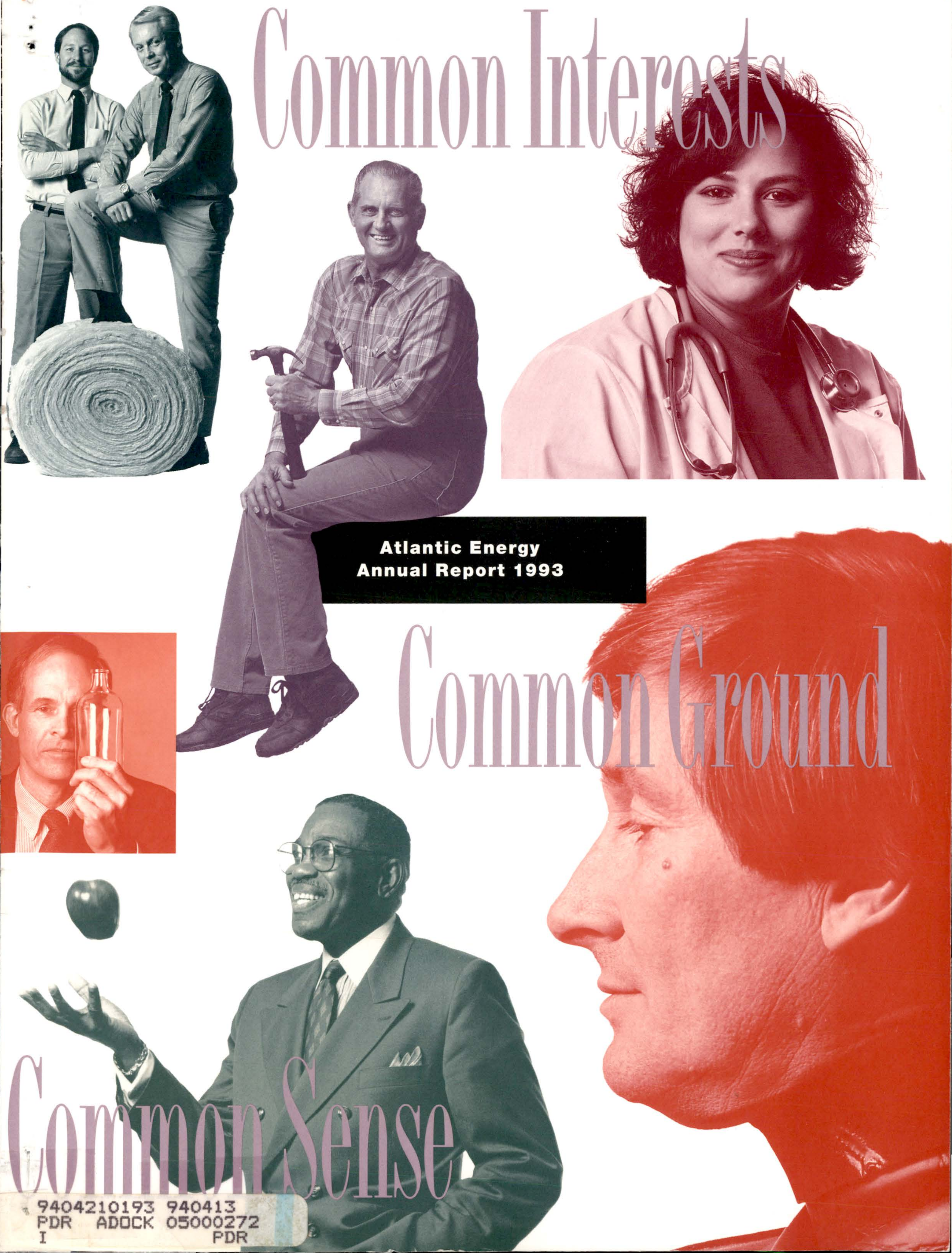


Common Interests

Atlantic Energy
Annual Report 1993

Common Ground

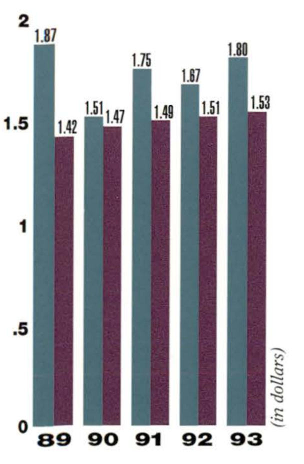
Common Sense

CONTENTS

ABOUT THE COVER: **For Atlantic Electric, our utility, success is measured through customers' eyes. That's why their satisfaction is our highest priority. But customer satisfaction means more than just providing electricity. It means sharing common interests, building relationships on common ground and using common sense to balance the needs of business and the environment.**

FINANCIAL HIGHLIGHTS

	1993	% Change 1993-1992	1992	% Change 1992-1991	1991	% Change 1991-1990
Earnings Per Common Share	**$ 1.80**	7.8	$ 1.67	(4.6)	$ 1.75	15.9
Dividends Paid Per Common Share	**$ 1.53**	1.3	$ 1.51	1.3	$ 1.49	2.1
Book Value Per Common Share	**$ 15.62**	3.0	$ 15.17	2.2	$ 14.84	3.3
Number of Common Shares Outstanding – Year-end (000):						
Average	**52,888**	2.5	51,592	5.3	49,008	7.5
Actual	**53,507**	2.5	52,199	2.6	50,896	10.8
Return on Average Common Equity	**11.71%**	5.1	11.14%	(7.9)	12.10%	14.5
Electric Operating Revenues (000)	**$ 865,675**	6.0	$ 816,825	1.0	$ 808,374	9.1
Operating Expenses (000)	**$ 706,091**	3.9	$ 679,657	2.4	$ 663,518	7.7
Net Income (000)	**$ 95,297**	10.5	$ 86,210	0.7	$ 85,635	24.3
Utility Cash Construction Expenditures (000)	**$ 138,111**	5.7	$ 130,700	(24.2)	$ 172,425	3.4
Total Assets (000)	**$2,487,508**	12.1	$2,219,338	3.2	$2,151,416	7.2
Sales of Electricity to Ultimate Customers (KWH) (000)	**8,066,412**	5.4	7,655,138	(3.5)	7,935,600	2.3
Price Paid Per Kilowatt-hour (Ultimate Customers)	**10.316¢**	0.6	10.257¢	4.5	9.812¢	5.6
Total Ultimate Electric Customer Accounts (Year-end)	**463,073**	1.0	458,549	1.2	453,100	0.8
Number of Shareholders–Common Stock (Year-end)	**47,832**	2.8	46,524	6.2	43,802	3.6
Number of Atlantic Electric Employees (Year-end)	**1,835**	(9.3)	2,023	(0.4)	2,032	(1.1)

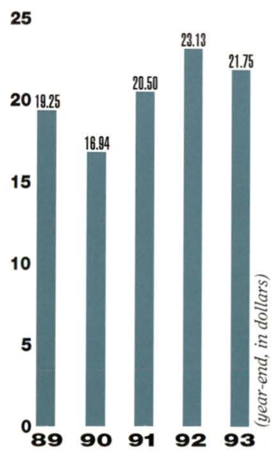


Atlantic Energy Earnings and Dividends Paid Per Share of Common Stock

EARNINGS

DIVIDENDS

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



Atlantic Energy Market Price Per Share of Common Stock

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

Atlantic Energy, Inc. is the parent holding company for Atlantic City Electric Company (Atlantic Electric) and four non-utility subsidiaries. Atlantic Energy has paid dividends for 76 consecutive years and has increased cash dividends paid for 41 consecutive years. More than 75% of Atlantic Energy's shares are owned by individuals.

Atlantic Electric, a regulated utility, is the core business and makes up 95% of total assets. Atlantic Electric serves over 460,000 customers in a 2,700 square-mile area in southern New Jersey. In the next few years, a new state prison in Bridgeton, along with a new convention center and related development in Atlantic City, are expected to bring growth to the service area.

To our shareholders:

Transforming a utility from a monopoly to a market competitor requires hard work and tough decisions. During the last year, your Company took the steps necessary to make it happen.

For starters, we reorganized the utility. Now, two business units and three support units focus clearly on the job at hand: delivering **quality services** *at* **competitive prices**. *Our efforts to reorganize were not without sacrifice. The new structure could no longer support certain positions. We had to reduce our staff. For the future, we'll continue to review the people and skills needed to carry out our mission.*

To that end, we are pleased to welcome Michael J. Chesser. He came on board early this year as Atlantic Electric's Executive Vice President. Mike will be responsible for the utility's two business units. He brings with him valuable experience in making the change from a regulated business into a competitive operation.

Another step toward changing our business comes from **cutting costs**. *We reduced operating costs at our power plants by about 16%. Taking advantage of lower interest rates, we refinanced over half of our long term debt, saving us $5 million a year in annual interest charges. We renegotiated one cogeneration power purchase contract signed in 1987. That puts its prices more in line with current rates. It also allows a clean, efficient unit to generate more energy. We are working to revise our arrangements with two other cogenerators to achieve additional savings. In total, these efforts will save between $15 million and $20 million during the early years of the contracts.*

J. L. Jacobs
President and Chief Executive Officer

To be truly successful, cutting operating costs is never enough. As we looked at our forecast, we had to **reduce** *our planned capital* **spending**. *Over the next five years, we'll spend about $500 million, about $100 million less than our original plans. Over half of the money will be spent to strengthen the power delivery system and to comply with Clean Air Act Amendments. We review all of our plans to be sure that the right project is done at the right time for the right price.*

Steps like these and a **strong summer** *make for good financial results. In 1993,* **earnings per share were $1.80** *compared to $1.67 in 1992. Both years' results included one-time items. For 1993, charges for reorganizing reduced earnings by about 10 cents. For 1992, several items, including the Peach Bottom settlement, increased earnings by 26 cents. Our nonutility businesses made their largest contribution in 1993. They added about seven cents to earnings.*

Earnings reflected **kilowatt-hour sales of 8.1 billion** *this year. Hot summer weather helped. It brought more tourists to the area and boosted the local economy. We added over 4,100 new customers to our utility system. In addition, peak demand broke a record this year at 1,962 megawatts, a 2.7% increase over the record set in 1991.*

In June, we **increased the dividend** *to 38½ cents per share, making cash dividends paid $1.53 in 1993. Total return was flat this year, as our stock price slipped toward year end along with many other utilities. As we see it, the financial markets were responding to the prospects of rising interest rates and increased competition for utilities. In addition, two major rating agencies lowered our bond rating to an "A-." We weren't alone. One agency lowered its rating outlook on one-third of the nation's electric utilities.*

But the real issue is in what lies ahead and what we do about it. We believe our strength will come from being market driven. We will balance our customers needs for **competitive prices** *with our shareholders needs for* **investment value**. *And we'll do it by breaking the traditional mold.*

It starts with our approach to regulation. Not long ago, we asked our regulators to allow our casino customers to take service under existing commercial rates, rather than their current higher rates. If all of the casinos elect this option, it will reduce revenues by $5 million a year. But, it helps a major New Jersey industry lower its costs and stay competitive. Recently, we filed for an increase in energy clause revenues. Our request includes a reduction or "economic initiative" to keep our rates in line with the market. Be assured that our decisions are weighed carefully with our continued commitment to provide a fair return for shareholders.

E. D. Huggard
Chairman of the Board

Breaking the mold continues with our role in the service area. Atlantic Electric will provide heating and cooling to Atlantic City's new convention center, which should be completed by 1996. And, other plans for Atlantic City include a shopping and entertainment complex, new hotels and expansions for existing casinos. If all projects are developed as planned, they represent over $1 billion of new investment. To our west, some Industrial customers expanded their businesses this year. We believe that's a sign that our state's economy is picking up. Plans for this area also include a new state prison, which means about 1,500 new jobs. **We're doing all we can** *to make these projects come to life.*

Our success is linked to that vital, growing service area. By creating **lasting partnerships with our customers**, *we will be an important part of that growth. In the pages that follow, you'll learn what customers think about how well we're doing. Our strength is in our people. We're all working harder than ever on your behalf to remain a competitive, profitable growing company.*

For the Board of Directors,

February 8, 1994

J. L. Jacobs

J. L. Jacobs
President and Chief Executive Officer

E. D. Huggard

E. D. Huggard
Chairman of the Board

The BEACH Patrol team (see Award Winning Performance)

NEWS OF 1993

Award Winning Performance

The New Jersey Business and Industry Association's Award for Excellence was presented to Atlantic Electric in recognition of its products and services as well as the work the company does to improve the quality of life in southern New Jersey.

The Edison Electric Institute (EEI) recognized Atlantic Electric with its 1993 Common Goals award for its work in partnership with the Bayside Prison. Atlantic Electric provides supplies and tools for inmates to build nest boxes for a variety of threatened birds. EEI cited Atlantic Electric's concern for the environment and its community involvement as reasons for the award.

For the third consecutive year, an Atlantic Electric employee involvement team has won the Team Excellence Award for its region given by the Association for Quality and Participation. The BEACH Patrol team, made up of employees from human resource services, will go on to compete for the national title. The team identified improvements and significant cost savings to the company's prescription plan. Team members pictured above are: (back row, l to r) Eileen Cappellucci, Relly Favinger, Cindy Hirsh (leader), Liz Pullan, Jill Perna, JoAnn Fitzgerald, Mary Parrish, Liz Thomas, Jo-Ann Hurley and Riesa Levine (facilitator); (front row, l to r) Andy Dias, Harry Phillips, Bob Pavlovski and Ron Migliore.

Previous Atlantic Electric winners were: the ACT team from customer service who streamlined and redesigned hazardous condition reporting; and the Morale Boosters team from Deepwater Generating Station who greatly improved safety at the station.

Money Does Grow on Trees

A group of Atlantic Electric employees found a way to save money and benefit the environment: a tree replacement program. Under this program, "compatible" or lower-growing shade trees are used to replace problem trees that grow up into power lines, causing outages and injuries. Compatible trees retain their shape and appearance without being trimmed, representing a substantial cost savings over the life of the tree. As an added benefit, the compatible trees are grown at Atlantic Electric's Millville Holly Orchard.

Nuclear News

The combined capacity factor of Atlantic Electric's five jointly-owned nuclear units was 70.8% in 1993. This figure is well within the range of acceptable performance as defined by New Jersey's nuclear performance standard. As a result, Atlantic Electric is not subject to any penalties for 1993.

The Financial Page

Throughout the year, Atlantic Electric issued and sold $240 million of medium term notes (MTNs). The MTNs have varying maturity dates between 5 and 15 years. They have a weighted average interest rate of 6.7%. In addition, Atlantic Electric issued and sold three series of First Mortgage Bonds for a total of $225 million principal amount. The new series had interest rates of 6⅞% (20 years), 7% (35 years), and 7% (30 years). Proceeds from the MTNs and First Mortgage Bonds were used primarily to refund higher coupon debt. This refinancing brings a savings of roughly $5 million in interest expense annually.

The Dividend Reinvestment and Stock Purchase Plan had another banner year in 1993. Shareholders invested over $30 million in new shares of Common Stock through their participation in the plan.

Home Based Business

In April, Atlantic Electric began a pilot program to allow employees to work from home. The program provides extended hours for customers' calls and greater coverage for heavy calling periods. Computer terminals and phone lines set up in employees' homes work just like the ones in the office, giving customers the full range of services. Data collected from the pilot project will be used to evaluate expanding the program. Preliminary benefits of the program include better coverage during periods of heavy call volume and during major storms.

New Peak Established

On July 10, 1993, Atlantic Electric hit a new level of peak demand of 1,962 megawatts (MWs). This record surpasses the 1991 record of 1,911 MWs by 2.7%. (The mild summer of 1992 didn't break any records.) Reserve margin (additional available capacity) at the time of the peak was 11.2%.

Teamwork Triumphs

Special effort was required to meet the challenge of peak demand this summer. Workers at Atlantic Electric's B.L. England Generating Station battled eel grass, a fine hair-like seaweed that clogged intake screens and reduced water pressure at the plant. To keep the water flowing, all hands took turns at cleaning the two-story tall screens. Working around the clock for six weeks, they removed four 55-gallon drums of seaweed every half hour. Through their extraordinary effort, employees kept the plant running and the power on.

Atlantic Electric's Mission:

We are southern New Jersey's energy company, committed to customer satisfaction in providing high quality services at competitive prices. We provide safe and reliable energy with environmental sensitivity and increasing value to our owners.

Common interests, common sense and common ground—these phrases describe the essential ingredients for forming lasting partnerships with our customers and the community. Those partnerships are critical to our long term success as a competitive, profitable and growing company.

Common interests bring us together with our customers, allowing us to find better ways to give high quality service at competitive prices. Common sense gives us the balance and insight needed to provide safe and reliable energy with environmental sensitivity. And by sharing our resources of time, effort and expertise, we establish a basis for mutual under-

Common Interests

Tim Logsdon (left), plant engineer
Bob Mooney, industrial engineer
Schuller International, Inc.

You learn a lot from listening to your customers. You find out what your **common interests** *are—interests like improving business profits, competing successfully and increasing safety. When you know what you share, you know what customers expect of you. Our job is meeting and exceeding those expectations by providing* **quality service at competitive prices**. *Here's how some of our customers think we've done.*

Schuller International, an insulation manufacturer, was looking for ways to cut energy costs, increase energy efficiency and improve some of its processes—all of which can **boost a business' bottom line**. *"Atlantic Electric worked with us to get a comprehensive energy audit done. They helped us find a consultant who would go through all areas of our business, looking for ways we could* **save money and be more efficient**,*" said Bob Mooney, industrial engineer. "The consultant's suggestions were great. None of them cost money to implement. But they did require our operators to manually shut things down or switch things over," he added.*

"We wanted to take the improvements one step further. **Atlantic Electric really helped** *us determine which processes could be automated. They put us in touch with all the right vendors and equipment we needed to make the improvements," Mooney said.*

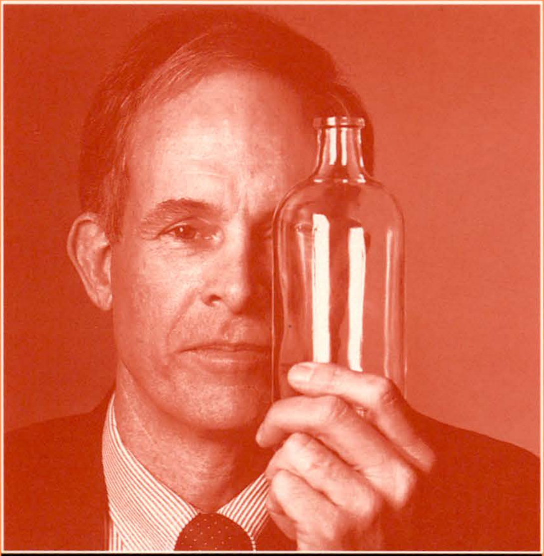
Tim Logsdon, plant engineer, summed it all up. "In this economy, businesses and utilities have to work together. Atlantic Electric lived up to that **team spirit**. *They helped us uncover not only the small change, but the big dollar savings as well. When you're under pressure to keep your costs in line, every little bit helps."*

Utilities are learning what manufacturing has known for a long time: the competition is tough. In a region where the competition is tougher than most, it's important for all sides to work together.

Jim Slough, director of purchasing for Wheaton Glass Products finds that Atlantic Electric is moving in a

refreshing new direction. *"They sponsored an important three-way meeting involving the utility company, local industry and state regulators. The meeting included very* **frank discussions** *from all sides and was an* **important step in solving issues** *that affect everyone," Slough said. "No other* **utility** *I've dealt with has* **displayed the courage** *to bring controversial issues out into the open so they can be mutually solved," he added.*

"Atlantic Electric knows that energy is one of manufacturing's largest costs and they're willing to work with us. Their experts helped Wheaton identify large areas of energy waste and installed sub-metering to help us monitor usage in those areas. That information will enable us to fix problem areas," Slough indicated.



Jim Slough, director of purchasing
Wheaton Glass Products

"Every industry in New Jersey faces international competitors. If any of us aren't efficient, we won't survive against foreign companies. Atlantic Electric recognizes this tough business environment. They see that jobs can be maintained or increased if industry uses energy efficiently and keeps its costs down. I wish the other utilities that serve Wheaton were equally as progressive," he emphasized.

