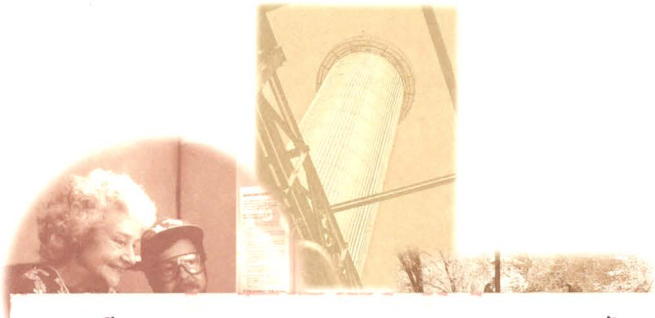
1993 *Delmarva Power* Annual Report



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Marking A Good Year
With An Eye On Tomorrow's Opportunities

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

FINANCIAL HIGHLIGHTS

	1993	1992	Percent Increase (Decrease)
Revenues	$970.6 million	$864.0 million	12.3
Net Income	$111.1 million	$98.5 million	12.7
Earnings Per Share of Common Stock	$1.76	$1.69(1)	4.1
Dividends Declared Per Share of Common Stock	$1.54	$1.54	—
Average Shares of Common Stock Outstanding (000)	57,557	53,456	7.7
Common Stock Book Value Per Share	$14.66	$13.77	6.5
Construction Expenditures (2)	$160.0 million	$207.4 million	(22.9)
Internally Generated Funds (3)	$108.7 million	$130.3 million	(16.6)
Electric Sales	12,280,230 mWh	11,520,811 mWh	6.6
Interchange Deliveries	2,225,384 mWh	998,679 mWh	122.8
Electric Customers (year end)	387,354	379,819	2.0
Average Annual Residential Usage	10,336 kWh	9,680 kWh	6.8
Gas Sales	18.07 million mcf	17.01 million mcf	6.2
Gas Transported	1.54 million mcf	3.16 million mcf	(51.2)
Total Gas Sold and Transported	19.61 million mcf	20.17 million mcf	(2.8)
Gas Customers (year end)	92,940	89,659	3.7
Average Annual Residential Usage	86.85 mcf	88.71 mcf	(2.1)

(1) Includes $0.21 per share from settlement of the Peach Bottom lawsuit.
(2) Excludes Allowance For Funds Used During Construction.
(3) Net cash provided by operating activities less common and preferred dividends.

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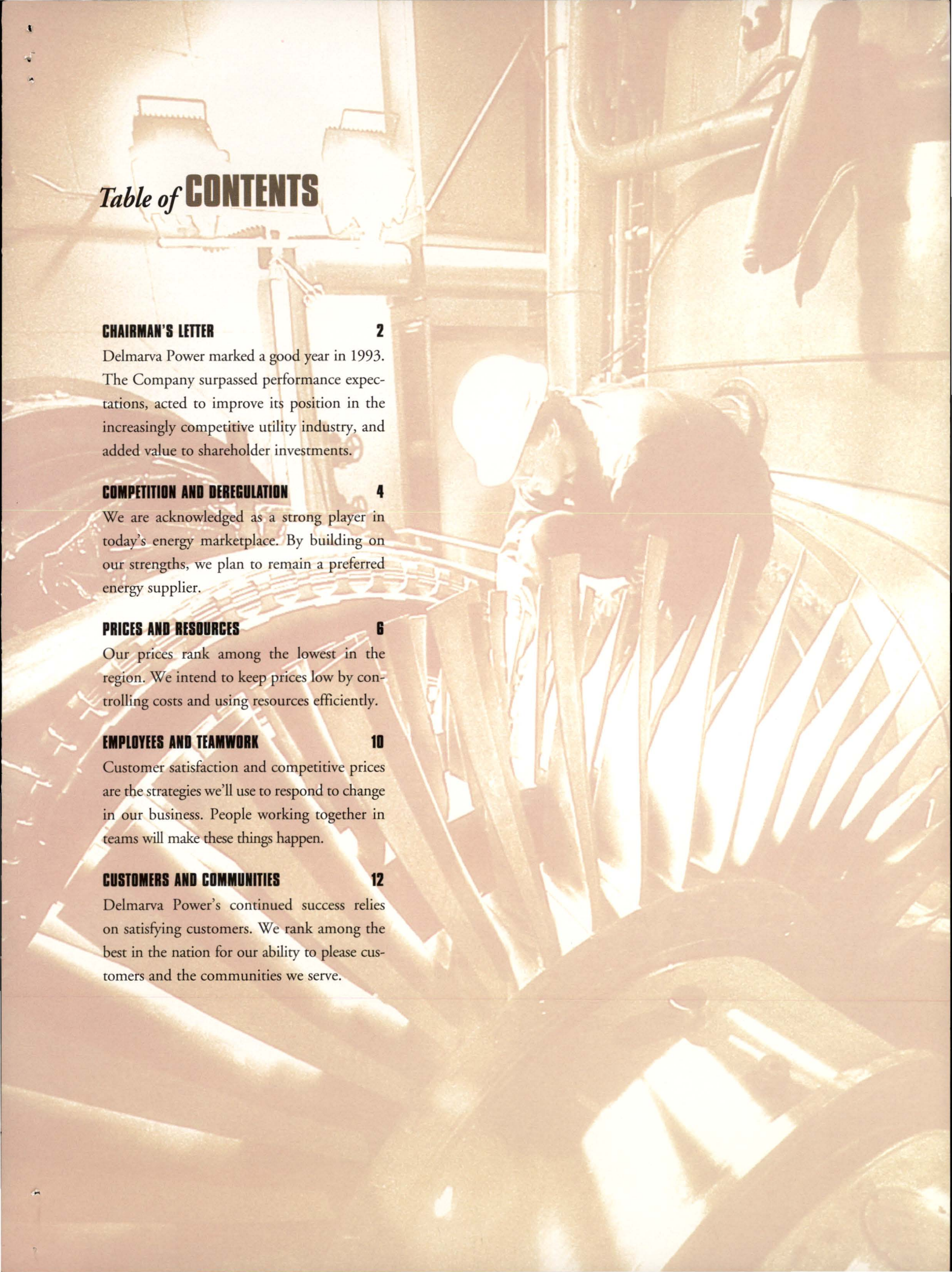


Marking A *Good Year* With An Eye On Tomorrow's Opportunities

Dear Stockholder,

Delmarva Power's 1993 performance surpassed expectations. Warmer-than-normal summer weather, customer growth, higher prices, and effective cost control produced earnings of $1.76 per share, a 7¢ increase compared to 1992. However, after excluding the 21¢ one-time gain in '92 for the Peach Bottom lawsuit settlement, earnings rose by 28¢ per share.

These financial results were supported by a strong operating performance across the Company. For example, the 175-megawatt Hay Road Unit #4 was placed in service on schedule and on budget. This unit, which increased the Company's reserve margin to 22.6%, uses exhaust heat from three existing combustion turbines to generate electricity. This makes the Hay Road complex economically and environmentally efficient.

Power plants ran at 89.7% equivalent availability, well above the industry average of 80.6%. Our customer favorability rating of 81% still ranked us among industry leaders. We gained rate case approvals through a collaborative approach with regulators and customers, which accelerated the process and avoided costly litigation. We reduced expenses by nearly 3% below budget, and we retained our position as the region's low-cost energy producer.

These accomplishments reflect the hard work of our employees. They deserve thanks and congratulations for their efforts. More details about our 1993 performance are in the Financial section of this report. Now let's turn to what is ahead for you as a stockholder and for Delmarva Power.

Industry Change and Competition

As a result of the Energy Policy Act of 1992, Delmarva Power and other electric utilities compete against each other and independent power producers to supply energy to municipalities, cooperatives, and other large wholesale customers. These customers can now shop for the best price, and they are doing so in our service territory. For example, one of our wholesale customers, Old Dominion Electric Cooperative (ODEC), will buy part of its electricity from another utility beginning in 1995. In response to this industry change, we will seek to sign long-term energy-supply contracts with wholesale customers. Within three to five years, utilities may vie for retail customers, such as manufacturing plants, office complexes, and shopping malls, as well.

Delmarva Power's continued success relies on satisfying customers who will have more flexibility in choosing their

energy suppliers, products, and services. The Company anticipated this industry change and has already focused on strategies that will help us thrive. These strategies include Challenge 2000, a flexible and balanced energy supply plan; Serving & Conserving Delmarva, an environmental stewardship program that goes beyond legal compliance; and the Participative Skills Process, which fosters a culture built around teamwork and continuous improvement. Along with these, we're working to increase sales, especially in retail markets where we excel, and expand our energy products and services. We're also rethinking our critical business processes to look for better ways to offer our customers lower prices, increased quality, and quicker response.

Although we need to do better to succeed in the '90s, industry analysts already acknowledge Delmarva Power as a strong player in an increasingly competitive environment. According to the Merrill Lynch "Competitive Damage Index," Delmarva Power ranks in the top half of U.S. power companies with a competitive advantage. W.H. Reaves & Company named Delmarva Power among a select group of electric utilities that will be able to face increased competition, and Duff & Phelps stated the Company is "well positioned" for the increasing rivalry in the electric utility industry. In addition, a management audit sponsored by the Maryland Public Service Commission concluded that Delmarva Power is well managed and ready to meet competition.

Financial Strength and Dividends

Keeping Delmarva Power financially strong in this competitive environment remains a top priority. Higher-than-expected earnings in 1993, combined with additional shareholder investment, lower capital expenditures, and reduced capital costs obtained through debt refinancings, have improved the Company's financial condition. For example, book value, which grew in 1993 by 89¢ per share or 6.5%, reflects this improvement and represents an increased basis for allowable future earnings for shareholders. However, as industry change continues to bring increased risk to our business, we expect earnings to be more volatile than in the past.

With our commitment to financial strength in mind, the Board of Directors recently declared a quarterly dividend of 38½¢ per share for an indicated annual rate of $1.54. At the end of January, our dividend yield of 7.1% was above the average of 6.4% for the electric utility industry. And, market price is in line with the industry average as measured by the ratio of market price per share to shareholder equity per share. Given these factors, along with our relatively high dividend payout ratio and increasing industry uncertainty, the Board concluded that the level of the dividend is appropriate. The current dividend reflects the Company's prospects during a period of increasing competition, represents a competitive yield when compared to alternative utility investments of similar quality, and supports a fair price for the Company's stock.

While more than 30 major investor-owned U.S. electric utilities cut their dividend by as much as 100% in the last decade, Delmarva Power's dividend is secure and sustainable at its current level. Over the long term, the dividend will be a function of earnings and our ability to compete successfully in a rapidly changing energy services marketplace.

We're excited about the next 12 months. This period will lay a foundation for the way we do business in the future. We'll continue to stress the competencies that have provided us with an initial edge—financial strength, customer satisfaction, competitive prices, and teamwork—and we will replace traditional approaches in our business in an effort to remain a preferred supplier in an increasingly competitive marketplace.

Thank you for your confidence and continuing support.

Sincerely,

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

We're working to increase sales, especially in the retail market where we excel.

Remaining A *Preferred Energy* Supplier

Preparing For A New Era

Competitive prices, teamwork, and customer satisfaction—the principles that guided us to success in the 1980s—are the strengths we are building on to stay a preferred energy supplier in a new era of competition and deregulation. Pages 6 to 15 describe the general strategies, plans, programs, and projects that support these principles. This section highlights actions we took in 1993 to take advantage of our strengths in the changing utility industry.

Adapting To A Changing Market

Competitive prices enabled Delmarva Power to reduce some uncertainty in our wholesale electricity business. Under agreements negotiated in '93, wholesale customers must provide the Company with a two-year notice period to reduce up to 30% of their electricity requirements and a five-year notice to reduce above this level. This will give us more stability while we work to secure long-term energy supply contracts with these and other customers.

With our ability to satisfy customers, we acted on opportunities to grow in the retail market. An example of this is Delmarva Power's offer to buy the Dover, Delaware, electric system. The Company recently presented a $103.5 million purchase proposal to the Utility Committee of the City Council. We believe that the proposal benefits Dover and Delmarva Power. For Dover and its residents, it means lower rates to businesses and many residential customers, a source of steady income to the city without the risks of running a power plant and operating an electric system, and job offers for the city's electric department employees. For the Company, it means an expanded service area with 18,500 new retail customers and a positive impact on earnings. Delmarva Power is also investigating similar offers for other electric systems in the region. We believe we can be the energy provider of choice, especially among residential and small to medium-sized commercial and industrial customers that make up 85% of our retail market segment.

Through teamwork, Delmarva Power has begun to study and rethink critical business processes. The traditional way we serve customers may not work in the new era of competition. Company teams are looking for ways beyond cost cutting to maintain competitive prices and high quality products and services. We are also forming a more cooperative relationship with regulatory agencies. During the past year, we continued our history of achieving reasonable rate relief from commissions that regulate the Company. We obtained these results through a collaborative approach with both regulators and customers that accelerated the process and reduced costs. In addition, Delaware Governor Thomas Carper convened a task force to review the regulatory process in that state. The task force consists of representatives from the Public Service Commission; utilities, including Delmarva Power; industrial customers; government; and the public. Its purpose is to recommend reforms to the existing regulatory process, structure, and organization that will improve utility efficiency and encourage utility innovation while assuring continued availability of utility services at affordable prices.

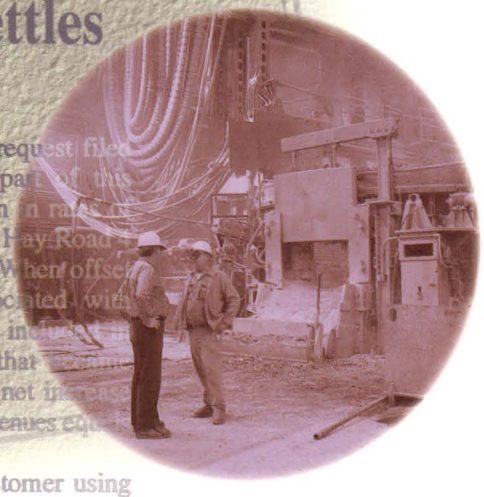
Delmarva Power will continue to take advantage of strategies that keep prices competitive, encourage teamwork, and heighten customer satisfaction. These strategies will help us to thrive in a competitive industry, and enable us to continue to provide a fair return to investors.

Collaborative Approach Settles Delaware Rate Case

DOVER — On October 5, the Delaware Public Service Commission (PSC) approved a precedent-setting rate increase agreement between the Delaware Office of the Public Advocate, Delmarva Power, and the company's industrial customers.

Under this agreement, Delmarva [illegible] increase rates for the company's Delaware electric customers [illegible] million rate increase request filed last October. A key part of this case was the inclusion in rates of the new, fuel efficient Hay Road combined-cycle unit. When offset by fuel savings associated with this unit, which were included in the lower fuel rates that became effective in June, the net increase in Delmarva Power revenues equaled about 3.7 percent.

For a residential customer using [illegible] kilowatt-hours of electricity



Delmarva Power intends to grow the retail part of its business by developing energy-related products and services that offer customized satisfaction.

Keeping Our ENERGY PRICES Competitive

Limiting Costs Through Balance And Flexibility

Our energy prices are among the lowest in the Mid-Atlantic region and provide Delmarva Power with a competitive edge. Challenge 2000, a balanced and flexible energy supply plan devised in 1987, helped the Company gain its price advantage.

Challenge 2000 uses balance and flexibility to deal with the changing demand for electricity. Demand rose dramatically in the early 1970s, slowed in the latter part of the decade, and then grew sharply in the 1980s.

Flexibility and balance allow the plan to be accelerated, slowed, or modified to respond to changing energy demands, fluctuating fuel prices, and emerging technologies. Challenge 2000's three-pronged strategy includes saving energy, buying energy from other suppliers, and building and owning power plants, or "Save Some, Buy Some, Build Some." This plan is designed to provide reliable energy at the lowest reasonable cost. So far, the plan has supplied the energy needed by customers on the Delmarva Peninsula while helping to keep prices for electricity at about 1983 levels.

