuel revenues decreased $5.1 million compared to 1991 due to "Sales Volume and Other" variances. Despite a 0.5% increase in total kWh sold, non-fuel revenues were adversely impacted by cooler summer weather which resulted in lower demand charges billed to resale and other large customers, and lower average residential electric rates. Although 1992 total residential electric sales were relatively flat compared to 1991, a disproportionately lower volume of residential sales occurred during the summer months when the rate per kWh is higher.

Electric sales to commercial and resale customers increased in 1992 by 1.3% and 1.8%, respectively, mainly due to the growing customer base. Sales to industrial customers in 1992, which account for less than 20% of electric sales revenues, remained relatively unchanged from 1991 due to the slow economic recovery and energy conservation efforts by large customers.

In 1991, non-fuel revenues increased $20.0 million from 1990 due to "Sales Volume and Other" variances. This increase resulted from a 3.4% rise in total 1991 kWh sales that was mainly due to a higher number of customers and greater usage by residential and commercial customers, partly due to a hot summer. Residential and commercial sales grew in 1991 at rates of 5.0% and 4.0%, respectively. Resale electric sales were also strong, up 6.7%. 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.

The $23.8 million decrease in 1992 electric fuel revenues from 1991 was due to lower rates charged to customers under the fuel adjustment clauses. In 1991, fuel revenues increased $22.2 million from 1990 due to higher fuel adjustment clause rates and higher electric sales.

Interchange delivery revenues decreased $2.9 million in 1992 mainly due to extended maintenance outages at the Company's generating units which reduced potential sales to the PJM Interconnection. If there is demand for power within the PJM Interconnection and the Company has kWh output available, then it will sell power to the PJM Interconnection if economically beneficial to both parties. Interchange delivery revenues benefit customers by reducing the effective fuel cost billed to customers. In 1991, interchange delivery revenues increased $9.6 million due to additional energy sources that enabled the Company to sell more power to the PJM Interconnection. Additional energy sources in 1991 included a 200 MW power purchase from Philadelphia Electric Company (PE) and the start of commercial operations by Hay Road Unit 3, a 112 MW combustion turbine.

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. In 1992, the non-fuel portion of gas revenues increased $7.0 million in comparison to 1991 due to $3.2 million of additional revenue from higher customer base rates, as discussed in Note 2 to the Consolidated Financial Statements, and due to $3.8 million from higher sales volume. Total cubic feet of gas sold and transported in 1992 increased 10.9% over 1991 due to colder winter weather and new residential-space heating customers. The fuel portion of gas revenues increased $5.6 million in 1992 primarily due to higher sales and bill-credits made to customers during 1991 for previously over-collected fuel costs. These increases in gas fuel revenues were partly offset by the effect of lower 1992 fuel rates charged to gas customers.

In 1991, gas revenues decreased by $8.6 million in comparison to 1990 due to decreases in non-fuel revenues and fuel revenues of $1.2 million and $7.4 million, respectively. The decrease in non-fuel revenues was attributed to mild winter weather and a sluggish 1991 economy which caused total gas sold and transported to decline 0.7%. Fuel revenues decreased because rates charged to customers to recover gas fuel costs were reduced in 1991 to reflect lower prices paid for purchased gas.

Operation, Maintenance, and Depreciation Expenses

Operation and maintenance expenses increased by $6.8 million in 1992 in comparison to 1991 primarily due to higher maintenance outage costs for electric generating units and due to charges for the purchase of 48 MW of capacity which began June 1, 1992. These increases were partially offset by decreases in administrative and general expenses, including pension cost, and lower costs of operating and maintaining the electric transmission and distribution systems. Future increases in operation and maintenance expenses are expected due to additions of new utility plant, aging of existing utility plant, and normal inflationary cost increases. Depreciation expense increased $6.7 million due to additions to the electric system, including a new stack for the Indian River power plant that was completed in January 1992. A full year's depreciation expense for Hay Road Unit 3, completed as of June 1, 1991, also contributed to the increase. Continued increases in depreciation expense are expected as new electric plant is added.

In 1991, operation and maintenance expenses increased by $21.3 million in comparison to 1990 mainly due to increased costs of operating and maintaining the electric transmission and distribution systems, higher expenses at the jointly-owned nuclear power plants, and higher administrative and general expenses. Depreciation expense increased $6.5 million in 1991 primarily due to additions to electric utility plant which included the installation of Hay Road Unit 3.

Electric Fuel and Purchased Power Expenses

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

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

(Dollars in Millions)	1992	1991
Average Cost of Electric Fuel and Purchased Power	$ (9.9)	$ (6.6)
Increased (Decreased) kWh Output	(1.9)	19.6
Deferral of Energy Costs	(12.0)	21.1
Total	$(23.8)	$ 34.1

The 1992 "Average Cost of Electric Fuel and Purchased Power" decreased $9.9 million from 1991 mainly due to lower coal and oil prices and increased power purchases at lower prices. These favorable cost variances were partly offset by decreased low-cost nuclear generation and capacity deficiency charges under the Company's agreement with the PJM Interconnection which requires the Company to plan for and provide a certain capacity level. The Company does not anticipate PJM Interconnection capacity deficiency charges in 1993 due to the expected start of commercial operations at Hay Road Unit 4 in May 1993 and a trade of PJM Interconnection capacity credits with another utility. The trade is expected to provide the Company with a credit towards current PJM Interconnection capacity requirements and in return, the Company will provide the same credit to the other utility in a future period.

The 1991 "Average Cost of Electric Fuel and Purchased Power" decreased $6.6 million from 1990 mainly due to lower oil and gas prices and a decrease in the cost of purchased power.

The $1.9 million decrease in 1992 shown above as "Increased (Decreased) kWh Output" was due to lower output from generating units attributed to extended maintenance outages. In 1991, a $19.6 million increase in "Increased (Decreased) kWh Output" mainly resulted from higher kWh generated and purchased to meet higher electric sales demand in the Company's service territory. The $19.6 million increase also reflects more kWh generated for sale to the PJM Interconnection.

The kWh output required to serve load within the Company's service territory is equivalent to total output less interchange delivery kWh sold. In 1992, the Company's kWh output for load within its service territory was provided by 39% coal generation, 14% nuclear generation, 14% oil generation, 4% gas generation, and 29% purchased power. Purchases under the Company's agreement with PE for 200 MW of energy accounted for 22% of the Company's 1992 kWh output for load within the service territory. This agreement has been extended until December 31, 1993.

The decrease of $12.0 million in the 1992 "Deferral of Energy Costs" compared to 1991 was primarily due to lower over-collections of fuel costs from customers which resulted in lower deferred energy expenses. The increase of $21.1 million in the 1991 "Deferral of Energy Costs" compared to 1990 was primarily due to an over-collection of fuel costs in 1991 that was deferred through a corresponding charge to deferred energy costs.

Utility Financing Costs

In 1992, interest charges on debt of the core utility decreased $1.3 million in comparison to 1991 because lower interest rates enabled the Company to reduce the average cost of its outstanding long-term debt through refinancings. The Company refinanced $255.5 million, $85.5 million, and $15.0 million of its long-term debt in 1992, 1991, and 1990, respectively, resulting in annualized interest savings of $6.3 million in total. In 1992, lower interest charges due to lower rates on refinancing bonds and variable rate demand bonds were partly offset by interest charges on additional long-term debt issued to finance the Company's investment in utility plant. The increase in preferred dividends from the issue of $40 million of 7 ¾% preferred stock in August 1992 was largely offset by lower dividend payments on $61.1 million of the Company's preferred stock which has market-based dividend rates.

In 1991, interest charges on debt of the core utility increased $4.2 million from 1990 due to higher average debt balances. The increase was moderated by lower interest rates on refinancing bonds and variable rate demand bonds and by a lower average short-term debt balance.

Allowance for equity and borrowed funds used during construction (AFUDC) increased $2.1 million in 1992 and $2.2 million in 1991. These increases were principally due to higher average construction work-in-progress (CWIP) balances. AFUDC represented a relatively low 8.3% of 1992 net income.

Due to increased common equity financing, the average number of shares of common stock outstanding increased in 1992 and 1991. The additional shares outstanding decreased earnings per share by $.09 in 1992 and $.10 in 1991. However, the new rates charged to the Company's customers in 1992 were intended to result in sufficient revenues to offset the adverse effect on earnings per share of increased common equity financing.