Slough ended by saying, "More projects are underway for the coming year that will **continue the close relationship** *between our two companies. Atlantic Electric's* **progressive approach** *enjoys my complete support."*

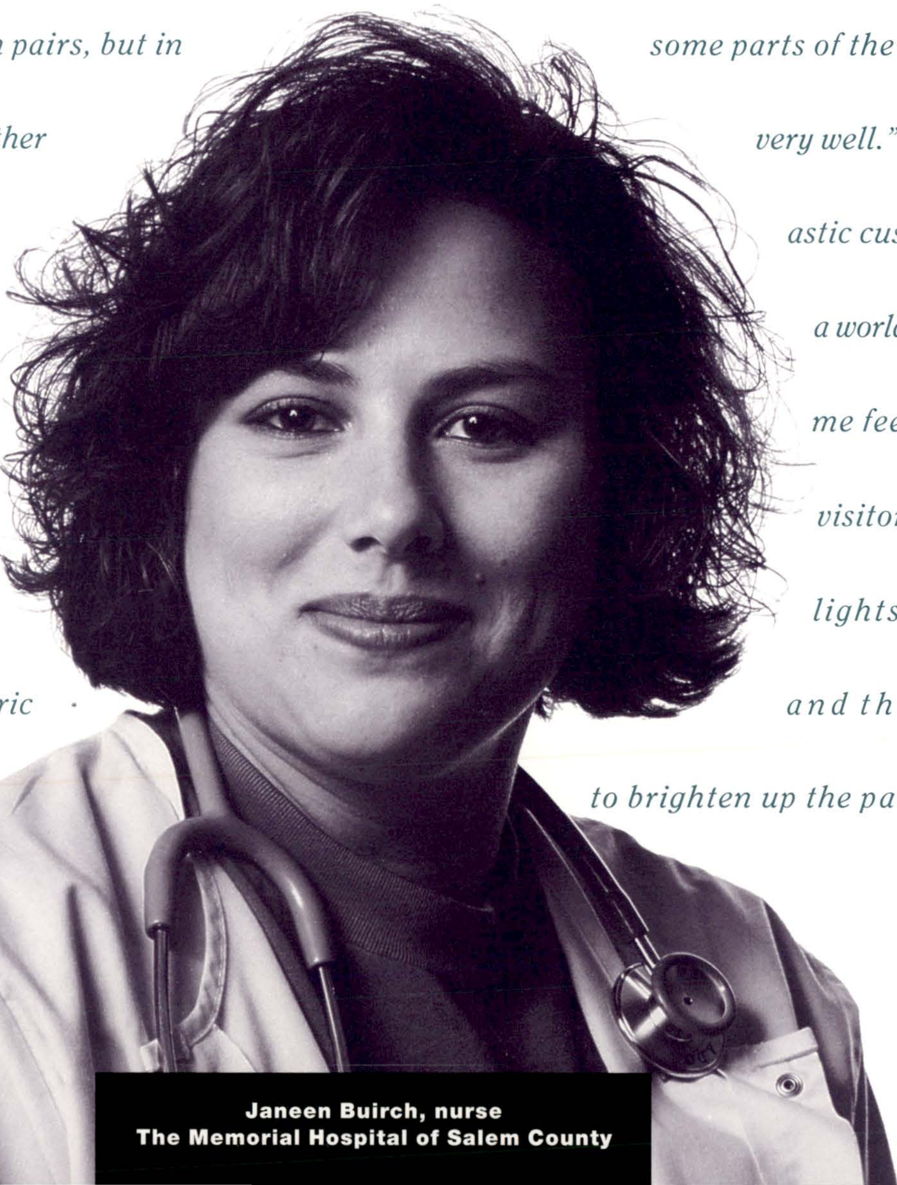
Improving **safety** *is also* **an interest we share** *with customers. So is* **staying on a budget**. *For a recent project with the Memorial Hospital of Salem County, we were able to help them achieve both.*

"We needed to replace the old lighting in our parking lots. But we were on a tight budget to get it done," said Les Wilson, vice president of plant operations. "We got some costly estimates and asked Atlantic Electric for help. Through their Night Guard leased lighting program, we were able to get **efficient, uniform lights** *that really* **improve visibility***."*

"Our biggest problem was finding an affordable pole design that matched what we already had in some areas. With a lot of hard work, Atlantic Electric found us a great alternative. Now, all of the old lights have been replaced and we're getting **more light** *out there* **for less money***," he added.*

Safety was the hospital's prime concern, especially for night shift employees. "Before the new lights, we'd wait for security or other employees to go out to our cars," explained nurse Janeen Buirch. "We used to walk out in pairs, but in some parts of the parking lot, you couldn't see each other very well."

Buirch is an enthusiastic customer of the new lights. "They make a world of difference because they make me feel safe. Even our patients and visitors have commented about the lights. I'm really glad that Atlantic Electric and the hospital worked together to brighten up the parking lot."



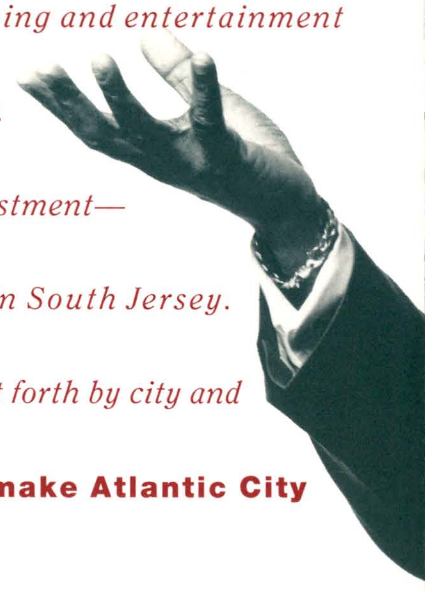
Janeen Buirch, nurse
The Memorial Hospital of Salem County

Common Ground

In our 107 years in business, we have been a source of light, heat, products and services. We're an employer, a supplier and a buyer. Most important of all, **we're a neighbor***. As we look to the future, our success will come from being an integral part of the community. It requires us to build a basis for* **mutual understanding—common ground***—on which we all can stand.*

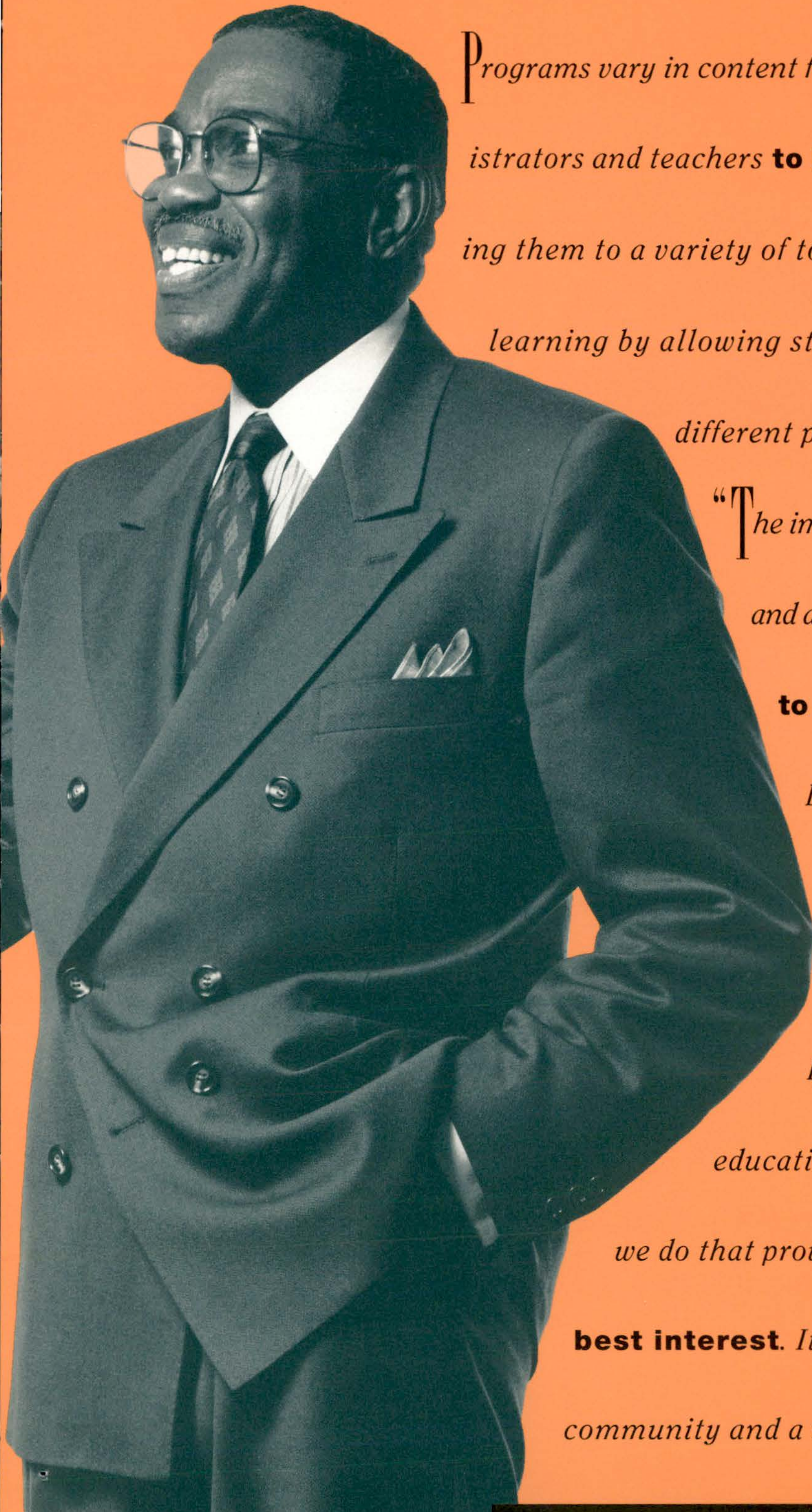
We do that by being involved and accessible. Nowhere in our area have we renewed that commitment more firmly than in Atlantic City. Earlier this year, we re-established an office in the city to be more closely in touch with an important part of our business at a critical time in its development.

Over the next few years, plans for **growth in Atlantic City** *include the addition of a new convention center, new and expanded hotels and a shopping and entertainment complex to rival ones in Baltimore and New York. That amounts to over $1 billion in planned investment—the largest economic development venture in South Jersey. What's more, it is the* **first cohesive effort** *put forth by city and state government, business and industry* **to make Atlantic City a first-class destination***.*



Atlantic Electric is at the forefront of these developments. On the business side, we will be providing heating and cooling to the new convention center. On the human side, our people are lending their time and expertise to many community organizations, helping them **grow and prosper along with the city***. One such organization that Atlantic Electric has teamed up with is the*

Atlantic City Education Foundation, *led by Arthur Lewis, foundation president and corporate vice president of the Sands Hotel and Casino. He explained that "from the very beginning, Atlantic Electric supported the foundation with financial and human resources. Their involvement helps us offer a variety of programs tailored to the* **individual needs of students and teachers**.*"*



Programs vary in content from providing management courses for administrators and teachers **to broadening students' interests** *by exposing them to a variety of topics. Other programs encourage growth and learning by allowing students to sample college courses or observe different professions.*

"The important thing to remember is that these programs and all of the others we support have one goal in mind— **to help teachers teach and students learn**,*" Lewis remarked. "If we can accomplish that, we've all got something to be proud of."*

"I'm impressed with the leadership Atlantic Electric has shown to the foundation and the educational community," said Lewis. "They believe as we do that providing **quality education is in everyone's best interest**. *It builds a better trained workforce, a stronger community and a more vital economy."*

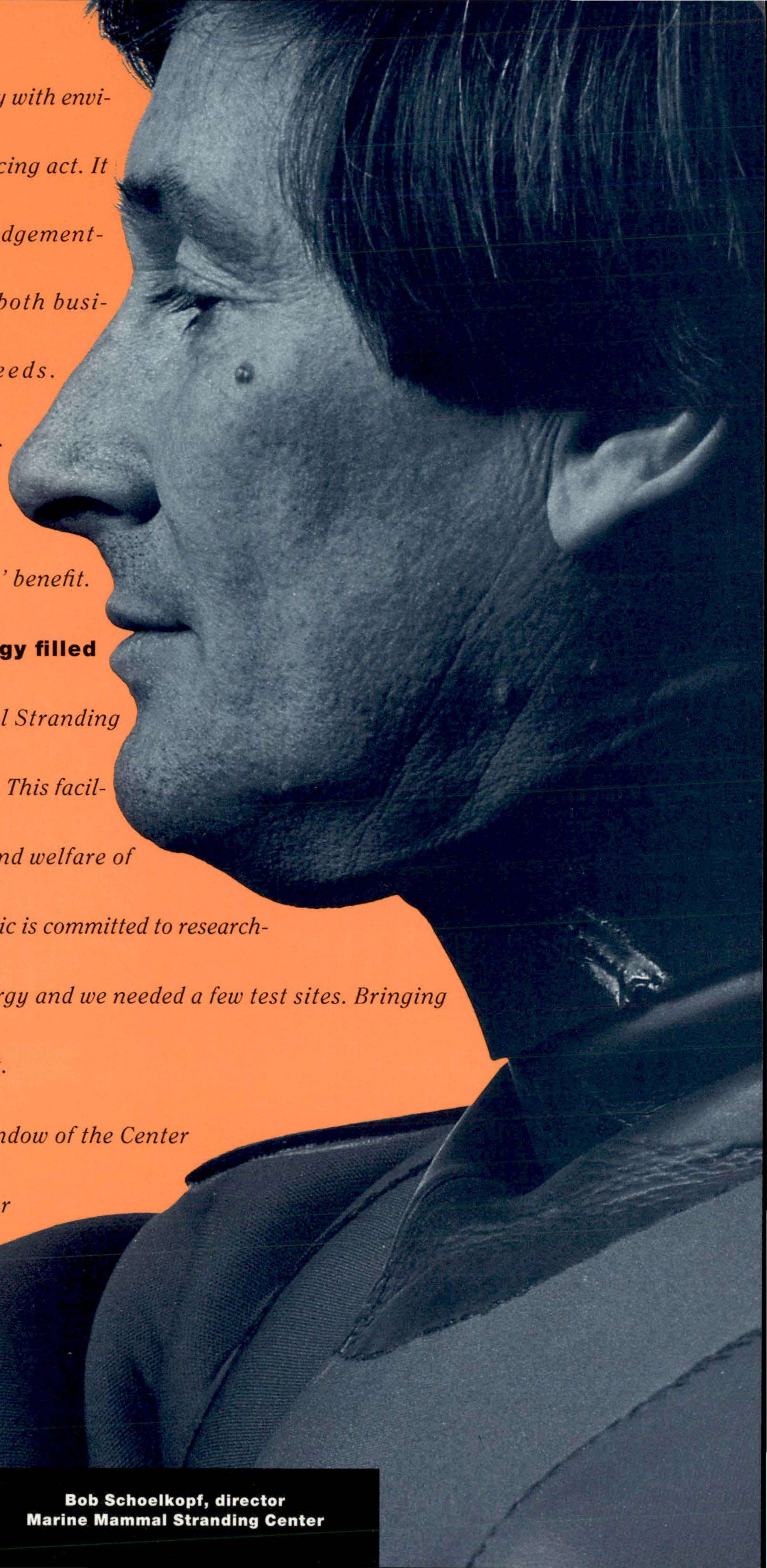
Arthur Lewis, president
Atlantic City Education Foundation

Common Sense

*Providing safe, reliable electricity with environmental sensitivity is a balancing act. It requires sound and prudent judgement—***common sense***—to meet both business and environmental needs. Technology gives us the tools. Common sense enables us to use those tools wisely for customers' benefit.*

New technology in **solar energy filled the bill** *for the Marine Mammal Stranding Center in Brigantine, New Jersey. This facility is committed to the health and welfare of sea life in our area. Atlantic Electric is committed to researching the possibilities of solar energy and we needed a few test sites. Bringing the two together was a perfect fit.*

"One day I looked outside the window of the Center and noticed a woman studying our



Bob Schoelkopf, director
Marine Mammal Stranding Center

building," explained Bob Schoelkopf, director of the center. "We get visitors quite often so I walked outside to talk with her. She explained that she was from Atlantic Electric and was checking to see what kind of sun exposure our building had. When she said we might be a **good candidate for a solar energy site**, *I was thrilled. We're in contact with Atlantic Electric pretty often, both for business reasons and because many of their employees have been volunteers over the years. So I wasn't surprised that they chose our facility. They know how I feel about the environment and that I'm a supporter of alternate energy," he added.*

"The solar panels were installed this summer. They've worked out well. We've **saved about 25% in our electric bills**. *That money goes directly into caring for the animals. This year, we have near record numbers of animals to care for, so the savings really help."*

"In my dealings with the company, I've always found that the people were very down-to-earth," Schoelkopf remarked. "A project like this confirms my feeling that those same **caring people** *are not only up-to-date with the latest technology but are also the ones* **making sound business decisions**."

Business and the environment can work together another way: by promoting improvements in heating and cooling technology. **Geothermal energy systems** *offer state-of-the-art energy efficiency. So, it makes sense to match these systems with a* **B.E.S.T**. *(Built for Energy Saving Tomorrows)* **Home**. *The result is a super-efficient home that* **saves energy and money**. *One customer who's sold on the idea is builder Bob Gajewski.*

"When I heard about Atlantic Electric's programs for builders, I signed up right away. I get a kick out of building a house that's the **most efficient** *thing* **on the market**. *In my opinion, you can't get a better home than one that's a combination of a B.E.S.T. Home and a geothermal system."*

"These homes are **efficient and clean**. *They cost very little to run and don't burn any fuels. There are no emissions going into the air or into the house. They are also* **safe**. *Since there's no flame, you can locate the unit almost anywhere you like. And, they take reusable well water and exchange only its heat. They're* **good for the environment** *all around," he added.*

"The people who've bought these homes are really happy with them," Gajewski remarked. "I've sold quite a few. Even during the slow real estate market over the last few years, **these homes sold well**. *I have a few under construction now and I have plans for a small development in the near future."*

Bob Gajewski, partner
G&L General Contractors

"The employees at Atlantic Electric are a **great resource**. *They give me any information I need for people who are interested in geothermal systems. They also put me in touch with all the right vendors and manufacturers so that I can have the latest* **equipment** *and* **expert advice**. *Atlantic Electric's programs are first rate. I wouldn't have come this far without them."*

UNCOMMON EFFORTS

By getting to know our customers, we have built on the common interests necessary to exceed customers' expectations. Since our success depends on the success of the community, we are working to establish a common ground to help us all grow. And, since business decisions must always be balanced, we rely on experience, fact, technology and common sense to make our decisions sound ones.

These ideas are only as good as the people who carry them out. The stories on the previous pages would not have been possible without the uncommon efforts of the employees pictured below. Our continued success is made possible by all of our dedicated employees who, in their daily contact with customers and the community, create lasting partnerships.

(L to R) First row: Steve Jones, Kem Pastakia, Loretta Harris, George Dehner. Second row: Fran Johnsen, Bill Bates, Bill Sykes, Marty Inman, Pat MacFarland-Goelz. Third row: Janet Sampson, Laura Hickman, Bill Hulanick, John Conlow, Jeff Stepler, Eileen Unger. Fourth row: Tom Herzog, Greg Peterson, Neal Sampson, Ed Ragazzi

Financial Information

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REPORT OF MANAGEMENT

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

Management has established a system of internal accounting and financial controls and procedures designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In any system of financial reporting controls, there are inherent limitations. Management continually examines the effectiveness and efficiency of this system, and actions are taken when opportunities for improvement are identified. Management believes that, as of December 31, 1993, the system of internal accounting and financial controls over financial reporting is effective. Management also recognizes its responsibility for fostering a strong ethical climate in which the Company's affairs are conducted according to the highest standards of corporate conduct. This responsibility is characterized and reflected in the Company's code of ethics and business conduct policy.

The financial statements have been audited by Deloitte & Touche, Certified Public Accountants. Deloitte & Touche provides an objective, independent audit as to management's discharge of its responsibilities insofar as they relate to the fairness of the financial statements. Their audits are based on procedures believed by them to provide reasonable assurance that the financial statements are free of material misstatement.

The Company's internal auditing function conducts audits and appraisals of the Company's operations. It evaluates the system of internal accounting, financial and operational controls and compliance with established procedures. Both Deloitte & Touche and the internal auditors periodically make recommendations concerning the Company's internal control structure to management and the Audit Committee of the Board of Directors. Management responds to such recommendations as appropriate in the circumstances. None of the recommendations made for the year ended December 31, 1993 represented significant deficiencies in the design or operation of the Company's internal control structure.

J. L. Jacobs
President and Chief Executive Officer

J. G. Salomone
Vice President and Treasurer

January 31, 1994

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is comprised solely of independent directors. The members of the Committee are: Jos. Michael Galvin, Jr., Gerald A. Hale, Matthew Holden, Jr., Kathleen MacDonnell and Harold J. Raveché. The Committee held three meetings during 1993.

The Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommended to the Board of Directors, subject to shareholder ratification, the selection of the Company's independent auditors, Deloitte & Touche. The Committee discussed with the Company's internal auditors and Deloitte & Touche the overall scope of and specific plans for their respective activities concerning the Company. The Committee also discussed the Company's consolidated financial statements with Deloitte & Touche. The Committee meets regularly with the internal auditors and Deloitte & Touche, without management present, to discuss the results of their activities, the adequacy of the Company's system of accounting, financial and operational controls and the overall quality of the Company's financial reporting. The meetings are designed to facilitate any private communication with the Committee desired by the internal auditors or Deloitte & Touche. No significant actions by the Committee were required during the year ended December 31, 1993 as a result of any private communications conducted.