"Save Some" consists of energy conservation and load management programs for all types of customers. In '93, the Company introduced eight new energy conservation programs to Maryland residential and commercial customers. Among them, EPlus and Super EPlus offer rebates to customers who install energy-efficient central cooling systems in their new or existing homes. Delmarva Power expects to offer similar programs in Delaware and Virginia in 1994.

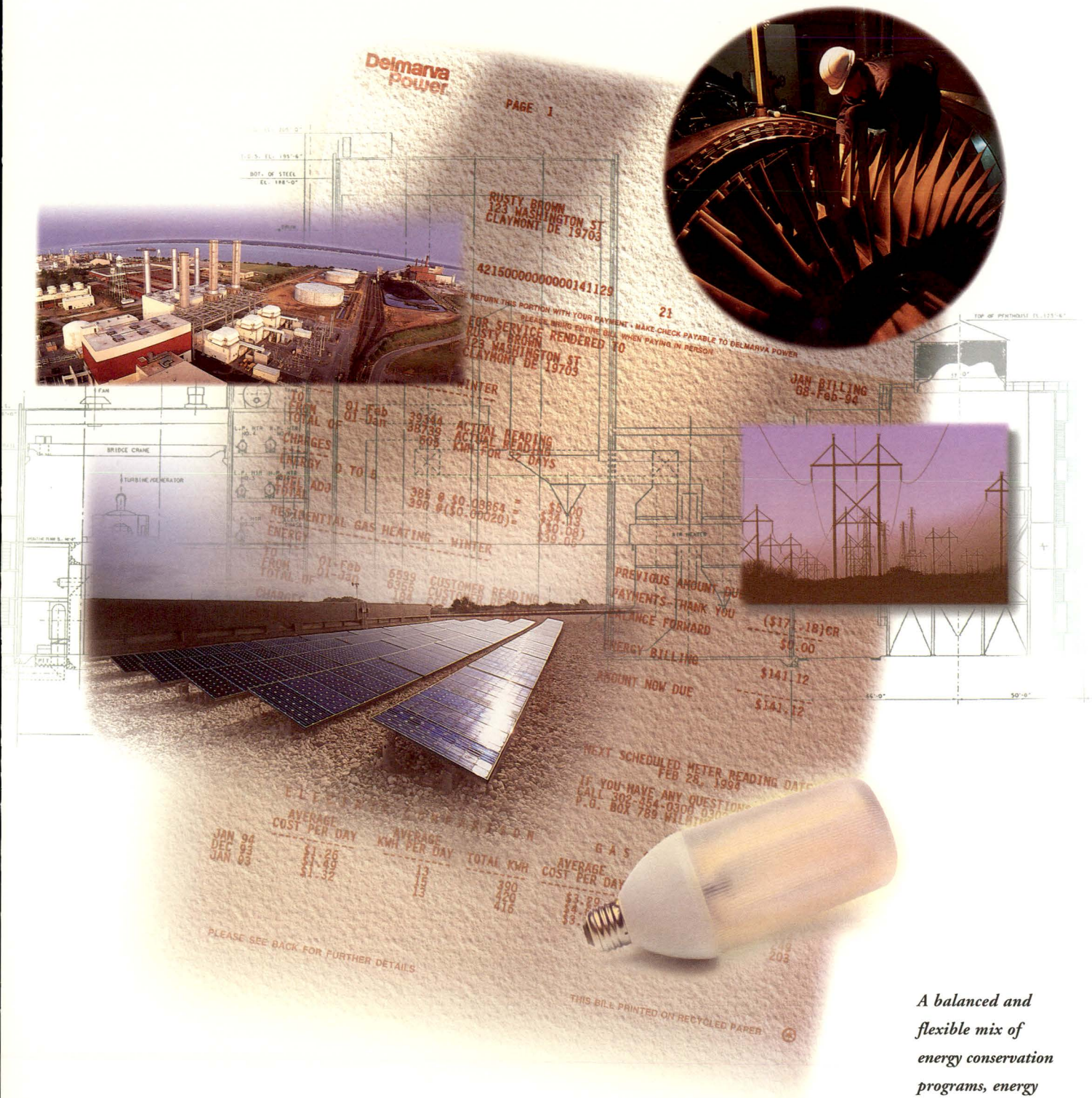
For "Buy Some," we opted, under a power purchase agreement, to delay the in-service date of the Delaware Clean Energy Project from June 1996 to June 1998 or later. The delay of this 165-megawatt power plant that will burn gasified coke resulted from the expected loss of part of our resale business and moderate overall load growth.

Under "Build Some," the Company completed Hay Road Unit #4. This combined cycle unit cleanly and efficiently generates up to 175 megawatts of electricity by using the exhaust heat from three adjoining generating units. The Hay Road complex, including Unit# 4, was built in four increments to closely match energy supply with growing customer needs. Through this incremental approach, the complex has a total cost of $470 per kilowatt, 20% below typical costs. To preserve an energy supply option, the Company is getting licenses for a new 300-megawatt power plant near Vienna, Maryland. If needed, Delmarva Power would build this clean-coal technology unit in Dorchester County toward the end of the century. The Company is also exploring new ways to generate electricity. At our Northern Division operations center in Christiana, Delaware, we are testing photovoltaic technology that uses solar cells to generate clean, reliable electricity directly from sunlight.

Price will key our future success in a competitve environment. We intend to keep our prices low. A balanced and flexible approach to energy supply will enable us to retain our price competitiveness.

Regional Energy Prices	Electric	Gas
New York	13.18	76.10
Newark, N.J.	9.11	51.82
Philadelphia	8.46	60.50
Baltimore	6.90	62.16
Norfolk, Va.	6.27	66.85
Delmarva Peninsula	6.09	50.94

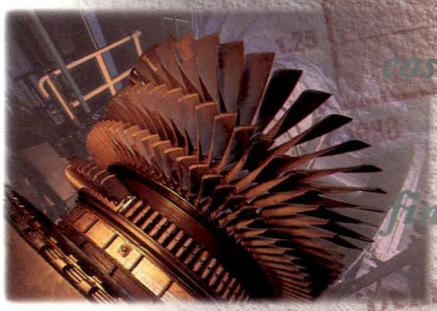
The chart states electric prices in cents per kilowatt-hour and natural gas prices in cents per 100 cubic feet for the 12 months ended September 30, 1993.



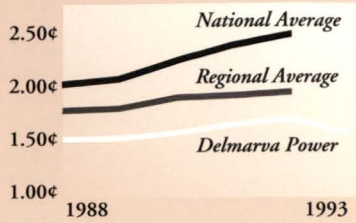
A balanced and flexible mix of energy conservation programs, energy purchases from other suppliers, and new power plants have kept prices for electricity at about 1983 levels.

Although we have done a good job controlling costs, we will continue to seek improvement.

We plan to further our ongoing cost control efforts in 1994 to find more savings.



Across the Company, employee efforts have held the line on operating and maintenance expenses. In 1993, the Company cut these costs by $6.5 million below budget.



O & M COSTS
The growth rate of the Company's O & M costs per kWh of electric sales has stayed relatively flat and well below industry standards.

Using COMPANY RESOURCES Efficiently

Controlling Our Costs

Cost-effective operation has also contributed to our low energy prices. Delmarva Power has kept the growth of operating and maintenance costs under control. This is the result of hard work and creativity. In 1993, the Company issued a corporate-wide challenge to reduce operation and maintenance costs by $5 million or 2% below budget. Employees responded to the challenge and cut costs by $6.5 million or nearly 3% below budget.

Here are several examples. Company power plants kept expenses down by achieving 89.7% equivalent availability, the highest in 10 years and significantly above the industry average of 80.6%. Staffing levels across the Company were held steady. Delmarva Power reduced capital costs by nearly $2 million through an aggressive refinancing program. More than 98% of employees remained injury-free, and the number of absences due to illness fell for the sixth straight year.

Our cost-contol efforts also included simpler ideas that provide smaller, but significant, savings. For example, the treasury group expanded its regular review of bank statements to include intensive error and fee checking. These techniques uncovered various bank errors and have led to lower bank fees and more services for the Company. By projecting plastic pipe requirements and ordering a two-year supply in advance, our gas distribution and purchasing groups will save the Company about $500,000 by the end of 1994. In a trial program, a gas supply analyst from our gas division was assigned to the electric system operations department. The analyst worked with a power supply supervisor to determine the daily amount of natural gas the Hay Road and Edge Moor power plants needed to generate electricity and to find the lowest possible natural gas prices. When cheaper fuel was available in September, the Company saved $67,000.

A more exotic effort to reduce costs is the ash management program. Since the program began five years ago, 52% of the fly ash generated by Delmarva Power's power plants has been recycled instead of placed in expensive, specially constructed landfills. This has resulted in a net savings of over $4 million. The Company hopes to expand the markets for fly ash to eliminate the need for future landfill construction and to lower the cost of handling and disposing of the coal combustion by-product. Since the program's inception, fly ash has been used in a variety of markets from highway construction to asphalt shingle manufacturing to oyster farming to playground surfacing. At present, ash is being used in a highway embankment project near Centreville, Maryland, and in a cooperative project with the University of Delaware to investigate agricultural applications for fly ash.

Although we have done a good job controlling costs, we will continue to seek improvement. We plan to further our ongoing cost control efforts in 1994 to find more savings.

Fostering *Teamwork* To Gain An Edge

Safety Always For Everyone (SAFE) will position us as an industry leader in safety through teamwork among employees, contractors, and customers.

Teamwork at Delmarva Power didn't just happen. More than 10 years ago, Delmarva Power introduced the Participative Skills Process (PSP). The Company was committed to developing a culture that encourages respect for individuals, values their viewpoints, and empowers them as partners in the decision-making process.

This participative process was considered a radical departure from the utility industry's traditional top-down decision management style. However, Company managers realized that new perspectives were needed to improve efficiency, reduce costs, and to keep the Company healthy in the face of increasing competition.

Empowering Our People

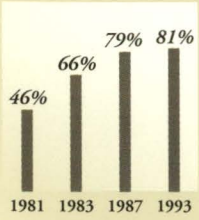
Through several of the most severe storms on record for the Delmarva Peninsula, Delmarva Power crews received high marks from customers for the restoration of power under difficult weather conditions. Why? . . . teamwork. Effective teamwork helps us to keep prices and costs down and to provide high quality service, such as quick responses to storm outages. These, in turn, increase customer satisfaction.

At the peak of a winter squall in March 1993, about 20,000 customers were without power across the peninsula. Fast-working Delmarva Power crews restored service to most of these customers within a couple of hours, despite downed wires, driving rain and sleet, gale-force winds, and snow-covered roads. As always, many employees worked long hours during the storm routing electricity, repairing damaged equipment, coordinating efforts, and answering customer calls. This team spirit was again evident in employee efforts to restore service to thousands of customers during ice storms in January and February 1994.

As PSP began to work, new ideas began to emerge. New methods of solving problems and reducing costs were discovered. More projects began coming in ahead of schedule and under budget. This process has developed a true sense of teamwork among employees throughout the Company. Since PSP's inception, in periodic surveys, almost 100% of employees have rated the Company a good or excellent place to work.

Employee empowerment is now a fundamental part of our culture. Team skills, interdepartmental brainstorming, active listening, and grass-roots problem solving have evolved from a collection of techniques to the way we do business at Delmarva Power. We will continue to foster our participative culture to maintain favorable customer relations, stay price competitive, and manage industry change.

During the past decade, teamwork and the participative process at Delmarva Power has led to productivity gains, cost savings, service improvements, and increased employee commitment.



CUSTOMER FAVORABILITY
Delmarva Power has steadily improved its positive customer ratings. The Company now ranks among the best in the nation.

Furthering Our *Ability to Please* Customers

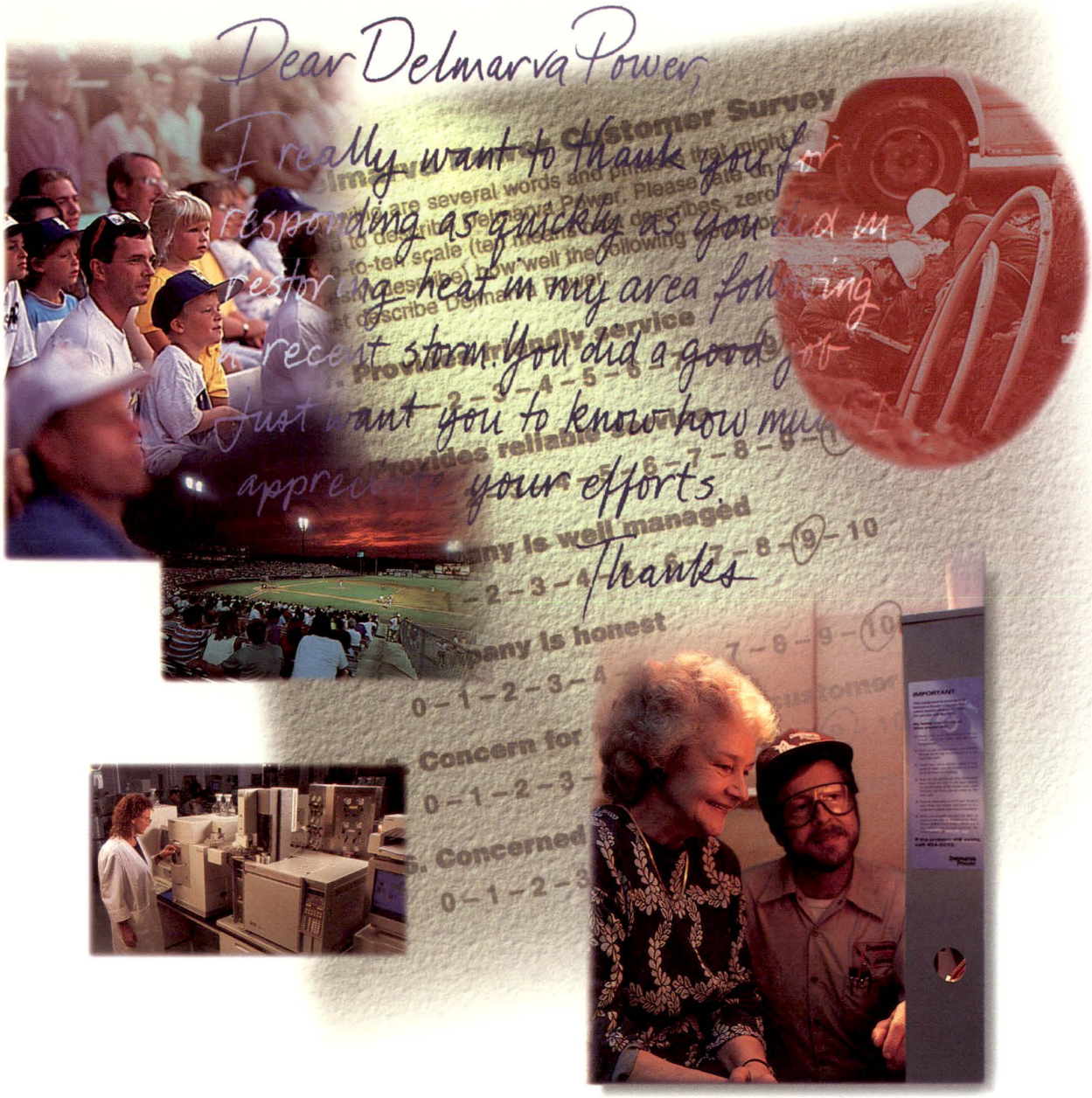
Building On Favorable Results

As we head into a more competitive utility industry environment, our ability to please customers will become even more important. Delmarva Power has earned one of the highest customer favorability ratings in the nation, according to an independent market research firm. Currently, more than eight out of ten customers give us an overall favorable rating, third highest among 70 electric and gas companies surveyed. Positive ratings for our efforts to protect the environment place the Company near the top in industry comparisons. Customers also cite honesty and concern, reasonable rates, and reliable service as key reasons for their satisfaction with Delmarva Power.