Challenge 2000 Plan

The Challenge 2000 Plan is the Company's strategy for providing an adequate, reliable supply of electricity to customers at competitive rates. The Company's Plan, which is updated periodically, is based on PJM Interconnection reserve requirements and forecasts of demand for electricity in the service territory. The Company's Plan combines customer energy conservation and load management programs ("Save Some"), power purchases ("Buy Some"), and new power plants ("Build Some").

As an electric utility, the Company must balance the potential risks of providing too much or not enough capacity. The main risk of excess capacity is that regulators would not allow the associated costs to be recovered from ratepayers. The principal risks of not having an adequate level of capacity are reliability of service and that capacity deficiency charges would be owed to the PJM Interconnection. The flexibility of the Challenge 2000 Plan allows the Company to balance these risks by more closely matching capacity with load.

In 1992, the Company began purchasing 48 MW of capacity supplied by the Delaware City Power Plant, which the Company sold in December 1991. Looking forward, the Company's current plans for meeting the demand for energy during 1993–2003 include the following:

(1) **"Save Some"**—140 MW of load reduction from various customer-oriented energy management programs.
(2) **"Buy Some"**—278 MW of capacity purchases, including (a) 165 MW beginning, at the Company's option, in 1996 or 1997, and (b) 33 MW beginning in 1997.
(3) **"Build Some"**—464 MW of capacity from new power plants including (a) completion in May 1993 of Hay Road Unit 4, a 160 MW combined cycle addition to the Hay Road combustion turbines, and (b) construction by the year 2000 of a 300 MW pulverized coal baseload unit near Vienna, Maryland, which is called Dorchester Unit 1 and has an estimated construction cost of $725 million, including AFUDC.

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.

Utility construction expenditures, the Company's largest capital requirement, were $207.4 million in 1992, $181.8 million in 1991, and $187.8 million in 1990. The level of construction expenditures is affected by many factors, including growth in demand for electricity, compliance with environmental regulations, and the need for improvement and replacement of existing facilities. Strategic planning and project prioritizing provide management the means to match the level of construction expenditures with available capital resources. During 1992, 1991, and 1990, internally generated funds provided 63%, 53%, and 60%, respectively, of the cash required for construction. In 1992, the payment received for settlement of the Peach Bottom lawsuit increased internally generated funds by $11.4 million (5% of construction expenditures). Over the past several years, internally generated funds have been constrained by slower electric sales growth, increased expenses, and increased common dividend payments due to more shares outstanding. In 1992, these factors were offset by additional revenues from increased customer rates.

Capital raised externally during 1990–1992, before considering issuing and refinancing costs, consisted of $137 million of common equity, $40 million of preferred stock, and $128 million of long-term debt, net of $356 million of refinancings. The costs associated with issuing and refinancing debt and equity securities during 1990–1992 were approximately $26 million.

In 1992, the Company issued $273.3 million of long-term debt at an average rate of 7.8% and repurchased $257.2 million of long-term debt which had an average rate of 9.1%. As of December 31, 1992, the Company's embedded cost of long-term debt and variable rate demand bonds was 7.7%. Equity capital issued in 1992 included $40 million of 7 ¾% preferred stock and $32.2 million of common stock. Book value per share of common stock increased from $13.42 as of December 31, 1991 to $13.77 as of December 31, 1992. Long-term debt and variable rate demand bonds (VRDB), preferred stock, and common stockholders' equity as a percent of total capitalization, including VRDB, as of December 31, 1992 and 1991 were as follows:

	1992	1991
Long-term debt and VRDB	47.3%	49.1%
Preferred stock	10.1%	8.2%
Common Stockholders' Equity	42.6%	42.7%

Capital requirements for the period 1993–1994 are estimated to be $426 million, including a $25 million long-term debt maturity in 1994 and $380 million for utility construction, excluding AFUDC. The estimate of 1993–1994 utility construction requirements includes $38 million of capital expenditures related to plans for compliance with provisions of the Clean Air Act (CAA). During 1995–1999, an additional $67 million of capital expenditures related to compliance with the CAA are planned. The Company's plans for compliance with major provisions of the CAA are subject to approval by the states in which the Company's generating units are located.

In 1990, the New Jersey Department of Environmental Protection (NJDEP) issued Public Service Electric and Gas (PSE&G), the Salem nuclear plant operator, a draft permit which would require construction of cooling towers and a shutdown of the plant during the construction period. PSE&G continues to oppose the draft permit and is seeking a mutually acceptable resolution of this matter with the NJDEP. If the cooling towers are constructed, the Company, as a co-owner of Salem, would incur substantial replacement power costs during the construction period and estimated capital costs of $40 to $50 million. The Company's forecasts of 1993–1994 capital expenditures do not include possible additional costs for the construction of cooling towers for Salem.

The Company anticipates that $226 million will be generated internally during 1993–1994. This forecast reflects expected rate relief which is designed to recover increased investments and higher costs. Forecasted internally generated funds for 1993–1994 represent 53% of estimated capital requirements and 59% of estimated utility construction expenditures. The balance is expected to be externally financed. Long-term external financings during 1993–1994 are presently estimated at $246 million, including $80 million of long-term debt, and $166 million (market value) of common stock. On January 29, 1993, the Company registered 3,300,000 shares of common stock with the Securities and Exchange Commission for a planned issue of approximately $75 million (market value) of common stock in the first quarter of 1993.

One of the Company's objectives is to maintain certain financial measures within the ranges that warrant a strong "A" bond rating. Accordingly, the Company's long-term planning capital structure target ranges are 44–49% debt, 8–10% preferred stock, and 42–46% common stockholders' equity. In 1992, the Company's ratio of pre-tax earnings to fixed interest charges (computed according to SEC regulations) was 3.03, within the range of 2.5 to 4 that is generally required for an A bond rating. However, in order for the Company to meet its objectives, it will need to meet the challenges presented by the Energy Act and to obtain timely and adequate rate relief from regulatory commissions.

Nonutility Subsidiaries

Information on the Company's nonutility subsidiaries, in addition to the following discussion, can be found in Notes 1 and 18 to the Consolidated Financial Statements.

Nonutility subsidiaries earned $.01 per share in 1992 primarily due to earnings from leveraged leases, operating services, and other businesses, which were partly offset by operating losses at the Pine Grove Landfill and administrative and general expenses. In 1992, the subsidiaries continued to reduce administrative and general expenses and lower the operating loss of the Pine Grove Landfill. Despite the landfill's operating loss, which reflects non-cash charges for amortization and depreciation, landfill operations continue to generate positive cash flow.

One of the nonutility subsidiaries leases five aircraft, in total, to three different airlines as part of its leveraged leasing business. The airline industry is facing increasing pressures due to intense fare competition, heavy capital expenditures, and reduced access to capital due to the current global economic downturn. Certain other airlines, which are not lessees of the Company's subsidiary, have filed for protection under the bankruptcy laws. Northwest Airlines, to whom the subsidiary leases a Boeing 747, encountered significant liquidity problems during 1992 and had its debt ratings downgraded. However, Northwest is current on its lease payments to the Company's subsidiary, and the effect, if any, of its financial difficulties on the lease remains uncertain.

Total subsidiary revenues, including gains, were $14.0 million in 1992 compared to $16.4 million in 1991. The decrease occurred mainly because 1991 revenues included a $4.4 million pre-tax gain on sales of purchase options on leveraged leases. An increase in landfill and waste hauling revenues from $6.2 million in 1991 to $9.0 million in 1992 reduced the total revenue decrease. The increase in landfill and waste hauling revenues was driven by a large increase in tonnage received by the Pine Grove Landfill. Revenues from operating services (management and operation of power plants) were $3.0 million in 1992 compared to $2.9 million in 1991.

The subsidiaries funded their 1992 capital investments, primarily related to the Pine Grove Landfill, and the repayment of $11.1 million of short-term debt mainly through the drawdown of cash balances, funds generated by the landfill's operations, insurance proceeds for a casualty loss, 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. As of December 31, 1992, the subsidiaries could borrow up to $7.8 million under a bank credit agreement that expires in December 1995.