Matthew Holden, Jr.

Matthew Holden, Jr.
Chairman, Audit Committee

January 31, 1994

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

Certified Public Accountants
Two Hilton Court
Parsippany, New Jersey 07054

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

We have audited the accompanying consolidated balance sheets of Atlantic Energy, Inc. and subsidiaries as of December 31, 1993 and 1992 and the related consolidated statements of income, changes in common shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Energy, Inc. and its subsidiaries at December 31, 1993 and 1992 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 109. As discussed in Note 4 to the consolidated financial statements, in 1993 the Company changed its method of accounting for the costs of postretirement benefits other than pensions to conform with Statement of Financial Accounting Standards No. 106.

Deloitte & Touche

January 31, 1994

CONSOLIDATED STATEMENT OF INCOME

Atlantic Energy, Inc. and Subsidiaries

(Thousands of Dollars) *For the Years Ended December 31,*

	1993	1992	1991
Operating Revenues–Electric	**$865,675**	$816,825	$808,374
Operating Expenses:			
Energy	**159,438**	161,134	182,972
Purchased Capacity	**110,781**	103,173	79,314
Operations	**162,151**	148,917	146,548
Maintenance	**45,360**	49,837	51,960
Depreciation and Amortization	**67,950**	69,371	66,023
State Excise Taxes	**104,280**	97,969	88,932
Federal Income Taxes	**45,277**	37,143	36,244
Other Taxes	**10,854**	12,113	11,525
Total Operating Expenses	**706,091**	679,657	663,518
Operating Income	**159,584**	137,168	144,856
Other Income:			
Allowance for Equity Funds Used During Construction	**2,368**	2,212	1,814
Litigation Settlement, net of tax of: 1993–$(1,321); 1992–$4,982	**(2,564)**	9,671	—
Other–Net	**12,884**	9,519	7,043
Total Other Income	**12,688**	21,402	8,857
Income Before Interest Charges	**172,272**	158,570	153,713
Interest Charges:			
Interest on Long Term Debt	**59,385**	53,284	51,601
Interest on Short Term Debt	**1,421**	1,579	1,946
Other Interest Expense	**212**	1,099	1,179
Total Interest Charges	**61,018**	55,962	54,726
Allowance for Borrowed Funds Used During Construction	**(1,448)**	(1,414)	(3,059)
Net Interest Charges	**59,570**	54,548	51,667
Less Preferred Stock Dividend Requirements of Subsidiary	**17,405**	17,812	16,411
Net Income	**$ 95,297**	$ 86,210	$ 85,635
Average Number of Shares of Common Stock Outstanding (in thousands)	**52,888**	51,592	49,008
Per Common Share:			
Earnings	**$ 1.80**	$ 1.67	$ 1.75
Dividends Declared	**$ 1.535**	$ 1.515	$ 1.495
Dividends Paid	**$ 1.53**	$ 1.51	$ 1.49

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Atlantic Energy, Inc. and Subsidiaries

(Thousands of Dollars)	*For the Years Ended December 31,* 1993	1992	1991
Cash Flows Of Operating Activities:			
Net Income	**$ 95,297**	$ 86,210	$ 85,635
Deferred Purchased Power Costs	**(6,050)**	13,410	(12,938)
Deferred Energy Costs	**(15,269)**	(6,143)	13,180
Preferred Stock Dividend Requirements of Subsidiary	**17,405**	17,812	16,411
Depreciation and Amortization	**67,950**	69,371	66,023
Allowance for Funds Used During Construction	**(3,816)**	(3,626)	(4,873)
Nuclear Decommissioning Reserve	**6,424**	6,424	3,010
Deferred Income Taxes–Net	**20,901**	23,386	13,413
Prepaid State Excise Taxes	**(35,982)**	540	(98)
Net Decrease (Increase) in Other Working Capital	**32,364**	7,685	(2,723)
Other–Net	**(1,074)**	2,852	7,498
Net Cash Provided by Operating Activities	**178,150**	217,921	184,538
Cash Flows Of Investing Activities:			
Utility Cash Construction Expenditures	**(138,111)**	(130,700)	(172,425)
Leased Property	**(9,946)**	(9,565)	(8,793)
Nuclear Decommissioning Trust Fund Deposits	**(6,424)**	(6,424)	(13,777)
Other–Net	**(9,832)**	(8,524)	(8,557)
Net Cash Used by Investing Activities	**(164,313)**	(155,213)	(203,552)
Cash Flows Of Financing Activities:			
Proceeds from Long Term Debt	**464,633**	74,655	38,779
Retirement and Maturity of Long Term Debt	**(370,541)**	(40,599)	(50,170)
Decrease in Short Term Debt	**(14,600)**	(6,000)	(23,350)
Proceeds from Capital Lease Obligations	**9,946**	9,565	8,793
Proceeds from Common Stock Issued	**16,208**	16,110	72,698
Proceeds from Preferred Stock Issued	**—**	—	69,720
Dividends Declared on Preferred Stock	**(17,405)**	(17,812)	(16,411)
Dividends Declared on Common Stock	**(67,259)**	(65,644)	(62,769)
Other–Net	**(6,831)**	(5,403)	(9,170)
Net Cash Provided (Used) by Financing Activities	**14,151**	(35,128)	28,120
Net Increase in Cash and Temporary Investments	**27,988**	27,580	9,106
Cash and Temporary Investments, beginning of year	**45,647**	18,067	8,961
Cash and Temporary Investments, end of year	**$ 73,635**	$ 45,647	$ 18,067
Supplemental Schedule of Payments:			
Interest	**$ 52,765**	$ 55,275	$ 57,221
Income taxes	**$ 19,565**	$ 24,312	$ 23,721
Noncash Financing Activities:			
Common Stock issued from dividends declared under dividend reinvestment plan	**$ 14,088**	$ 12,692	$ 11,304

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

CONSOLIDATED BALANCE SHEET

Atlantic Energy, Inc. and Subsidiaries

(Thousands of Dollars)	*December 31,* 1993	1992
Assets		
Electric Utility Plant:		
In Service:		
Production	**$1,054,217**	$1,042,567
Transmission	**338,584**	312,374
Distribution	**627,649**	583,890
General	**173,206**	155,679
Total In Service	**2,193,656**	2,094,510
Less Accumulated Depreciation	**668,832**	607,198
Net	**1,524,824**	1,487,312
Construction Work in Progress	**156,590**	130,248
Land Held for Future Use	**6,901**	5,045
Leased Property–Net	**45,268**	49,304
Electric Utility Plant–Net	**1,733,583**	1,671,909
Nonutility Property and Investments:		
Investment in Leveraged Leases	**77,268**	76,465
Nuclear Decommissioning Trust Fund	**43,163**	34,617
Nonutility Property and Equipment–Net	**14,535**	15,561
Other Investments and Funds	**18,102**	11,132
Total Nonutility Property and Investments	**153,068**	137,775
Current Assets:		
Cash and Temporary Investments	**73,635**	45,647
Accounts Receivable:		
Utility Service	**51,502**	47,928
Miscellaneous	**11,420**	12,533
Allowance for Doubtful Accounts	**(3,000)**	(3,000)
Unbilled Revenues	**39,309**	39,281
Fuel (at average cost)	**14,635**	20,874
Materials and Supplies (at average cost)	**28,230**	25,763
Working Funds	**14,315**	15,433
Prepaid State Excise Taxes	**8,386**	6,110
Other Prepayments	**7,410**	4,137
Deferred Energy Costs	**7,180**	—
Deferred Income Taxes	**3,283**	6,218
Total Current Assets	**256,305**	220,924
Deferred Debits:		
Unrecovered Purchased Power Costs	**130,458**	124,408
Recoverable Future Federal Income Taxes	**85,855**	—
Unrecovered State Excise Taxes	**33,706**	—
Unamortized Debt Costs	**39,306**	20,693
Property Abandonment Costs–Net	**10,325**	10,297
Other Regulatory Assets	**31,380**	23,655
Other	**13,522**	9,677
Total Deferred Debits	**344,552**	188,730
Total Assets	**$2,487,508**	$2,219,338

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

CONSOLIDATED BALANCE SHEET

Atlantic Energy, Inc. and Subsidiaries

(Thousands of Dollars)	December 31, 1993	1992
Liabilities and Capitalization		
Capitalization:		
Common Shareholders' Equity:		
Common Stock, no par value; 75,000,000 shares authorized; issued and outstanding: 1993 – 53,506,786; 1992 – 52,198,624	**$ 579,443**	$ 549,147
Retained Earnings	**256,549**	242,768
Total Common Shareholders' Equity	**835,992**	791,915
Preferred Stock of Atlantic City Electric Company:		
Not Subject to Mandatory Redemption	**40,000**	40,000
Subject to Mandatory Redemption	**173,750**	190,250
Long Term Debt	**766,101**	631,580
Total Capitalization (excluding current portion)	**1,815,843**	1,653,745
Current Liabilities:		
Preferred Stock Redemption Requirement	**12,250**	1,050
Long Term Debt due within one year	**—**	19,356
Capital Lease Obligations due within one year	**861**	798
Short Term Debt	**—**	14,600
Accounts Payable	**63,847**	52,028
Taxes Accrued	**16,020**	7,697
Interest Accrued	**22,149**	14,706
Dividends Declared	**24,910**	24,275
Customer Deposits	**2,890**	2,955
Deferred Energy Costs	**—**	8,089
Other	**21,875**	16,794
Total Current Liabilities	**164,802**	162,348
Deferred Credits and Other Liabilities:		
Deferred Income Taxes	**383,347**	276,492
Deferred Investment Tax Credits	**54,180**	56,715
Capital Lease Obligations	**44,407**	48,505
Other	**24,929**	21,533
Total Deferred Credits and Other Liabilities	**506,863**	403,245
Commitments and Contingencies (Note 10)		
Total Liabilities and Capitalization	**$2,487,508**	$2,219,338

CONSOLIDATED STATEMENT OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

Atlantic Energy, Inc. and Subsidiaries

(Thousands of Dollars)	*Shares*	*Common Stock*	*Retained Earnings*
Balance, December 31, 1990	45,951,976	$ 436,343	$ 223,749
Common Stock issued:			
Public offering	4,000,000	66,970	
Other	944,098	17,032	
Net income			85,635
Capital stock expense of subsidiary			(417)
Common stock dividends			(74,073)
Balance, December 31, 1991	50,896,074	520,345	234,894
Common Stock issued	1,302,550	28,802	
Net income			86,210
Common stock dividends			(78,336)
Balance, December 31, 1992	52,198,624	549,147	242,768
Common Stock issued	1,308,162	30,296	
Net income			95,297
Capital stock expense of subsidiary			(169)
Common stock dividends			(81,347)
Balance, December 31, 1993	**53,506,786**	**$579,443**	**$256,549**

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

Common Stock issued in 1993, 1992 and 1991 was through the Dividend Reinvestment and Stock Purchase Plan (DRP) and Atlantic City Electric Company (ACE) employee benefit plans. In 1991, Common Stock was also issued through a public offering. In July 1993, an additional 2,000,000 shares of Common Stock were registered for issuance under the DRP. At December 31, 1993, 1,423,468 and 135,992 shares were reserved for issuance under the DRP and ACE employee benefit plans, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Organization

Atlantic Energy, Inc. (the Company or parent) is the parent of a consolidated group consisting of the following wholly-owned subsidiaries: Atlantic City Electric Company (ACE), Atlantic Energy Technology, Inc. (AET), Atlantic Generation, Inc. (AGI), Atlantic Southern Properties, Inc. (ASP) and ATE Investment, Inc. (ATE). ACE is a public utility primarily engaged in the generation, transmission, distribution and sale of electric energy. Rates for service are regulated by the New Jersey Board of Regulatory Commissioners (BRC). ACE's service territory encompasses approximately 2,700 square miles within the southern one-third of New Jersey. The majority of ACE's customers are residential and commercial. ACE, with its wholly-owned subsidiary that operates certain generating facilities, is the primary company within the consolidated group. AET invests in companies with energy-related products and technologies and has a wholly-owned subsidiary that owns patented technology for geothermal heating and cooling systems. AGI and its wholly-owned subsidiaries are engaged in the development of cogeneration power projects which are located in New Jersey and New York through several partnership arrangements. ASP owns, develops and manages a commercial office and warehouse facility located in southern New Jersey. ATE provides fund management and financing to affiliates and manages its portfolio of investments in leveraged leases for equipment used in the airline and shipping industries.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. ACE, AET and AGI consolidate their respective subsidiaries. AGI accounts for another investment using the equity method by recognizing its proportionate share of the results of operations of that investment. The results of operations of the nonutility companies are not significant and are classified under Other Income in the Consolidated Statement of Income.

Regulation

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

Electric Operating Revenues

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

Nuclear Fuel

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

Electric Utility Plant

Property is stated at original cost. Generally, the plant is subject to a first mortgage lien. The cost of property additions, including replacement of units of property and betterments, is capitalized. Included in certain property additions is an Allowance for Funds Used During Construction (AFDC), which is defined in the applicable regulatory system of accounts as the cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFDC has been calculated using a semi-annually compounded rate of 8.95%, as approved by the BRC, for the years presented through July 31, 1993. Effective August 1, 1993, ACE reduced the AFDC rate to 8.25%, as approved by the BRC on an interim basis.

Depreciation

ACE provides for straight-line depreciation based on the estimated remaining life of transmission and distribution property, remaining life of the related nuclear plant operating license for nuclear property, and estimated average service life for all other depreciable property. The overall composite rate of depreciation was approximately 3.3% in 1993, 3.5% in 1992 and 3.7% in 1991. Accumulated depreciation is charged with the cost of depreciable property retired together with removal costs less salvage and other recoveries. Depreciable property of the nonutility companies is not significant.

Nuclear Decommissioning Trust

ACE has a trust to fund the future costs of decommissioning each of the five nuclear units in which it has an ownership interest. The current annual funding amount, as authorized by the BRC, totals $6.4 million and is provided for in rates charged to customers. The funding amount is based on estimates of the future cost of decommissioning each of the units, dates that decommissioning activities are expected to occur and return to be earned by the assets of the fund. The BRC has established that the total estimated cost to decommission ACE's share in nuclear units is $65.5 million in 1987 dollars. The BRC has further established that decommissioning activities are expected to begin in 2006 and continue through 2032. Actual costs and timing of decommissioning activities may vary from the current estimates. ACE will seek to adjust these estimates and the level of rates collected from customers in future BRC proceedings to reflect changes in decommissioning cost estimates and the expected levels of inflation and interest to be earned by the assets in the trust. As of December 31, 1993, the trust had a market value of $46.4 million. Of the $43.2 million in the trust, $31.9 million has been qualified for Federal income tax purposes. ACE had an associated accumulated liability for decommissioning costs of $42.2 million at December 31, 1993.

Deferred Energy Costs

As approved by the BRC, ACE has Levelized Energy Clauses (LECs) through which energy and energy-related costs (energy) are charged to customers. LEC rates are based on projected energy costs and prior period underrecoveries or overrecoveries of energy costs. Energy costs are recovered through levelized rates over the period of projection, which is generally a 12-month period. In any period, the actual amount of LEC revenues recovered from customers will be greater or less than the actual amount of energy costs incurred in that period. Energy expense is adjusted to match the associated LEC revenues. Any underrecovery (an asset representing energy costs incurred that are to be collected from customers) or overrecovery (a liability representing previously collected energy costs to be returned to customers) of costs is deferred on the Consolidated Balance Sheet as Deferred Energy Costs. These deferrals are recognized in the Consolidated Statement of Income as Energy expense during the period in which they are subsequently included in the LECs.

Income Taxes

Effective January 1,1993, deferred Federal and state income taxes are provided on all significant temporary differences between book bases and tax bases of assets and liabilities, transactions that enter taxable income in an earlier or later year than for book income and tax carryforwards. Prior to 1993, deferred Federal and state income taxes were provided on all significant current transactions for which the timing of recognition differs for book and tax purposes. Investment tax credits, which are used to reduce current Federal income taxes, are deferred on the Consolidated Balance Sheet and recognized in book income over the life of the related property. The Company and its subsidiaries file a consolidated Federal income tax return. Income taxes are allocated to each of the companies within the consolidated group based on the separate return method.

Unrecovered Purchased Power Costs

ACE has an arrangement for 125 megawatts (MWs) of capacity and related energy from Pennsylvania Power and Light Company (PP&L) which commenced in 1983 and continues through September 30, 2000. Levelized base rates were approved by the BRC to recover certain estimated costs to be incurred over the term of the arrangement. Through September 30, 1991, estimated costs exceeded levelized revenues, and these excess costs were deferred on the Consolidated Balance Sheet as Unrecovered Purchased Power Costs. The BRC granted a return on these unrecovered amounts. Subsequent to September 30, 1991, levelized revenues are greater than the estimated costs, permitting the previously deferred costs to be charged to Purchased Capacity expense on the Consolidated Statement of Income over the remaining term of the arrangement. Differences between actual costs incurred and the estimated costs being recovered are subject to the usual base rate consideration. Also included within Unrecovered Purchased Power Costs are amounts paid by ACE associated with contract renegotiations with independent power producers, for which ACE expects recovery through rates (see Notes 3 and 10).

Property Abandonment Costs

Certain costs of property of ACE, for which the purpose of the property was subsequently terminated or cancelled, continue to be recorded as assets. This is because these costs have been permitted by the BRC to be recovered in rates over more than one year, or because future recovery in rates is probable. At December 31, 1993, costs that are being recovered in rates with no return on the unamortized amount invested are as follows:

Investment	*Net Present Value (000)*	*Unamortized Cost (000)*	*Remaining Recovery Period (years)*
Offshore Nuclear Generating Units	$ 774	$1,119	6
Nuclear Generating Unit	2,745	3,578	4
Unrecovered Nuclear Fuel Advances	1,646	2,518	8
Proposed Plant Site	1,114	1,333	3

The excess of the costs of the assets listed in the above table over their discounted present values was recognized as a loss at the date of abandonment. The discount, which is not significant, is being restored to income by accretion over the amortization period of the abandoned costs allowed for ratemaking. Costs being recovered are amortized to expense over the recovery period. Other abandoned property for which future recovery is probable amounted to $4.0 million at December 31, 1993.

Regulatory Assets

Costs incurred by ACE that have been permitted by the BRC to be deferred for recovery in rates in more than one year, or for which future recovery is probable, have been recorded as regulatory assets. Regulatory assets are amortized to expense over the period of recovery. Unamortized costs currently being recovered in rates at December 31, 1993 are: Unrecovered State Excise Taxes of $33.7 million (remaining recovery period is nine years); decommissioning and decontaminating Federally-owned nuclear units of $8.4 million (remaining recovery period is 15 years) and asbestos removal of $9.9 million (recovery period is over the life of the related generating station). Recovery of regulatory assets for Unrecovered Purchased Power Costs (Note 1), Recoverable Future Federal Income Taxes (Note 2) and Postretirement Benefits other than Pensions (Note 4) are separately discussed in the Notes to Consolidated Financial Statements where indicated. Other regulatory assets for which future recovery is probable amounted to $5.1 million at December 31, 1993.

Financial Instruments

A number of items within Current Assets and Current Liabilities on the Consolidated Balance Sheet are considered to be financial instruments because they are cash or are to be settled in cash. Due to their short term nature, the carrying values of these items approximate their fair market values. Accounts Receivable–Utility Service and Unbilled Revenues are subject to concentration of credit risk because they pertain to utility service conducted within a confined geographic region. Investments in leveraged leases are subject to concentration of credit risk because they are exclusive to a small number of parties within two industries. The Company has recourse to the affected assets under lease. These leased assets are of general use within the respective industries.

Other

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

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

NOTE 2 INCOME TAXES

(000)	1993	1992	1991
	For the Years Ended December 31,		
The components of Federal income tax expense are as follows:			
Current	**$25,349**	$22,441	$24,202
Deferred	**20,247**	23,154	13,043
Investment Tax Credits Recognized on Leveraged Leases	**(12)**	(233)	(500)
Total Federal Income Tax Expense	**45,584**	45,362	36,745
Less Amounts Included in Other Income	**307**	8,219	501
Federal Income Taxes Included in Operating Expenses	**$45,277**	$37,143	$36,244
A reconciliation of the expected Federal income taxes compared to the reported Federal income tax expense computed by applying the statutory rate follows:			
Statutory Federal Income Tax Rate	**35%**	34%	34%
Income Tax Computed at the Statutory Rate	**$55,400**	$50,791	$47,189
Plant Basis Differences	**(5,171)**	2,022	(4,477)
Amortization of Investment Tax Credits	**(2,546)**	(2,767)	(3,038)
Deferred Tax Adjustments	**(2,071)**	(3,757)	(2,641)
Other–Net	**(28)**	(927)	(288)
Total Federal Income Tax Expense	**$45,584**	$45,362	$36,745
Effective Federal Income Tax Rate	**29%**	30%	26%
State income tax expense is not significant.			