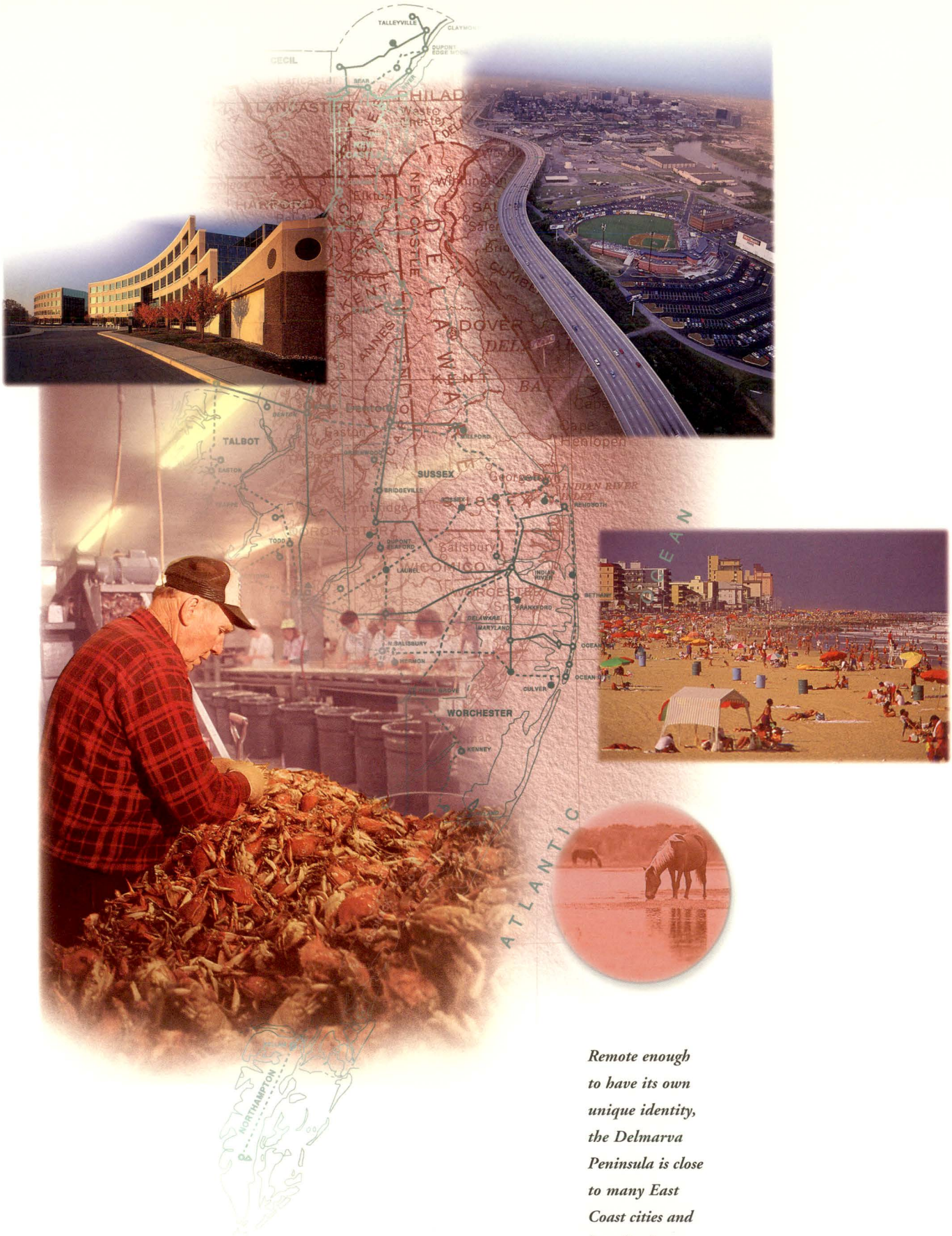
Sometimes improving customer satisfaction means crossing new waters—literally. A recent project, Canal West, is taking our natural gas service to several new residential developments below the Chesapeake and Delaware Canal in Delaware. Many new home buyers in the Canal West area are existing Delmarva Power gas customers seeking to migrate south of the canal. These customers are pleased with their current gas service and want to have the same satisfaction in their new homes. This project allows us to make 4,000 new home-owners happy and to increase residential gas sales.

The growth we see in Canal West and other areas of the peninsula will continue gradually through 1996. For the 20-year period ending in 2013, we forecast that electricity sales will grow at an annual rate of 1.6% per year. We expect similar growth for gas sales. During the next 10 years, the Company projects total gas volume to rise by 1.3% per year.

Despite high customer favorability, Delmarva Power cannot stand still. To ensure high quality service in the future, we plan to make some changes. These plans include consolidating telephone and dispatch operations into three divisional centers and extending the hours of our normal operations to provide customer service coverage throughout our service area. Along with these plans, the Company is also studying pricing and payment options. To continue to satisfy customers, we will find ways to offer more value-added products and services that meet their individual and varied needs.



As competition and deregulation provide customers with increased energy choices, the ability to satisfy our customers will become more valuable.



Remote enough to have its own unique identity, the Delmarva Peninsula is close to many East Coast cities and benefits from their markets and financial centers.

Our Service Area

Caring About The *People and Places* We Serve

Improving Life On The Peninsula

Our ability to please customers is linked to our involvement with the people and places we serve. The Delmarva Peninsula is our home. The combination of scenic meadows, tranquil tidal lands, bustling urban commerce centers, and attractive resort areas makes the peninsula an interesting place to live, work, and play. In addition, the blend of industries—chemicals, food processing, agriculture, finance, plastics, auto manufacturing, pharmaceuticals, aerospace, and recreation—makes the demand for electricity and natural gas less affected by fluctuations in the national economy than in most other areas of the U.S.

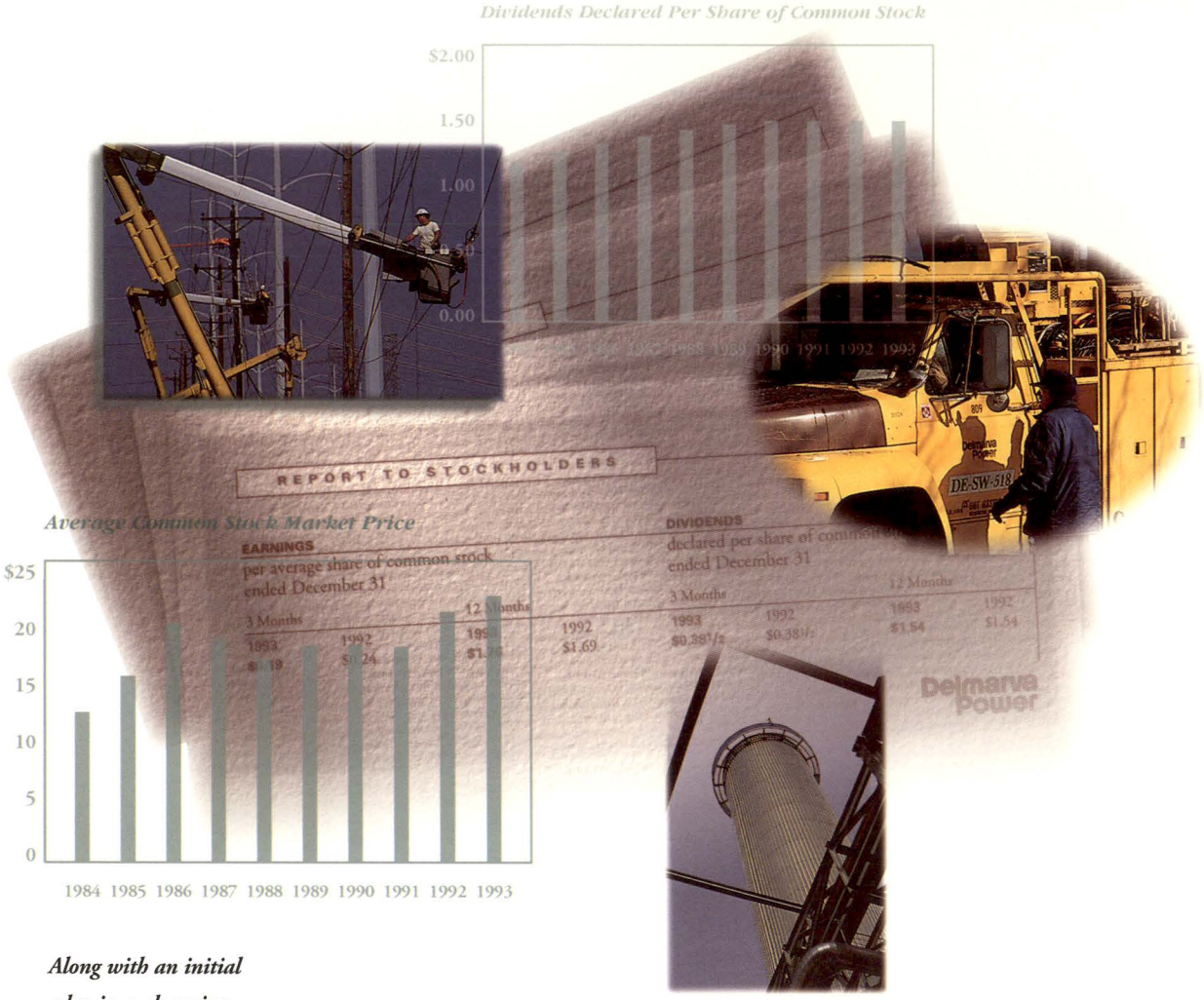
The Company has provided electric and natural gas service here for the past 100 years. We're proud of that record. Today, our 2,810 employees serve 387,354 electric customers and 92,940 natural gas customers. Delmarva Power provides electric service throughout most of the 5,700-square-mile peninsula. In addition, we distribute natural gas service in a 275-square-mile area in northern Delaware.

We have worked hard to understand the needs of the people on the Delmarva Peninsula to find ways to better serve them. This includes looking beyond the typical business relationship with our customers.

An example of this began 10 years ago—Radio Watch. Delmarva Power employees who participate in Radio Watch use two-way radios in their vehicles to report emergencies and hazardous situations to help public safety officials. To date, many employee volunteers have helped people in a variety of emergency situations from house fires, to car accidents, to snowbound motorists, to lost children, to crimes in progress. Radio Watch has gained local and national recognition and has received two White House Awards.

This year the pond at the Company's Vienna power plant produced nearly 100,000 striped bass (rockfish) to help replenish the fish population in the Chesapeake Bay and its tributaries. Since 1985, more than 320,000 rockfish have been raised at Delmarva Power's Vienna and Edge Moor hatcheries. These hatcheries are part of Delmarva Power's environmental stewardship program called Serving & Conserving Delmarva and are additional examples of our efforts to improve the quality of life on the peninsula. Under Serving & Conserving Delmarva, the Company conducts several other activities that save energy, use and recycle waste, enhance wildlife, and protect the environment.

Delmarva Power will continue to meet the energy needs of our customers on the Delmarva Peninsula in a safe, reliable, competitively priced, and customer-focused manner. Along with that, we will continue to strive to make our part of the world a better place.



Along with an initial edge in a changing industry, our strategies have also increased the value of shareholder investments by nearly 400% during the past 10 years through a combination of dividends and stock price appreciation.

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SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)

	Year Ended December 31,				
	1993	1992	1991	1990	1989
Operating Data					
Operating Revenues	$970,607	$864,044	$855,821	$812,217	$796,614
Operating Income	$164,139	$143,711	$136,410	$144,473	$137,650
Income Before Cumulative Effect of a Change in Accounting Principle	$111,076	$98,526	$80,506	$37,311	$91,308
Cumulative Effect of a Change in Accounting for Unbilled Revenues	—	—	$12,730	—	—
Net Income	$111,076	$98,526	$93,236	$37,311	$91,308
Electric Sales (kWh 000)	12,280,230	11,520,811	11,460,280	11,081,211	10,828,839
Interchange Deliveries (kWh 000)	2,225,384	998,679	1,113,423	726,090	894,402
Gas Sales (mcf 000)	18,066	17,013	15,574	16,069	16,645
Gas Transported (mcf 000)	1,539	3,155	2,610	2,194	677
Common Stock Data					
Earnings Per Share of Common Stock:					
Before Cumulative Effect of a Change in Accounting Principle	$1.76	$1.69	$1.44	$0.60	$1.80
Cumulative Effect of a Change in Accounting for Unbilled Revenues	—	—	$0.25	—	—
Total Earnings Per Share	$1.76	$1.69	$1.69	$0.60	$1.80
Dividends Declared Per Share of Common Stock	$1.54	$1.54	$1.54	$1.54	$1.51
Average Shares Outstanding (000)	57,557	53,456	50,581	47,534	46,687
Year-End Common Stock Price	$23 5/8	$23 1/4	$21 1/4	$18 1/8	$20 7/8
Book Value Per Common Share	$14.66	$13.77	$13.42	$12.84	$13.67
Return on Average Common Equity	12.0%	12.2%	12.4%	4.3%	13.2%
Capitalization					
Variable Rate Demand Bonds (VRDB)(1)	$ 41,500	$ 41,500	$ 41,500	$ 41,500	$ 41,500
Long-Term Debt	736,368	787,387	770,146	741,032	662,544
Preferred Stock	168,085	176,365	136,365	136,365	136,442
Common Stockholders' Equity	862,195	745,789	706,583	614,692	642,641
Total Capitalization with VRDB	$1,808,148	$1,751,041	$1,654,594	$1,533,589	$1,483,127
Other Information					
Total Assets	$2,593,529	$2,374,793	$2,263,718	$2,125,715	$2,028,661
Long-Term Capital Lease Obligation	$23,335	$26,081	$29,337	$32,354	$2,071
Construction Expenditures(2)	$159,991	$207,439	$181,820	$187,823	$175,843
Internally Generated Funds (IGF)(3)	$108,693	$130,275	$96,081	$112,551	$106,698
IGF as a Percent of Construction Expenditures	68%	63%	53%	60%	61%

(1) Although Variable Rate Demand Bonds are classified as current liabilities, the Company intends to use the bonds as a source of long-term financing as discussed in Note 9 to the Consolidated Financial Statements.

(2) Excludes Allowance for Funds Used During Construction.

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

Earnings

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

	1993	1992	1991
Core Utility			
Operations	$1.73	$1.47	$1.41
Peach Bottom lawsuit settlement	—	0.21	—
Cumulative effect of a change in accounting for unbilled revenues	—	—	0.25
	1.73	1.68	1.66
Nonutility subsidiaries	0.03	0.01	0.03
Total	$1.76	$1.69	$1.69

Dividends

On December 30, 1993, the Board of Directors declared a common stock dividend of $0.38 1/2 per share for the fourth quarter. For 1993, dividends declared per share of common stock were $1.54. The Board believes that the current dividend level is appropriate, secure and sustainable. The current dividend level represents an above average yield in comparison to alternative utility investments of similar quality and is reflective of the Company's future financial prospects during a period of increasing competition. At the current yield, the dividend supports the price of the Company's stock at a level which is competitive with the industry average as measured by the ratio of market price per share to book value per share.

Core Utility Earnings

The components of change from the prior year in core utility earnings per share are shown below.

