1994 Annual Report

DELMARVA POWER PROVIDES ELECTRIC SERVICE THROUGHOUT MOST OF THE 5,700 SQUARE-MILE DELMARVA PENINSULA AND DISTRIBUTES NATURAL GAS IN A 275 SQUARE-MILE AREA OF NORTHERN DELAWARE. PENDING REGULATORY APPROVAL OF DELMARVA'S PURCHASE OF CONOWINGO POWER, THE COMPANY WILL EXPAND ITS ELECTRIC SERVICE AREA INTO PORTIONS OF CECIL AND HARFORD COUNTIES, LOCATED IN THE NORTHEAST CORNER OF MARYLAND.

FINANCIAL HIGHLIGHTS

	1994	1993	% Increase (Decrease)
Revenues	$991,021,000	$970,607,000	2.1
Net income	$108,310,000	$111,076,000	(2.5)
Earnings per share	$1.67(1)	$1.76	(5.1)
Dividends declared per share	$1.54	$1.54	—
Electric sales	12,505,082 mWh	12,280,230 mWh	1.8
Gas sales & transportation	20.34 million mcf	19.61 million mcf	3.8
Electric customers	393,372	387,354	1.6
Gas customers	95,662	92,940	2.9

(1) REDUCED BY AN $0.18 PER SHARE CHARGE FOR AN EARLY RETIREMENT OFFER.

AN EXPANDED VERSION OF THE COMPANY'S FINANCIAL HIGHLIGHTS CAN BE FOUND ON PAGES 20 TO 50.

Our business is changing dramatically. Customers now look to the electric and natural gas utility industry to provide them with many more price, service, and even supplier choices than they had before. Federal deregulation has sped up this industry change in wholesale energy markets while state governments in California and in other regions of the U.S. are currently acting to extend these types of choices to commercial, industrial, and residential customers. What will happen exactly and when? No one can predict for sure. However, we do have plans to succeed. Our report describes our strong position, successful performance, and growth potential in this changing industry.

Dear Stockholder,

With the electric and natural gas business becoming more and more competitive, investors have asked me if Delmarva Power can continue to prosper. The answer is yes. Your Company can prosper in this changing industry because of three reasons. First, Delmarva Power has developed strengths that position it well in an increasingly competitive industry. Second, the Company has performed successfully in the face of competition. Our 1994 performance reflects our ability to compete. Third, we have formed an earnings growth strategy for the next five years that should place us in the top quartile of our industry in terms of financial results. My letter details how the Company intends to be a top performer in the years ahead.

Strong Position

What was once a predictable, monopolistic industry is now a more competitive business. As a result of the Energy Policy Act of 1992, utilities and other non-regulated companies can more easily develop power generation projects and gain access to electric transmission systems throughout the country. Delmarva Power and other electric utilities can now compete for wholesale customers such as municipals and cooperatives. The act enables wholesale customers, who account for about 13% of our business, to choose a supplier for their electricity. On the East Coast, where there is currently surplus electric generating capacity, this change has led to fierce price discounting among utilities looking to add new wholesale customers. In the future, we expect many of our retail customers (industrial, commercial, and, to some extent, residential) to have similar supplier choices.

Delmarva Power's success in this new environment will depend on its ability to retain and expand current customer relationships and obtain new ones. That's why the strengths that we developed in the 1980s position us well for future opportunities.

Delmarva Power is the low-cost producer of electricity in the Middle Atlantic region. Our approximate average electricity and natural gas prices of 6¢ per kilowatt-hour (kWh) and 59¢ per 100 cubic feet (ccf) are below the regional averages of nearly 8¢ per kWh and just over 71¢ per ccf, respectively. We have highly satisfied customers. Our commercial and industrial customers rank us significantly above national and regional averages on overall satisfaction measures. In our annual survey, 83% of the residential customers said they view us favorably. This figure places Delmarva Power among top-rated energy utilities in the nation. These marks represent a significant advantage in an increasingly competitive industry. The Company serves a growing area. Forecasts indicate that the economy of the Delmarva Peninsula, especially in the Eastern Shore areas of Maryland and Virginia, will continue to grow at a faster rate than the national economy. In addition, Delmarva Power has a corporate culture that fosters innovative teamwork; we have a balanced and flexible energy supply plan; and we operate in a responsive regulatory environment.

Successful Performance

Our 1994 accomplishments and results reflect how the Company has taken advantage of its strengths. For example, the Company exceeded its earnings target. We put in place a three-part plan that will mitigate the loss of revenues in 1995 from the Old Dominion Electric Cooperative (ODEC). This plan addresses cutting costs, increasing sales, and adjusting prices. Delmarva Power beat the competition and secured most of the vulnerable wholesale segment of its business. Our prices and services convinced municipal customers to sign long-term energy supply contracts with us. We also expanded our retail market by winning a bid and signing an agreement to acquire Conowingo Power Company from PECO Energy. This purchase will add more than 35,000 new electric retail customers and earnings of 4¢ to 6¢ per share over time.

Growth Potential

During the next five years, our goal is to grow earnings 3% to 4% annually, approximately double the industry average. To achieve this goal, we will seek opportunities on and off the peninsula to increase our retail revenues through expansion of our customer base, new products and services, and strategic partnering. Along with those activities, we will continue to control our operation and maintenance expenses and capital costs. In addition to our earnings growth strategy, we see the economy of the Delmarva Peninsula rebounding at a faster and greater rate than the national economy, which should also increase revenues.