In 1991, the nonutility subsidiaries earned $0.03 per share. Gains from sales of purchase options on leveraged leases, which contributed $0.07 to 1991 earnings per share, were partly offset by the operating loss of 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 principally due to a write-off of investments in joint ventures and to operating losses from the projects that were written-off. As discussed in Note 18 to the Consolidated Financial Statements, the Company wrote off $62,534,000 of investments in three joint venture projects which reduced 1990 net income by $42,497,000 or $0.89 per share. The losses on the operations of these projects during 1990 reduced earnings by an additional $0.18 per share.

Impact of Accounting Standards

In the first quarter of 1993, the Company will adopt the new accounting principles of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires employers, if obligated or committed to provide postretirement benefits other than pensions, to recognize their obligation on an accrual basis. In December 1992, in order to control postretirement health-care costs, the Company implemented caps, or limits, on medical benefits for employees retiring after July 1, 1995, and also reduced certain other medical benefits. The Company estimates its obligation for postretirement benefits other than pensions to be $72 million and will recognize this obligation by accruing it over a 20-year period. The Company's current filings for rate increases include recovery of the SFAS No. 106 expense increase associated with the Company's utility business. After considering amounts capitalized, SFAS No. 106 will result in approximately a $5.5 million expense increase. Until the new rates become effective, the expense increase will be deferred, due to probable rate recovery. The Company expects to amortize the deferral over a five-year period.The Company has proposed to its regulatory commissions, assuming recovery of the SFAS No. 106 expense in rates, to externally fund tax deductible contributions and internally fund any balance of SFAS No. 106 cost recovered in rates that exceeds the amount that can be funded on a tax deductible basis. See Note 13 to the Consolidated Financial Statements for additional information concerning SFAS No. 106.

In the first quarter of 1993, the Company will adopt the new accounting principles of SFAS No. 109, "Accounting for Income Taxes," which requires use of the liability method of accounting for income taxes. The main impact of SFAS No. 109 on the Company's financial statements will be a $78 million net increase in deferred tax liabilities and an offsetting regulatory asset representing the probable future recovery of the liability through utility revenues. SFAS No. 109 will not have a material impact on the Company's results of operations. See Note 3 to the Consolidated Financial Statements for additional information concerning SFAS No. 109.

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.

Howard E. Cosgrove
Chairman, President and
Chief Executive Officer

Barbara S. Graham
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, 1992 and 1991, 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, 1992. 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, 1992 and 1991, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 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 5, 1993

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands)	Year Ended December 31, 1992	1991	1990
Operating Revenues			
Electric	$780,175	$784,599	$732,381
Gas	83,869	71,222	79,836
	864,044	855,821	812,217
Operating Expenses			
Electric fuel and purchased power	261,784	285,595	251,522
Gas purchased	43,797	38,140	46,576
Operation and maintenance	233,038	226,240	204,963
Depreciation	95,285	88,610	82,153
Taxes other than income taxes	37,037	34,918	34,447
Income taxes	49,392	45,908	48,083
	720,333	719,411	667,744
Operating Income	143,711	136,410	144,473
Other Income			
Nonutility Subsidiaries			
Revenues and gains	14,040	16,388	17,104
Expenses including interest and income taxes	(13,551)	(15,110)	(6,856)
Write-off of joint venture investments	—	—	(62,534)
Net earnings of nonutility subsidiaries	489	1,278	(52,286)
Allowance for equity funds used during construction	5,631	4,199	2,845
Other income, net of income taxes	12,855	4,042	4,600
	18,975	9,519	(44,841)
Income Before Utility Interest Charges	162,686	145,929	99,632
Utility Interest Charges			
Debt	65,667	66,952	62,764
Other	2,570	1,907	2,183
Allowance for borrowed funds used during construction	(4,077)	(3,436)	(2,626)
	64,160	65,423	62,321
Earnings			
Income before cumulative effect of a change in accounting principle	98,526	80,506	37,311
Cumulative effect of a change in accounting for unbilled revenues	—	12,730	—
Net income	98,526	93,236	37,311
Dividends on preferred stock	8,349	7,977	8,784
Earnings applicable to common stock	$ 90,177	$ 85,259	$ 28,527
Average Shares of Common Stock Outstanding (000)	53,456	50,581	47,534
Earnings Per Average Share of Common Stock			
Before cumulative effect of a change in accounting principle	$1.69	$1.44	$0.60
Cumulative effect of a change in accounting for unbilled revenues	—	0.25	—
Total earnings per share	$1.69	$1.69	$0.60
Dividends Declared Per Share	$1.54	$1.54	$1.54
Pro Forma Amounts Assuming Retroactive Application of New Accounting Method for Unbilled Revenues			
Net income	$ 98,526	$ 80,506	$ 35,152
Earnings per average share	$1.69	$1.44	$0.55

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	As of December 31, 1992	1991
Assets		
Utility Plant—At Original Cost		
Electric	$2,345,869	$2,264,200
Gas	163,139	146,264
Common	127,852	129,721
	2,636,860	2,540,185
Less: Accumulated depreciation	929,869	849,852
Net utility plant in service	1,706,991	1,690,333
Construction work-in-progress	187,844	86,699
Leased nuclear fuel, at amortized cost	36,782	39,885
	1,931,617	1,816,917
Other Property and Investments		
Investment in leveraged leases	72,858	78,771
Other investments	5,481	6,511
Other property, net	53,682	53,425
Funds held by trustee	15,274	17,800
	147,295	156,507
Current Assets		
Cash and cash equivalents	21,888	46,841
Accounts receivable		
Customers	65,929	62,407
Accrued unbilled revenues	22,570	21,371
Other	12,527	12,864
Inventories, at average cost		
Fuel (coal, oil, and gas)	32,624	44,425
Materials and supplies	39,055	36,435
Prepayments	7,907	7,290
Deferred income taxes, net	8,236	7,762
	210,736	239,395
Deferred Charges and Other Assets		
Unamortized debt expense	11,219	9,954
Deferred debt refinancing costs	22,510	9,351
Deferred recoverable plant costs	15,019	10,225
Other	36,397	21,369
	85,145	50,899
Total	$2,374,793	$2,263,718

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	As of December 31, 1992	1991
Capitalization and Liabilities		
Capitalization (See Statements of Capitalization)		
Common stock	$ 121,824	$ 118,505
Additional paid-in capital	374,789	346,509
Retained earnings	249,176	241,569
Total common stockholders' equity	745,789	706,583
Preferred stock	176,365	136,365
Long-term debt	787,387	770,146
	1,709,541	1,613,094
Current Liabilities		
Short-term debt	17,000	11,050
Long-term debt due within one year	946	2,079
Variable rate demand bonds	41,500	41,500
Accounts payable	56,389	53,155
Taxes accrued	11,593	13,170
Interest accrued	15,190	14,101
Dividends declared	20,900	20,459
Current capital lease obligation	12,709	12,747
Deferred energy costs	7,933	3,026
Other	25,265	31,324
	209,425	202,611
Deferred Credits and Other Liabilities		
Deferred income taxes, net	352,474	341,276
Deferred investment tax credits	51,990	54,407
Long-term capital lease obligation	26,081	29,337
Other	25,282	22,993
	455,827	448,013
Commitments and Contingencies (Notes 14, 15, and 16)	—	—
Total	$2,374,793	$2,263,718