	1993 vs. 1992	1992 vs. 1991
Operations		
Electric revenues, net of fuel expense		
Rate increases	$0.31	$0.33
Sales volume and other	0.37	(0.10)
Gas revenues, net of fuel expense	0.01	0.09
Operation and maintenance expense	(0.17)	(0.08)
Depreciation	(0.07)	(0.08)
Effect of increased number of average common shares	(0.13)	(0.09)
Other	(0.06)	(0.01)
	0.26	0.06
Peach Bottom lawsuit settlement	(0.21)	0.21
Cumulative effect of a change in accounting for unbilled revenues	—	(0.25)
	$0.05	$0.02

Earnings per share from core utility operations increased by $0.26 in 1993 compared to 1992 primarily due to growth in electric revenues attributed to higher customer base rates and a 6.6% increase in kilowatt-hour (kWh) sales. Electric sales benefited from hotter summer weather and a 2.0% increase in the number of customers. Electric customer base rates were raised in 1993 to recover higher costs, including the costs of adding electric generating capacity to meet the demand for electricity within the Company's service territory. (Refer to Note 2 to the Consolidated Financial Statements for additional information concerning changes in customer base rates.) The earnings growth from higher electric revenues was partially offset by increased non-fuel expenses, including operation and depreciation expenses, and also by the dilutive effect on earnings per share of more common shares outstanding. Financing requirements associated with utility plant were principally satisfied by issuing common stock in order to strengthen the Company's capitalization and reduce the level of financial risk.

In 1992, earnings per share from core utility operations increased by $0.06 in comparison to 1991, primarily due to additional electric and gas revenues from higher customer base rates. The additional base revenues from higher customer rates were partially offset by unfavorable effects of cooler summer weather on electric revenues, increased non-fuel expenses, and an increase in the number of common shares outstanding.

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

As a regulated public utility, the Company may file applications for customer rate increases with regulatory commissions having jurisdiction over the Company's utility business in order to recover cost increases associated with supplying electricity and gas. The process of raising customer rates has certain risks, including the possibility that protracted hearings may result in a lag between the time when costs rise and when prices can be adjusted. During 1992 and 1993, the Company increased customer rates in a timely manner by amounts sufficient to recover higher costs. Even after these rate increases, the Company's electric rates are comparable to 1983 levels and lower than the average of utilities in the region.

Competition

In October 1992, the Energy Policy Act of 1992 (the Energy Act) was enacted. The Energy Act enabled the Federal Energy Regulatory Commission (FERC) to order the provision of transmission service (wheeling of electricity) for wholesale (resale) electricity producers and also provided for the creation of a new category of electric power producers called exempt wholesale generators (EWGs). These provisions of the Energy Act have enhanced the ability of utilities and non-utility generators to compete to serve resale customers currently served by a particular utility. Partly as a result of the Energy Act, industry-wide resale markets are experiencing increased competition. In 1993, gross electric revenues from the Company's resale business were $105.0 million or 13.0% of billed electric sales revenues.

In response to the changing environment in the electric utility industry, the Company has modified existing strategies and also developed new strategies. From a customer or market perspective, the Company has concluded that focusing on growing the retail portion of the business provides the best opportunity to meet the twin objectives of satisfying customers' needs while providing a fair return to shareholders. In order to maintain acceptable profitability levels while keeping customer prices competitive, the Company is stepping up efforts to find ways of reducing costs.

To facilitate implementation of this plan, the Company has developed market specific strategies intended to grow retail sales. The Company's retail prices are among the lowest in the region and the Company continues to maintain high customer favorability ratings. The Company believes it should have the ability to offer flexible pricing in order to compete to serve large retail customers. Such changes in pricing methods could require modification to the existing regulatory process. In Delaware, the Governor has convened a task force "to recommend reforms to the existing regulatory process, structure, and organization that will improve utility efficiency and encourage utility innovation, while assuring continued availability of utility services at affordable and competitive prices." The task force includes representatives from the Delaware Public Service Commission, utilities (including the Company), industrial customers, government, and the public.

In the resale market, the Company seeks to reduce the risk associated with a customer switching energy suppliers on short notice because providing electricity service requires investments in capital-intensive facilities which have long lives and require long lead-times for construction. In the Company's most recent resale base rate case, the resale customers agreed to provide a two-year notice for load reductions up to 30% and a five-year notice for load reductions greater than 30%.

Prior to this agreement, Old Dominion Electric Cooperative (ODEC), a resale customer, advised the Company that it would purchase up to 150 megawatts (MW) from another utility, beginning January 1, 1995. The Company is continuing to negotiate a partial-requirements service agreement (to serve the balance of ODEC's load) and a transmission service agreement (to transport the electricity ODEC plans to purchase) with ODEC to become effective January 1, 1995. The maximum reduction in annual non-fuel revenues that could result from ODEC's purchase of 150 MW from another utility is estimated to be about $24 million or $0.24 per share based on projected shares outstanding in 1995. To mitigate the potential impact of this loss of business, the Company is pursuing off-system sales of capacity and energy, intensifying cost control efforts, and if necessary, may apply for increases in customer rates. The Company expects that these strategies will reduce to approximately $0.08 or less, or possibly eliminate, the adverse earnings per share effect; however, the ultimate effect on future earnings depends on the degree of success experienced by the Company in implementing its strategies.

Other Utility Customer Matters

The Company is exploring various opportunities for increasing power sales. As part of the Company's efforts to grow its retail business, in December 1993, the Company offered $103.5 million to purchase the electrical system of the City of Dover, Delaware. The City of Dover has approximately 18,500 electric customers and annual revenues from electricity sales of about $37 million. Although the Company expects that the impact on earnings from the potential purchase would be minimal over the first year or two, incremental earnings are expected once economies of scale are achieved.

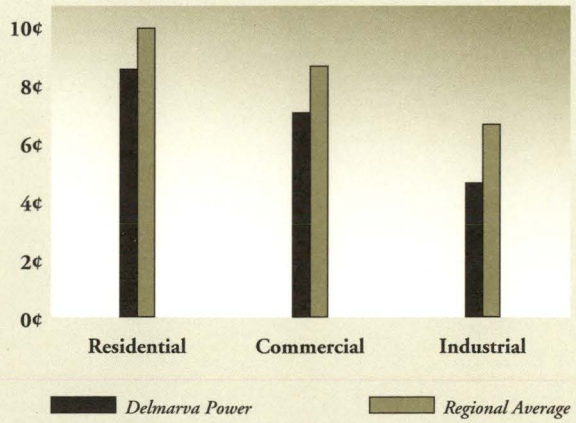
In December 1992, General Motors announced plans to close its Delaware manufacturing plant in 1996. The plant's closing could increase Delaware's unemployment rate by one to two percentage points. The direct impact on the Company's revenues from the loss of General Motors as a utility customer would be a decrease in non-fuel revenues of approximately $4 million or $0.04 per share.

Components of Utility Revenues

Fuel and energy costs billed to customers (fuel revenues) are based on rates in effect in fuel adjustment clauses which are adjusted periodically to reflect cost changes and are subject to regulatory approval. Rates for non-fuel costs billed to customers are dependent on rates determined in base rate proceedings before regulatory commissions. Changes in non-fuel (base rate) revenues can directly affect the earnings of the Company. Fuel revenues, or fuel costs billed to customers, generally do not affect net income since the expense recognized as fuel costs is adjusted to match the fuel revenues. The amount of under- or over-recovered fuel costs is generally deferred until it is subsequently recovered from or returned to utility customers.

Electric revenues also include interchange delivery revenues which result from the sale of electric power to the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM Interconnection) and certain utilities. The PJM Interconnection is an electric power pool comprised of a number of utilities in the region, including the Company. The power pool provides both capital and operating economies to member utilities. Interchange delivery revenues are reflected in the calculation of rates charged to customers under fuel adjustment clauses. Due to this rate-making treatment, interchange delivery revenues do not affect net income.

*Regional Electric Price Comparison**



*Based on 1992 data for average electric prices per kilowatt-hour.

Electric Revenues and Sales

In 1993, the percentages of total billed sales revenues contributed by the various customer classes were as follows: residential—37.9%; commercial—29.5%; industrial—18.7%; resale—13.0%; and other—0.9%.

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

Comparative Increase (Decrease) from Prior Year in Electric Revenues

(Dollars in Millions)	1993	1992
Non-fuel (Base Rate) Revenue		
Increased Rates	$26.6	$27.4
Sales Volume and Other	32.2	(5.1)
Fuel Revenue	5.9	(23.8)
Interchange Delivery Revenue	30.8	(2.9)
Total	$95.5	$(4.4)

The increases in non-fuel revenues shown above as "Increased Rates" of $26.6 million for 1993, and $27.4 million for 1992, resulted from the increases in electric customer base rates discussed in Note 2 to the Consolidated Financial Statements.

The non-fuel revenue variances shown in the above table as "Sales Volume and Other" are attributable to changes in sales volume, sales mix, and other factors. "Sales Volume and Other" variances for 1993 compared to 1992 were principally due to a 6.6% increase in total kWh sold. Sales to residential, commercial, and resale customers increased by 8.4%, 6.3%, and 7.3%, respectively, mainly due to increased kWh usage during the 1993 summer cooling season, which was hotter than normal (based on a historical 21-year average) and much hotter than 1992. Residential and commercial sales also benefited from increases in the number of customers served of 2.0% and 2.1%, respectively. Industrial sales increased 3.7% due to increased production levels of certain large customers and more kWh sales to a major customer which provides some of its own power.

Despite a 0.5% increase in total kWh sold during 1992 in comparison to 1991, "Sales Volume and Other" variances resulted in a $5.1 million decrease in 1992 non-fuel revenues due to adverse effects of unusually cool summer weather on revenues. Charges billed to resale and other large customers for peak demand usage decreased, and a disproportionately lower volume of residential sales occurred during the summer when customer rates are higher. For 1992 sales compared to 1991, residential sales were relatively flat, but commercial and resale sales, which were not as strongly affected by the cool summer weather, increased by 1.3% and 1.8%, respectively, primarily due to customer growth. Industrial sales in 1992 remained at about the 1991 level due to the slow economic recovery.

Electric fuel revenues increased $5.9 million in 1993 due to higher kWh sales partially offset by lower rates charged to customers under the fuel adjustment clauses. In 1992, electric fuel revenues decreased $23.8 million due to lower fuel adjustment clause rates.

Interchange delivery revenues increased $30.8 million in 1993 mainly due to higher sales to the PJM Interconnection which resulted from increased demand for electricity in the region and greater availability of the Company's generating units. In 1992, interchange delivery revenues decreased $2.9 million due to extended maintenance outages at the Company's generating units, which reduced potential sales to the PJM Interconnection.

Gas Revenues, Sales, and Transportation

The Company earns gas revenues from the sale of gas to customers and also from transporting gas through the Company's system for some customers who purchase gas directly from gas producers and pipelines.

Total 1993 gas revenues increased $11.1 million from 1992 due to a $1.2 million increase in non-fuel revenues and a $9.9 million increase in fuel revenues. Non-fuel revenues increased despite a 2.8% decrease in total cubic feet of gas sold and transported mainly due to increased sales to firm customers which are billed at higher rates than sales to non-firm (interruptible) and transportation customers. Firm sales increased 1.8% due to growth in the number of residential space-heating and commercial customers. The $9.9 million increase in gas fuel revenues was principally attributed to higher average fuel rates.

In 1992, total gas revenues increased $12.6 million in comparison to 1991 due to a $7.0 million increase in non-fuel revenues and a $5.6 million increase in fuel revenues. Non-fuel revenues increased due to $3.2 million of additional revenue from higher customer base rates, as discussed in Note 2 to the Consolidated Financial Statements, and due to a $3.8 million increase in sales volume. Total cubic feet of gas sold and transported in 1992 increased 10.9% over 1991 due to colder winter weather and new customers. Gas fuel revenues increased $5.6 million in 1992 primarily due to higher sales and bill-credits made to customers during 1991 for previously over-collected fuel costs.

Electric Fuel and Purchased Power Expenses

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

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

(Dollars in Millions)	1993	1992
Average Cost of Electric Fuel and Purchased Power	$ (6.9)	$ (9.9)
Increased (Decreased) kWh Output	39.2	(1.9)
Deferral of Energy Costs	4.2	(12.0)
Total	$36.5	$(23.8)

In 1993, the "Average Cost of Electric Fuel and Purchased Power" decreased $6.9 million from 1992 primarily due to addition to the electric system on June 1, 1993 of Hay Road Unit 4, a 175 MW combined cycle unit which uses exhaust heat from the three existing Hay Road combustion turbine units as its energy source. Lower oil prices also contributed to the decrease. The 1992 "Average Cost of Electric Fuel and Purchased Power" decreased $9.9 million from 1991 mainly due to lower coal and oil prices and increased power purchases at lower prices.

The $39.2 million increase in 1993 shown as "Increased (Decreased) kWh Output" was due to higher aggregate output from electric generating units and purchased power. Output rose in 1993 due to greater electric sales demand in the Company's service territory and increased interchange deliveries. In 1992, the $1.9 million decrease in kWh output was due to extended maintenance outages at certain generating units.

The kWh output required to serve load within the Company's service territory is equivalent to total output less interchange deliveries. In 1993, the Company's output for load within its service territory was provided by 46.7% coal generation, 14.6% nuclear generation, 26.0% oil and gas generation, and 12.7% net purchased power, which consisted primarily of purchases under an agreement with PECO Energy Company (PECO).

The variances shown in the table as "Deferral of Energy Costs" were due to varying levels of under- and/or over-collections of fuel costs which are subsequently recovered from or returned to utility customers.

Operation, Maintenance, Depreciation, and Income Tax Expenses

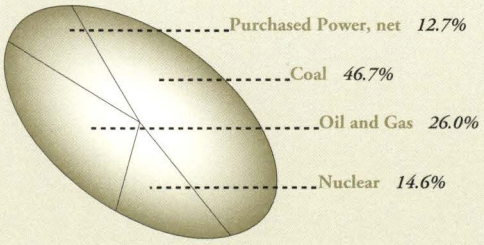
In 1993, operation and maintenance expenses increased by $15.0 million from 1992 largely due to higher administrative and general expenses, including increases for salaries and wages, and post-retirement benefits other than pensions due to adoption of the accounting required by Statement of Financial Accounting Standards (SFAS) No. 106. (Refer to Note 11 to the Consolidated Financial Statements for information on SFAS No. 106.) Although future increases in operation and maintenance expenses are expected due to additions of new utility plant, aging of existing utility plant, and normal inflationary pressures, the Company is actively working to minimize any such increases.

Operation and maintenance expenses increased by $6.8 million in 1992 in comparison to 1991 primarily due to higher maintenance outage costs for electric generating units and due to charges for the purchase of 48 MW of capacity which began June 1, 1992. These increases were partially offset by decreases in administrative and general expenses, including pension cost, and lower costs of operating and maintaining the electric transmission and distribution systems.

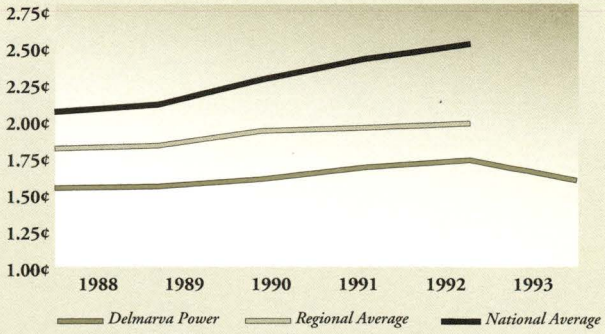
Depreciation expense increased $5.6 million in 1993 and $6.7 million in 1992 principally due to additions to the electric system, which included Hay Road Unit 4 in 1993 and a new stack for the Indian River power plant in 1992. The 1992 increase also reflects a full year's depreciation for Hay Road Unit 3 which was completed on June 1, 1991. Depreciation expense is expected to continue to increase as new electric plant is added and capital projects for environmental compliance are completed.

Income tax expense on operations increased $18.7 million in 1993 and $3.5 million in 1992 primarily due to higher pre-tax income. The 1993 increase also includes $1.6 million due to the increase in the federal income tax rate from 34% to 35%, effective January 1, 1993. Due to adoption in 1993 of SFAS No. 109, "Accounting for Income Taxes," deferred charges and deferred income tax liabilities increased $144.5 million. Cash flow and earnings were not materially affected and are not expected to be materially affected in the future due to anticipated recovery of the deferred tax liability through customer rates. Refer to Note 3 to the Consolidated Financial Statements for additional information on SFAS No. 109.