Items comprising deferred tax amounts are as follows at December 31, 1993 and 1992:

	1993	1992
Deferred Tax Liabilities:		
Plant Basis Differences	**$295,445**	$177,124
Leveraged Leases	**53,461**	47,722
Unrecovered Purchased Power Costs	**38,792**	42,694
State Excise Taxes	**11,797**	(813)
Other	**21,057**	12,290
Total Deferred Tax Liabilities	**420,552**	279,017
Deferred Tax Assets:		
Deferred Investment Tax Credits	**29,247**	—
Other	**11,741**	8,743
Total Deferred Tax Assets	**40,988**	8,743
Total Deferred Taxes–Net	**$379,564**	$270,274

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 entitled "Accounting for Income Taxes." Statement No. 109 changes the recording methodology relating to deferred income taxes to an asset and liability approach. The principal impacts to the Company relate to recording, on a current basis, the effect of changes in enacted income tax rates on the amount of income taxes recorded and the recording of deferred tax liabilities not previously recorded by ACE. Upon adoption of Statement No. 109, ACE recorded an increase in deferred Federal income tax liabilities of approximately $85 million after giving effect for revenue requirements. Due to the tax rate increase discussed below, net deferred Federal income tax liabilities of ACE increased by $13.8 million in 1993. The deferred tax costs associated with these additional liabilities are recorded on the Consolidated Balance Sheet as Recoverable Future Federal Income Taxes in recognition of the probable amount of revenue to be collected from ratepayers for these additional taxes to be paid in later years. The adoption of Statement No. 109 by the nonutility subsidiaries of the Company did not have a material effect on the consolidated financial statements.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. The most significant aspect of this law affecting the Company was an increase in the corporate Federal income tax rate to 35% from 34%, effective retroactively to January 1, 1993. The effect of this tax rate increase on the 1993 consolidated Federal income tax expense was not material.

At December 31, 1993, valuation allowances exist against deferred tax assets primarily for cumulative net operating losses (NOLs) for state income tax purposes. The effects of the valuation allowances and state NOLs are not material to consolidated results of operation and financial position.

The Company is subject to Federal Alternative Minimum Tax (AMT), which is attributable to nonutility operations. At December 31,1993, there is an estimated cumulative AMT credit of $18 million. The AMT credit is available for an indefinite carryforward period against future Federal income tax payable, to the extent that the regular Federal income tax payable exceeds future AMT payable.

NOTE 3 RATE MATTERS OF ACE

Energy Clause Proceedings

Changes in Levelized Energy Clause Rates 1991–1993

Date Filed	*Amount Requested (millions)*	*Amount Granted (millions)*	*Date Effective*
3/91	$30.6	$21.3	6/91
2/92	(6.6)	(8.5)	10/92
3/93	14.2	10.9	10/93

ACE's Levelized Energy Clauses (LECs) are subject to annual review by the BRC.

In March 1991, ACE filed a petition requesting LEC revisions to reflect an increase of $30.6 million for the period June 1, 1991 through May 31, 1992. On June 11, 1991, the BRC ordered a net increase in annual LEC revenues of $21.3 million, effective on that date. In its order, the BRC denied ACE's request for retention of a portion of fuel and energy savings associated with a power purchase arrangement with PECO Energy Company (formerly Philadelphia Electric Company–PECO). The BRC also continued to defer consideration of previously deferred costs associated with outages at the Salem Nuclear Generating Station in 1983.

In January 1992, ACE filed a request with the BRC for rehearing and reconsideration of the issues above. On February 10, 1992, ACE withdrew its request for rehearing with respect to recovery of interest payments and retention of fuel and energy savings. In late May 1992, ACE and the Staff of the BRC (Staff) entered into a stipulation to settle the Salem deferred costs. By the terms of the stipulation, ACE would begin recovery, over a three-year period, of $10.4 million of Salem deferred costs. On September 2, 1992, the BRC adopted the stipulation between ACE and Staff and authorized ACE to begin recovery of the Salem deferred costs concurrent with the BRC's approval and implementation of ACE's then pending February 28, 1992 LEC petition.

On February 28, 1992, ACE filed with the BRC a petition relating to its LEC rates for the period June 1, 1992 through May 31, 1993, requesting no change in its current rates. On April 30, 1992, ACE filed revisions to its petition that would result in a decrease of $6.6 million, reflecting an allocation to customers of 25% of the net settlement reached in March 1992 in the lawsuit against PECO (See Note 10), and an update for the projected overrecovery of prior LEC costs and associated interest. The parties entered into a stipulation dated August 14, 1992 regarding the February 28, 1992 petition and April 30, 1992 revisions thereto. In October 1992, the BRC issued its written order adopting the stipulation which resulted in a reduction in annual LEC revenues of $8.5 million that was implemented October 20, 1992, including the recovery over a three-year period of the $10.4 million Salem deferred costs. The amount allocated to customers from the PECO settlement was subject to later review by the BRC in ACE's 1993 LEC proceeding.

On March 31, 1993, ACE filed a petition with the BRC requesting a $14.2 million increase in LEC revenues for the period June 1, 1993 through May 31, 1994. Included in the request were (1) an estimated payment of $569 thousand expected to be made in October 1993 for ACE's assessment of the Department of Energy (DOE) decommissioning and decontamination fund as required by the Energy Policy Act of 1992 and (2) a $48 thousand penalty for 1992 nuclear operations as required by the

Nuclear Performance Standard (NPS). The filing also reflected the 25% ($3.8 million) allocation to ratepayers in 1992 of the settlement with PECO.

On August 27, 1993, the parties to ACE's 1993 LEC petition entered into a stipulation of settlement which resulted in a $10.9 million increase in annual LEC revenues. Provisions of the stipulation included (1) an additional 25% ($3.8 million) of the Peach Bottom settlement together with accrued interest at a rate of 6.5% to be returned to customers during the 1994–1995 LEC period; (2) recovery of $400 thousand for the assessment for the DOE decommissioning and decontamination fund, with any difference between the recovered amount and the actual assessment being included in the deferred fuel balance and recovered during the next LEC period; (3) full LEC recovery of all future assessments for the DOE decommissioning and decontamination fund and (4) recognition of the $48 thousand penalty for 1992 nuclear operations as required by the NPS. The stipulation was approved by the BRC on September 29, 1993. The LEC tariffs resulting from this stipulation of settlement were ordered effective for service rendered on and after October 1, 1993. The additional 25% allocation of the Peach Bottom settlement has been provided for in the 1993 financial statements.

At the BRC's open public meeting on July 7, 1993, the BRC initiated a generic proceeding to address the recovery of the capacity costs associated with purchases of power from nonutility generation projects. This issue relates to Rate Counsel's contention that present BRC policy provides for a "double recovery" of cogeneration capacity costs. On August 17, 1993, Rate Counsel identified ACE as one of the electric utilities for which they considered the double recovery of capacity costs to be at issue. Various motions by both parties have been filed and are awaiting BRC decision. ACE cannot predict the outcome of this matter at this time.

On February 8,1994, ACE filed a petition with the BRC requesting an increase in LEC revenues of $63 million for the period June 1, 1994 through May 31, 1995. The increase is primarily due to the added costs to be incurred from two additional independent power producers (IPPs) scheduled to begin commercial operation in February 1994 and January 1995 from which ACE has contracted to purchase capacity and energy. The total projected costs for fuel and capacity for the LEC period are $147 million. ACE has reduced the requested amount by $84 million as a result of the following: the utilization of $56 million of current base rate revenue associated with a utility power purchase contract due to expire in May 1994 and an initiative by ACE of $28 million to keep its rates competitive. Included in ACE's request is the recovery over five years of $20 million paid by ACE in December 1993 in connection with contract renegotiations with an IPP. ACE has requested that the BRC approve the proposed LEC rates to be effective for service rendered on or after June 1, 1994.

Base Rate Case Proceedings

Changes in Base Rates 1991–1993

Date Filed	*Amount Requested (millions)*	*Amount Granted (millions)*	*Date Effective*	*Overall Rate of Return Granted %*	*Authorized Return on Common Equity %*	*Test Year Ending*
9/90	$113.0	$50.0	7/91	10.52	12.50	5/91
8/91	25.8	12.9	10/92	—	—	—

In September 1990, ACE filed a petition with the BRC requesting an increase in annual base rate revenues of $113 million. ACE also requested that a $41.6 million provisional base rate increase, granted by the BRC effective June 1990, be confirmed and placed permanently in base rates. ACE also requested recovery of the first year costs of the PECO power purchase agreement not covered by the provisional increase, plus full recovery of the costs for the remaining three years of the agreement. In its filing, ACE requested an allowed overall rate of return of 11.13% and an authorized return on common equity of 13.7%. At that time, ACE had an allowed overall return of 11.42% and an authorized return on common equity of 14.1%.

On June 24, 1991, the Administrative Law Judge (ALJ) issued an initial decision accepting a stipulation between ACE and the parties in the base rate proceeding. The stipulation provided, among other things, for an increase in annual base rate revenues of $50 million based upon a test year ending May 31, 1991, an allowed overall rate of return of 10.52% and an authorized return on common equity of 12.5%. In addition, the parties agreed to confirm and make permanent in base rates the $41.6 million provisional increase.

On July 3, 1991, the BRC adopted the initial decision of the ALJ and the stipulation of the parties and authorized an increase in annual base rate revenues of $50 million. During the course of the proceeding, the ALJ ruled that a Phase II proceeding was appropriate for the determination of the regulatory treatment of consolidated Federal income tax benefits derived from affiliated nonutility entities. The stipulation also provided that ACE would not be prevented from requesting regulatory treatment in a Phase II proceeding of any obligations arising from changes in state law with respect to gross receipts and franchise taxes (state excise taxes) that were enacted on June 30, 1991.

On August 30, 1991, ACE filed its Phase II request with the BRC for an increase in annual base rate revenues of $25.8 million to recover the increased costs relating to the changes in the state excise tax law. The petition also addressed the regulatory treatment of consolidated Federal income tax benefits derived from affiliated nonutility entities. In May 1992, the ALJ issued an initial decision in the proceeding. The ALJ recommended, among other things, that a consolidated Federal income tax benefit adjustment be made to reduce ACE's rate base, that Rate Counsel's calculation of cash working capital be adopted and that ACE be provided a ten-year recovery of the additional state excise tax payments with interest on the unamortized balance calculated using the average prime rate.

In October 1992, the BRC issued its written order in ACE's Phase II base rate proceeding, accepting the recommendations of the ALJ with certain modifications. By its order, the BRC authorized a net increase in annual base rate revenues of $12.9 million effective October 20, 1992. The change in base rates included the recovery of $95.6 million in additional state excise tax payments over a ten-year period with interest imputed on the unamortized balance at the rate of 7.5%. This amounted to an increase in annual base rate revenues of approximately $13.5 million. The BRC also granted an increase in annual base rate revenues of $1.6 million to reflect the cash working capital impacts of the acceleration of state excise tax payments to the state. With respect to consolidated Federal income tax benefits, the BRC ordered that a rate base adjustment be made in the amount of $15.4 million. This represents one-half of the total tax benefits for 1990 and the total tax benefits for 1991 realized by affiliated nonutility entities in filing consolidated Federal income tax returns. This rate base adjustment resulted in a reduction in annual base rate revenues of $2.2 million. On December 23, 1992, Rate Counsel filed a Notice of Appeal with the Superior Court of New Jersey, Appellate Division relating to the BRC's order allowing ACE to increase its base rates with respect to changes in state excise tax. In its filing Rate Counsel asserted that the BRC's order was unreasonable, not supported by evidence and results in unjust rates. Briefs have been filed by ACE and Rate Counsel, and a decision is anticipated by the end of the second quarter of 1994. ACE cannot predict the outcome of this matter at this time.

Other Rate Proceedings

On November 30, 1993, ACE filed a petition requesting modifications to the Hotel Casino Tariff, which would allow those customers to be served by existing commercial rate schedules. The schedules provide lower rates than the specific rates currently charged to hotel/casino customers. If all hotel/casino customers elect this option, it will result in a revenue reduction to ACE of up to $5 million a year. The BRC is expected to act on this matter during the first quarter of 1994. ACE cannot predict the outcome of this matter.

NOTE 4 RETIREMENT BENEFITS

Pension

ACE has a noncontributory defined benefit pension plan covering substantially all of its employees and those of its wholly-owned subsidiary. Benefits are based on an employee's years of service and average final pay. The plan's policy is to fund pension costs within the guidelines of the minimum required by the Employee Retirement Income Security Act and the maximum allowable as a tax deduction. Each company is allocated its participative share of plan costs and contributions.

Net periodic pension costs for 1993, 1992 and 1991 included the following components:

(000)	**1993**	*1992*	*1991*
Service cost—benefits earned during the period	**$ 7,196**	$ 7,310	$ 6,662
Interest cost on projected benefit obligation	**16,016**	17,301	16,517
Actual return on plan assets	**(23,200)**	(13,283)	(22,188)
Amortization of deferred gain (loss)	**5,637**	(3,623)	7,211
Other-net	**(141)**	(172)	(172)
Net periodic pension costs	**$ 5,508**	$ 7,533	$ 8,030

Approximately $5.2 million, $4.8 million and $5.1 million of these costs were charged to operating expense in 1993, 1992 and 1991, respectively, and the remaining costs, which are associated with construction labor, were charged to the cost of new utility plant.

A reconciliation of the funded status of the plan as of December 31, 1993 and 1992 is as follows:

(000)	1993	1992
Fair value of plan assets	**$213,600**	$218,800
Projected benefit obligation	**207,246**	213,459
Plan assets in excess of projected benefit obligation	**6,354**	5,341
Unrecognized net transition asset	**(1,894)**	(2,066)
Unrecognized prior service cost	**329**	—
Unrecognized net gain	**(638)**	(2,784)
Prepaid pension cost	**$ 4,151**	$ 491
Accumulated benefit obligation:		
Vested benefits	**$165,872**	$160,507
Nonvested benefits	**1,216**	646
Total	**$167,088**	$161,153

At December 31, 1993, approximately 62% of plan assets were invested in equity securities, 21% in fixed income securities and 17% in other investments.

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

	1993	1992
Weighted average discount	**7.5%**	8.00%
Anticipated increase in compensation	**3.5%**	4.50%

The assumed long term rate of return on plan assets was 8.5% for 1993 and 8.00% for 1992 and 1991.

Other Postretirement Benefits

ACE and its subsidiary provide certain health care and life insurance benefits for retired employees and their eligible dependents. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the companies. Benefits are provided through insurance companies and other plan providers whose premiums and related plan costs are based on the benefits paid during the year. ACE has a tax-qualified trust to fund these benefits. Each company is allocated its participative share of plan costs and contributions.

Effective January 1, 1993, ACE adopted Statement of Financial Accounting Standards No. 106 entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement requires employers to record an obligation for unfunded accumulated other postretirement benefits earned to date and to record on the accrual basis the net periodic benefits cost earned each year. Prior to 1993, the companies recorded only the annual cost of benefits, based on the amount of funding provided. As permitted by the Statement, the companies elected to recognize the unfunded accumulated obligation existing at January 1, 1993 (transition obligation) of $77.9 million as a component of net periodic benefits cost on a straight-line basis over 20 years.

The cost of other postretirement benefits was $13.1 million, $6.0 million and $4.9 million in 1993, 1992 and 1991, respectively. These costs were allocated as follows:

(millions)	1993	1992	1991
Operating expense	**$3.3**	$3.8	$3.0
New utility plant–associated with construction labor	**1.7**	2.2	1.9
Regulatory asset	**8.1**	—	—

The regulatory asset in 1993 represents the effects of the new accounting standard in excess of the amount of cost recognized under the previous method and currently allowable in rates. This excess cost is deferred as authorized by an accounting order of the BRC.

The net periodic other postretirement benefits cost for 1993 calculated under the new accounting standard comprises the following components:

(000)	
Service cost–benefits attributed to service during the period	$ 3,045
Interest cost on accumulated postretirement benefits obligation	7,133
Actual return on plan assets	(255)
Amortization of unrecognized transition obligation	3,893
Other–net	(711)
Net periodic other postretirement benefits cost	$13,105

A reconciliation of the funded status of the plan and the obligation for other postretirement benefits recognized in the Consolidated Balance Sheet as of December 31, 1993 is as follows:

(000)	
Accumulated benefits obligation:	
Retirees	$ 32,720
Fully eligible active plan participants	21,267
Other active plan participants	49,125
Total accumulated benefits obligation	103,112
Less fair value of plan assets	14,400
Accumulated benefits obligation in excess of plan assets	88,712
Unrecognized net loss	(6,639)
Unamortized unrecognized transition obligation	(73,968)
Accrued other postretirement benefits cost obligation	$ 8,105

At December 31, 1993, approximately 82% of plan assets were invested in fixed income securities and 18% in other investments.

The assumed health care costs trend rate for 1993 is 11%, and is assumed to evenly decline to an ultimate constant rate of 5% in the year 2000 and thereafter. If the assumed health care costs trend rate was increased by 1% in each future year, the aggregate service and interest costs of the 1993 net periodic benefits cost would increase by $1.6 million, and the accumulated postretirement benefits obligation at December 31, 1993 would increase by $14.5 million. The weighted average discount rate assumed in determining the accumulated benefits obligation was 7.5%. The assumed long term return rate on plan assets was 7%.

NOTE 5 JOINTLY-OWNED GENERATING STATIONS

ACE owns jointly with other utilities several electric production facilities. ACE is responsible for its pro-rata share of the costs of construction, operation and maintenance of each facility.

The amounts shown represent ACE's share of each plant at, or for the year ending, December 31, including AFDC as appropriate.

	Keystone	*Conemaugh*	*Peach Bottom*	*Salem*	*Hope Creek*
Energy Source	Coal	Coal	Nuclear	Nuclear	Nuclear
Company's Share (%/MWs)	2.47/42.3	3.83/65.4	7.51/157.0	7.41/164.0	5.00/52.0
Electric Plant in Service (000):					
1993	**$ 10,746**	**$ 18,055**	**$ 123,428**	**$ 203,858**	**$237,496**
1992	10,422	16,718	121,494	195,201	235,738
Accumulated Depreciation (000):					
1993	**$ 3,231**	**$ 5,971**	**$ 51,871**	**$ 78,383**	**$ 46,933**
1992	3,068	5,861	48,958	71,511	40,492
Construction Work in Progress (000):					
1993	**$ 758**	**$ 9,956**	**$ 7,983**	**$ 10,799**	**$ 1,022**
1992	249	4,718	5,283	7,213	2,268
Operation and Maintenance Expenses (including fuel) (000):					
1993	**$ 5,323**	**$ 6,855**	**$ 31,479**	**$ 27,021**	**$ 9,764**
1992	4,976	7,194	29,618	25,461	9,541
1991	5,398	10,061	28,651	23,720	9,640
Working Funds (000):					
1993	**$ 44**	**$ 69**	**$ 4,772**	**$ 5,249**	**$ 2,061**
1992	44	69	5,148	5,780	2,506
Generation (MWH):					
1993	**293,876**	**416,263**	**1,043,485**	**840,043**	**440,118**
1992	294,222	457,771	958,740	737,356	351,672
1991	285,506	463,113	758,637	1,068,307	368,900

ACE provides financing during the construction period for its share of the jointly-owned plants and includes its share of direct operations and maintenance expenses in the Consolidated Statement of Income. Additionally, ACE provides an amount of working funds to the operators of the stations to fund operational needs.

NOTE 6 NONUTILITY COMPANIES

The Company (AEI) is the parent holding company of the consolidated group. Its primary activities are the management of investments in the subsidiary companies, issuance of common equity and performance of administrative functions on behalf of the consolidated group. Principal assets of each of the subsidiary companies are: AET—capital investment of approximately $3.0 million in a geothermal heating and cooling technology subsidiary; AGI—capital investments of approximately $24.5 million in cogeneration development projects and partnerships; ASP—commercial real estate site with a net book value of $13.2 million and ATE—leveraged lease investments of approximately $77.3 million.

Other financial information regarding the subsidiary companies and parent-only operations of the Company is as follows:

Company	*Net Asset*		*Results of Operations*		
(000)	**1993**	*1992*	**1993**	*1992*	*1991*
AET	**$ 2,069**	$(5,763)	**$ 524**	$(4,793)	$ (970)
AGI	**18,746**	2,122	**4,459**	1,366	(4,015)
ASP	**5,131**	5,478	**(347)**	(263)	(415)
ATE	**9,182**	9,959	**(777)**	667	511
AEI (parent only)	—	—	**(183)**	(401)	(493)

AET's 1993 results are due to the receipt of insurance proceeds by its subsidiary company. In 1993 this subsidiary discontinued its operating activities and now concentrates on licensing its patented proprietary knowledge. AET's 1992 results reflect the provision for the restructuring of its subsidiary's activities.

AGI's 1993 and 1992 results reflect the operation of two cogeneration facilities that became operational during 1992. AGI's results for 1991 primarily reflect its equity share of losses attributable to the reduction of carrying values of certain cogeneration projects that were subsequently sold at a loss by one of its partnerships.

ASP's results in each year reflect the inability to rent vacant space in its commercial site due to generally poor market conditions in commercial real estate.