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Year Ended December 31, 1992	1991	1990
Cash Flows from Operating Activities			
Net income	$98,526	$93,236	$37,311
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	105,624	99,313	93,118
Allowance for equity funds used during construction	(5,631)	(4,199)	(2,845)
Investment tax credit adjustments, net	(2,417)	(2,844)	(3,199)
Deferred income taxes, net	10,749	12,870	(128)
Net change in			
Accrued unbilled revenues	(1,199)	(21,371)	—
Accounts receivable	(3,185)	(5,157)	(1,629)
Inventories	9,696	(171)	(16,255)
Accounts payable	8,779	(12,428)	8,190
Other current assets & liabilities*	(680)	22,338	6,449
Equity in losses of joint ventures	—	—	12,772
Write-off of joint venture investments	—	—	62,534
Other, net	491	(462)	(1,862)
Net cash provided by operating activities	220,753	181,125	194,456
Cash Flows from Investing Activities			
Construction expenditures, excluding AFUDC	(207,439)	(181,820)	(187,823)
Allowance for borrowed funds used during construction	(4,077)	(3,436)	(2,626)
Change in working capital for construction	(9,823)	14,538	389
Proceeds from sales of ownership interests in			
Utility plant and inventory	—	4,733	—
Nuclear fuel—Salem	—	—	18,706
Cash flows from leveraged leases			
Insurance proceeds for casualty loss	4,115	—	—
Sale of purchase options	—	5,375	—
Other	1,858	4,750	(1,649)
Investment in subsidiary projects and operations	(7,013)	(4,504)	(20,495)
Decrease in marketable securities	—	—	14,808
Net (increase)/decrease in bond proceeds held in trust funds	6,076	(205)	(7,030)
Deposits to nuclear decommissioning trust funds	(3,770)	(1,831)	(1,944)
Other, net	(2,677)	(1,332)	521
Net cash used by investing activities	(222,750)	(163,732)	(187,143)
Cash Flows from Financing Activities			
Dividends: Common	(81,986)	(77,097)	(72,881)
Preferred	(8,492)	(7,947)	(9,024)
Issues: Long-term debt	273,335	117,000	94,111
Common stock	32,200	87,900	16,792
Preferred stock	40,000	—	—
Redemptions: Long-term debt	(257,178)	(86,794)	(15,573)
Common stock	(259)	—	—
Preferred stock	—	—	(877)
Principal portion of capital lease payments	(10,339)	(10,593)	(8,495)
Net change in short-term debt	5,950	(12,250)	(6,200)
Other, net	(16,187)	(7,900)	(2,331)
Net cash provided/(used) by financing activities	(22,956)	2,319	(4,478)
Net change in cash and cash equivalents	(24,953)	19,712	2,835
Beginning of year cash and cash equivalents	46,841	27,129	24,294
End of year cash and cash equivalents	$21,888	$46,841	$27,129

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

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(Dollars in Thousands)	As of December 31, 1992	1991
Common Stockholders' Equity		
Total Common Stockholders' Equity [1]	$ 745,789	$ 706,583
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,		
7 ¾% Series, 1,600,000 shares issued	40,000	—
Par value $100 per share, 1,800,000 shares authorized		

Series	Shares outstanding (1992 and 1991)	Call price per share	1992	1991
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—5.83%,[2] 6.28% [2]	160,850 and 160,850	$103	16,085	16,085
Auction rate—3.05%,[2] 4.86% [2]	450,000 and 450,000	$100	45,000	45,000
			176,365	136,365

Long-Term Debt

First Mortgage Bonds:

Maturity	1992 Interest Rates	1991 Interest Rates	1992	1991
1994	4 ⅝%	4 ⅝%	25,000	25,000
1997	6 ⅜%	6 ⅜%	25,000	25,000
1998	7%	7%	25,000	25,000
2000	—	8 ⅜%–8 ¾%	—	60,000
2001–2002	6.95%–7 ⅝%	7 ½%–7 ⅝%	95,000	65,000
2003–2004	6.6%–8%	6.6%–8%	43,200	43,200
2008	—	9 ⅝%	—	50,000
2014–2015	7.30%–8.15%	7.30%–10 ⅛%	81,000	129,500
2018–2022	6.75%–10%	7.15%–10%	240,000	144,000
			534,200	566,700
Other Bonds, due 2011–2017, 7.15%–7.50%			54,500	54,500
Pollution Control Notes:				
Series 1973, due 1993–1998, 5.60%–5.75%			6,650	6,800
Series 1976, due 1993–2006, 7 ⅛%–7 ¼%			3,400	34,500
Medium Term Notes, due 1999, 7 ½%			30,000	—
Medium Term Notes, due 2002–2004, 8.40%			39,000	39,000
Medium Term Notes, due 2007, 8 ⅛%			50,000	—
Medium Term Notes, due 2020–2021, 9.68%			61,000	61,000
First Mortgage Notes, 9.65% [3]			8,809	9,322
Other Obligations, due 1993–1999, 8.56%			1,497	971
Unamortized premium and discount, net			(723)	(568)
Current Maturities of Long-Term Debt			(946)	(2,079)
Total Long-Term Debt			787,387	770,146
Total Capitalization			1,709,541	1,613,094
Variable Rate Demand Bonds [4]			41,500	41,500
Total Capitalization with Variable Rate Demand Bonds			$1,751,041	$1,654,594

(1) Refer to Consolidated Statements of Changes in Common Stockholders' Equity for additional information.
(2) Average rate during 1992 and 1991, respectively.
(3) Repaid through monthly payments of principal and interest over 15 years ending November 2002.
(4) Classified under current liabilities as discussed in Note 11 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

(Dollars in Thousands)

	Common Shares Outstanding	Par [1] Value	Additional Paid-in Capital	Retained Earnings	Total
Balance as of January 1, 1990	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
Net income				98,526	98,526
Cash dividends declared					
Common stock ($1.54)				(82,570)	(82,570)
Preferred stock				(8,349)	(8,349)
Issuance of common stock					
DRIP [2]	1,336,871	3,008	26,471		29,479
Stock options	129,500	292	2,256		2,548
Other issuance	8,518	19	154		173
Expenses of common and preferred stock issuances			(414)		(414)
Other			(187)		(187)
Balance as of December 31, 1992	54,143,853	$121,824	$374,789	$249,176	$745,789

(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 (DRIP)—As of December 31, 1992, 4,064,916 shares were reserved for issuance through the DRIP.

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 450,000 in northern Delaware, including the City of Wilmington. In addition, the Company has wholly-owned subsidiaries engaged in nonutility activities.

Regulation of Utility Operations

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. FERC also regulates the price and other terms of transportation of natural gas purchased by the Company. The percentage of utility operating revenues regulated by each Commission for the year ended December 31, 1992 was as follows: DPSC 64%, MPSC 22%, VSCC 3%, and FERC 11%.

In conformity with generally accepted accounting principles, the Company's accounting policies reflect the financial effects of rate regulation and decisions issued by regulatory commissions having jurisdiction over the Company's utility business. In accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company defers expense recognition of certain costs ("deferred charges"). Deferred charges are subsequently amortized to expense over the period that the cost is recovered through customer rates.

Reporting of Subsidiaries

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. The results of operations of the Company's nonutility subsidiaries are reported in the Consolidated Statements of Income as "Other income." Refer to Note 18 to the Consolidated Financial Statements for financial information about the Company's subsidiaries.

Financial Statement Reclassifications

The Company earns revenues from the sale of electric power to the Pennsylvania-New Jersey-Maryland (PJM) Interconnection and certain utilities ("interchange delivery revenues"). The Company has retroactively reclassified interchange delivery revenues from operating expenses to electric operating revenues to comply with a change in the accounting policies of the FERC. In addition, the revenues and expenses of the Company's steam business, which is not subject to rate regulation, have been retroactively reclassified from steam operating revenues and operating expenses to other income. These reclassifications did not affect net income. Certain other reclassifications, which were immaterial and did not affect net income, were made to amounts reported in prior years to conform to the presentations used in 1992.

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. Effective as of January 1, 1991, the Company began recording non-fuel 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. Such estimated disposal costs are paid quarterly to the United States Department of Energy. The Company's share of nuclear fuel at the Peach Bottom Atomic Power Station (Peach Bottom) and the Salem Nuclear Generating Station (Salem) is financed through a nuclear fuel energy contract which is accounted for as a capital lease.

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 3.6% for 1992, 3.7% for 1991, and 3.6% for 1990. The Company's share of the estimated cost of decommissioning (decontaminating and removing) nuclear plant is included in depreciation expense. Refer to Note 6 to the Consolidated Financial Statements for information about 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 nonregulated operations (excluding leveraged leases) are accounted for by the flow-through method. Refer to Note 3 to the Consolidated Financial Statements for information concerning the Company's adoption of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," in the first quarter of 1993.

Interest Expense

The amortization of debt discount, premium, and expense, including refinancing expenses, is included in other interest charges. On a consolidated basis, total interest charges incurred were $70,156,000 in 1992, $72,456,000 in 1991, and $68,542,000 in 1990.

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. The amount of AFUDC capitalized is also reported in the Consolidated Statements of Income as a reduction of interest charges for the borrowed funds component and as other income for the equity funds component. AFUDC was capitalized on utility plant construction at the rates of 9.7% in 1992, 9.9% in 1991, and 9.8% in 1990.

The Company's nonutility subsidiaries capitalize interest on qualifying projects under construction.

Leveraged Leases

The Company's 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 include deposits in the Company's external nuclear decommissioning trusts and unexpended restricted or tax exempt bond proceeds. Earnings on such trust funds are also reflected in the balance.