1993 Sources of Electricity



Electric Operation & Maintenance Expenses ***per kWh sold***



Utility Financing Costs

Interest charges on debt of the core utility decreased $5.2 million in 1993 and $1.3 million in 1992 primarily due to lower interest rates which enabled the Company to reduce the average cost of its outstanding long-term debt through refinancings. The 1993 decrease in interest expense also reflects the effect of redeeming $50 million of 10% First Mortgage Bonds on June 1, 1993 with proceeds from a public offering of common stock. The Company refinanced $133.2 million, $255.5 million, and $85.5 million of its long-term debt in 1993, 1992, and 1991, respectively, resulting in annualized interest savings of $7.5 million in total. The interest savings are ultimately reflected in rates charged to utility customers.

Dividends on preferred stock increased $1.7 million in 1993 mainly because $40 million of 7 3/4% preferred stock issued in August 1992 was outstanding for all of 1993 compared to part of 1992. In 1992, the increase in preferred dividends due to issuance of the 7 3/4% preferred stock was largely offset by lower dividend payments on $61.1 million of the Company's preferred stock which has market-based dividend rates.

Allowance for equity and borrowed funds used during construction (AFUDC) decreased $1.0 million in 1993 mainly because construction of Hay Road Unit 4 was completed on May 31, 1993, resulting in lower average construction work-in-progress balances. AFUDC as a percentage of net income decreased from 8.3% in 1992 to 6.6% in 1993. In 1992, AFUDC increased $2.1 million from 1991, principally due to higher average construction work-in-progress balances attributable to construction of Hay Road Unit 4.

Due to increased common equity financing, the average number of shares of common stock outstanding increased in 1993 and 1992. Rates charged to customers are designed to result in sufficient revenues to offset the dilution of earnings per share due to increased common equity financing. The adverse effect on earnings per share of $0.13 in 1993 and $0.09 in 1992 from additional common shares outstanding was largely offset by revenues from base rate increases.

Energy Supply

The Challenge 2000 Plan is the Company's strategy for providing an adequate, reliable supply of electricity to customers at reasonable rates, while minimizing adverse impacts on the environment. The Company's plan, which is updated periodically, is based on forecasts of demand for electricity in the service territory and PJM Interconnection reserve requirements. The Company's plan combines customer energy conservation and load management programs ("Save Some"), power purchases ("Buy Some"), and new power plants ("Build Some"). The plan is flexible and balanced. The plan's flexibility was recently demonstrated when the Company delayed the planned date of a power purchase by two years due to the decision of a resale customer (ODEC) to purchase 150 MW of its load from another utility beginning January 1, 1995.

As an electric utility, the Company must balance the potential risks of providing too much or not enough capacity. The main risks of excess capacity are that customer rates may become uncompetitive and regulators may not allow the associated costs to be recovered from ratepayers. The principal risks of inadequate capacity are reliability of service and that capacity deficiency charges would be owed to the PJM Interconnection which requires the Company to plan for and provide a certain capacity level.

During the past three years, the Challenge 2000 Plan has included 95 MW of additional load reduction from energy management programs, a 48 MW capacity purchase which began in 1992, and 297 MW of capacity from two new power plants, Hay Road Unit 3 and Unit 4, which were completed in 1991 and 1993, respectively. Looking forward through 2003, the Company's current plans for meeting the demand for energy include the following:

(1) ***"Save Some"***—Approximately 140 MW of additional load reduction from various customer-oriented energy management programs.

(2) ***"Buy Some"***—205 MW of capacity purchases, including 165 MW beginning in 1998 or later, and 40 MW in 1999 or later.

(3) ***"Build Some"***—The Company has filed for a Certificate of Public Convenience and Necessity to preserve the option of constructing by the year 2000 or later a 300 MW pulverized coal-fired baseload unit in Dorchester County, Maryland. The power plant, as currently planned, has an estimated construction cost of $695 million, including AFUDC.

Liquidity and Capital Resources

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

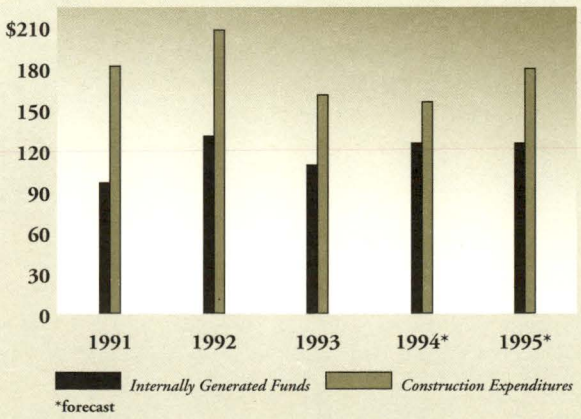
Operating activities provided net cash inflows of $206.7 million in 1993, $220.8 million in 1992, and $181.1 million in 1991. In 1992, operating cash flow was increased by $11.4 million, net of income taxes, from receipt of a payment for settlement of the Peach Bottom lawsuit. Common dividends paid during 1993, 1992, and 1991 were $88.0 million, $82.0 million, and $77.1 million, respectively. These amounts represented 43%, 37%, and 43% of net cash provided by operating activities in 1993, 1992, and 1991, respectively. The ratio of common dividends paid per share to earnings per share was 88% in 1993, and 91% in 1992 and 1991.

Utility construction expenditures, the Company's largest capital requirement, are affected by many factors, including growth in demand for electricity, compliance with environmental regulations, and the need for improvement and replacement of existing facilities. Utility construction expenditures were $160.0 million in 1993, $207.4 million in 1992, and $181.8 million in 1991. Construction expenditures decreased $47.4 million in 1993 primarily because construction of Hay Road Unit 4 was completed in May 1993. Construction expenditures in 1993 included $9.2 million for projects attributed to environmental compliance. Internally generated funds provided 68%, 63%, and 53% of the cash required for construction in 1993, 1992, and 1991, respectively.

Capital raised from financial markets during 1991–1993, net of $557 million of refinancings and redemptions, consisted of $229 million of common stock, $32 million of preferred stock, and $20 million of long-term debt. After considering the costs associated with issuing and refinancing debt and equity securities during 1991–1993 of approximately $37 million, the net amount of capital raised from external financings during this period was $244 million.

Internally Generated Funds & Construction Expenditures

(in millions)



Sales of various equity interests in leveraged leases by the Company's nonutility subsidiaries resulted in a $21.5 million cash inflow during 1993.

The Company issued $158.2 million of long-term debt in 1993 at an average interest rate of 6.0% and redeemed $184.2 million of long-term debt which had an average interest rate of 8.1%. Debt refinancings in 1993 also included $15.5 million of variable rate demand bonds which were refinanced with similar bonds that have more favorable terms and an additional 14 years until maturity. The Company also refinanced its 7.88% and 7.84% series of preferred stock, $28.28 million in total, with $20 million of 6 3/4% preferred stock, and cash. The Company issued $109.5 million of common stock in 1993, including $77.1 million from a public offering of 3,300,000 shares in March 1993. Book value per share of common stock increased from $13.77 as of December 31, 1992, to $14.66 as of December 31, 1993. Approximately 70¢ of the 89¢ increase resulted from the sale of common stock at prices exceeding book value. The Company's capital structure as of December 31, 1993 and 1992 expressed as a percentage of total capitalization is shown below.

	1993	1992
Long-term debt and variable rate demand bonds	43.0%	47.3%
Preferred stock	9.3%	10.1%
Common stockholders' equity	47.7%	42.6%

Capital requirements for the period 1994–1995 are estimated to be $395 million, including $25 million for maturity of First Mortgage Bonds in 1994 and $334 million for utility construction, excluding AFUDC. The estimate of 1994–1995 utility construction requirements includes $44 million of environmental construction expenditures primarily related to plans for compliance with provisions of the Clean Air Act. During 1996–1998, an additional $65 million of construction expenditures (excluding AFUDC) related to compliance with environmental regulations are planned.

The Company anticipates that $250 million will be generated internally (net of common and preferred dividends) during 1994–1995. Forecasted internally generated funds for 1994–1995 represent 63% of estimated capital requirements and 75% of estimated utility construction expenditures. The balance is expected to be externally financed. During 1994–1995, long-term external financings are presently estimated at $140 million, including $90 million of long-term debt and $50 million (market value) of common stock.

After a recent review of the electric utility industry, bond rating agencies adopted more stringent rating guidelines for electric utilities due to increased risk associated with competition and other factors. The higher standards could potentially result in increased borrowing costs for the industry in general. Moody's and Duff & Phelps maintained their ratings of the Company's senior secured debt as "A2" and "A+," respectively. Standard & Poor's lowered its rating of the Company's senior secured debt to "A" from "A+." The Company views positively the relatively minimal movement in ratings of its senior secured debt after considering the higher standards adopted by the rating agencies.

Nonutility Subsidiaries

Information on the Company's nonutility subsidiaries, in addition to the following discussion, can be found in Notes 1 and 16 to the Consolidated Financial Statements.

Nonutility subsidiaries earned $0.03 per share in 1993 primarily due to after-tax gains on sales of equity and residual value interests in leveraged leases. Earnings also reflect income from ongoing leveraged leasing operations, operating services (management and operation of power plants), and landfill and waste hauling activities. Such income was offset by administrative and general expenses.

Nonutility subsidiaries earned $0.01 per share in 1992 primarily due to earnings from leveraged leases, operating services, and other businesses. These earnings were largely offset by an operating loss for landfill and waste hauling activities and by administrative and general expenses.

In 1991, the nonutility subsidiaries earned $0.03 per share. Gains from sales of purchase options on leveraged leases, which contributed $0.07 to 1991 earnings per share, were partly offset by an operating loss for landfill and waste hauling activities, accruals for potential settlements of litigation, and administrative and general expenses.

One of the nonutility subsidiaries leases five aircraft, in total, to Northwest Airlines, Inc.; Singapore Airlines Limited; and Express Airlines I, Inc. as part of its leveraged leasing business. The airline industry continues to be intensely competitive and certain airlines, which are not lessees of the Company's subsidiary, have filed for protection under the bankruptcy laws. The Company's aircraft lessees are current on their lease payments.

In 1993, total subsidiary revenues, including gains, were $37.6 million compared to $14.4 million in 1992. The revenue increase was mainly due to the transfer of the contract for operation and maintenance of the Delaware City Power Plant (owned by Star Enterprise) from the parent company to a nonutility subsidiary.

Report of Management

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

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

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

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

Howard Cosgrove

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

Barbara S. Graham

Barbara S. Graham
Vice President and
Chief Financial Officer

Report of Independent Accountants

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

We have audited the accompanying consolidated balance sheets and statements of capitalization of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1993 and 1992, and the related consolidated statements of income, changes in common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delmarva Power & Light Company and Subsidiary Companies as of December 31, 1993 and 1992, and the consolidated 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 Notes 1, 3 and 11, respectively, to the consolidated financial statements, in 1991 the Company changed its method of accounting for unbilled revenues and in 1993 changed its method of accounting for income taxes and postretirement benefits other than pensions.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 4, 1994

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands)	Year Ended December 31,		
	1993	1992	1991
Operating Revenues			
Electric	$875,663	$780,175	$784,599
Gas	94,944	83,869	71,222
	970,607	864,044	855,821
Operating Expenses			
Electric fuel and purchased power	298,307	261,784	285,595
Gas purchased	53,631	43,797	38,140
Operation and maintenance	248,052	233,038	226,240
Depreciation	100,929	95,285	88,610
Taxes other than income taxes	37,419	37,037	34,918
Income taxes	68,130	49,392	45,908
	806,468	720,333	719,411
Operating Income	164,139	143,711	136,410
Other Income			
Nonutility Subsidiaries			
Revenues and gains	37,636	14,397	15,448
Expenses including interest and income taxes	(35,828)	(13,908)	(14,170)
Net earnings of nonutility subsidiaries	1,808	489	1,278
Allowance for equity funds used during construction	5,309	5,631	4,199
Other income, net of income taxes	511	12,855	4,042
	7,628	18,975	9,519
Income Before Utility Interest Charges	171,767	162,686	145,929
Utility Interest Charges			
Debt	60,431	65,667	66,952
Other	3,664	2,570	1,907
Allowance for borrowed funds used during construction	(3,404)	(4,077)	(3,436)
	60,691	64,160	65,423
Earnings			
Income before cumulative effect of a change in accounting principle	111,076	98,526	80,506
Cumulative effect of a change in accounting for unbilled revenues	—	—	12,730
Net income	111,076	98,526	93,236
Dividends on preferred stock	10,002	8,349	7,977
Earnings applicable to common stock	$101,074	$ 90,177	$ 85,259
Average Shares of Common Stock Outstanding (000)	57,557	53,456	50,581
Earnings Per Average Share of Common Stock			
Before cumulative effect of a change in accounting principle	$1.76	$1.69	$1.44
Cumulative effect of a change in accounting for unbilled revenues	—	—	0.25
Total earnings per share	$1.76	$1.69	$1.69
Dividends Declared Per Share of Common Stock	$1.54	$1.54	$1.54

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Year Ended December 31,		
	1993	1992	1991
Cash Flows from Operating Activities			
Net income	$111,076	$98,526	$93,236
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	112,926	105,624	99,313
Allowance for equity funds used during construction	(5,309)	(5,631)	(4,199)
Investment tax credit adjustments, net	(2,515)	(2,417)	(2,844)
Deferred income taxes, net	(1,171)	10,749	12,870
Net change in:			
Accounts receivable	(15,851)	(4,384)	(26,528)
Inventories	5,314	9,696	(171)
Accounts payable	(3,749)	8,779	(12,428)
Other current assets & liabilities[1]	11,441	(680)	22,338
Other, net	(5,438)	491	(462)
Net cash provided by operating activities	206,724	220,753	181,125
Cash Flows from Investing Activities			
Construction expenditures, excluding AFUDC	(159,991)	(207,439)	(181,820)
Allowance for borrowed funds used during construction	(3,404)	(4,077)	(3,436)
Change in working capital for construction	3,123	(9,823)	14,538
Cash flows from leveraged leases			
Sale of interests in leveraged leases	21,542	—	5,375
Insurance proceeds from casualty loss	—	4,115	—
Other	1,511	1,858	4,750
Investment in subsidiary projects and operations	(2,827)	(7,013)	(4,504)
Net (increase)/decrease in bond proceeds held in trust funds	1,152	6,076	(205)
Deposits to nuclear decommissioning trust funds	(2,657)	(3,770)	(1,831)
Sale of utility plant and inventory	—	—	4,733
Other, net	(389)	(2,677)	(1,332)
Net cash used by investing activities	(141,940)	(222,750)	(163,732)
Cash Flows from Financing Activities			
Dividends: Common	(87,989)	(81,986)	(77,097)
Preferred	(10,042)	(8,492)	(7,947)
Issuances: Long-term debt[2]	148,200	273,335	117,000
Variable rate demand bonds	15,500	—	—
Common stock	109,463	32,200	87,900
Preferred stock	20,000	40,000	—
Redemptions: Long-term debt	(184,206)	(257,178)	(86,794)
Variable rate demand bonds	(15,500)	—	—
Common stock	(748)	(259)	—
Preferred stock	(28,280)	—	—
Principal portion of capital lease payments	(9,956)	(10,339)	(10,593)
Net change in term loan	10,000	—	—
Net change in short-term debt	(17,000)	5,950	(12,250)
Cost of issuances and refinancings	(13,097)	(16,187)	(7,900)
Net cash provided/(used) by financing activities	(63,655)	(22,956)	2,319
Net change in cash and cash equivalents	1,129	(24,953)	19,712
Beginning of year cash and cash equivalents	21,888	46,841	27,129
End of year cash and cash equivalents	$23,017	$21,888	$46,841

(1) Other than debt and deferred income taxes classified as current.