ATE's 1993 results were reduced by increased deferred state income taxes. ATE's 1992 results benefitted from lower interest rates on amounts outstanding under its revolving credit agreement.

Results of operations of AEI above exclude its equity in the results of subsidiary companies and generally reflect administrative expenses. Net assets of AEI (parent only) shown on the Consolidated Balance Sheet represent investments in and intercompany balances with the subsidiary companies and common stock issued on behalf of the consolidated group.

NOTE 7 CUMULATIVE PREFERRED STOCK OF ACE

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

		1993		*1992*		*Current Optional*
Series	*Par Value*	*Shares*	*Amount (000)*	*Shares*	*Amount(000)*	*RedemptionPrice*
Not Subject to Mandatory Redemption:						
4%	$100	**77,000**	**$ 7,700**	77,000	$ 7,700	$105.50
4.10%	100	**72,000**	**7,200**	72,000	7,200	101.00
4.35%	100	**15,000**	**1,500**	15,000	1,500	101.00
4.35%	100	**36,000**	**3,600**	36,000	3,600	101.00
4.75%	100	**50,000**	**5,000**	50,000	5,000	101.00
5%	100	**50,000**	**5,000**	50,000	5,000	100.00
7.52%	100	**100,000**	**10,000**	100,000	10,000	101.88
Total			**$ 40,000**		$ 40,000	
Subject to Mandatory Redemption:						
9.96%	$100	**—**	**$ —**	48,000	$ 4,800	$ —
$8.25	None	**60,000**	**6,000**	65,000	6,500	104.87
$8.53	None	**600,000**	**60,000**	600,000	60,000	103.00
$8.20	None	**500,000**	**50,000**	500,000	50,000	—
$7.80	None	**700,000**	**70,000**	700,000	70,000	—
Total			**186,000**		191,300	
Less portion due within one year			**12,250**		1,050	
Total			**$173,750**		$190,250	

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

In May 1993, ACE redeemed all of the outstanding shares of the Cumulative Preferred Stock, 9.96% Series at a price of $103.54 per share.On November 1 of each year, 2,500 shares of the $8.25 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. ACE may redeem not more than an additional 2,500 shares on any sinking fund date without premium. ACE redeemed 5,000 shares in 1993 and 2,500 shares in each of the years 1992 and 1991.

Beginning November 1, 1994 and until fully redeemed, 120,000 shares of the $8.53 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of ACE, not more than an additional 120,000 shares may be redeemed on any sinking fund date without premium.

Beginning August 1, 1996 and annually thereafter, 100,000 shares of the $8.20 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of ACE, not more than an additional 100,000 shares may be redeemed on any sinking fund date without premium. This series is not refundable prior to August 1, 2000.

Beginning May 1, 2001 and annually through 2005, 115,000 shares of $7.80 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. On May 1, 2006, the remaining shares outstanding must be redeemed at $100 per share. ACE has the option to redeem up to an additional 115,000 shares without premium on each May 1 through 2005. This series is not refundable prior to May 1, 2006.

For the next five years, the annual minimum sinking fund requirements of the Cumulative Preferred Stock Subject to Mandatory Redemption are $12.25 million in each of the years 1994 and 1995, and $22.25 million in each of the years 1996, 1997 and 1998.

Cumulative Preferred Stock of ACE is not widely held and generally trades infrequently. The estimated aggregate fair market value at December 31, 1993 of ACE's Cumulative Preferred Stock was approximately $231 million. This fair market value determination is based on actual trades of certain series of ACE's Preferred Stock on or nearest to December 31, 1993 and on actual trades of preferred stock of other companies with similar credit quality, coupon rates and maturities.

NOTE 8 LONG TERM DEBT

Series	Maturity Date	December 31 1993	December 31 1992
Medium Term Notes–MTNs–have varying maturity dates and are shown with the weighted average interest rate of all the related issues within the year of maturity			
4⅜% First Mortgage Bonds	3/1/1993	$ —	$ 9,540
5⅛% First Mortgage Bonds	2/1/1996	**9,980**	9,980
8% First Mortgage Bonds	11/1/1996	—	95,000
Medium Term Notes Series B–(6.28%)	1998	**56,000**	—
Medium Term Notes Series A–(7.52%)	1999	**30,000**	30,000
8⅞% First Mortgage Bonds	9/1/2000	—	19,000
Medium Term Notes Series B–(6.83%)	2000	**46,000**	—
8% First Mortgage Bonds	5/1/2001	—	27,000
7½% First Mortgage Bonds	4/1/2002	**20,000**	20,000
Medium Term Notes Series B–(7.18%)	2003	**20,000**	—
7¾% First Mortgage Bonds	5/1/2003	**29,976**	29,976
Medium Term Notes Series A–(7.98%)	2004	**30,000**	30,000
Medium Term Notes Series B–(7.125%)	2004	**28,000**	—
7⅝% Pollution Control	1/1/2005	**6,500**	6,500
Medium Term Notes Series B–(6.45%)	2005	**40,000**	—
6⅜% Pollution Control	12/1/2006	**2,500**	2,500
Medium Term Notes Series B–(6.76%)	2008	**50,000**	—
10½% Pollution Control Series B	7/15/2012	**850**	850
6⅝% First Mortgage Bonds	8/1/2013	**75,000**	—
7⅜% Pollution Control Series A	4/15/2014	**18,200**	18,200
10½% Pollution Control Series C	7/15/2014	**23,150**	23,150
8⅞% First Mortgage Bonds	5/1/2016	—	125,000
8¼% Pollution Control Series A	7/15/2017	**4,400**	4,400
9¼% First Mortgage Bonds	10/1/2019	**65,767**	135,000
6.80% Pollution Control Series A	3/1/2021	**38,865**	38,865
7% First Mortgage Bonds	9/1/2023	**75,000**	—
5.60% Pollution Control Series A	11/1/2025	**4,000**	—
7% First Mortgage Bonds	8/1/2028	**75,000**	—
Total		**749,188**	624,961
Debentures:			
5¼%	2/1/1996	**2,267**	2,267
7¼%	5/1/1998	**2,619**	2,619
Total		**4,886**	4,886
Unamortized Premium and Discount–Net		**(2,973)**	(4,039)
Total Long Term Debt of ACE		**751,101**	625,808
Long Term Debt of ATE		**15,000**	23,900
Long Term Debt of Other Subsidiaries		—	1,228
Less portion due within one year		—	19,356
Total Long Term Debt		**$766,101**	$631,580

In 1993, ACE redeemed principal amounts of the following series of First Mortgage Bonds: $95 million, 8% due November 1996; $19 million, 8⅞% due September 2000; $27 million, 8% due May 2001 and $125 million, 8⅞% due May 2016. ACE acquired and retired $69.233 million principal amount of First Mortgage Bonds, 9¼% Series due October 2019. The aggregate cost of these redemptions and acquisitions was $13.1 million, net of related Federal income taxes.

Sinking fund deposits are required for retirement of the 5¼% Debentures annually on February 1 through 1995 and for the 7¼% Debentures annually on May 1 through 1997 in amounts in each case sufficient to redeem $100,000 principal amount. ACE may, at its option, redeem an additional $100,000 annually in each case. Through December 31, 1993, ACE acquired and cancelled $433,000 and $281,000 principal amount of the 5¼% and 7¼% Debentures, respectively, which amounts are sufficient to satisfy its requirements for 1994 and subsequent years. Certain series of First Mortgage Bonds contain provisions for deposits of cash or certification of bondable property currently amounting to $250,000, which ACE may elect to satisfy through property additions. Additional sinking fund requirements are as follows:

Series	*Beginning Date*	*Annual Sinking Fund*
6⅜% Pollution Control Series Due 2006	December 1, 1997	$ 75,000
7⅝% Pollution Control Series Due 2005	January 1, 2000	500,000

For the next five years, the annual amount of scheduled debt maturities and sinking fund requirements of ACE's long term debt are $12.247 million in 1996, $75 thousand in 1997 and $58.619 million in 1998.

ACE's long term debt securities are not widely held and generally trade infrequently. The estimated aggregate fair market value at December 31, 1993 of ACE's long term debt was approximately $768 million, based on actual trades of ACE's long term debt that occurred on or nearest to December 31, 1993.

Long term debt of ATE consists of $15 million of 7.44% Senior Notes due 1999. ATE has a revolving credit and term loan agreement which provides for borrowings of up to $35 million during successive revolving credit and term loan periods. There were no borrowings outstanding under this agreement at December 31, 1993, and commitment fees on the unused credit line were not significant. In accordance with provisions of the agreement, the expiration of the revolving credit period was extended from June 1, 1993 to June 1, 1994. Interest rates on borrowings when outstanding are determined by reference to periodic pricing options available under the facility. The estimated aggregate fair market value at December 31, 1993 of ATE's senior notes was approximately $15.8 million, based on the present value of the future cash flows to the date of maturity.

NOTE 9 SHORT TERM DEBT

As of December 31, 1993, ACE had available for use bank lines of credit of $150 million. ACE is charged commitment fees, which were not material, for these available credit lines. As of December 31, 1993, ACE had no compensating balance requirements.

ACE had no short term debt outstanding as of December 31, 1993. As of December 31, 1992, ACE had $14.6 million in notes payable to banks outstanding, and as of December 31, 1991, had $20.6 million in commercial paper outstanding. Additional information regarding short term debt of ACE is as follows:

(000) *For the year ended:*	**1993**	*1992*	*1991*
Maximum amount of total short term debt at any month end:			
Commercial Paper	**$45,500**	$107,400	$82,700
Notes Payable to Banks	**86,300**	14,600	—
Average amounts of short term debt (based on daily outstanding balances):			
Commercial Paper	**$ 8,790**	$ 31,567	$26,802
Notes Payable to Banks	**29,269**	2,785	—
Weighted daily average interest rates on short term debt:			
Commercial Paper	**3.2%**	4.0%	6.6%
Notes Payable to Banks	**3.2%**	3.4%	—

NOTE 10 COMMITMENTS AND CONTINGENCIES

Construction Program

ACE's cash construction expenditures for 1994 are estimated to be approximately $150 million. Current commitments for the construction of major production and transmission facilities approximate $62.3 million, of which it is estimated that $45.3 million will be expended in 1994. These amounts exclude AFDC and customer contributions.

Insurance Programs

ACE is a member of certain insurance programs that provide coverage for decontamination and property damage to members' nuclear generating plants. Facilities at the Peach Bottom, Salem and Hope Creek stations are insured against property damage losses up to $2.75 billion per site under these programs.

In addition, ACE is a member of an insurance program which provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specific conditions. Under the property and replacement power insurance programs, ACE could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. As of December 31, 1993, the maximum amount of retrospective premiums ACE could be assessed for losses during the current policy year was $6.19 million under these programs.

The Price-Anderson provisions of the Atomic Energy Act of 1954, as amended by the Price-Anderson Amendments Act of 1988, govern liability and indemnification for nuclear incidents. All nuclear facilities could be assessed, after exhaustion of private insurance, up to $79.275 million each, payable at $10 million per year, per reactor and per incident. Based on its ownership share of nuclear facilities, ACE could be assessed up to $27.6 million per incident. This amount would be payable at $3.48 million per year, per incident.

Energy and Capacity Arrangements

UTILITY

ACE has an arrangement for the purchase of 125 MWs of capacity and related energy from PP&L through September 30, 2000. Capacity costs are charged to Purchased Capacity expense on the Consolidated Statement of Income and totaled $24.4 million, $25.1 million and $28.7 million in 1993, 1992 and 1991, respectively. Energy cost is charged to Energy expense on the Consolidated Statement of Income and totaled $11.2 million, $13.4 million and $8.6 million, respectively. Commitments for capacity costs expected to be incurred over the next five years are $10.5 million, $10.9 million, $11.2 million, $11.6 million and $12.3 million in each of the years 1994–1998, respectively, and aggregate $25.3 million thereafter.

ACE has an arrangement for the purchase of 200 MWs of capacity and related energy from PECO through May 31, 1994. Capacity costs charged to Purchased Capacity expense totaled $55.9 million, $52.5 million and $48.2 million in 1993, 1992 and 1991, respectively. Energy cost charged to Energy expense amounted to $21.0 million, $19.2 million and $22.6 million, respectively. ACE is committed to capacity charges of $23.5 million in 1994. These costs are subject to adjustment under certain conditions. ACE has another arrangement with PECO for the purchase of energy only. Energy cost charged to Energy expense amounted to $19.0 million, $17.5 million and $14.4 million, in 1993, 1992 and 1991, respectively.

ACE periodically enters into arrangements with certain other electric utilities for short term generating and transmission capacity and the purchase of energy on an as-needed basis, which are utilized to the extent they are economic and available. Costs of capacity and energy under these arrangements totaled $1.4 million, $4.4 million and $16.4 million in 1993, 1992 and 1991, respectively.

ACE is a member of the Pennsylvania-New Jersey-Maryland Interconnection (PJM), an integrated power pool that is connected with other utilities for the interchange of energy on an as-needed and as-available basis. ACE is required to plan for reserve capacity based on aggregate PJM requirements allocated to member companies. ACE has satisfied its current reserve requirements. ACE also has an interchange agreement with the City of Vineland, New Jersey, which operates a municipal utility located in ACE's service territory. The cost of energy purchased through interchange agreements charged to Energy expense totaled $9.9 million, $9.4 million and $11.3 million in 1993, 1992 and 1991, respectively.

NONUTILITY

ACE has contracted and received BRC approval for a total of 569 MWs of capacity and related energy from nonutility sources, primarily cogenerators. Two projects totaling 181 MWs are currently operational. One of these projects is owned 50% by wholly-owned subsidiaries of AGI. Of the remaining two projects under construction, one project providing 188 MWs is expected to be in operation in the spring of 1994, and the other providing 200 MWs is expected to be operational in early 1995. Nonutility capacity costs charged to Purchased Capacity expense totaled $30.2 million, $24.4 million and $1.0 million, and energy purchased charged to Energy expense totaled $36.0 million, $27.6 million and $3.2 million, in 1993, 1992 and 1991, respectively. Capacity and energy costs from nonutility sources are recovered through the LECs.

ACE has concluded negotiations with one project sponsor of a facility under construction to amend its power purchase agreement in an effort to make the cost of energy obtained from the facility more economical for ACE's customers. The amendments, which have received BRC approval, will result in savings from increased dispatch of the unit, lower energy payments and lower capacity payments. As part of the contract amendments, in December 1993, ACE was required to pay $20 million to the project lenders for termination of interest rate swap agreements entered into by the project developer. ACE has requested recovery of such payment in its 1994 LEC filing.

ACE has signed a letter of intent with another nonutility project to amend its power purchase agreement. Subsidiaries of AGI have a 50% ownership interest in this project. ACE expects that the contract renegotiations with this facility will be concluded in 1994.

In addition, discussions have commenced with a third nonutility project sponsor to amend its power purchase agreement. Expected savings from changes to all three nonutility power purchase agreements are estimated to be between $15 million and $20 million annually in the early years of the agreements.

Environmental Matters

The provisions of Title IV of the Clean Air Act Amendments of 1990 (CAAA) will require, among other things, phased reductions of sulfur dioxide (SO_2) emissions by 10 million tons per year, and a limit on SO_2 emissions nationwide by the year 2000, and reductions in emissions of nitrogen oxides (NO_x) by approximately 2 million tons per year. ACE's wholly-owned B.L. England Units 1 and 2 and its jointly-owned Conemaugh Station are affected during Phase I (1995) and all of ACE's other fossil-fuel steam generating units are affected by Phase II (2000) of the CAAA. ACE is installing flue gas desulfurization equipment (scrubber) on B.L. England Unit 2 costing approximately $75 million to $80 million. By scrubbing B.L. England Unit 2, Phase I SO_2 emission requirements are met for both units. Construction is scheduled for completion in early 1995. The Conemaugh owners have elected to install scrubbers on Conemaugh Units 1 and 2, with ACE's 3.83% share of the total cost estimated to be $14 million. Construction for Conemaugh Unit 1 is to be completed in 1994, and for Conemaugh Unit 2 in 1995. The jointly-owned Keystone Station is impacted by the SO_2 and NO_x provisions of Title IV of the CAAA during Phase II, and the Keystone owners are studying various methods of compliance. In addition, certain power purchase arrangements will be affected by the CAAA, in amounts that are not presently determinable.

Federal and state legislation authorize various governmental authorities to issue orders compelling responsible parties to take cleanup action at sites determined to present danger from releases of hazardous substances. The various statutes impose joint and several liability without regard to fault for certain investigative and cleanup costs for all potentially responsible parties.

ACE has received notification with respect to two sites within New Jersey as one of a number of alleged responsible parties for cleanup and remedial actions. Both sites are contained within the National Priority Lists. As to one site, litigation has been instituted by the Federal government. The second site is the subject of a Notice of Directive by the New Jersey Department of Environmental Protection and Energy (NJDEPE). The total amount of cleanup and remedial measures associated with these sites as claimed by the authorities for all defendants is currently estimated to be $178 million. ACE believes that primary responsibility for the claims will be borne by other parties and its share, if any, of the claims would not be material. ACE plans to defend these matters aggressively.

Public interest over the possibility of health effects due to electric and magnetic fields (EMF) exposure is an emerging national issue. Some states have adopted EMF limits. To date, there is no conclusive scientific evidence to support such concerns. The New Jersey Commission on Radiation Protection is considering promulgation of regulations which would authorize the NJDEPE to review all new power line projects of 100 kilovolts (KV) or more. The promulgation of such regulations may affect the design and location of ACE's existing and future electric power lines and facilities and the cost thereof. ACE has a program of Prudent Field Management, implementing reasonable measures, at modest cost, to limit magnetic field levels in the design and location of new facilities. Such amounts as may be necessary to comply with any new EMF rules cannot be determined at this time and are not included in ACE's 1994–1998 estimated construction expenditures. At the April 14, 1993 regular open public meeting of the BRC, a motion was approved which required all New Jersey electric utilities to sponsor a survey of EMF readings at schools located near 69 KV lines and above. A joint survey protocol was developed among the New Jersey utilities and approved by the BRC. Fifteen schools in ACE's service territory fall within the criteria. A report of survey results was presented to the BRC in December 1993. The survey results demonstrated that the EMF levels were within the expected range for transmission and distribution supply lines generally.

Other

ACE is subject to a performance standard for all of its jointly-owned nuclear units. This standard is used by the BRC in determining recovery of replacement energy costs. The standard establishes a target aggregate capacity factor within a zone of reasonable performance to be achieved by the units. Performance outside of the zone results in penalties or rewards. Any penalties incurred would not be permitted to be recovered from customers and would be charged against income. For 1993, the aggregate capacity factor of ACE's nuclear units is within the reasonable performance zone, which will result in no penalty or reward.

In 1990, the NJDEPE issued to Public Service Electric & Gas (PS) a revised Draft Permit for surface water discharges for Salem Station. PS is the operator of the station, in which ACE has a 7.41% ownership interest. The Draft Permit contained stringent terms and conditions and, if adopted as proposed, could require the construction of cooling towers and the immediate shutdown of the two generating units for up to a four-year period pending this construction. Public hearings on the Draft Permit have been held and PS has filed written comments and demonstrations, which PS believes establish its position that cooling towers are not required. PS estimates that if construction of cooling towers is necessary, under the most adverse scenario, the costs of construction are currently estimated to be $555 million, of which ACE's share would be 7.41%. Replacement power costs during such four-year outage would amount to approximately $25 million per year for ACE. In addition, a permanent de-rating of 5% of the station capacity would also occur. ACE has been advised that on March 4, 1993 PS submitted a Supplement to its Application for Renewal of the Salem, New Jersey Pollutant Discharge Elimination System Permit. The Supplement proposes that Salem continue operation with a once-through cooling system, and includes provisions for plant modifications and environmental enhancements to the Delaware River estuary in the vicinity of the Station. On June 24, 1993, the NJDEPE issued a draft permit which essentially incorporated as Special Conditions the proposal made by PS in its Application Supplement. A final permit is expected to be issued by the NJDEPE subsequent to a public comment period. Two public hearings and a round table discussion for interested parties have been held. The NJDEPE has indicated it expects to issue a final permit in the first quarter of 1994. While it is not possible to determine what action the NJDEPE will ultimately take with respect to the terms and conditions of the final Permit, certain environmental interest groups have indicated their intent to challenge the NJDEPE's actions if, at the end of the public comment period, a final Permit is issued which contains the Special Conditions proposed in the 1993 Draft Permit instead of requiring that the Salem Station be retrofitted with cooling towers. In that event, PS would also participate in any such further proceedings.