2. BASE RATE MATTERS

On October 30, 1992, the Company filed applications for electric base rate increases, as follows:

Jurisdiction	Proposed Base Revenue Increase	Proposed Effective Date
Retail Electric		
Delaware	$41.6 million	06/01/93
Maryland	$14.6 million	06/01/93
Resale (FERC)	$ 5.6 million	06/03/93

The above proposed base rate increases, as filed, reflect a requested 12.5% return on common equity and recovery of higher costs, including the cost of the new Hay Road Unit 4 combined-cycle power plant, inflation, and the expense increase associated with the cost of postretirement benefits under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The proposed base rate increases will be mitigated by fuel savings attributed to Hay Road combined-cycle operations. Net of the fuel savings, the proposed Delaware, Maryland, and resale rate increases would result in rate increases of approximately 8.5%, 7.2%, and 3.8% respectively.

Changes in base rates which became effective in 1992 are summarized below.

Jurisdiction	Base Revenue Increase	Effective Date
Retail electric		
Delaware[1]	$18.5 million or 4.3%	01/01/92
Maryland[2]	$ 5.5 million or 3.3%	01/01/92
Virginia[3]	$ 1.5 million or 6.7%	07/01/92
Resale (FERC)[4]	$ 4.8 million or 5.1%	02/19/92
Delaware gas[5]	$ 4.8 million or 6.5%	02/02/92

(1) The rate increase is based upon a final decision by the DPSC and it reflects a 12.5% return on equity.

(2) The rate increase is based upon a final decision by the MPSC. A specific return on equity was not stated in the settlement agreement approved by the MPSC.

(3) The rate increase is subject to refund since the case is in process.

(4) The Company and resale customers representing 99% of resale revenues have reached an agreement in principle which would provide for a $4.125 million increase. The agreement is subject to approval by the FERC.

(5) The rate increase is subject to refund since the case is in process. However, a 12.5% return on equity has been stipulated for the final decision.

3. INCOME TAXES

Components of Consolidated Income Tax Expense

(Dollars in Thousands)		1992	1991	1990
Operation				
Federal:	Current	$30,819	$31,777	$29,930
	Deferred	11,597	8,924	11,721
State:	Current	6,755	6,596	6,756
	Deferred	2,638	1,455	2,875
Investment tax credit adjustments, net		(2,417)	(2,844)	(3,199)
Other income				
Federal:	Current	7,559	(4,773)	(9,054)
	Deferred	(3,482)	2,336	(14,863)
State:	Current	1,369	(34)	251
	Deferred	(4)	(188)	139
Income taxes on cumulative effect of a change in accounting for unbilled revenues		—	8,520	—
Total income tax expense		$54,834	$51,769	$24,556

Reconciliation of Effective Income Tax Rate

The amount computed by multiplying income before tax by the federal statutory rate is reconciled below to the total income tax expense:

	1992		1991		1990	
(Dollars in Thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax expense	$52,142	34%	$49,302	34%	$21,035	34%
Increase (decrease) due to						
Depreciation not normalized	1,959	1	2,103	1	509	1
ITC amortization/flow-through	(2,780)	(2)	(3,456)	(2)	(4,229)	(7)
State income taxes, net of federal tax benefit	7,099	5	6,120	4	6,614	11
Other, net	(3,586)	(2)	(2,300)	(1)	627	1
Total income tax expense	$54,834	36%	$51,769	36%	$24,556	40%

Components of Deferred Income Taxes

The tax effects of timing differences between book and tax income that comprise deferred tax expense are as follows:

(Dollars in Thousands)	1992	1991	1990
Depreciation	$ (307)	$ 3,119	$24,909
Deferred energy costs	(1,957)	(4,790)	957
Capitalized overhead costs	(3,313)	(2,871)	(2,171)
ADR repair allowance	1,818	2,112	2,803
Unbilled revenues	126	4,932	(1,707)
Alternative minimum tax	2,205	3,848	(6,146)
Write-off of joint venture investments	2,644	6,170	(20,261)
Debt refinancing costs	4,978	1,948	(15)
Other, net	4,555	(1,598)	1,503
Total	$10,749	$12,870	$ (128)

In 1990, investment tax credits of $879,000 were utilized to reduce federal income taxes payable.

In the first quarter of 1993, the Company will adopt SFAS No. 109, "Accounting for Income Taxes," and change to the liability method from the deferred method of income tax accounting, which these financial statements are based on. Under the liability method, deferred income tax assets and liabilities represent the tax effects of temporary differences between the financial statement and tax bases of existing assets and liabilities and are measured using presently enacted tax rates. Deferred tax assets and liabilities are adjusted currently for the effects of changes in tax laws or rates.

The main impact of SFAS No. 109 on the Company's financial statements will be a $78 million net increase in deferred tax liabilities related to temporary differences principally associated with the Company's utility plant. Prior to adoption of SFAS No. 109, deferred taxes were not established on certain temporary differences because ratemaking practices allowed cost recovery from customers as the taxes were paid. To establish the net liability, rather than record a charge to earnings, the Company will record a net regulatory asset representing the probable future recovery of the net liability through utility revenues over the life of the related utility plant. The major components of the adjustment to record the net regulatory asset and net deferred tax liability include the following: (1) Recognition of additional deferred tax liabilities for tax benefits previously flowed through to customers ($100 million); (2) Recognition of deferred tax liabilities not previously provided on a portion of AFUDC included in utility plant ($65 million); (3) Reduction of deferred tax liabilities on utility assets due to lower federal income tax rates enacted under the 1986 Tax Reform Act ($61 million); (4) Other net temporary differences resulting in recognition of a deferred tax asset primarily on deferred investment tax credits ($26 million). The impact of SFAS No. 109 on the Company's subsidiary and other non-utility operations is expected to be immaterial to the Company's financial position and results of operations.

4. OTHER INCOME

The components of "Other income, net of income taxes" as presented in the Consolidated Statements of Income are shown in the table below. Refer to Note 18 to the Consolidated Financial Statements for financial information about the Company's non-utility subsidiaries.

(Dollars in Thousands)	1992	1991	1990
Revenues and Income			
Steam and other revenues	$14,837	$22,509	$22,926
Peach Bottom lawsuit settlement	18,538	—	—
Interest, dividends, other income	2,424	3,966	5,206
Expenses			
Steam operating and other expenses	15,326	22,192	21,864
Income tax expense	7,618	241	1,668
Net	$12,855	$ 4,042	$ 4,600

On July 27, 1988, the Company, Atlantic City Electric Company, and Public Service Electric and Gas Company filed lawsuits against Philadelphia Electric Company (PE) to recover replacement power and other costs incurred as a result of the shutdown of Peach Bottom by the Nuclear Regulatory Commission (NRC) on March 31, 1987. The Company's share of costs resulting from the shutdown were charged against earnings during the period of the shutdown (March 1987 through November 1989). On March 31, 1992, the Peach Bottom co-owners reached a settlement agreement under which PE paid $18,538,000 to the Company. The settlement increased 1992 net income by $11,397,000 ($0.21 per share).

5. 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 Consolidated 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, 1992 was 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	$121,446	$ 52,767	$ 4,727
Salem	7.41%	164 MW	195,375	76,422	5,888
Coal-Fired					
Keystone	3.70%	63 MW	15,650	6,516	157
Conemaugh	3.72%	63 MW	15,734	7,325	3,914
Transmission Facilities	Various		4,554	1,834	—
Total			$352,759	$144,864	$14,686

6. NUCLEAR DECOMMISSIONING

In compliance with regulations of the 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 lives of the plants. The Company has established external trust funds ($13.8 million balance at December 31, 1992) 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 $25.1 million as of December 31, 1992. The Company estimates its share of future decommissioning costs to be $53.7 million, which is the NRC minimum funding requirement. The Company is currently collecting in rates a sufficient amount from its customers to satisfy the NRC minimum funding requirement. However, the ultimate cost of decommissioning the Peach Bottom and Salem nuclear reactors may exceed the NRC minimum funding requirement.

7. COMMON STOCK

1) The Company's Restated Certificate and Articles of Incorporation, as amended, and the Mortgage and Deed of Trust, as supplemented and amended, securing the Company's outstanding bonds contain restrictions on the payment of dividends on common stock. Such restrictions would become applicable if the Company's capital and retained earnings fall below certain specific levels or if preferred dividends are in arrears. Under the most restrictive of these provisions, as of December 31, 1992, approximately $169.8 million was available for payment of common dividends.