(2) Excluding net change in term loan.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	As of December 31, 1993	1992
ASSETS		
Utility Plant—At Original Cost		
Electric	$2,561,507	$2,345,869
Gas	176,167	163,139
Common	122,182	127,852
	2,859,856	2,636,860
Less: Accumulated depreciation	989,351	929,869
Net utility plant in service	1,870,505	1,706,991
Construction work-in-progress	91,001	187,844
Leased nuclear fuel, at amortized cost	33,905	36,782
	1,995,411	1,931,617
Investments and Nonutility Property		
Investment in leveraged leases	50,914	72,858
Funds held by trustee	17,577	15,274
Other investments and nonutility property, net	55,248	59,163
	123,739	147,295
Current Assets		
Cash and cash equivalents	23,017	21,888
Accounts receivable		
Customers	98,472	88,499
Other	18,405	12,527
Inventories, at average cost		
Fuel (coal, oil, and gas)	27,335	32,624
Materials and supplies	37,687	39,055
Prepayments	9,534	7,907
Deferred income taxes, net	10,713	8,236
	225,163	210,736
Deferred Charges and Other Assets		
Unamortized debt expense	11,222	11,219
Deferred debt refinancing costs	28,794	22,510
Deferred recoverable plant costs	15,613	15,019
Deferred recoverable income taxes	144,463	—
Other	49,124	36,397
	249,216	85,145
Total	$2,593,529	$2,374,793

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	As of December 31, 1993	1992
CAPITALIZATION AND LIABILITIES		
Capitalization (See Statements of Capitalization)		
Common stock, $2.25 par value; 90,000,000 shares authorized; shares outstanding: 1993—58,829,283, 1992—54,143,853	$ 132,366	$ 121,824
Additional paid-in capital	470,997	374,976
Retained earnings	259,507	249,176
Unearned compensation	(675)	(187)
Total common stockholders' equity	862,195	745,789
Preferred stock	168,085	176,365
Long-term debt	736,368	787,387
	1,766,648	1,709,541
Current Liabilities		
Short-term debt	—	17,000
Long-term debt due within one year	25,986	946
Variable rate demand bonds	41,500	41,500
Accounts payable	55,175	56,389
Taxes accrued	10,987	11,593
Interest accrued	15,522	15,190
Dividends declared	22,664	20,900
Current capital lease obligation	12,684	12,709
Deferred energy costs	14,229	7,933
Other	32,681	25,265
	231,428	209,425
Deferred Credits and Other Liabilities		
Deferred income taxes, net	497,457	352,474
Deferred investment tax credits	49,475	51,990
Long-term capital lease obligation	23,335	26,081
Other	25,186	25,282
	595,453	455,827
Commitments and Contingencies (Notes 12, 13, and 14)	—	—
Total	$2,593,529	$2,374,793

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(Dollars in Thousands)			As of December 31, 1993	1992
Common Stockholders' Equity				
Total common stockholders' equity (1)			$ 862,195	$ 745,789
Cumulative Preferred Stock				
Par value $1 per share, 10,000,000 shares authorized, none issued			—	—
Par value $25 per share, 3,000,000 shares authorized, 7 3/4% Series, 1,600,000 shares issued (2)			40,000	40,000
Par value $100 per share, 1,800,000 shares authorized:				
Series	Shares outstanding (1993 and 1992)	Current call price per share		
3.70%–5%	320,000 and 320,000	$103.00–$105.00	32,000	32,000
6 3/4%	200,000 and 0	(3)	20,000	—
7.52%	150,000 and 150,000	$103.50	15,000	15,000
7.84%–7.88%	0 and 282,800	—	—	28,280
Adjustable—5.54%, 5.83% (4)	160,850 and 160,850	$103.00	16,085	16,085
Auction rate—2.71%, 3.05% (4)	450,000 and 450,000	$100.00	45,000	45,000
			168,085	176,365
Long-Term Debt				
First Mortgage Bonds:				
Maturity	12/31/93 Interest Rates	12/31/92 Interest Rates		
1994	4 5/8%	4 5/8%	25,000	25,000
1997	6 3/8%	6 3/8%	25,000	25,000
1998	—	7%	—	25,000
2002–2003	6.40%-6.95%	6.95%–8%	120,000	120,000
2004	—	6.60%	—	18,200
2014–2015	7.30%–8.15%	7.30%–8.15%	81,000	81,000
2018–2022	5.90%–8.50%	6.75%–10%	208,200	240,000
2032	6.05%	—	15,000	—
			474,200	534,200
Other Bonds, due 2011–2017, 7.15%–7.50%			54,500	54,500
Pollution Control Notes:				
Series 1973, due 1994–1998, 5.75%			6,500	6,650
Series 1976, due 1994–2006, 7 1/8%–7 1/4%			3,300	3,400
Medium Term Notes, due 1998, 5.69%			25,000	—
Medium Term Notes, due 1999, 7 1/2%			30,000	30,000
Medium Term Notes, due 2002–2004, 8.30%–9.29%			39,000	39,000
Medium Term Notes, due 2007, 8 1/8%			50,000	50,000
Medium Term Notes, due 2020–2021, 8.96%–9.95%			61,000	61,000
First Mortgage Notes, 9.65% (5)			8,244	8,809
Term Loan, due 1996, 3.27% (6)			10,000	—
Other Obligations, due 1994–2000, 8.5%			1,307	1,497
Unamortized premium and discount, net			(697)	(723)
Current maturities of long-term debt			(25,986)	(946)
Total long-term debt			736,368	787,387
Total capitalization			1,766,648	1,709,541
Variable Rate Demand Bonds (7)			41,500	41,500
Total capitalization with Variable Rate Demand Bonds			$1,808,148	$1,751,041

(1) Refer to Consolidated Statements of Changes in Common Stockholders' Equity for additional information.

(2) Redeemable beginning September 30, 2002, at $25 per share.

(3) Redeemable beginning November 1, 2003, at $100 per share.

(4) Average rates during 1993 and 1992, respectively.

(5) Repaid through monthly payments of principal and interest over 15 years ending November 2002.

(6) Refer to item 7 of Note 9 to the Consolidated Financial Statements.

(7) Classified under current liabilities as discussed in item 9 of Note 9 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

(Dollars in Thousands)

	Common Shares Outstanding	Par Value (1)	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compen-sation	Total
Balance as of January 1, 1991	47,889,358	$107,751	$271,694	$235,247	—	—	$614,692
Net income				93,236			93,236
Cash dividends declared							
Common stock ($1.54)				(78,937)			(78,937)
Preferred stock				(7,977)			(7,977)
Issuance of common stock							
Public offering	3,500,000	7,875	56,000				63,875
DRIP (2)	1,126,802	2,535	18,640				21,175
Stock options	150,450	339	2,471				2,810
Other issuance	2,354	5	35				40
Expenses			(2,331)				(2,331)
Balance as of December 31, 1991	52,668,964	118,505	346,509	241,569	—	—	706,583
Net income				98,526			98,526
Cash dividends declared							
Common stock ($1.54)				(82,570)			(82,570)
Preferred stock				(8,349)			(8,349)
Issuance of common stock							
DRIP (2)	1,336,871	3,008	26,471				29,479
Stock options	129,500	292	2,256				2,548
Other issuance	8,518	19	154				173
Expenses of common and preferred stock issuances			(414)				(414)
Reacquired shares	(12,490)				(259)		(259)
Shares granted(3)	12,490				259	(259)	—
Amortization of unearned compensation						72	72
Balance as of December 31, 1992	54,143,853	121,824	374,976	249,176	—	(187)	745,789
Net income				111,076			111,076
Cash dividends declared							
Common stock ($1.54)				(89,792)			(89,792)
Preferred stock				(10,002)			(10,002)
Issuance of common stock							
Public offering	3,300,000	7,425	69,713				77,138
DRIP (2)	1,246,380	2,804	26,519				29,323
Stock options	139,050	313	2,689				3,002
Expenses			(2,627)				(2,627)
Reacquired shares	(31,490)				(748)		(748)
Shares granted(3)	31,490				748	(748)	—
Amortization of unearned compensation						260	260
Refinancing of preferred stock			(273)	(951)			(1,224)
Balance as of December 31, 1993	58,829,283	$132,366	$470,997	$259,507	—	$ (675)	$862,195

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

(2) Dividend Reinvestment and Common Share Purchase Plan (DRIP)—As of December 31, 1993, 2,818,536 shares were reserved for issuance through the DRIP.

(3) Shares of restricted common stock granted under the Company's Long Term Incentive Plan.

See accompanying Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is predominantly a public utility that provides electric service on the Delmarva Peninsula in an area consisting of about 5,700 square miles with a population of approximately 1.0 million. The Company also provides gas service in an area consisting of about 275 square miles with a population of approximately 457,000 in northern Delaware, including the City of Wilmington. In addition, the Company has wholly owned subsidiaries engaged in nonutility activities.

Regulation of Utility Operations

The Company is subject to regulation with respect to its retail utility sales by the Delaware and Maryland Public Service Commissions (DPSC and MPSC, respectively) and the Virginia State Corporation Commission (VSCC), which have broad powers over rate matters, accounting, and terms of service. Gas sales are subject to regulation by the DPSC. The Federal Energy Regulatory Commission (FERC) exercises jurisdiction with respect to the Company's accounting systems and policies, and the wholesale (resale) transmission and sale of electric energy. FERC also regulates the price and other terms of transportation of natural gas purchased by the Company. The percentage of utility operating revenues regulated by each Commission for the year ended December 31, 1993 was as follows: DPSC 64%, MPSC 22%, VSCC 3%, and FERC 11%.

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

Reporting of Subsidiaries

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries—Delmarva Energy Company; Delmarva Industries, Inc.; Delmarva Services Company; and Delmarva Capital Investments, Inc. and its subsidiaries. The results of operations of the Company's nonutility subsidiaries are reported in the consolidated statements of income as "Other income." Refer to Note 16 to the Consolidated Financial Statements for financial information about the Company's subsidiaries.

Utility Revenues

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

When interim rates are placed in effect subject to refund, the Company recognizes revenues based on expected final rates.

Fuel Expense

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

The Company's share of nuclear fuel at the Peach Bottom Atomic Power Station (Peach Bottom) and the Salem Nuclear Generating Station (Salem) is financed through a contract which is accounted for as a capital lease. Nuclear fuel costs, including a provision for the future disposal of spent nuclear fuel, are charged to fuel expense on a unit of production basis.

Depreciation Expense

The annual provision for depreciation on utility property is computed on the straight-line basis using composite rates by classes of depreciable property. The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.7% for 1993, 3.6% for 1992, and 3.7% for 1991. Depreciation expense includes a provision for the Company's share of the estimated cost of decommissioning (decontaminating and removing) nuclear power plant reactors based on amounts billed to customers for such costs. Refer to Note 6 to the Consolidated Financial Statements for information on nuclear decommissioning.

Interest Expense

The amortization of debt discount, premium, and expense, including refinancing expenses, is included in other interest charges. On a consolidated basis, total interest charges incurred were $65,421,000 in 1993, $70,156,000 in 1992, and $72,456,000 in 1991.

Allowance for Funds Used during Construction

Allowance for funds used during construction (AFUDC) is included in the cost of utility plant and represents the cost of borrowed and equity funds used to finance construction of new utility facilities. The amount of AFUDC capitalized is also reported in the Consolidated Statements of Income as a reduction of interest charges for the borrowed funds component and as other income for the equity funds component. AFUDC was capitalized on utility plant construction at the rates of 9.6% in 1993 and 1992, and 9.9% in 1991.

Leveraged Leases

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

Funds Held by Trustee

Funds held by trustee generally includes deposits in the Company's external nuclear decommissioning trusts and unexpended, restricted or tax exempt bond proceeds. Earnings on such trust funds are also reflected in the balance.

2. BASE RATE MATTERS

Electric base rate increases were filed with regulatory commissions beginning in October 1992 to recover higher costs associated with Hay Road Unit 4 which was placed in service on June 1, 1993, postretirement benefit costs under SFAS No. 106, and other items including general inflation. Base rate increases which became effective in 1993 are summarized below.

Jurisdiction	Annualized Base Revenue Increase	Effective Date
Retail electric		
Delaware (1)	$24.9 million or 5.8%	06/01/93
Maryland (2)	$ 7.8 million or 4.3%	04/01/93
Virginia (3)	$ 1.3 million or 7.2%	10/05/93
Resale (FERC) (4)	$ 1.5 million or 1.5%	06/03/93

(1) Based on a settlement agreement approved by the DPSC on October 5, 1993, which included an 11.5% return on equity. Net of fuel savings from Hay Road Unit 4, customer rates increased 3.7%.

(2) Based on a settlement agreement approved by the MPSC on March 26, 1993. Although a return on equity was not specified in the settlement agreement, the Company believes that the implied return on equity approaches 12%. Net of fuel savings from Hay Road Unit 4, customer rates increased 2.3%.

(3) Based on a pending settlement agreement which is subject to approval by the VSCC. The agreement reflects an 11.05% return on equity.

(4) Based on a settlement agreement which is subject to approval by the FERC.

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

Jurisdiction	Annualized Base Revenue Increase	Effective Date
Retail electric		
Delaware (1)	$18.5 million or 4.3%	01/01/92
Maryland (2)	$ 5.5 million or 3.3%	01/01/92
Virginia (3)	$ 1.15 million or 5.1%	07/01/92
Resale (FERC) (4)	$ 4.125 million or 4.4%	02/19/92
Delaware Gas (5)	$ 4.1 million or 5.6%	02/02/92

(1) Included a 12.5% return on equity.

(2) A specific return on equity was not stated in the settlement agreement approved by the MPSC.

(3) Included an 11.5% return on equity.

(4) A specific return on equity was not stated in the settlement agreement approved by the FERC.

(5) Included a 12.5% return on equity.

3. INCOME TAXES

The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the Company's utility business and subsidiaries based upon their respective taxable incomes, tax credits, and effects of the alternative minimum tax, if any.

Prior to January 1, 1993, deferred income taxes were provided on timing differences between the tax and financial accounting recognition of certain income and expenses. Effective January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which replaced the deferred method of income tax accounting with the liability method. Under the liability method, deferred income tax assets and liabilities represent the tax effects of temporary differences between the financial statement and tax bases of existing assets and liabilities and are measured using presently enacted tax rates. The principal effects on the Company's financial statements of adopting SFAS No. 109 were a $144.5 million increase in net deferred tax liabilities and a $144.5 million increase in "deferred recoverable income taxes," which is an asset representing future recovery of the deferred taxes over the lives of the related assets through rates charged to utility customers. These amounts include $17.4 million of adjustments to recognize the effect of the increase in the federal income tax rate from 34% to 35% during 1993. Deferred income tax expense under SFAS No. 109 represents the net change during the reporting period in the net deferred tax liability and deferred recoverable income taxes.

Investment tax credits from regulated operations are being amortized over the useful lives of the related utility plant. Investment tax credits associated with leveraged leases are being amortized over the lives of the related leases during the periods in which the net investment is positive.

Components of Consolidated Income Tax Expense

(Dollars in Thousands)		1993	1992	1991
Operation				
Federal:	Current	$50,264	$30,819	$31,777
	Deferred	7,710	11,597	8,924
State:	Current	10,839	6,755	6,596
	Deferred	1,832	2,638	1,455
Investment tax credit adjustments, net		(2,515)	(2,417)	(2,844)
Other income				
Federal:	Current	9,398	7,559	(4,773)
	Deferred	(9,398)	(3,482)	2,336
State:	Current	287	1,369	(34)
	Deferred	(1,315)	(4)	(188)
Income taxes on cumulative effect of a change in accounting for unbilled revenues		—	—	8,520
Total income tax expense		$67,102	$54,834	$51,769

Reconciliation of Effective Income Tax Rate

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

	1993		1992		1991	
(Dollars in Thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax expense	$62,362	35%	$52,142	34%	$49,302	34%
Increase (decrease) due to						
Depreciation not normalized	1,676	1	1,959	1	2,103	1
ITC amortization	(2,832)	(2)	(2,780)	(2)	(3,456)	(2)
State income taxes, net of federal tax benefit	7,567	4	7,099	5	6,120	4
Other, net	(1,671)	—	(3,586)	(2)	(2,300)	(1)
Total income tax expense	$67,102	38%	$54,834	36%	$51,769	36%

Components of Deferred Income Taxes

The tax effect of temporary differences which give rise to the Company's net deferred tax liability are shown below.