ACE and the other nonoperating co-owners of the Peach Bottom Atomic Power Station reached a settlement in 1992 with PECO, the operator of the station, in connection with litigation regarding the Nuclear Regulatory Commission shutdown of the station from March 1987 through October 1989. According to the terms of the agreement, ACE received $18.5 million in October 1992 as its share of the settlement. Of this amount, $3 million represented reimbursement for legal fees previously incurred and expensed during the litigation, and the remaining settlement proceeds of $15.5 million were allocated 75% to shareholders and 25% to customers. This allocation was determined by ACE to be the amount of costs borne by each respective group during the station's outage. The BRC had approved this allocation subject to later review. In 1992, ACE recorded $9.7 million, net of related Federal income taxes of $4.9 million, as Other Income, and $3.8 million as a liability to reimburse customers through the LECs. In August 1993, ACE agreed, in its then pending 1993 LEC filing, to allocate to customers an additional $3.8 million of the litigation settlement received in 1992. In 1993, ACE recorded $2.6 million, net of related Federal income taxes of $1.3 million, as Other Expenses, and $3.8 million as a liability to reimburse customers. This reimbursement is to be made through the 1994 LEC which ACE has requested to become effective in June 1994.

ACE delivers process steam, water and by-product electricity under a contract with a third-party facility. Equipment at ACE's Deepwater Station provides these services. In 1993, ACE received $4.3 million for the supply of steam and related services, and $8.3 million in revenues for electric services rendered to the third party. ACE received a notice of contract termination from this third party, effective August 31, 1994, at which time such steam and electric requirements are to be served by an independent power producer. ACE is presently negotiating contract termination provisions, including the timing of service termination, equipment removal and termination payments. ACE has contracted for the purchase of 188 MWs of capacity from the independent power producer upon commercial operation of the facility, which is expected in the spring of 1994.

In 1993, ACE restructured its organization to better position itself in an emerging competitive environment. During the year, ACE offered severance and incentive programs to employees that were terminated or elected to retire. ACE recorded expenses of $5.4 million, net of Federal income taxes of $2.7 million, in the Consolidated Statement of Income for 1993 for these and continuing reorganization activities. At December 31, 1993, the remaining liability for the program payments was $6.8 million.

AGI through its subsidiaries has partnership interests in common with affiliates of Columbia Gas System, Inc. (Columbia) in certain cogeneration projects. Columbia is currently operating under Chapter 11 of the Federal Bankruptcy Code. Columbia has filed a plan of reorganization. AGI cannot predict what effect, if any, Columbia's situation may have on AGI's interests in these cogeneration projects.

The Energy Policy Act of 1992 permits the Federal government to assess investor-owned electric utilities that have ownership interests in nuclear generating facilities an amount to fund the decontamination and decommissioning of three Federally operated nuclear enrichment facilities. ACE currently estimates that, based on its ownership in five nuclear generating units, its remaining assessment to be paid over the next 14 years could amount to approximately $8 million. ACE has provided a liability in this amount at December 31, 1993. ACE has a regulatory asset of $8.4 million at December 31, 1993 as a consequence of this liability. Amounts are currently being recovered in rates for this liability and the regulatory asset is concurrently being amortized to expense based on the annual assessment billed by the Federal government.

The Financial Accounting Standards Board issued Statement No. 112 "Employers' Accounting for Postemployment Benefits." This statement is effective for the Company in 1994 and concerns benefits provided to inactive and terminated but not yet retired employees. It is expected that the annual costs calculated under the new standard will not be significantly different from those recorded under the current method of accounting and that any additional liabilities recorded will not be material to the financial statements.

NOTE 11 LEASES

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

(000)	1993	1992
Production plant	**$13,521**	$13,521
Less accumulated amortization	**8,846**	8,048
Net	**4,675**	5,473
Nuclear fuel	**40,593**	43,831
Leased property-net	**$45,268**	$49,304

ACE has a contractual obligation to purchase nuclear fuel for the Salem, Hope Creek and Peach Bottom stations. The asset and related obligation for the leased fuel are reduced as the fuel is burned and are increased as additional fuel purchases are made. No commitments for future payments beyond satisfaction of the outstanding obligation exist. Operating expenses for 1993, 1992 and 1991 include leased nuclear fuel costs of $13.9 million, $13.5 million and $14.7 million, respectively, and rentals and lease payments for all other capital and operating leases of $4.8 million, $4.8 million and $4.5 million, respectively. Future minimum rental payments for all noncancellable lease agreements are not significant to ACE's operations. Rental charges of other subsidiary companies are not significant.

NOTE 12 QUARTERLY FINANCIAL RESULTS (UNAUDITED)

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

Quarter	*Operating Revenues (000)*	*Operating Income (000)*	*Net Income (000)*	*Earnings Per Share*	*Dividends Paid Per Share*
1993					
1st	**$203,656**	**$ 35,445**	**$19,995**	**$ .38**	**$ .38**
2nd	**192,538**	**27,381**	**11,093**	**.21**	**.38**
3rd	**268,883**	**68,580**	**52,329**	**.99**	**.385**
4th	**200,596**	**28,177**	**11,880**	**.22**	**.385**
Annual	**$865,675**	**$159,584**	**$95,297**	**$1.80**	**$1.53**
1992					
1st	$ 197,833	$ 33,290	$27,937	$ .55	$ .375
2nd	187,387	24,949	10,908	.21	.375
3rd	236,892	54,118	39,570	.76	.38
4th	194,713	24,811	7,795	.15	.38
Annual	$ 816,825	$137,168	$86,210	$1.67	$1.51

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Atlantic Energy, Inc. (the Company or parent) is the parent of a consolidated group consisting of the following wholly-owned subsidiaries: Atlantic City Electric Company (ACE), Atlantic Energy Technology, Inc. (AET), Atlantic Generation, Inc. (AGI), Atlantic Southern Properties, Inc. (ASP) and ATE Investment, Inc. (ATE). ACE, the primary subsidiary, is an electric utility regulated by the New Jersey Board of Regulatory Commissioners (BRC). ACE has a wholly-owned subsidiary that operates certain generating facilities. AET has a wholly-owned subsidiary that owns patented technology for geothermal heating and cooling systems. AGI is engaged in the development and operation of cogeneration and alternate energy projects through various partnership arrangements. ASP owns, develops and manages commercial real estate property. ATE manages its portfolio of leveraged lease investments and provides financing and fund management to an affiliate.

The Company's business plan will continue to be concentrated on the operations of ACE. The emergence of competition in the area of electric generation, relatively slow growth in energy sales, Federal deregulation of wholesale energy sales, prospective retail wheeling initiatives coupled with a public utility's obligation to serve, and the need to mitigate future rate increases, has caused ACE to reexamine its traditional approach to its business. ACE's current business plan recognizes the increasingly competitive nature of the electric energy business and the need to encourage economic growth and stability in the service territory and surrounding region. ACE is reevaluating its revenue requirements and service pricing, the implementation of additional cost controls and the development of new sources of revenue. Nonutility business strategies are expected to pursue new investment opportunities closely related to the utility business.

Financial Results

Consolidated operating revenues for the twelve months ended December 31, 1993, 1992 and 1991 were $865.7 million, $816.8 million and $808.4 million, respectively. The increased revenues for 1993 and 1992 reflect the effect of net rate increases effective in those years. The revenue increase in 1993 is also due to increased sales of energy as a result of summer weather.

Consolidated earnings per share for 1993 were $1.80 on net income of $95.3 million, compared with $1.67 on net income of $86.2 million in 1992 and $1.75 on net income of $85.6 million in 1991. In 1993, ACE contributed $1.73 to consolidated earnings, primarily as a result of increased kilowatt-hour sales from more normal summer weather. ACE's 1993 earnings were reduced by approximately $.10 as a result of nonrecurring charges for reorganization activities. In 1992, ACE contributed $1.74 to reported consolidated earnings. ACE's 1992 earnings were increased by several nonrecurring items, including $.15 from a settlement of a lawsuit with PECO Energy Company (formerly Philadelphia Electric Company –PECO) relating to the shutdown of the Peach Bottom Atomic Power Station several years ago and $.11 from certain other nonrecurring items. Earnings in 1992 were adversely affected by lower energy sales resulting from cooler than normal summer weather conditions and decreased sales to Industrial customers.

Nonutility operations resulted in net income for 1993 of $3.7 million and losses for 1992 and 1991 of $3.4 million and $5.4 million, respectively. Nonutility net income for 1993 is primarily the result of higher earnings of AGI derived from the full year's commercial operation of two of its cogeneration projects. The loss in 1992 is primarily due to provisions made by AET relating to restructuring of certain business activities. That loss is offset, in part, by earnings of AGI resulting from the initial commercial operation during the year of two of its cogeneration projects and earnings of ATE resulting from lower interest expense. The loss recognized in 1991 is attributable to AGI's equity share of writedowns of carrying values by one of its partnerships of certain cogeneration projects that were subsequently sold.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In June 1993, the quarterly dividend on Common Stock was increased from $.38 to $.385 per share, or an annual rate of $1.54 per share. Information with respect to Common Stock for the period 1991–1993 is as follows:

	1993	*1992*	*1991*
Dividends Paid Per Share	**$ 1.53**	$ 1.51	$ 1.49
Book Value Per Share	**$15.62**	$15.17	$14.84
Annualized Dividend Yield	**7.0%**	6.6%	7.3%
Return on Average Common Equity	**11.7%**	11.1%	12.1%
Total Return (Dividends paid plus change in share price)	**0.6%**	20.2%	29.8%
Market to Book Value	**139%**	152%	138%
Price/Earnings Ratio	**12**	14	12
Closing Price—New York Stock Exchange	**$21.75**	$23.13	$20.50

Liquidity and Capital Resources

Overview

The Company's cash flows are dependent on the cash flows of its subsidiaries, primarily ACE. Principal cash inflows of the Company are dividends from ACE and funds provided by the issuance of Common Stock. Principal cash outflows of the Company are investments (capital contributions and advances) in its subsidiaries for their investing activities and dividends to common shareholders. Cash invested in ACE is utilized primarily for the construction of utility generating, transmission and distribution facilities, redemption and maturity of long and short term debt and redemption of preferred stock. Current investing activities of the nonutility subsidiaries are primarily for the development of nonutility power generation projects.

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

In 1993, 1992 and 1991, the Company recorded $81.3 million, $78.3 million and $74.1 million, respectively, in dividends from ACE. Other sources of funds available to the Company, which include the issuance of common equity through public offerings, optional cash purchases under the Dividend Reinvestment and Stock Purchase Plan (DRP) and ACE's employee benefit plans, are shown as follows:

Issuance of Common Stock	**1993**	*1992*	*1991*
Public Offerings			
Shares issued	**—**	—	4,000,000
Proceeds (000)	**—**	—	$67,140
DRP Optional Cash Purchases			
Shares issued	**690,466**	719,324	301,272
Proceeds (000)	**$15,985**	$16,034	$ 5,537
Employee Benefit Plans			
Shares issued	**8,033**	10,897	12,416
Proceeds (000)	**$ 258**	$ 259	$ 249

Additional common equity is provided by reinvested dividends through the DRP. Common shares issued from such reinvested dividends in 1993, 1992 and 1991 were 609,663, 572,329 and 630,410, respectively. The Company's current financing plans for 1994–1996 contemplate the issuance of approximately $14 million in additional common equity, to be obtained through the DRP.

Major cash outflows of the Company were as follows:

	1993	*1992*	*1991*
		(Millions)	
Dividends to Shareholders	**$81.3**	$78.3	$74.1
Advances and Capital Contributions* to Subsidiaries	**29.8**	24.1	83.8

* Net of repayments

ACE

Cash construction expenditures for the 1991–1993 period amounted to $441.2 million and included expenditures for a new combustion turbine unit, upgrades to existing transmission and distribution facilities and compliance with provisions of the Clean Air Act Amendments of 1990 (CAAA). ACE's current estimate of cash construction expenditures for the 1994–1996 period is $377.3 million. These estimated expenditures reflect necessary improvements to transmission and distribution facilities and compliance with provisions of the CAAA.

ACE also utilizes cash for mandatory redemptions of Preferred Stock and maturities of long term debt. Optional redemptions of securities are reviewed on an ongoing basis with a view toward reducing the overall cost of funds.

Redemptions of Preferred Stock (at par or stated value) and redemptions, reacquisitions and retirements, and maturities of First Mortgage Bonds for the period 1991–1993 are shown as follows:

	1993	*1992*	*1991*
Preferred Stock (Series)			
9.96% (Shares)	**48,000**	8,000	8,000
$8.25 (Shares)	**5,000**	2,500	2,500
Aggregate Amount (000)	**$ 5,300**	$ 1,050	$ 1,050
First Mortgage Bonds Principal Amount retired (000)	**$344,773**	$10,350	$49,000

First Mortgage Bonds redeemed or acquired and retired in 1993 were as follows:

Date	*Series*	*Principal Amount (000)*	*Price (%)*
March 1993	8% due 1996	$ 95,000	100.91
March 1993	8 ⅞% due 2000	19,000	102.41
March 1993	8% due 2001	27,000	102.53
March 1993	4 ⅜% due 1993	9,540	100.00
September 1993	9 ¼% due 2019	69,233	110.95*
September 1993	8 ⅞% due 2016	125,000	104.80

*average price

Scheduled debt maturities and mandatory Preferred Stock sinking fund requirements aggregate $59 million for the years 1994–1996.

On or before April 1 of each year, ACE and other New Jersey utilities are required to pay state excise taxes to the State of New Jersey. In March 1993, ACE paid $139.2 million. Included in this amount was $45 million representing one-half of an additional year's tax payment, as required by state law. This payment was funded by ACE through the issuance of short term debt. ACE expects to pay state excise taxes of approximately $140 million in March 1994, which will include the final installment of one-half the required additional year's tax payment. ACE expects to fund this payment with short term debt. In December 1993, ACE paid $20 million in connection with renegotiation of a nonutility purchased power contract. ACE has deferred such amount on its Consolidated Balance Sheet, pending recovery through its LEC.

ACE's cash flows from operating activities after dividends on Preferred Stock and Common Stock (internal generation) amounted to $75.9 million, or 54.9% of 1993 construction expenditures. In 1992 and 1991, ACE's internal generation was $116.8 million and $85.2 million, and represented 89.3% and 49.4%, respectively, of construction expenditures. For the three-year period 1994–1996, ACE's internal generation is expected to average 75% of currently estimated construction expenditures. However, actual levels may vary within the period based upon specific amounts of construction expenditures and internally generated funds in the individual years. Through 2000, ACE's cash flows will be positively affected by the recovery of its Unrecovered Purchased Power Costs. ACE expects that such recovery will provide $14 million, $15 million and $16 million in cash flows in 1994, 1995 and 1996, respectively.

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

In 1993, ACE issued and sold $469 million of long term debt consisting of $240 million of Series B Medium Term Notes, $225 million of First Mortgage Bonds and $4 million of Pollution Control Bonds. The proceeds from the 1993 financings were used for refunding higher cost debt, as detailed above, and construction purposes. In 1992, ACE issued and sold $60 million of Series A Medium Term Notes, the proceeds of which were used for ACE's construction program. In 1991, ACE issued and sold 700,000 shares of $7.80 No Par Preferred Stock and issued $38.865 million of Pollution Control Bonds. The proceeds from the 1991 financings were used for construction and refunding ACE's 11⅝% Pollution Control Bonds due 2011. During the three-year period 1994–1996, ACE expects to issue $160 million in new long term debt, and in such period ACE expects to receive $14 million in capital contributions from the Company.

ACE's debt securities are rated "A-/A3" by the major rating agencies and its Preferred Stock is rated "BBB+/Baa1." In October 1993, ACE was advised that a major rating agency lowered its rating on ACE's outstanding securities as follows: senior secured debt to "A-" from "A," senior unsecured debt and preferred stock to "BBB+" from "A-," and commercial paper to "A-2" from "A-1." In November 1993, ACE was advised that a second major rating agency lowered its ratings of ACE's outstanding securities as follows: first mortgage bonds, secured pollution control revenue bonds and secured medium term notes to "A3" from "A2," debentures to "Baa1" from "A3," preferred stock to "Baa1" from "A3," and commercial paper to "P2" from "P1." In taking such action, both agencies cited increasing business risks from competition, significant purchased power commitments, anticipated modest sales growth and high electric rates relative to the Mid-Atlantic region as factors contributing to their respective decisions.

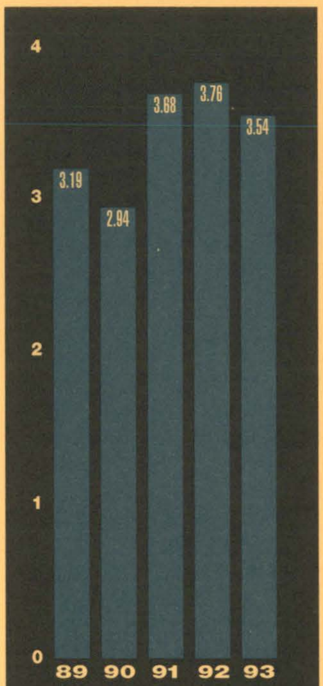
Provisions of ACE's charter, mortgage and debenture agreements can limit, in certain cases, the amount and type of additional financing which may be used. At December 31, 1993, ACE estimates additional funding capacities of $293 million of First Mortgage Bonds, or $463 million of Preferred Stock, or $345 million of unsecured debt. These amounts are not necessarily additive.

AET

AET invests in and manages investments in companies with energy-related products and technologies. AET's only investment at December 31, 1993 is a capital investment of $3 million in a wholly-owned subsidiary that owns a patented technology and has proprietary knowledge relating to geothermal heating and cooling systems. AET obtained the funds for this investment through capital contributions from the parent company. The amount of this investment has been written down from $5.1 million at December 31, 1992 as a result of planned reorganization activities that had been provided for in 1992. The subsidiary discontinued its operations and will now concentrate on licensing its proprietary knowledge. In 1993, AET received insurance proceeds of $500 thousand through its subsidiary. Additional investments by AET will be under review in 1994 but are not expected to be significant.

AGI

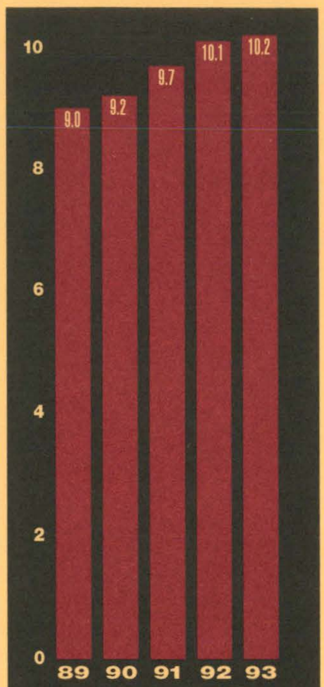
AGI's activities are represented by partnership interests in cogeneration projects. At December 31, 1993, total investments amounted to $24.5 million. Cash outlays for investments (comprised of capital investment, advances and loans) by AGI for the period 1991–1993 totaled $15.1 million. AGI obtained the funds for its investments through capital contributions from the parent company. During the period 1991–1993, AGI received distributions from the partnerships totaling $6.4 million from return of investment and repayment of outstanding advances and loans. A cogeneration project is under construction and is expected to become operational in May 1994 requiring an equity payment of $2 million. This commitment will be funded by a capital contribution from the parent company. AGI expects to invest an additional $8 million in domestic independent power projects in the years 1994–1996. Operators of a nonutility power project in which AGI subsidiaries have a 50% ownership interest are presently negotiating amendments to its power purchase contract. The outcome of these discussions cannot be determined at this time.



(times coverage)

Atlantic Electric Pre-Tax Interest Coverage Ratio

This ratio measures the ability of Atlantic Electric to meet its interest payments to creditors. It is the number of times that interest charges are "covered" by earnings before the payment of income taxes. For an "A" rated utility, pre-tax coverage should be between 2.75 and 4.5 times. To calculate the coverage ratio, net income is adjusted for certain amounts and then divided by interest charges.



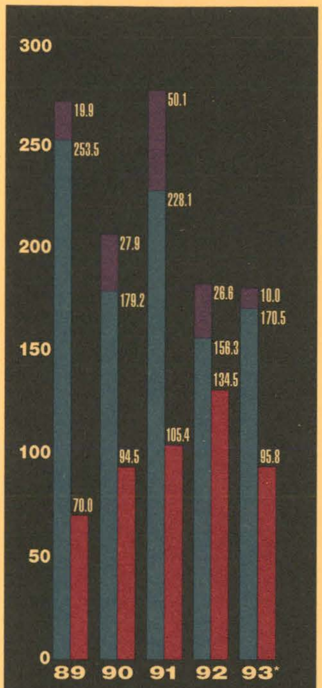
(in cents)

Atlantic Electric Average Booked Revenue Per Kilowatt-Hour

This represents the average amount of revenue recorded for each kilowatt-hour sold. It is calculated by dividing Atlantic Electric's revenue from kilowatt-hour sales by the number of kilowatt-hours sold.