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, 1992, 262,000 shares were available to be granted under the nonqualified stock option plan. Changes in stock options are summarized below.

	1992		1991		1990	
	Number of Shares	**Option Price**	Number of Shares	Option Price	Number of Shares	Option Price
Beginning-of-year balance	**274,050**	**$17 ½–$21 ¼**	306,750	$17 ½–$21 ¼	190,100	$17 ½–$17 ¾
Options granted	**59,900**	**$20 ½**	117,750	$18 ⅛	120,250	$21 ¼
Options exercised	**129,500**	**$17 ½–$21 ¼**	150,450	$17 ½–$17 ¾	3,600	$17 ½–$17 ¾
End-of-year balance	**204,450**	**$17 ½–$21 ¼**	274,050	$17 ½–$21 ¼	306,750	$17 ½–$21 ¼
Exercisable	**144,550**	**$17 ½–$21 ¼**	156,300	$17 ½–$21 ¼	186,500	$17 ½–$17 ¾

8. PREFERRED STOCK

1) On August 4, 1992, the Company issued 1,600,000 shares of 7 ¾%, cumulative preferred stock—$25 par value for $40 million. The preferred stock is not redeemable prior to September 30, 2002. On or after September 30, 2002, the preferred stock is redeemable at the option of the Company, in whole or in part, at $25 per share plus unpaid accumulated dividends, if any. The proceeds from the issue were used for financing the capital requirements of the Company and for other general corporate purposes relating to the Company's utility business, including the repayment of short-term borrowings.

2) The annual preferred dividend requirements on all outstanding preferred stock at December 31, 1992 are $10,138,000.

9. LONG-TERM DEBT

1) Annual sinking fund requirements for the First Mortgage Bonds may be reduced by an amount not exceeding sixty percent of the bondable value of property additions. For the years 1990–1992, 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 Mortgage and Deed of Trust.

2) On February 4, 1992, the Company issued $50 million of 8 ½% First Mortgage Bonds which mature on February 1, 2022. The proceeds were used on March 2, 1992 to redeem the remaining $48.5 million of 10 ⅛% First Mortgage Bonds ($60 million originally issued), due January 1, 2016.

3) On April 22, 1992, the Company issued $50 million of 8 ⅛% unsecured Medium Term Notes which mature on May 1, 2007. The proceeds were used on May 20, 1992 to redeem $50 million of 9 ⅝% First Mortgage Bonds, due July 1, 2008.

4) On May 6, 1992, the Delaware Economic Development Authority issued on behalf of the Company $15 million of 6.85% tax-exempt Series A Bonds, due May 1, 2022, and $31 million of 6.75% tax-exempt Series B Bonds, due May 1, 2019. The proceeds from the Series A Bonds were used to finance additions to the Company's gas system. On June 8, 1992, the proceeds from the Series B Bonds were used to refund $31 million of 7 ¼% Pollution Control Notes, due 1992–2001. Both the Series A and B Bonds are collateralized by First Mortgage Bonds and are insured.

5) On May 19, 1992, the Company issued $30 million of 7 ½% unsecured Medium Term Notes which mature on May 1, 1999. On June 15, 1992, the proceeds were used to redeem $30 million of 8 ¾% First Mortgage Bonds, due January 1, 2000.

6) On October 6, 1992, the Company issued $66 million of 8.15% First Mortgage Bonds which mature on October 1, 2015 and issued $30 million of 6.95% First Mortgage Bonds which mature on October 1, 2002. The proceeds from these two issues were used on November 2, 1992 to redeem $66 million of 9 ¼% First Mortgage Bonds due June 1, 2015 and $30 million of 8 ⅜% First Mortgage Bonds due December 1, 2000.

7) As of December 31, 1992, the fair market value of the Company's long-term debt was $822,494,000 in comparison to the book value of $787,387,000. As of December 31, 1991, the fair market value of the Company's long-term debt was $806,721,000 in comparison to the book value of $770,146,000. The fair market value of the Company's long-term debt was estimated using discounted cash flow calculations, based on interest rates currently available to the Company for debt with similar terms, maturities, and credit worthiness.

8) Maturities of long-term debt and sinking fund requirements during the next five years are as follows: 1993—$4,356,000; 1994—$29,443,000; 1995—$4,506,000; 1996—$4,583,000; 1997—$29,670,000. The Company expects that the annual sinking fund requirements (discussed in item 1 above) of $3,410,000 will be satisfied by property additions during the next five years.

9) The annual interest requirements on long-term debt at December 31, 1992 are $61,547,000.

10. SHORT-TERM DEBT

As of December 31, 1992, the Company had unused bank lines of credit of $75 million. The Company is generally required to pay commitment fees for these lines. Such lines of credit are periodically reviewed by the Company, at which time they may be renewed or cancelled.

As of December 31, 1992, the subsidiaries could borrow up to $7.8 million under a bank credit agreement which expires December 31, 1995. This agreement is collateralized by the leveraged lease portfolio and certain other subsidiary assets.

11. VARIABLE RATE DEMAND BONDS

A total of $41.5 million of Variable Rate Demand Bonds were outstanding as of December 31, 1992 and 1991, respectively. 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 3.0% in 1992.

12. 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 1992, 1991, or 1990.

The following table reconciles the plan assets and liabilities to the funded status of the plan as of December 31, 1992 and 1991. Pension plan assets consist primarily of equity securities and public bond securities.

Actuarial Present Value of Benefit Obligations (Millions of Dollars)	1992	1991
Accumulated benefit obligation		
Vested	$218.8	$206.0
Nonvested	22.7	20.7
	241.5	226.7
Effect of estimated future compensation increases	112.9	110.2
Projected benefit obligation	354.4	336.9
Plan assets at fair value	475.7	448.6
Excess of plan assets over projected benefit obligation	121.3	111.7
Unrecognized prior service cost	19.0	10.0
Unrecognized net gain	(93.4)	(75.5)
Unrecognized net transition asset	(39.8)	(43.1)
Prepaid pension cost	$ 7.1	$ 3.1

Components of Net Pension Cost (Millions of Dollars)	1992	1991	1990
Service cost—benefits earned during period	$12.6	$ 9.8	$ 10.9
Interest cost on projected benefit obligation	24.2	21.9	20.9
Actual return on plan assets	(39.1)	(96.3)	7.2
Net amortization and deferral	(1.7)	64.5	(41.1)
Net pension cost	$ (4.0)	$ (0.1)	$ (2.1)

Assumptions	1992	1991	1990
Discount rates used to determine projected benefit obligation as of December 31	7.25%	7.00%	7.75%
Rates of increase in compensation levels	6.50%	6.50%	6.50%
Expected long-term rates of return on assets	8.25%	8.00%	8.00%

13. OTHER POSTRETIREMENT BENEFITS

The Company provides health-care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits if they reach normal retirement age while still working for the Company. The Company has recognized the cost of providing these benefits by expensing the insurance claims as they are paid. These costs were $4,496,000, $4,176,000, and $3,386,000 in 1992, 1991, and 1990, respectively.

In the first quarter of 1993, the Company will adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which 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 will be attributed to the period of employee service ending on the date the employee becomes eligible for the postretirement benefits.

The Company estimates its postretirement benefit obligation, measured as of January 1, 1993, to be $72 million and will

recognize this obligation by accruing it over a 20-year period. Before considering amounts capitalized, the annual expense of postretirement benefits under SFAS No. 106 is estimated to be $11.4 million, or approximately $7 million higher than the expense currently recorded. After considering amounts capitalized, the expense increase associated with SFAS No. 106 will be about $5.5 million. The Company's estimated obligation and expense under SFAS No. 106 are based on a discount rate of 7.75% and health-care cost trend rate of 12% currently, which decreases gradually to 5.5% by 2011. The Company's current filings for rate increases (Note 2 to the Consolidated Financial Statements) include recovery of the net SFAS No. 106 expense increase associated with the Company's utility business. Until new rates become effective, this expense increase will be deferred, due to probable rate recovery. Based on requested rate treatment, the Company expects to amortize the deferral over five years. The impact of SFAS No. 106 on the Company's subsidiary and other non-utility operations is expected to be immaterial to the Company's financial position and results of operations.