(Dollars in Thousands)	As of 12/31/93
Deferred Tax Liabilities	
Utility plant basis differences	
Accelerated depreciation	$292,655
Other	97,530
Leveraged leases	49,339
Deferred recoverable income taxes	62,124
Other	30,630
Total deferred tax liabilities	532,278
Deferred Tax Assets	
Deferred investment tax credits	17,316
Other	28,218
Total deferred tax assets	45,534
Total deferred taxes, net	$486,744

Valuation allowances for deferred tax assets were not material as of December 31, 1993.

4. OTHER INCOME

The components of "Other income, net of income taxes" as presented in the Consolidated Statements of Income are shown in the table below. Effective January 1, 1993, the contract for operation and maintenance of the Delaware City Power Plant (owned by Star Enterprise) was transferred from the parent company to a nonutility subsidiary. The 1993 revenues and expenses associated with the contract are included in the operating results of the Company's nonutility subsidiaries as reported in Note 16 to the Consolidated Financial Statements.

(Dollars in Thousands)	1993	1992	1991
Revenues and Income			
Revenues	$2,413	$14,837	$22,509
Peach Bottom lawsuit settlement	—	18,538	—
Interest, dividends, other income	2,457	2,424	3,966
Expenses			
Operating and other expenses	4,793	15,326	22,192
Income tax expense (benefit)	(434)	7,618	241
Net	$ 511	$12,855	$ 4,042

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

5. JOINTLY OWNED PLANT

The Company's balance sheet includes its proportionate share of assets and liabilities related to jointly owned plant. The Company's share of operating and maintenance expenses of the jointly owned plant is included in the corresponding expenses in the Consolidated Statements of Income. The Company is responsible for providing its share of financing for the jointly owned facilities. Information with respect to the Company's share of jointly owned plant as of December 31, 1993 was as follows:

(Dollars in Thousands)	Ownership Share	Megawatt Capability Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Nuclear					
Peach Bottom	7.51%	157 MW	$122,955	$ 57,881	$ 6,386
Salem	7.41%	164 MW	199,737	85,077	10,584
Coal-Fired					
Keystone	3.70%	63 MW	16,020	6,823	695
Conemaugh	3.72%	63 MW	17,236	7,723	8,388
Transmission Facilities	Various		4,563	1,932	—
Total			$360,511	$159,436	$26,053

6. NUCLEAR DECOMMISSIONING

The Company is funding its share of the estimated future cost of decommissioning (decontaminating and removing) the Peach Bottom and Salem nuclear reactors over the remaining lives of the plants. The Company estimates its share of future decommissioning costs based on NRC regulations concerning the minimum nuclear decommissioning financial assurance amount. The ultimate cost of decommissioning the Peach Bottom and Salem nuclear reactors may exceed the NRC minimum nuclear decommissioning financial assurance amount. This amount is updated annually for inflation and increased in 1993 to approximately $117 million from the Company's previous estimate of $53.7 million primarily due to higher estimated costs for disposing of low level radioactive waste. The Company's accrued decommissioning liability, which is reflected in the accumulated reserve for depreciation, was $29.1 million as of December 31, 1993. External trust funds established by the Company for the purpose of funding decommissioning costs had an aggregate balance of $17.3 million and a fair market value of $18.6 million as of December 31, 1993. The Company is recovering, through rates charged to electric customers, nuclear decommissioning costs based on an amount approximating the Company's previous liability estimate of $53.7 million. Based on prior decisions by regulatory commissions, the Company expects that customer rates will be adjusted to provide for recovery of the Company's 1993 estimate of future decommissioning costs of $117 million.

7. COMMON STOCK

1) The Company's Restated Certificate and Articles of Incorporation and the Mortgage and Deed of Trust securing the Company's outstanding bonds contain restrictions on the payment of dividends on common stock. Such restrictions would become applicable if the Company's capital and retained earnings fall below certain specific levels or if preferred dividends are in arrears. Under the most restrictive of these provisions, as of December 31, 1993, approximately $223.8 million was available for payment of common dividends.

2) Prior to January 1, 1993, the Company had a nonqualified stock option plan for certain employees. Options were priced at the actual market value on the grant date. Effective January 1, 1993, the Company's Board of Directors declared that no new stock options will be granted and that the performance-based restricted stock program will be the program under the Long Term Incentive Plan which is in effect. Changes in stock options are summarized below.

	1993		1992		1991	
	Number of Shares	Option Price	Number of Shares	Option Price	Number of Shares	Option Price
Beginning-of-year balance	192,100	$17 1/2-$21 1/4	270,200	$17 1/2-$21 1/4	302,900	$17 1/2-$21 1/4
Options granted	—	—	59,900	$20 1/2	117,750	$18 1/8
Options exercised	139,050	$17 1/2-$21 1/4	129,500	$17 1/2-$21 1/4	150,450	$17 1/2-$17 3/4
Options forfeited	—	—	8,500	$21 1/4	—	—
End-of-year balance	53,050	$17 1/2-$21 1/4	192,100	$17 1/2-$21 1/4	270,200	$17 1/2-$21 1/4
Exercisable	53,050	$17 1/2-$21 1/4	132,200	$17 1/2-$21 1/4	152,450	$17 1/2-$21 1/4

8. PREFERRED STOCK

1) On November 4, 1993, the Company issued 200,000 shares of 6 3/4%, cumulative preferred stock, $100 per share par value, for $20 million. The dividend is cumulative and is payable quarterly. Beginning on November 1, 2003, the 6 3/4% preferred stock will be redeemable, at any time at the option of the Company, in whole or in part, at $100 per share plus unpaid accumulated dividends, if any. On December 1, 1993, the Company used the proceeds and cash on-hand to redeem $18.28 million of the Company's 7.88% preferred stock and $10.0 million of the Company's 7.84% preferred stock.

2) On August 4, 1992, the Company issued 1,600,000 shares of 7 3/4%, cumulative preferred stock, $25 per share par value, for $40 million.

9. DEBT

1) Substantially all utility plant of the Company now or hereafter owned is subject to the lien of the Mortgage and Deed of Trust.

2) On June 1, 1993, $50 million of 10% First Mortgage Bonds, due December 1, 2018, were redeemed with a portion of the proceeds received from a public offering of common stock.

3) On June 7, 1993, the Delaware Economic Development Authority issued on behalf of the Company $15 million of 6.05% Gas Facilities Revenue Bonds (Series A), due June 1, 2032, and also issued $18.2 million of 5.90% Pollution Control Refunding Revenue Bonds (Series B), due June 1, 2021. The proceeds from the Series A Bonds are being used to finance additions to the Company's gas system. The proceeds from the Series B Bonds were used on July 8, 1993 to redeem $18.2 million of 6.6% Pollution Control Revenue Bonds, due July 1, 2004. Both the Series A and B Bonds are collateralized by First Mortgage Bonds and are insured.

4) On June 23, 1993, the Company issued $25 million of unsecured, 5.69% Medium Term Notes, due June 24, 1998. The proceeds were used on July 23, 1993 to redeem $25 million of 7% First Mortgage Bonds, due November 1, 1998.

5) On July 1, 1993, the Company issued $90 million of 6.40% First Mortgage Bonds, due July 1, 2003. The proceeds were used on August 2, 1993 to redeem $90 million of First Mortgage Bonds comprised of the following series: $35 million, 7 5/8% Series due 2001; $30 million, 7 1/2% Series due 2002; and $25 million, 8% Series due 2003.

6) As of December 31, 1993, the fair market value of the Company's long-term debt was $833,502,000 in comparison to the book value of $736,368,000. As of December 31, 1992, the fair market value of the Company's long-term debt was $822,494,000 in comparison to the book value of $787,387,000. The fair market value of the Company's long-term debt was estimated using discounted cash flow calculations, based on interest rates available to the Company for debt with similar terms, maturities, and credit worthiness.

7) As of December 31, 1993, the Company had $125 million of bank lines of credit, including $50 million of such credit lines under which the Company may convert short-term borrowings to a term loan maturing on July 31, 1996 (or earlier at the discretion of the Company). As of December 31, 1993, $10 million of short-term borrowings by the Company were classified as long-term debt ("Term Loan") in recognition of the long-term financing capability provided by the credit lines. The Company is generally required to pay commitment fees for its credit lines. The lines of credit are periodically reviewed by the Company, at which time they may be renewed or cancelled.

8) Maturities of long-term debt and sinking fund requirements during the next five years are as follows: 1994–$26,486,000; 1995–$1,346,000; 1996–$11,422,000; 1997–$26,510,000; 1998–$32,239,000.

9) A total of $41.5 million of Variable Rate Demand Bonds were outstanding as of December 31, 1993 and 1992, respectively. Although Variable Rate Demand Bonds are classified as current liabilities, the Company intends to use the Variable Rate Demand Bonds as a source of long-term financing by setting the bonds' interest rates at market rates and, if advantageous, by utilizing one of the fixed rate/fixed term conversion options of the bonds. The bonds are due on demand or at maturity in the years 2017 and 2028 for principal amounts of $26.0 million and $15.5 million, respectively. During 1993, $15.5 million of Variable Rate Demand Bonds due in 2014 were refinanced with like bonds due in 2028. Average annual interest rates on the Variable Rate Demand Bonds were 2.5% in 1993.

10. PENSION PLAN

The Company has a defined benefit pension plan covering all regular employees. The benefits are based on years of service and the employee's compensation. The Company's funding policy is to contribute each year the net periodic pension cost for that year. However, the contribution for any year will not be less than the minimum required contribution nor greater than the maximum tax deductible contribution. There were no pension contributions in 1993, 1992, or 1991. Pension plan assets consist primarily of equity securities and public bond securities.

The following schedules show the funded status of the plan, the components of pension cost, and assumptions.

Reconciliation of Funded Status of the Plan	As of December 31,	
(Dollars in Thousands)	1993	1992
Accumulated benefit obligation		
Vested	$236,209	$218,776
Nonvested	25,721	22,699
	261,930	241,475
Effect of estimated future compensation increases	123,562	112,941
Projected benefit obligation	385,492	354,416
Plan assets at fair value	521,897	475,690
Excess of plan assets over projected benefit obligation	136,405	121,274
Unrecognized prior service cost	19,255	18,988
Unrecognized net gain	(108,183)	(93,407)
Unrecognized net transition asset	(36,455)	(39,769)
Prepaid pension cost	$ 11,022	$ 7,086

Components of Net Pension Cost	Year Ended December 31,		
(Dollars in Thousands)	1993	1992	1991
Service cost—benefits earned during period	$13,152	$12,606	$ 9,815
Interest cost on projected benefit obligation	26,411	24,261	21,909
Actual return on plan assets	(58,247)	(39,104)	(96,302)
Net amortization and deferral	14,748	(1,715)	64,438
Net pension cost	$ (3,936)	$(3,952)	$ (140)

Assumptions	1993	1992	1991
Discount rates used to determine projected benefit obligation as of December 31	7.25%	7.25%	7.00%
Rates of increase in compensation levels	6.50%	6.50%	6.50%
Expected long-term rates of return on assets	8.25%	8.25%	8.00%

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires accrual accounting for postretirement benefits other than pensions. The Company provides health-care and life insurance benefits for its retired employees and substantially all of the Company's employees may become eligible for these benefits upon retirement. Prior to adoption of SFAS No. 106, the Company recognized the costs of these benefits by expensing the benefits as paid. The amounts expensed in 1992 and 1991 were $4,496,000 and $4,176,000, respectively.

The Company has elected to recognize the cost of its transition obligation (the accumulated postretirement benefit obligation as of January 1, 1993) by amortizing it on a straight-line basis over 20 years. The Company's SFAS No. 106 obligation and cost are based on a discount rate of 7.75% as of January 1, 1993 and 7.25% as of December 31, 1993. The assumed rate of increase in health-care costs (health-care cost trend rate) was 12% in 1993, decreasing to 11% in 1994 and gradually decreasing to 5.5% by 2011. Increasing the health-care cost trend rates of future years by one percentage point would increase the accumulated postretirement benefit obligation by $3.3 million and would increase annual aggregate service and interest costs by $0.3 million.

In December 1993, the Company contributed $5.8 million to external trust funds in order to begin to fund the SFAS No. 106 obligation. The assets in the trusts consist primarily of short-term taxable and tax-exempt marketable securities. The Company's policy is to fund the obligation to the extent that SFAS No. 106 costs are reflected in customer rates, including amounts which are capitalized.

The following schedules show the funded status of the plan and the components of the cost of postretirement benefits other than pensions.

Reconciliation of Funded Status of the Plan (Dollars in thousands)	As of 12/31/93
Accumulated postretirement benefit obligation (APBO):	
Active employees fully eligible for benefits	$17,380
Other active employees	20,351
Current retirees	43,118
	80,849
Plan assets at fair value	5,825
APBO in excess of plan assets	75,024
Unrecognized transition obligation	(68,728)
Unrecognized net loss	(4,939)
Accrued postretirement benefit cost	$ 1,357

Annual Cost of Postretirement Benefits Other Than Pensions (Dollars in thousands)	Year ended 12/31/93
Service cost—benefits earned during period	$ 2,206
Interest cost on projected benefit obligation	5,613
Amortization of the unrecognized transition obligation	3,617
Net SFAS No. 106 cost	$11,436

12. COMMITMENTS

The Company estimates that approximately $155.3 million, excluding AFUDC, will be expended for construction purposes in 1994.

The Company has a 26-year agreement with Star Enterprise effective through May 31, 2018 to purchase 48 MW of capacity supplied by the Delaware City Power Plant, which the Company sold to Star Enterprise in December 1991. Under the terms of the agreement, the maximum capacity charge for a year is $3.4 million, if the unit's availability exceeds 85 percent.

The Company has an agreement for the future purchase of 165 MW of power over a 30-year period from a cogeneration facility to be constructed by the Delaware Clean Energy Project (DCEP) and located in Delaware. On April 20, 1993, the DPSC issued an order which neither approved nor disapproved the DCEP agreement. The agreement, as amended, provides the Company and DCEP the right, until November 1, 1994, to terminate the agreement. The date for the start of commercial operations of the facility remains to be determined, but in any event will not be prior to June 1, 1998. Assuming 93% availability, capacity charges under the agreement are currently expected to be approximately $44.5 million per year for the first 16 years and $31.2 million per year for the remaining 14 years.

In order to ensure adequate supplies of fuel, the Company has certain commitments under long-term fuel supply contracts. Excluding nuclear fuel discussed below, the Company's commitments under its long-term fuel supply contracts are $76 million in 1994, $62 million in 1995, $57 million in 1996, $45 million in 1997, and $38 million in 1998.

The Company's share of nuclear fuel at Peach Bottom and Salem is financed through a nuclear fuel energy contract which is accounted for as a capital lease. Payments under the contract are based on the quantity of nuclear fuel burned by the plants. The Company's obligation under the contract is generally the net book value of the nuclear fuel financed, which was $33.9 million as of December 31, 1993.

The Company leases an 11.9% interest in the Merrill Creek Reservoir. The lease is considered an operating lease and payments over the remaining lease term, which ends in 2032, are $165.6 million in aggregate. The Company also has long-term leases for certain other facilities and equipment. Minimum commitments as of December 31, 1993 under all noncancelable lease agreements (excluding payments under the nuclear fuel energy contract which cannot be reasonably estimated) are as follows: 1994–$6,716,000; 1995–$6,691,000; 1996–$6,639,000; 1997–$5,552,000; 1998–$5,345,000; after 1998–$150,296,000; total–$181,239,000. Approximately 91% of the minimum lease commitments shown above are payments due under the Company's lease of an 11.9% interest in the Merrill Creek Reservoir.