ASP

ASP's real estate investment at December 31, 1993 is a 280,000 square-foot office and warehouse facility in Atlantic County, New Jersey, with a net book value of $13.2 million. As of December 31, 1993, ASP's investment has been funded by capital contributions from the parent company and borrowings under a loan agreement with ATE. ASP's current agreement with ATE provides for the repayment of such borrowings on or before December 31, 1994. Extensions to repay these borrowings have been routinely granted in the past. ASP gener-



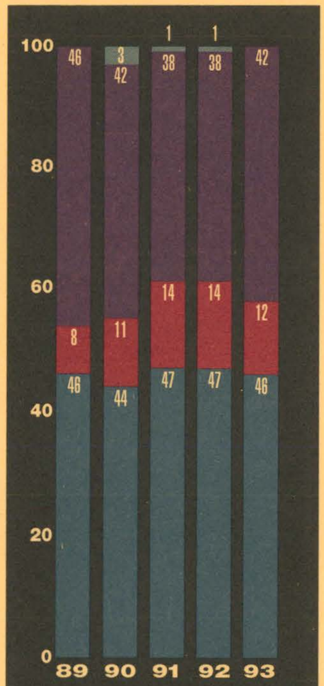
(in millions of dollars)

Atlantic Energy Cash Requirements and Internal Generation of Funds

- *CONSTRUCTION & OTHER*
- *MATURITIES, RETIREMENTS & SINKING FUNDS*
- *INTERNAL CASH GENERATION*

* Excludes certain optional retirements

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



(in percent)

Atlantic Energy Year-End Capitalization

- *COMMON EQUITY*
- *PREFERRED STOCK*
- *LONG TERM DEBT*
- *SHORT TERM DEBT*

Atlantic Energy's capitalization is the relative proportion of equity funds provided by its owners, common and preferred shareholders, and borrowed funds provided by creditors, holders of short and long term debt securities. It is calculated by dividing the dollar amount of each class of security by the total amount of capitalization.

ates sufficient cash flows from its rental income to sustain its operations. Over half of the office space is presently leased to ACE. ASP and ACE are exploring options to modify ACE's current lease obligations. In the second half of 1993, another tenant leased all the available warehouse space. No real estate activity beyond the existing site is contemplated at this time by ASP.

ATE

ATE has invested $77.3 million in leveraged leases of three commercial aircraft and two containerships. ATE has loans outstanding to ASP, including unpaid interest, which totaled $8.9 million at December 31, 1993. ATE obtained funds for its business activities and loans to ASP through capital contributions from the parent company and external borrowings. ATE has outstanding $15 million principal amount of 7.44% Senior Notes due 1999. A revolving credit and term loan facility for borrowings of up to $35 million is available to ATE. At December 31, 1993, there were no borrowings outstanding under this facility. ATE's positive cash flows are provided from lease rental receipts and realization of existing tax benefits generated by the leveraged leases sufficient to sustain operations. It is expected that these will continue to be the only sources of cash flows for the foreseeable future.

RESULTS OF OPERATIONS

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

During 1993, ACE undertook reorganization efforts to enable it to streamline its operations and become more competitive. Provisions for severance and early retirement costs associated with the reorganization amounted to $5.4 million after taxes, or $.10 per share of Common Stock.

Revenues

Operating Revenues-Electric increased 6.0% and 1.0% in 1993 and 1992, respectively. Components of the overall changes are shown as follows:

(millions)	**1993**	*1992*
Base Revenues	**$12.2**	$ 11.0
Levelized Energy Clauses	**(5.0)**	23.0
Kilowatt-hour Sales	**42.6**	(28.7)
Unbilled Revenues	**(1.2)**	(2.0)
Sales for Resale	**0.7**	5.5
Other	**(0.4)**	(0.3)
Total	**$48.9**	$ 8.5

Base Revenues increased in 1993 as a result of a $12.9 million base rate increase effective in October 1992. Base Revenues increased in 1992 as a result of the October 1992 increase and a $50.0 million base rate increase effective in July 1991. Levelized Energy Clause (LEC) revenues decreased in 1993 as a result of the net effects of a $10.9 million increase effective in October 1993 and an $8.5 million decrease effective in October 1992. LEC revenues increased in 1992 as a result of the October 1992 decrease and a $21.3 million LEC increase effective in June 1991.

Changes in kilowatt-hour sales are discussed under "Billed Sales to Ultimate Utility Customers." Overall, the combined effects of changes in rates charged to customers and kilowatt-hour sales resulted in increases of 0.8% and 4.4% in revenues per kilowatt-hour in 1993 and 1992, respectively. The changes in Unbilled Revenues are a result of the amount of kilowatt-hours consumed by ultimate customers at the end of the respective periods, which are affected by weather and economic conditions, and the corresponding price per kilowatt-hour. The changes in Sales for Resale are a function of ACE's energy mix strategy, which in turn is dependent upon ACE's needs for energy, the energy needs of other utilities participating in the regional power pool of which ACE is a member, and the sources and prices of energy available.

Billed Sales to Ultimate Utility Customers

Changes in kilowatt-hour sales are generally due to changes in the average number of customers and average customer use, which is affected by economic and weather conditions. Energy sales statistics, stated as percentage changes from the previous year, are shown as follows:

	1993			*1992*		
Customer Class	*Avg Sales*	*Use*	*Avg # of Cust*	*Avg Sales*	*Use*	*Avg # of Cust*
Residential	**6.7%**	**5.9%**	**0.8%**	(2.8)%	(3.7)%	0.9 %
Commercial	**5.1**	**3.2**	**1.9**	(1.5)	(3.2)	1.8
Industrial	**2.6**	**4.6**	**(1.9)**	(10.2)	(9.4)	(0.8)
Other	**1.2**	**1.6**	**(.4)**	(0.3)	(0.3)	—
Total	**5.4**	**4.4**	**0.9**	(3.5)	(4.5)	1.0

In 1993, total kilowatt-hour sales increased primarily due to the colder winter temperatures during the first quarter, and more normal temperatures during the third quarter in contrast to the cooler temperatures in the same period of 1992. Improved economic conditions also contributed to the increase in 1993 sales. In 1992, total kilowatt-hour sales declined primarily due to lower sales to Industrial customers because two large Industrial customers obtained primary service from independent nonutility sources. Sales also declined in 1992 due to cooler temperatures in the third quarter.

ACE continues to experience the effects of competition in the electric utility business. One large Industrial customer is expected to receive primary electric service from an independent power producer commencing in the spring of 1994. This customer accounted for 10.1% and 8.1% of 1993 Industrial kilowatt-hour sales and revenues, respectively. Sales to this customer amounted to 1.6% of 1993 total kilowatt-hour sales and 1.0% of 1993 total energy revenues. ACE will also lose additional revenues from this customer for other services that amounted to $4.3 million in 1993.

Costs and Expenses

Total Operating Expenses increased 3.9% and 2.4% in 1993 and 1992, respectively. Included in these expenses are the costs of energy, purchased capacity, operations, maintenance, depreciation and taxes.

Energy expense reflects costs incurred to meet load requirements, energy supply mix used and operation of the LECs. Changes in costs reflect the varying availability of low-cost generation from ACE-owned and purchased energy sources, and the corresponding unit prices of the energy sources used, as well as changes in the needs of other utilities participating in the Pennsylvania–New Jersey–Maryland Interconnection. The cost of energy is recovered from customers primarily through the operation of the LECs. Earnings are not affected by Energy expense because these costs are adjusted to match the associated LEC revenues. In any period, the actual amount of LEC revenue recovered from customers will be greater or less than the actual amount of energy cost incurred in that period. Such respective overrecovery or underrecovery of energy costs is recorded on the Consolidated Balance Sheet as a liability or an asset, as appropriate. Amounts in the balance sheet are recognized in the Consolidated Statement of Income within Energy expense during the period in which they are subsequently recovered through the LECs. ACE was underrecovered by $7.2 million and overrecovered by $8.1 million at December 31, 1993 and 1992, respectively.

In 1993, Energy expense decreased 1.1% primarily because there was a larger amount of fuel costs underrecovered in 1993 than in 1992. Production-related energy costs for 1993 increased by 6.7% largely due to increased generation of 4.8%. The average unit cost for energy in 1993 increased to 1.82 cents per kilowatt-hour compared to 1.80 cents per kilowatt-hour in 1992. The 1993 increase in the per unit cost is a result of increased amounts of higher-cost energy from nonutility sources and a decreased supply of lower cost energy from coal sources. Energy expense for 1992 decreased 11.9% primarily due to an underrecovery of fuel costs in 1992 compared to an overrecovery in 1991. The decrease was partially offset by increased production-related energy costs associated with a 3.4% increase in net generation.

Purchased Capacity expense reflects entitlements to generating capacity owned by others. Purchased Capacity expense increased 7.4% in 1993 and 30.1% in 1992 primarily due to capacity supplied by two nonutility power producers beginning in September 1991 and March 1992, respectively.

Operations expense increased 8.9% in 1993 due primarily to corporate reorganization activities by ACE. Operations expense increased 2.8% in 1992 primarily due to nuclear decommissioning expenses previously classified as depreciation expense, in accordance with BRC requirements. Maintenance expense decreased 9.0% and 4.1% in 1993 and 1992, respectively, due to the timing of maintenance projects.

The method of computing state excise taxes was changed by legislation in 1992 to a unit tax that is based on kilowatt-hours sold during the year. In prior years, such taxes were based on revenues collected from customers. State Excise Taxes expense increased in 1993 and 1992 by 6.4% and 10.2%, respectively. The increase in 1993 is due to higher kilowatt-hour sales during the year and an additional amount of tax required under recently enacted state law. The increase in 1992 reflects additional tax liabilities incurred as a result of changes in legislation.

Federal Income Taxes increased 21.9% and 2.5% in 1993 and 1992, respectively, due to an increased level of taxable income, and in part to the increase in the Federal income tax rate to 35% from 34% for 1993.

Interest on Long Term Debt increased 11.4% in 1993 reflecting the net effects of issuance of $469 million of First Mortgage Bonds during the year, and the maturity, redemption and reacquisition of various series of First Mortgage Bonds totaling $344.8 million principal amount. Interest on Long Term Debt increased 3.3% in 1992 reflecting the net effects of issuance of $60 million of Medium Term Notes in May 1992 with a weighted average interest rate of 7.75% and the maturity of $10.35 million principal amount of First Mortgage Bonds, 4½% Series due in July 1992. At December 31, 1993, 1992 and 1991, ACE's embedded cost of long term debt was 7.8%, 8.8% and 8.9%, respectively.

Preferred Stock Dividend Requirements of ACE decreased 2.3% in 1993 and reflects the redemption of 48,000 shares of 9.96% No Par Preferred Stock in May 1993. Preferred Stock Dividend Requirements of ACE increased 8.5% in 1992 and reflects the issuance and sale of 700,000 shares of $7.80 No Par Preferred Stock in May 1991. Embedded cost of Preferred Stock as of December 31, 1993, 1992 and 1991 was 7.7%, 7.7% and 7.8%, respectively.

New accounting standards concerning the accounting for postretirement benefits other than pensions and income taxes became effective for the Company in 1993. The effect of adopting these standards did not materially affect net income in 1993, primarily because the incremental costs to ACE resulting from these standards have been deferred on the Consolidated Balance Sheet subject to future recovery in rates.

Outlook

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

The financial performance of ACE will be affected in the future by the level of sales of energy and the impacts of regulation. The amount earned on capital investments by the utility is subject to general business conditions and regulations. Other issues which may impact the electric utility business include public health, safety, environmental legislation and competition.

Changes in operating revenues in the future will result from changes in customer rates, energy consumption and general economic conditions in the service area, as well as the impacts of load management and conservation programs instituted by ACE. ACE's revenues could also be affected by the loss of sales through increasing competition in the generation of electricity by other utility and nonutility sources.

The emergence of competition among suppliers of electricity may require ACE to create new rate structures and offer discounts to its Commercial and Industrial customers. ACE has petitioned the BRC to permit hotel/casino customers to take electric service under existing commercial rate tariffs, which are lower than those rates currently charged to hotel/casinos. If all hotel/casinos make such an election, ACE's annual revenues would be reduced by approximately $5 million.

Net income of ACE can be affected by the operational performance of nuclear generating facilities. ACE is subject to a BRC mandated nuclear unit performance standard. Under the standard, penalties or rewards are based on the aggregate capacity factor of ACE's five jointly-owned nuclear units. Any penalties incurred would not be permitted to be recovered from customers and would be charged against income.

An accounting standard issued but not yet effective for the Company concerns benefits provided to inactive and terminated but not yet retired employees. It is expected that the annual costs calculated under the new standard will not be significantly different from those recorded under the current method of accounting and that any additional liabilities recorded will not be material to the consolidated financial statements.

The Energy Policy Act, enacted in October 1992, provides, among other things, for increased competition between utility and nonutility electric generators and permits wholesale transmission access, or wheeling, with certain requirements. Other competitive pressures such as increased customer demands for discounted rates, potential loss of municipal power sales, excess generating capacity, together with the emergence of nonutility energy sources, are expected to increase the amount of business risk for electric utilities in the future. In addition, the extent to which New Jersey public utility regulation is modified to be reflective of these new competitive realities will be a key factor affecting the Company.

Development of electric generating facilities by non-utilities has occurred in ACE's service territory. Effects of nonutility generation could be offset to some extent by natural growth in the service territory and additional efforts by ACE to reduce the impact of the potential loss of kilowatt-hour sales and revenues. As a result of economic conditions in the service territory, ACE estimates that the rate of growth of overall sales of energy will be modest.

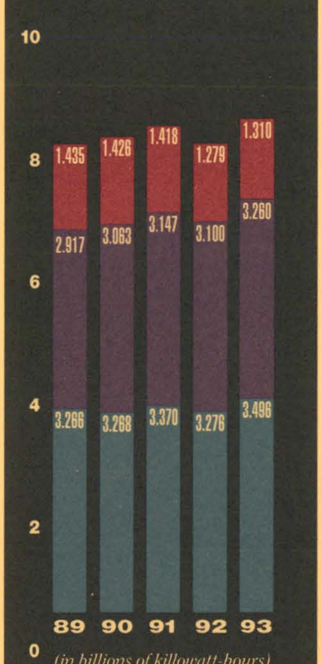
The Clean Air Act Amendments (CAAA) enacted in 1990 relating to acid rain and limitations on emissions at electric generating plant's will require modifications at certain of ACE's facilities. Compliance with the CAAA will cause ACE to incur additional operating and/or capital costs. Presently, ACE's cash construction budget for 1994 through 1996 includes approximately $47 million related to the cost of compliance. In addition, certain power purchase arrangements will be affected by the CAAA, the effects of which are not presently determinable.

The New Jersey Department of Environmental Protection and Energy (NJDEPE) has proposed modifications to certain environmental permits at Salem Station. The Salem owners have opposed these modifications that would require the immediate shutdown of both Salem units, the construction of cooling towers at costs which are estimated to be substantial, and extended outages for the design, licensing and construction of such towers. In addition to the cost of construction, ACE would be required to purchase replacement energy, the cost of which could also be substantial. The retrofitting of cooling towers at Salem would also result in a permanent capacity de-rating of up to 120 MWs, as well as increased operation and maintenance costs. As more fully detailed in Note 10 of the financial statements, Public Service Electric & Gas (PS), the operator, filed a Supplement to its Application which proposed that Salem continue operation with a once-through cooling system, and provided for plant modifications and environmental enhancements to the Delaware River in the vicinity of the Station. In June 1993, the NJDEPE issued a Draft Permit which essentially incorporated the provisions made by PS in its proposal. Costs of this proposal would not be significant. The NJDEPE indicates it expects to issue a final permit in the first quarter of 1994. The outcome of this matter cannot be predicted at this time.

Federal and state legislation authorize various governmental authorities to issue orders compelling responsible parties to take cleanup action at sites determined to present danger from releases of hazardous substances. The various statutes impose joint and several liability without regard to fault for certain investigative and cleanup costs for all potentially responsible parties. ACE has received notification with respect to certain sites as one of a number of alleged responsible parties for cleanup and remedial actions. The total amount of cleanup and remedial measures associated with these sites as claimed by the authorities for all defendants is currently estimated to be $178 million. ACE believes that primary responsibility for the claims will be borne by other parties and its share, if any, of the claims would not be significant. ACE plans to pursue these matters aggressively.

Inflation

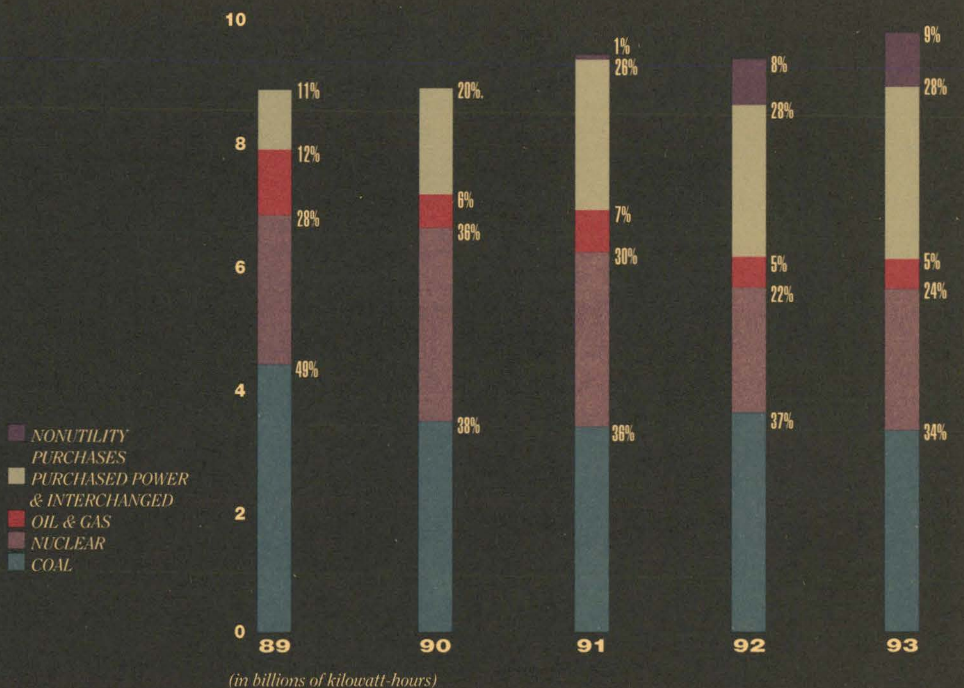
Inflation affects the level of operating expenses and also the cost of new utility plant placed in service. Traditionally, the ratemaking practices that have applied to ACE have involved the use of historical test years and the actual cost of utility plant. However, the ability to recover increased costs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



Atlantic Electric Energy Sales by Customer Class

- RESIDENTIAL
- COMMERCIAL
- INDUSTRIAL & OTHER

The change in kilowatt-hour sales is determined by how many new customers are added, how much electricity each customer uses and weather conditions.



Atlantic Electric Total Sources and Costs of Energy

In the last five years, coal and nuclear fuel sources combined have provided on average more than 66% of Atlantic Electric's total energy requirements. Nonutility purchases are from an independent power producer and a cogeneration facility.