14. COMMITMENTS

The Company estimates that approximately $189.4 million, excluding AFUDC, will be expended for construction purposes in 1993.

The Company has a 26-year agreement with Star Enterprise, effective June 1, 1992, to purchase 48 MW of capacity supplied by the Delaware City Power Plant, which the Company sold to Star Enterprise in December 1991. Under the terms of the agreement, the maximum capacity charge for a 12-month period is $3.4 million, if the unit's availability exceeds 85 percent.

The Company has commitments for capacity payments under two recently signed agreements which were submitted to the DPSC and MPSC for approval. Under the first agreement, beginning at the Company's option in 1996 or 1997, the Company will purchase 165 MW of capacity over 30 years from a cogeneration facility at a Delaware refinery. Assuming the purchase begins in 1996, annual capacity charges are estimated to be $27.8 million in 1996, $47.6 million 1997 through 2012, $33.3 million in 2013 through 2025, and $13.9 million in 2026. Under the second agreement, the Company plans to purchase 33 MW, beginning in 1997, from a nonutility generation facility to be located in Delaware. Capacity charges under this agreement are estimated to be $4.5 million in 1997, $7.8 million in 1998 through 2011, $6.4 million in 2012, $5.4 million in 2013 through 2016, $3.9 million in 2017, $2.7 million in 2018 through 2020, $1.9 million in 2021, and $1.4 million in 2022 through 2026.

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 $76 million in 1993, $55 million in 1994, $50 million in 1995, $44 million in 1996, and $43 million in 1997.

During 1990, the Company entered into a nuclear fuel energy contract in order to finance its share of nuclear fuel for the Peach Bottom and the Salem nuclear power plants. Payments under the nuclear fuel energy contract, which is accounted for as a capital lease, are based on the quantity of nuclear fuel burned 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 $169.4 million in aggregate. The Company also has long-term leases for certain other facilities and equipment. Minimum commitments as of December 31, 1992 under all non-cancellable lease agreements (excluding payments under the nuclear fuel energy contract, which cannot be reasonably estimated) are as follows: 1993—$6,836,000; 1994—$6,556,000; 1995—$6,526,000; 1996—$6,551,000; 1997—$5,462,000; after 1997—$155,520,000; total—$187,451,000. Approximately 90% of the minimum lease commitments shown above are payments due under the Company's lease of an 11.9% interest in the Merrill Creek Reservoir.

Rentals Charged to Operating Expenses

The following amounts were charged to operating expenses for rental payments under both capital and operating leases:

(Dollars in Thousands)	1992	1991	1990
Interest on nuclear fuel capital lease	$ 1,111	$ 1,633	$ 1,550
Interest on other capital leases	321	345	405
Amortization of nuclear fuel capital lease	10,231	10,242	7,832
Amortization of other capital leases	323	351	663
Operating leases	14,063	14,507	10,575
	$26,049	$27,078	$21,025

15. ENVIRONMENTAL MATTERS

The Company is subject to regulation with respect to the environmental 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 considerations and requirements. The disposal of Company-generated hazardous substances can result in costs to clean up facilities found to be contaminated due to past disposal practices. Federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or uncontrolled hazardous waste sites. Although the Company is currently a potentially responsible party at one such site, and is alleged to be a third party contributor at two other such sites, the Company does not expect remediation and other potential costs related to the sites, either separately or cumulatively, to have a material effect on the Company's financial position or results of operations.

16. CONTINGENCIES

1) Nuclear Insurance

In the event of an incident at any commercial nuclear power plant in the United States, the Company could be assessed for a portion of any third party claims associated with the incident. Under the provisions of the Price Anderson Act, if third party claims relating to such an incident exceed $200 million (the amount of primary insurance), the Company could be assessed up to $19.7 million for third party claims. In addition, Congress could impose a revenue raising measure on the nuclear industry to pay such claims.

The co-owners of Peach Bottom and Salem maintain nuclear property damage and decontamination insurance in the aggregate amount of $2.590 billion for each station. The Company is self-insured, to the extent of its ownership interest, for its share of property losses in excess of insurance coverages. Under the terms of the various insurance agreements, the Company could be assessed up to $3.5 million in any policy year for losses incurred at nuclear plants insured by the insurance companies.

The Company is a member of an industry mutual insurance company, which provides replacement power cost coverage in the event of a major accidental outage at a nuclear power plant. The premium for this coverage is subject to retrospective assessment for adverse loss experience. The Company's present maximum share of any assessment is $1.4 million per year.

2) Other

The Company is involved in certain other legal and administrative proceedings before various courts and governmental agencies concerning rates, 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.

17. SUPPLEMENTAL CASH FLOW INFORMATION

(Dollars in Thousands)	1992	1991	1990
Cash paid during the year for:			
Interest, net of capitalized amount	$62,127	$65,788	$62,440
Income taxes, net of refunds	$46,310	$37,397	$21,635

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.

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 14 for additional information about the nuclear fuel energy contract.

18. NONUTILITY 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)	1992	1991	1990
Revenues and Gains			
Landfill and waste hauling	$9,021	$6,154	$ 3,066
Operating services	3,038	2,939	4,968
Other revenues	1,101	1,129	4,457
Gain on sale of options on leveraged leases	—	4,445	—
Other investment income	880	1,721	4,613
	14,040	16,388	17,104
Costs and Expenses			
Operating expenses	15,408	16,449	17,932
Equity in losses of joint ventures	—	—	12,772
Write-off of joint venture investments	—	—	62,534
Interest expense	550	1,704	1,720
Capitalized interest	(231)	(143)	(373)
Income tax (benefit)	(2,176)	(2,900)	(25,195)
	13,551	15,110	69,390
Net income (loss)	$ 489	$1,278	$(52,286)
Earnings (loss) per share of common stock attributed to subsidiaries	$0.01	$0.03	$(1.10)

Consolidated Condensed Subsidiary Balance Sheets

(Dollars In Thousands)	At December 31	
Assets	1992	1991
Current assets		
Cash and cash equivalents	$ 6,033	$14,601
Other	2,477	4,639
	8,510	19,240
Noncurrent assets		
Investment in		
Leveraged leases	72,858	78,771
Other	5,481	6,511
Property, plant and equipment		
Landfill and waste hauling	28,488	24,555
Other	2,089	6,032
Other assets	1,225	2,969
Total	$118,651	$138,078

Liabilities and Stockholder's Equity	At December 31	
	1992	1991
Current liabilities		
Debt due within one year	$ 181	$ 11,211
Other	9,689	11,729
	9,870	22,940
Noncurrent liabilities		
Deferred income taxes	65,604	70,110
Other	3,196	5,535
	68,800	75,645
Stockholder's Equity	39,981	39,493
Total	$118,651	$138,078

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 ($0.07 per share).

In December 1990, the Company wrote off $62,534,000 of investments ($42,497,000 after tax or $0.89 per share) in three joint venture projects that, based on management's evaluation, would not generate sufficient cash flows to recover the book value of the Company's investment. Two of the joint venture projects were wood-burning power plants with related sawmill operations that incurred substantial operating losses due to unfavorable market conditions for timber and lumber. One of the projects, Burney Forest Products, is still operating under the management of the Company's subsidiaries. The third joint venture project that was written off, a planned trash-to-steam facility, was unable to secure the environmental permits required for construction of the facility.

19. SEGMENT INFORMATION

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

(Dollars in Thousands)	1992	1991	1990
Electric operations			
Operating revenues	$ 780,175	$ 784,599	$ 732,381
Operating income	134,260	129,295	137,210
Depreciation	89,421	83,363	77,395
Construction expenditures	192,493	163,399	171,581
Gas operations			
Operating revenues	83,869	71,222	79,836
Operating income	9,451	7,115	7,263
Depreciation	5,864	5,247	4,758
Construction expenditures	14,888	18,302	16,176
Identifiable assets, net			
Electric	2,035,977	1,892,241	1,789,426
Gas	142,173	130,624	116,958
Assets not allocated	196,643	240,853	219,331

20. QUARTERLY FINANCIAL INFORMATION

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 (Dollars in Thousands)	Net Income	Earnings Applicable to Common Stock	Average Shares Outstanding (In Thousands)	Earnings per Average Share
1992						
March 31	$225,130	$ 38,058	$34,789	$32,988	52,876	$0.62
June 30	193,797	29,279	14,259	12,464	53,285	0.24
September 30	237,717	48,080	34,056	31,810	53,685	0.59
December 31	207,400	28,294	15,422	12,915	53,980	0.24
	$864,044	$143,711	$98,526	$90,177	53,456	$1.69
1991						
March 31	$216,315	$ 33,424	$34,896	$32,815	48,149	$0.68
June 30	205,934	31,730	17,091	15,091	49,586	0.30
September 30	238,715	46,867	32,032	30,070	52,115	0.58
December 31	194,857	24,389	9,217	7,283	52,476	0.13
	$855,821	$136,410	$93,236	$85,259	50,581	$1.69

Quarterly amounts presented for 1992 and 1991 have been restated for changes in the method of reporting interchange revenues and the Company's steam business. As discussed under "Financial Statement Reclassifications" in Note 1 to the Consolidated Financial Statements, these reclassifications did not affect net income.