Rentals Charged to Operating Expenses

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

(Dollars in Thousands)	1993	1992	1991
Interest on nuclear fuel capital lease	$ 1,014	$ 1,111	$ 1,633
Interest on other capital leases	282	321	345
Amortization of nuclear fuel capital lease	9,956	10,231	10,242
Amortization of other capital leases	287	323	351
Operating leases	15,176	14,063	14,507
	$26,715	$26,049	$27,078

13. ENVIRONMENTAL MATTERS

The Company is subject to regulation with respect to the environmental effects of its operations, including air and water quality control, solid waste disposal and limitation on land use by various federal, regional, state, and local authorities. The Company has incurred, and expects to continue to incur, capital expenditures and operating costs because of environmental considerations and requirements. The disposal of Company-generated hazardous substances can result in costs to clean up facilities found to be contaminated due to past disposal practices. Federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or uncontrolled hazardous waste sites. The Company is currently a potentially responsible party (PRP) at one such site and is alleged to be a third party contributor at two other such sites. The Company also has three former coal gasification sites and is currently conducting a study of one of the three sites to assess the extent of contamination and risk to the environment. The Company does not expect clean-up and other potential costs related to the PRP and coal gasification sites, either separately or cumulatively, to have a material effect on the Company's financial position or results of operations.

14. CONTINGENCIES

1) Nuclear Insurance

In the event of an incident at any commercial nuclear power plant in the United States, the Company could be assessed for a portion of any third party claims associated with the incident. Under the provisions of the Price Anderson Act, if third party claims relating to such an incident exceed $200 million (the amount of primary insurance), the Company could be assessed up to $23.7 million for third party claims. In addition, Congress could impose a revenue raising measure on the nuclear power industry to pay such claims.

The co-owners of Peach Bottom and Salem maintain nuclear property damage and decontamination insurance in the aggregate amount of $2.7 billion for each station. The Company is self-insured, to the extent of its ownership interest, for its share of property losses in excess of insurance coverages. Under the terms of the various insurance agreements, the Company could be assessed up to $3.5 million in any policy year for losses incurred at nuclear plants insured by the insurance companies.

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

2) Other

On December 14, 1993, Star Enterprise (Star) filed a lawsuit against the Company seeking an accounting, a refund, and damages totalling $9.3 million. Star alleges that the Company overcharged Star for pension and tax-related costs under a contract entered into by the parties' predecessors in 1955 (the "1955 Agreement"). The Company believes it acted properly under the 1955 Agreement and that it does not owe Star any amounts claimed in this lawsuit. The Company cannot predict the outcome of the lawsuit.

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

15. SUPPLEMENTAL CASH FLOW INFORMATION

In the consolidated financial statements, the Company considers highly liquid marketable securities and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Cash Paid during the Year for	Year Ended December 31,		
(Dollars In Thousands)	1993	1992	1991
Interest, net of capitalized amount	$58,154	$62,127	$65,788
Income taxes, net of refunds	$72,384	$46,310	$37,397

16. NONUTILITY SUBSIDIARIES

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

Condensed Subsidiary Statements of Income

(Dollars In Thousands)

	1993	1992	1991
Revenues and Gains			
Landfill and waste hauling	$11,745	$9,021	$6,154
Operating services	22,118	3,038	2,939
Other revenues	2,117	998	1,129
Leveraged leases[1]	835	61	5,044
Other investment income	821	1,279	182
	37,636	14,397	15,448
Costs and Expenses			
Operating expenses	36,424	15,765	15,509
Interest expense	246	550	1,704
Capitalized interest	(246)	(231)	(143)
Income tax (benefit)	(596)	(2,176)	(2,900)
	35,828	13,908	14,170
Net income	$ 1,808	$ 489	$1,278
Earnings per share of common stock attributed to subsidiaries	$ 0.03	$ 0.01	$ 0.03

(1) On an after-tax basis, leveraged leasing, including gains on sales of equity and residual value interests, contributed $1,754,000, $1,813,000, and $4,663,000 to earnings in 1993, 1992, and 1991, respectively.

Condensed Subsidiary Balance Sheets

(Dollars In Thousands)

Assets	As of December 31, 1993	1992
Current assets		
Cash and cash equivalents	$15,929	$ 6,033
Other	7,489	2,477
	23,418	8,510
Noncurrent assets		
Investment in		
Leveraged leases	50,914	72,858
Other	4,623	5,481
Property, plant & equipment		
Landfill & waste hauling	27,420	28,488
Other	3,512	2,089
Other	698	1,225
Total	$110,585	$118,651

Liabilities and Stockholder's Equity	As of December 31, 1993	1992
Current liabilities		
Debt due within one year	$ 193	$ 181
Other	11,903	9,689
	12,096	9,870
Noncurrent liabilities		
Deferred income taxes	55,008	65,604
Other	3,089	3,196
	58,097	68,800
Stockholder's Equity	40,392	39,981
Total	$110,585	$118,651

17. SEGMENT INFORMATION

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

(Dollars In Thousands)	1993	1992	1991
Electric Operations			
Operating revenues	$ 875,663	$ 780,175	$ 784,599
Operating income	154,412	134,260	129,295
Depreciation	94,549	89,421	83,363
Construction expenditures	142,238	192,493	163,399
Gas Operations			
Operating revenues	94,944	83,869	71,222
Operating income	9,727	9,451	7,115
Depreciation	6,380	5,864	5,247
Construction expenditures	17,753	14,888	18,302
Identifiable Assets, Net			
Electric	2,268,100	2,042,496	1,895,124
Gas	160,618	142,740	130,875
Assets not allocated	164,811	189,557	237,719

18. QUARTERLY FINANCIAL INFORMATION

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

Quarter Ended	Operating Revenue	Operating Income	Net Income	Earnings Applicable to Common Stock	Average Shares Outstanding	Earnings per Average Share
		(Dollars in Thousands)			(In Thousands)	
1993						
March 31	$248,007	$ 46,278	$ 34,414	$ 31,911	55,135	$0.58
June 30	214,638	31,239	18,758	16,279	58,036	$0.27
September 30	275,385	59,015	44,279	41,789	58,372	$0.72
December 31	232,577	27,607	13,625	11,095	58,687	$0.19
	$970,607	$164,139	$111,076	$101,074	57,557	$1.76
1992						
March 31	$225,130	$ 38,058	$34,789	$32,988	52,876	$0.62
June 30	193,797	29,279	14,259	12,464	53,285	$0.24
September 30	237,717	48,080	34,056	31,810	53,685	$0.59
December 31	207,400	28,294	15,422	12,915	53,980	$0.24
	$864,044	$143,711	$98,526	$90,177	53,456	$1.69

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

CONSOLIDATED STATISTICS

		1993	1992	1991	1990	1989
Electric Revenues						
(Thousands)	Residential	$305,446	$273,463	$275,888	$259,113	$251,490
	Commercial	237,785	220,659	218,558	209,174	197,362
	Industrial	150,178	144,094	144,272	140,288	133,451
	Resale, etc.	111,781	102,690	104,819	93,179	90,206
	Unbilled revenues, net	2,918	943	(73)	—	—
	Sales revenues	808,108	741,849	743,464	701,754	672,509
	Interchange deliveries	61,437	30,606	33,523	23,905	31,476
	Miscellaneous revenues	6,118	7,720	7,612	6,722	5,887
	Total electric revenues	$875,663	$780,175	$784,599	$732,381	$709,872
Electric Sales and Interchange Deliveries	Residential	3,499,387	3,228,237	3,236,616	3,081,943	3,049,882
	Commercial	3,336,847	3,140,149	3,098,599	2,979,738	2,875,681
(1,000 Kilowatt-Hours)	Industrial	3,232,233	3,115,677	3,105,338	3,142,439	3,025,653
	Resale, etc.	2,185,006	2,038,844	2,000,913	1,877,091	1,877,623
	Unbilled sales, net	26,757	(2,096)	18,814	—	—
	Total electric sales	12,280,230	11,520,811	11,460,280	11,081,211	10,828,839
	Interchange deliveries	2,225,384	998,679	1,113,423	726,090	894,402
Electric Customers						
(End of Period)	Residential	342,710	336,076	330,632	326,175	319,696
	Commercial	43,324	42,427	41,539	40,766	40,104
	Industrial	715	726	753	774	798
	Resale, etc.	605	590	578	562	562
	Total electric customers	387,354	379,819	373,502	368,277	361,160
Gas Revenues						
(Thousands)	Residential	$47,022	$43,147	$35,636	$38,487	$42,908
	Commercial	23,065	20,175	16,370	16,939	18,816
	Industrial	17,586	15,365	14,395	16,498	17,546
	Interruptible and other	6,011	3,520	3,552	6,819	6,806
	Unbilled revenues, net	263	255	194	—	—
	Gas transported	561	1,032	710	602	174
	Miscellaneous revenues	436	375	365	491	492
	Total gas revenues	$94,944	$83,869	$71,222	$79,836	$86,742
Gas Sales and Gas Transported	Residential	7,311	7,264	6,410	6,484	6,795
(Million Cubic Feet)	Commercial	4,423	4,286	3,653	3,452	3,562
	Industrial	4,348	4,358	4,398	4,418	4,245
	Interruptible and other	1,861	1,090	1,058	1,715	2,043
	Unbilled sales, net	123	15	55	—	—
	Total gas sales	18,066	17,013	15,574	16,069	16,645
	Gas transported	1,539	3,155	2,610	2,194	677
	Total gas sales and gas transported	19,605	20,168	18,184	18,263	17,322
Gas Customers						
(End of Period)	Residential	86,027	82,996	80,874	78,893	77,021
	Commercial	6,751	6,500	6,313	5,983	5,689
	Industrial	150	152	154	154	159
	Interruptible and other	12	11	10	14	14
	Total gas customers	92,940	89,659	87,351	85,044	82,883

OFFICERS *as of January 1, 1994*

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

H. Ray Landon, Executive Vice President

Ralph E. Klesius, Senior Vice President

Thomas S. Shaw, Senior Vice President/President, Delmarva Capital Investments, Inc.

Barbara S. Graham, Vice President and Chief Financial Officer

Donald E. Cain, Vice President, Administration

Paul S. Gerritsen, Vice President, Strategic Energy Markets, Pricing and Regulation

Kenneth K. Jones, Vice President, Planning

Wayne A. Lyons, Vice President, Division Operations

Frank J. Perry, Vice President, Production

Dale G. Stoodley, Vice President and General Counsel

Jack Urban, Vice President, Gas Division

W. Douglas Boyce, Vice President, Central Division

Donald P. Connelly, Secretary

Richard H. Evans, Vice President, Corporate Communications

Hudson P. Hoen III, Vice President, Southern Division

James P. Lavin, Comptroller and Chief Accounting Officer

Dennis R. McDowell, Comptroller—Operating

Philip S. Reese, Treasurer

Duane C. Taylor, Vice President, Information Systems

D. Wayne Yerkes, Vice President, Northern Division

DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN

More than 30 percent of the Company's common shareholders of record are now participating in the Dividend Reinvestment and Common Share Purchase Plan. If you are not participating, you may want to consider the benefits of joining this plan. Under the plan, you can invest your cash dividends and also invest additional cash, up to $100,000 per calendar year, to purchase additional shares of common stock without a service fee. Shares of common stock to be purchased under the plan may be either newly issued shares or shares purchased in the open market, depending on the financing needs of the Company.

You may obtain a prospectus with the plan description and an enrollment authorization card by writing to:

Delmarva Power & Light Company
Shareholder Services
P.O. Box 231
Wilmington, DE 19899

DUPLICATE MAILINGS

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

QUARTERLY COMMON STOCK DIVIDENDS AND PRICE RANGES

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

The Company had 58,225 holders of common stock as of December 31, 1993.

1993	Dividend Declared	Price High	Price Low
First Quarter	$.38 1/2	$24	$22 1/8
Second Quarter	$.38 1/2	$24 1/8	$21 1/2
Third Quarter	$.38 1/2	$25 7/8	$23 1/8
Fourth Quarter	$.38 1/2	$25 5/8	$21 1/4

1992	Dividend Declared	Price High	Price Low
First Quarter	$.38 1/2	$21 1/2	$20
Second Quarter	$.38 1/2	$22 7/8	$20 1/2
Third Quarter	$.38 1/2	$23 3/4	$22 1/2
Fourth Quarter	$.38 1/2	$23 7/8	$22 1/8

SHAREHOLDER SERVICES

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

STOCK SYMBOL

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

ANNUAL MEETING

The Annual Meeting will be held on May 26, 1994, at 11:00 a.m. in the Clayton Hall, University of Delaware, Newark, Delaware.

REGULATORY COMMISSIONS

Federal Energy Regulatory Commission
Elizabeth A. Moler—Chairperson
825 North Capitol Street, N.E.
Washington, D.C. 20426

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

Maryland Public Service Commission
Frank O. Heintz—Chairperson
6 St. Paul Street
Baltimore, Maryland 21202

Virginia State Corporation Commission
Theodore V. Morrison Jr.—Chairperson
P.O. Box 1197
Richmond, Virginia 23209

TRANSFER AGENTS AND REGISTRARS

First Mortgage Bond Trustee
Chemical Bank
450 West 33rd Street
New York, New York 10001

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

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

Chemical Bank
Stock Transfer Department
P.O. Box 24935
Church Street Station
New York, New York 10249

ADDITIONAL REPORTS

To supplement information in this Annual Report, a Financial and Statistical Review (1983–1993) and the Form 10-K are available upon request. Please write to:

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

Directors as of December 31, 1993

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

Michael G. Abercrombie President of Cato Inc. (a petroleum distributorship), Salisbury, Maryland; member since 1993; serves on nominating and nuclear oversight committees; term expires in 1996.

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

Robert D. Burris President of Burris Foods Inc. (a refrigerated food distribution company), Milford, Delaware; member since 1993; serves on audit committee; term expires in 1996.

H. Ray Landon Executive Vice President of the Company; member since 1988; serves on executive and investment committees; term expires in 1994.

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

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

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

James H. Gilliam Jr. Director, Executive Vice President, and General Counsel of the Beneficial Corporation (a financial services company), Wilmington, Delaware; member since 1993; serves on compensation and investment committees; term expires 1996.

James C. Johnson President and member of the Board of Directors of Loyola Capital Corporation and President of its primary subsidiary, Loyola Federal Savings & Loan Bank, Baltimore, Maryland; member since 1992; serves on audit and compensation committees; term expires in 1995.

Committees

Audit Committee
James C. Johnson, Chairperson; Robert D. Burris; Audrey K. Doberstein

Compensation Committee
Elwood P. Blanchard Jr., Chairperson; Sarah I. Gore, Vice Chairperson; James H. Gilliam Jr.; James C. Johnson

Executive Committee
Howard E. Cosgrove, Chairperson; James T. McKinstry, Vice Chairperson; Elwood P. Blanchard Jr.; Sarah I. Gore; H. Ray Landon

Investment Committee
Elwood P. Blanchard Jr., Chairperson; Howard E. Cosgrove; James H. Gilliam Jr.; H. Ray Landon; James T. McKinstry

Nominating Committee
Audrey K. Doberstein, Chairperson; Michael G. Abercrombie; Howard E. Cosgrove

Nuclear Oversight Committee
James T. McKinstry, Chairperson; Michael G. Abercrombie; Howard E. Cosgrove

Pictured left to right: Audrey K. Doberstein (standing), Michael G. Abercrombie, James T. McKinstry (standing), Robert D. Burris, and H. Ray Landon

Pictured left to right: Howard E. Cosgrove, Elwood P. Blanchard Jr. (standing), Sarah I. Gore, James H. Gilliam Jr. (standing), and James C. Johnson

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P.O. Box 231
Wilmington, DE 19899

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