Cost of Energy (in cents per kilowatt-hour)	89	90	91	92	93
COAL	2.20	2.20	1.99	1.76	1.68
NUCLEAR	0.87	0.83	0.78	0.73	0.68
OIL & NATURAL GAS	3.45	4.17	3.97	3.92	4.57
PURCHASED POWER & INTERCHANGED	3.29	2.45	1.95	1.75	1.78
NONUTILITY PURCHASES	–	–	3.95	3.62	3.96
YEARLY AVERAGE	2.08	1.85	1.78	1.80	1.82

SUMMARY FINANCIAL AND STATISTICAL REVIEW 1993–1983

	1993	1992	1991	1990
Atlantic Energy, Inc.				
Investor Information				
Operating Revenues (000)	**$ 865,675**	$ 816,825	$ 808,374	$ 740,894
Net Income (000)	**$ 95,297**	$ 86,210	$ 85,635	$ 68,879
Average Number of Common Shares Outstanding (000)	**52,888**	51,592	49,008	45,590
Earnings per Average Common Share	**$ 1.80**	$ 1.67	$ 1.75	$ 1.51
Total Assets (Year-end) (000)	**$2,487,508**	$2,219,338	$2,151,416	$2,006,010
Long Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption (Year-end) (000)	**$ 952,101**	$ 842,236	$ 807,347	$ 747,877
Capital Lease Obligations (Year-end) (000)	**$ 45,268**	$ 49,303	$ 53,093	$ 57,971
Dividends Declared on Common Stock	**$ 1.535**	$ 1.515	$ 1.495	$ 1.47
Dividend Payout Ratio	**85%**	90%	85%	97%
Book Value per Share (Year-end)	**$ 15.62**	$ 15.17	$ 14.84	$ 14.36
Price/Earnings Ratio (Year-end)	**12**	14	12	11
Times Fixed Charges Earned (pre-tax, Atlantic Electric)	**3.54**	3.76	3.68	2.94
Common Shareholders (Year-end)	**47,832**	46,524	43,802	42,295
Employees (Atlantic Electric) (Year-end)	**1,835**	2,023	2,032	2,055
Atlantic City Electric Company (Principal Subsidiary)				
Facilities for Service				
Total Utility Plant (000)	**$2,402,415**	$2,279,107	$2,175,601	$2,027,138
Additions to Utility Plant (000)	**$ 141,927**	$ 134,326	$ 177,298	$ 170,772
Generating Capacity (Kilowatts) (Year-end) (a)(b)	**2,307,700**	2,160,700	2,090,700	1,959,700
Maximum Utility System Demand (Kilowatts)	**1,962,000**	1,796,000	1,911,000	1,741,000
Capacity Reserve at Time of Peak (% of Installed Generation)	**11.2%**	16.9%	5.2%	10.9%
Energy Supply (mwh):				
Net Generation	**6,025,861**	5,775,098	6,300,891	6,267,559
Purchased and Interchanged	**3,753,433**	3,553,247	3,124,024	2,606,067
Total System Load	**9,779,294**	9,328,345	9,424,915	8,873,626
Electric Sales to Ultimate Customers (mwh):				
Residential	**3,495,722**	3,276,330	3,370,327	3,267,606
Commercial	**3,259,541**	3,100,133	3,147,318	3,063,069
Industrial	**1,261,069**	1,229,211	1,368,329	1,376,423
All Others	**50,080**	49,464	49,626	49,769
Total (a)(c)	**8,066,412**	7,655,138	7,935,600	7,756,867
Residential Electric Service (Average per Customer)				
Amount of Electricity Used During the Year (kwh)	**8,608**	8,131	8,440	8,251
Revenue for a Year's Service	**$ 969.86**	$ 903.91	$ 906.66	$ 844.37
Revenue per Kilowatt-hour	**11.27¢**	11.12¢	10.74¢	10.23¢
Ultimate Customer Data (Average)				
Residential With Electric Heating	**82,385**	82,206	81,838	81,479
Residential Without Electric Heating	**323,722**	320,744	317,486	314,529
Total Residential	**406,107**	402,950	399,324	396,008
Commercial	**52,988**	51,996	51,077	50,274
Industrial	**971**	990	998	1,002
All Others	**522**	524	524	537
Total Ultimate Customers (c)	**460,588**	456,460	451,923	447,821
Operating Revenues (000)				
Electric Service:				
Residential	**$ 393,866**	$ 364,232	$ 362,050	$ 334,375
Commercial	**315,089**	299,866	292,349	271,688
Industrial	**100,812**	97,475	102,202	96,766
All Others	**10,575**	10,548	10,136	9,668
Total from Electric Service	**820,342**	772,121	766,737	712,497
Unbilled Revenues–Net	**28**	1,203	3,229	(4,055)
Sales for Resale	**36,576**	35,884	30,404	24,115
Other Electric Revenues	**8,853**	7,723	8,112	8,448
Total Operating Revenues (c)	**$ 865,799**	$ 816,931	$ 808,482	$ 741,005

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

1989	1988	1987	1986	1985	1984	1983
$ 723,216	$ 687,335	$ 635,657	$ 604,716	$ 612,035	$ 582,386	$ 526,681
$ 80,964	$ 72,171	$ 73,765	$ 54,946	$ 46,150	$ 56,433	$ 59,717
43,268	39,186	36,622	36,532	36,138	35,162	33,845
$ 1.87	$ 1.84	$ 2.01	$ 1.50	$ 1.28	$ 1.60	$ 1.76
$1,864,461	$1,660,286	$1,499,381	$1,401,064	$1,319,027	$1,253,083	$1,170,993
$ 725,329	$ 594,461	$ 522,815	$ 534,822	$ 521,612	$ 473,462	$ 459,366
$ 33,146	$ 32,880	$ 37,694	$ 37,603	$ 38,857	$ 41,722	$ 39,228
$ 1.425	$ 1.37	$ 1.3575	$ 1.305	$ 1.2775	$ 1.225	$ 1.16
75%	75%	66%	87%	99%	76%	65%
$ 14.27	$ 13.58	$ 12.86	$ 12.18	$ 11.98	$ 11.95	$ 11.60
10	9	8	12	11	8	7
3.19	3.06	3.68	2.99	3.06	3.62	4.14
43,383	44,473	45,586	47,133	48,635	47,446	48,299
2,021	2,092	2,148	2,168	2,099	2,012	1,995
$1,846,122	$1,712,614	$1,602,801	$1,503,010	$1,438,643	$1,351,392	$1,265,393
$ 147,886	$ 130,281	$ 105,521	$ 109,303	$ 105,213	$ 95,388	$ 83,673
1,879,700	1,807,700	1,660,700	1,660,700	1,605,700	1,594,200	1,594,200
1,700,000	1,636,000	1,609,000	1,459,000	1,432,000	1,298,800	1,346,700
9.6%	9.5%	3.1%	12.1%	10.8%	18.5%	15.5%
6,260,942	5,863,119	6,157,938	5,966,600	5,817,254	6,237,724	5,913,196
2,597,623	2,567,871	1,773,837	1,454,491	1,333,174	940,987	1,065,704
8,858,565	8,430,990	7,931,775	7,421,091	7,150,428	7,178,711	6,978,900
3,265,918	3,213,010	3,040,410	2,839,114	2,638,121	2,646,813	2,545,351
2,917,162	2,741,976	2,592,232	2,401,199	2,298,895	2,150,464	2,019,468
1,380,832	1,339,005	1,323,567	1,222,981	1,204,971	1,197,392	1,225,637
53,872	56,289	58,191	58,120	57,685	59,122	60,978
7,617,784	7,350,280	7,014,400	6,521,414	6,199,672	6,053,791	5,851,434
8,382	8,460	8,281	7,982	7,643	7,866	7,715
$ 840.34	$ 838.70	$ 808.14	$ 791.09	$ 799.29	$ 783.47	$ 713.79
10.03¢	9.91¢	9.76¢	9.91¢	10.46¢	9.96¢	9.25¢
80,409	78,805	75,900	72,640	68,871	65,261	62,272
309,245	300,974	291,253	283,062	276,305	271,207	267,642
389,654	379,779	367,153	355,702	345,176	336,468	329,914
49,509	48,398	46,775	45,359	44,256	43,615	43,152
1,008	1,014	1,015	1,022	1,020	1,015	1,021
549	552	554	554	554	544	549
440,720	429,743	415,497	402,637	391,006	381,642	374,636
$ 327,443	$ 318,520	$ 296,712	$ 281,393	$ 275,897	$ 263,612	$ 235,488
256,199	240,890	222,129	214,230	216,052	190,435	169,795
94,634	91,661	84,476	80,037	83,628	79,123	72,633
9,901	9,935	10,199	10,230	10,470	10,405	9,960
688,177	661,006	613,516	585,890	586,047	543,575	487,876
7,215	6,716	385	(1,813)	3,076	(1,340)	5,671
18,196	11,476	12,840	13,045	15,656	32,855	26,130
9,765	8,137	8,916	7,594	7,256	7,296	7,004
$ 723,353	$ 687,335	$ 635,657	$ 604,716	$ 612,035	$ 582,386	$ 526,681

INVESTOR INFORMATION

(as of December 31, 1993)

Where should I send inquiries concerning my investment in Atlantic Energy or Atlantic Electric?

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

Atlantic Energy, Inc.
Investor Records
6801 Black Horse Pike
P.O. Box 1334
Pleasantville, New Jersey 08232
Telephone (609) 645-4506 or (609) 645-4507

When are dividends paid?

The proposed record dates and payable dates are as follows:

Record Dates	*Payable Dates*
March 21, 1994	April 15, 1994
June 20, 1994	July 15, 1994
September 19, 1994	October 17, 1994
December 19, 1994	January 16, 1995

The following table indicates dividends paid per share in 1993 and 1992 on Common Stock:

	1993	*1992*
First Quarter	**$ .38**	$ .375
Second Quarter	**.38**	.375
Third Quarter	**.385**	.38
Fourth Quarter	**.385**	.38
Annual Total	**$1.53**	$1.51

Dividend checks are mailed to reach shareholders approximately on the payment date. If a dividend check is not received within 10 days of the payment date, or if one is lost or stolen, contact Investor Records. Dividend checks may be automatically deposited into a checking, savings, money market or credit union account at any financial institution that accepts electronic direct deposit. Contact Investor Records for an authorization form.

Dividends paid on Common Stock in 1993 and 1992 were fully taxable. Some state and local governments may impose personal property taxes on shares held in certain corporations. Shareholders residing in those states should consult their tax advisors with regard to personal property tax liability.

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

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

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

Yes. The Plan allows shareholders of record and interested investors to automatically invest their cash dividends and/or optional cash payments in shares of the Company's Common Stock. Other services available to DRP participants include certificate safekeeping and automatic investment. Holders of record of Common Stock or interested investors desiring to enroll in the Plan should contact Investor Records at the address listed. In addition, shareholders whose stock is held in a brokerage account may be able to participate in the Plan. These shareholders should contact their broker or Investor Records for more information.

Where is the Company's stock listed?

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

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

	1993		*1992*	
	High	*Low*	*High*	*Low*
First Quarter	**$25.000**	**$21.875**	$21.000	$18.000
Second Quarter	**23.875**	**21.625**	23.500	20.813
Third Quarter	**25.375**	**22.625**	24.625	22.500
Fourth Quarter	**23.875**	**20.375**	23.500	21.750

Is additional information about the Company available?

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

Atlantic Electric
Financial Services Department
6801 Black Horse Pike
Pleasantville, New Jersey 08232
Telephone (609) 645-4655 or (609) 645-4888
FAX (609) 645-4132

OFFICERS

(age/years of service as of December 31, 1993)

JERROLD L. JACOBS *(54/32)*
President and Chief Executive Officer of Atlantic Energy
Director of Atlantic Energy and all subsidiaries
Chairman, President and Chief Executive Officer of Atlantic Electric

Mr. Jacobs was elected President and Chief Executive Officer of Atlantic Energy and Atlantic Electric in 1993. Since 1990, he served as President of Atlantic Energy and President and Chief Operating Officer of Atlantic Electric. Prior to that, he was Executive Vice President of Atlantic Electric. Mr. Jacobs joined Atlantic Electric in 1961 as an engineer.

MEREDITH I. HARLACHER, JR. *(51/28)*
Vice President of Atlantic Energy
Director of Atlantic Energy Technology, Atlantic Southern Properties and ATE Investment
Senior Vice President–Energy Supply of Atlantic Electric

Mr. Harlacher has served as Vice President of Atlantic Energy since 1987 and was named Senior Vice President–Energy Supply of Atlantic Electric in 1993. Prior to that, he was Senior Vice President–Utility Operations and Senior Vice President–Corporate Planning and Services of Atlantic Electric. He joined Atlantic Electric in 1965 as an engineer.

HENRY K. LEVARI, JR. *(45/22)*
Vice President of Atlantic Energy
Director of all subsidiaries
Senior Vice President–Marketing & Customer Operations of Atlantic Electric

Mr. Levari has served as Vice President of Atlantic Energy since 1991 and was named Senior Vice President–Marketing & Customer Operations of Atlantic Electric in 1993. Prior to that, he was Senior Vice President–Corporate Planning and Services and Vice President–Power Delivery of Atlantic Electric. He joined Atlantic Electric in 1971 as an engineer.

J. G. (JERRY) SALOMONE *(53/17)*
Vice President and Treasurer of Atlantic Energy
Director of all subsidiaries
Senior Vice President–Finance & Administration of Atlantic Electric
Certified Public Accountant

Mr. Salomone has served as Vice President of Atlantic Energy since 1987. He was named Senior Vice President–Finance & Administration of Atlantic Electric in 1993. Prior to that, he was Senior Vice President–Finance & Accounting and Treasurer. He has served as Chief Financial and Accounting Officer of Atlantic Electric since 1984. He joined Atlantic Electric as Assistant Controller in 1976.

SCOTT B. UNGERER *(35/13)*
Vice President of Atlantic Energy
President and Director of Atlantic Southern Properties, Atlantic Generation, Atlantic Energy Technology and ATE Investment

Mr. Ungerer was elected to the above positions in January 1994. Prior to that he served as Manager–Production Economics, Manager–Joint Generation Projects and most recently Manager-Business Planning Services. He joined Atlantic Electric in 1980 as an engineer.

SABRINA D. McMILLIAN *(38/8)*
Secretary of Atlantic Energy
Vice President–Legal and Secretary of Atlantic Electric
Acting Secretary of Atlantic Southern Properties, Atlantic Generation, Atlantic Energy Technology and ATE Investment

Ms. McMillian has served as Secretary of Atlantic Energy and Atlantic Electric since 1986. She was elected Vice President–Legal and Secretary of Atlantic Electric in 1993. She joined Atlantic Electric in 1985 as Assistant to the Corporate Secretary. Ms. McMillian is an attorney.

JOHN M. CARDEN *(55/26)*
Vice President–Ocean Region of Atlantic Electric

Mr. Carden was named Vice President–Ocean Region of Atlantic Electric in 1993. Prior to that, he was Vice President–Customer Service and Vice President–Administrative Services of Atlantic Electric. He joined Atlantic Electric in 1967 as an engineer. (retired effective 1/3/94)

FRANK F. FRANKOWSKI *(43/10)*
Vice President–Controller and Assistant Treasurer of Atlantic Electric
Certified Public Accountant

Mr. Frankowski was named Vice President–Controller and Assistant Treasurer of Atlantic Electric in 1993. He was previously Controller–Corporate Services. Prior to that, he held management positions in accounting and taxes. He joined Atlantic Electric in 1983 as Manager of Internal Auditing Services.

JAMES J. LEES *(49/23)*
Vice President–Marketing of Atlantic Electric

Mr. Lees was named Vice President-Marketing of Atlantic Electric in 1993. He was previously Vice President–Marketing and Rates and Vice President–Rates of Atlantic Electric. He joined Atlantic Electric in 1970 as an engineer.

ERNEST L. JOLLY *(41/13)*
Vice President–External Affairs of Atlantic Electric

Mr. Jolly was named Vice President–External Affairs of Atlantic Electric in 1992. Prior to that, he held station manager positions at Deepwater Generating Station from 1987 to 1992. He joined Atlantic Electric in 1980 as an engineer.

J. DAVID McCANN *(42/21)*
Vice President–Engineering & Construction Services of Atlantic Electric

Mr. McCann was named Vice President–Engineering & Construction Services of Atlantic Electric in 1993. Prior to that, he was Vice President–Power Delivery and Vice President, Treasurer and Assistant Secretary of Atlantic Electric. He joined Atlantic Electric in 1972 as an engineer.

HENRY C. SCHWEMM, JR. *(52/24)*
Vice President–Power Generation & Fuels Management of Atlantic Electric

Mr. Schwemm was named Vice President–Power Generation & Fuels Management of Atlantic Electric in 1993. Prior to that, he served as Vice President–Production of Atlantic Electric since 1980. He joined Atlantic Electric in 1969 as an engineer.

LOUIS M. WALTERS *(41/15)*
Vice President–Treasurer and Assistant Secretary of Atlantic Electric
Treasurer of Atlantic Southern Properties, Atlantic Generation, Atlantic Energy Technology and ATE Investment
Certified Public Accountant

Mr. Walters was elected Vice President–Treasurer and Assistant Secretary of Atlantic Electric in 1993. Since 1991, he had served as General Manager–Treasury and Finance of Atlantic Electric. Prior to that, he held management positions in treasury, taxes and accounting. He joined Atlantic Electric in 1978 as an accountant.

BOARD OF DIRECTORS

(as of December 31, 1993)

JOS. MICHAEL GALVIN, JR.
Mr. Galvin, a Director since 1978, is president and chief executive officer of the South Jersey Health Corporation–The Memorial Hospital of Salem County. He is a director of Woodstown National Bank and the Center for Health Affairs. He is a graduate of the University of Scranton and holds a Master of Business Administration from Xavier University. Age: 48. Professional Experience: personnel, health care management.
Committee Chairman: Personnel. Committee Membership: Audit; Energy, Operations & Research; Pension & Insurance.

GERALD A. HALE
Mr. Hale, a Director since 1983, is president of Hale Resources, Inc., a health care, industrial/natural resource company. He is a director of New Jersey Manufacturers Insurance Company, New Jersey Business and Industry Association and Hoke, Inc. He is a graduate of Western Michigan University. Age: 66. Professional Experience: industrial minerals, chemicals and fabricated O.E.M. products.
Committee Chairman: Corporate Development. Committee Membership: Audit; Energy, Operations & Research; Personnel.

MATTHEW HOLDEN, JR.
Mr. Holden, a Director since 1981, is the Henry L. and Grace M. Doherty Professor of Government and Foreign Affairs at the University of Virginia. He is a former commissioner of the Federal Energy Regulatory Commission and the Wisconsin Public Service Commission. He holds a Doctorate of Political Science from Northwestern University. Age: 62. Professional Experience: regulatory affairs, energy consultation, arbitration.
Committee Chairman: Audit. Committee Membership: Corporate Development; Pension & Insurance; Personnel.

CYRUS H. HOLLEY
Mr. Holley, a Director since 1990, is president of Management Consulting Services. He was formerly chief operating officer, executive vice president and a director of Engelhard Corporation. He is a graduate of Texas A & M University. Age: 57. Professional Experience: industrial minerals, chemicals and precious metals.
Committee Chairman: Energy, Operations & Research. Committee Membership: Corporate Development; Finance & Investor Relations; Personnel.

E. DOUGLAS HUGGARD
Mr. Huggard, a Director since 1984, is Chairman of the Board of the Company. He served as Chairman and Chief Executive Officer of the Company and Atlantic City Electric Company from 1989 until 1993, when he retired after completing 38 years of service. Prior to that, he was Director, President and Chief Executive Officer of the Company and Atlantic City Electric Company. He holds a Master of Mechanical Engineering from the University of Delaware. Age: 60. Professional Experience: utility operations.
Committee Membership: Ex-officio member of all committees except Audit and Personnel.

JERROLD L. JACOBS
Mr. Jacobs is President and Chief Executive Officer of the Company and of Atlantic City Electric Company. He is a Director of all of the Company's subsidiaries and has been with the Company for 32 years. He is a graduate of the Newark College of Engineering (New Jersey Institute of Technology). Age: 54. Professional Experience: utility operations.
Committee Membership: Ex-officio member of all committees except Audit and Personnel.

KATHLEEN MacDONNELL
Ms. MacDonnell was elected as a Director in 1993. She is vice president of Campbell Soup Company and president of its Frozen Foods Group. She is a member of the board of trustees of the West Jersey Hospital System, a member of the board of directors of the Camden County Girl Scouts and a trustee of the Campbell Foundation. She is a graduate of the University of Massachusetts and holds a Master of International Management from the American Graduate School of International Management. Age: 45. Professional Experience: consumer products, marketing and international management.
Committee Membership: Audit; Energy, Operations & Research; Finance & Investor Relations; Pension & Insurance.

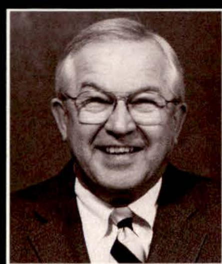
RICHARD B. McGLYNN
Mr. McGlynn, a partner in the law firm of LeBoeuf, Lamb, Leiby & MacRae, has been a Director since 1986. He is a former commissioner of the New Jersey Board of Public Utilities and a former judge in Essex County, New Jersey. He is a graduate of Rutgers Law School and Princeton University. Age: 55. Professional Experience: law, utility regulation.
Committee Chairman: Pension & Insurance. Committee Membership: Corporate Development; Energy, Operations & Research; Finance & Investor Relations.

BERNARD J. MORGAN
Mr. Morgan, a banking industry executive, was elected as a Director in 1988. He is a director of St. Joseph's University and a member of the Business Advisory Board of the Girl Scouts of Greater Philadelphia. He holds a Master of Business Administration from the Wharton School of the University of Pennsylvania. Age: 57. Professional Experience: banking, finance.
Committee Chairman: Finance & Investor Relations. Committee Membership: Corporate Development; Pension & Insurance; Personnel.

HAROLD J. RAVECHÉ
Dr. Raveché, who became a Director in 1990, is president of the Stevens Institute of Technology. He was formerly the dean of science of the Rennsselaer Polytechnic Institute. He is a director of National Westminster Bancorp, Inc. and National Westminster Bank NJ, a commissioner of the New Jersey Commission on Science and Technology and a member of the Newark International Airport Advisory Committee. He holds a Doctorate of Physical Chemistry from the University of California. Age: 50. Professional Experience: higher education, science and technology policy.
Committee Membership: Audit; Corporate Development; Energy, Operations & Research; Finance & Investor Relations.

BOARD OF DIRECTORS


Jos. Michael Galvin, Jr.


Gerald A. Hale


Matthew Holden, Jr.


Cyrus H. Holley

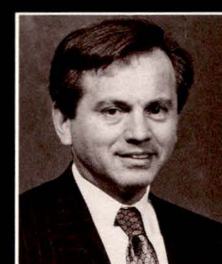

E. Douglas Huggard


Jerrold L. Jacobs


Kathleen MacDonnell


Richard B. McGlynn


Bernard J. Morgan


Harold J. Raveché

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ATLANTIC ENERGY

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