In the first quarter of 1992, the Company recorded the results of the Peach Bottom lawsuit settlement (Note 4 to the Consolidated Financial Statements) which increased 1992 net income by $11,397,000 ($0.21 per share).

Effective January 1, 1991, the Company changed its method of accounting for unbilled revenues as discussed under "Unbilled Revenues" in Note 1 to the Consolidated Financial Statements. 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.

CONSOLIDATED STATISTICS

		1992	1991	1990	1989	1988
Electric Revenues (Thousands)	Residential	$273,463	$275,888	$259,113	$251,490	$247,950
	Commercial	220,659	218,558	209,174	197,362	191,104
	Industrial	144,094	144,272	140,288	133,451	130,094
	Resale, etc.	102,690	104,819	93,179	90,206	90,220
	Unbilled revenues, net	943	(73)	—	—	—
	Sales revenues	741,849	743,464	701,754	672,509	659,368
	Interchange deliveries [1]	30,606	33,523	23,905	31,476	41,162
	Miscellaneous revenues	7,720	7,612	6,722	5,887	8,185
	Total electric revenues	$780,175	$784,599	$732,381	$709,872	$708,715
Electric Sales and Interchange Deliveries (1,000 Kilowatt-Hours)	Residential	3,228,237	3,236,616	3,081,943	3,049,882	2,944,477
	Commercial	3,140,149	3,098,599	2,979,738	2,875,681	2,734,069
	Industrial	3,115,677	3,105,338	3,142,439	3,025,653	2,729,409
	Resale, etc.	2,038,844	2,000,913	1,877,091	1,877,623	1,817,088
	Unbilled sales, net	(2,096)	18,814	—	—	—
	Total electric sales	11,520,811	11,460,280	11,081,211	10,828,839	10,225,043
	Interchange deliveries [1]	998,679	1,113,423	726,090	894,402	1,413,150
Electric Customers (End of Period)	Residential	336,076	330,632	326,175	319,696	311,577
	Commercial	42,427	41,539	40,766	40,104	38,629
	Industrial	726	753	774	798	825
	Resale, etc.	590	578	562	562	547
	Total electric customers	379,819	373,502	368,277	361,160	351,578
Gas Revenues (Thousands)	Residential	$43,147	$35,636	$38,487	$42,908	$40,303
	Commercial	20,175	16,370	16,939	18,816	16,404
	Industrial	15,365	14,395	16,498	17,546	12,208
	Interruptible and other	3,520	3,552	6,819	6,806	8,375
	Unbilled revenues, net	255	194	—	—	—
	Gas transported	1,032	710	602	174	2
	Miscellaneous revenues	375	365	491	492	494
	Total gas revenues	$83,869	$71,222	$79,836	$86,742	$77,786
Gas Sales and Gas Transported (Million Cubic Feet)	Residential	7,264	6,410	6,484	6,795	6,797
	Commercial	4,286	3,653	3,452	3,562	3,333
	Industrial	4,358	4,398	4,418	4,245	3,229
	Interruptible and other	1,090	1,058	1,715	2,043	2,795
	Unbilled sales, net	15	55	—	—	—
	Total gas sales	17,013	15,574	16,069	16,645	16,154
	Gas transported	3,155	2,610	2,194	677	2
	Total gas sales and gas transported	20,168	18,184	18,263	17,322	16,156
Gas Customers (End of Period)	Residential	82,996	80,874	78,893	77,021	74,762
	Commercial	6,500	6,313	5,983	5,689	5,322
	Industrial	152	154	154	159	162
	Interruptible and other	11	10	14	14	17
	Total gas customers	89,659	87,351	85,044	82,883	80,263

(1) Interchange delivery revenues have been retroactively reclassified from operating expenses to electric operating revenues. See "Financial Statement Reclassifications" under Note 1 to the Consolidated Financial Statements for additional information.

COMMITTEES AND OFFICERS

Audit Committee

John R. Cooper, Chairperson; James C. Johnson III; James T. McKinstry

Compensation Committee

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

Executive Committee

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

Investment Committee

David D. Wakefield, Chairperson; Elwood P. Blanchard Jr.; Howard E. Cosgrove; Nevius M. Curtis; Donald W. Mabe

Nominating Committee

Audrey K. Doberstein, Chairperson; Nevius M. Curtis; Donald W. Mabe

Nuclear Oversight Committee

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

Officers As Of January 1, 1993

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

DIVIDEND REINVESTMENT AND COMMON SHARE PURCHASE PLAN

More than 30 percent of the Company's common shareholders of record are now participating in the Dividend Reinvestment and Common Share 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
800 King Street
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.

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 56,334 holders of common stock as of December 31, 1992.

1992	Dividend Declared	Price High	Price Low
First Quarter	$.38 ½	$21 ½	$20
Second Quarter	.38 ½	$22 ⅞	$20 ½
Third Quarter	.38 ½	$23 ¾	$22 ½
Fourth Quarter	.38 ½	$23 ⅞	$22 ⅛

1991	Dividend Declared	Price High	Price Low
First Quarter	$.38 ½	$19 ⅛	$16 ⅝
Second Quarter	.38 ½	19 ¼	17 ⅞
Third Quarter	.38 ½	20 ⅛	18 ¼
Fourth Quarter	.38 ½	21 ⅝	19 ¾

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 May 27, 1993, at 11:00 a.m. in the Clayton Hall, University of Delaware, Newark, Delaware.

REGULATORY COMMISSIONS

Federal Energy Regulatory Commission
Martin L. Allday—Chairperson
825 North Capitol Street, N.E.
Washington, D.C. 20426

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

Chemical Bank
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 (1982–1992) and the Form 10-K are available upon request. Please write to:

Delmarva Power & Light Company
Shareholder Services
800 King Street
P.O. Box 231
Wilmington, Delaware 19899

Employees pictured on the preceding pages are:

Front Cover: Center, (from left to right) Bill McBane, apprentice lineman D; Darrell Mason, apprentice lineman D; Larry Jackson, journeyman lineman; and Gary Harrington, lead lineman, all of the Kent/Sussex construction department.

Page 7: Lower right, (from left to right) Jeff Rogers, lead lineman; and Fred Todd, first-class lineman, both of the transmission & distribution department.

Page 8: Upper left, Susan Bell (right), marketing representative, marketing department. Center, Graison Wainwright, trouble & serviceman, Ocean City District.

Page 9: Lower right, Mike Mozer (top), dispatcher, service department. Lower right, Dave Turtle (bottom left), gas utility serviceman, service department.

Page 10: Center, Dolan Hurley (standing second from left), qualified electrician, Vienna power plant.

Page 11: (From left to right) Glenn Lang, plant equipment operator, Edge Moor power plant, and his children, Stacey and Jason.

Page 14: Upper left, (from right to left) Mary Campbell, power plant machinist; Howard Wright, power plant machinist; Mike Willing, power plant maintenance helper; all of Indian River power plant. Center, (from left to right) Mike Malloy (standing at utility pole), electric meterman, meter department; Jeff Rogers, lead lineman, transmission & distribution department; Skip Walker, first-class lineman, transmission & distribution department; Jimmy Gestwicki, third-step lineman, transmission & distribution department.

Page 15: Lower right (from left to right), Jim Gallagher, special billing analyst; Claire Modzelewski, treasury analyst; Leon Smith, accountant; and Meena Ilyas, accountant, all of the finance & accounting department.

Art Direction and Design: Christy MacIntyre, John Alfred
Text: Drew Vallorano
Financials Typography: Kris Lynn Gland
Photography: Carlos Alejandro

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