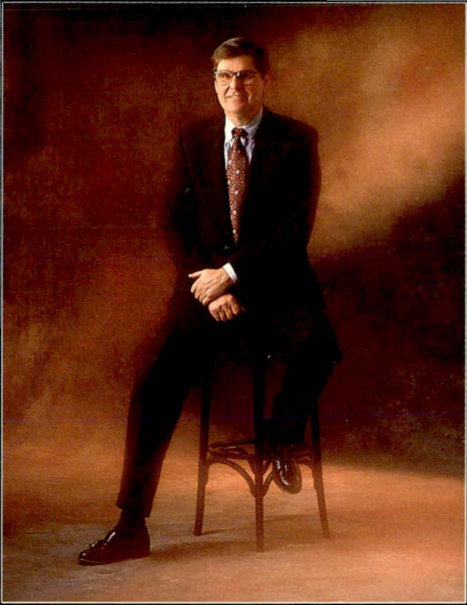
With increasing uncertainty and risk in the utility business, Delmarva Power will need a larger financial reserve than in the past. However, unlike other utilities that recently cut their dividends, we believe we can accumulate a sufficient reserve and maintain your current dividend level by lowering our payout ratio gradually through earnings growth.

I feel optimistic about Delmarva Power's prospects in this new business environment. The Company's strengths will provide it with a competitive edge. Our goal is to generate earnings that exceed industry averages and support our stock price and our current dividend level. We're committed to being good stewards of your investment, as well as the high quality energy provider of choice to our customers. Thank you for your confidence and support.

Sincerely,

Howard Cosgrove

Howard E. Cosgrove
Chairman, President, and Chief Executive Officer



Howard Cosgrove, Chairman, President, and CEO

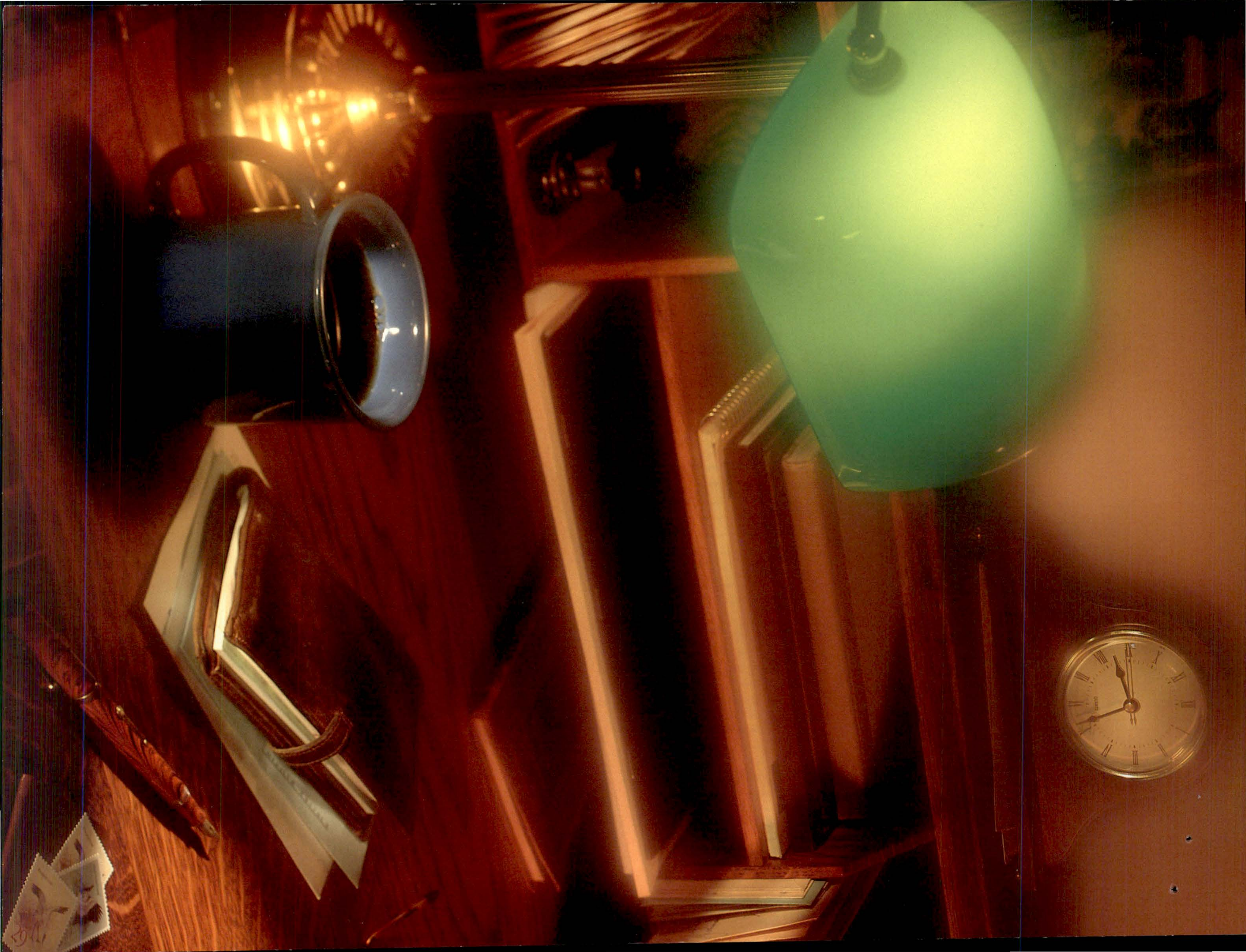
WE CAN PROSPER IN COMPETITIVE UTILIT

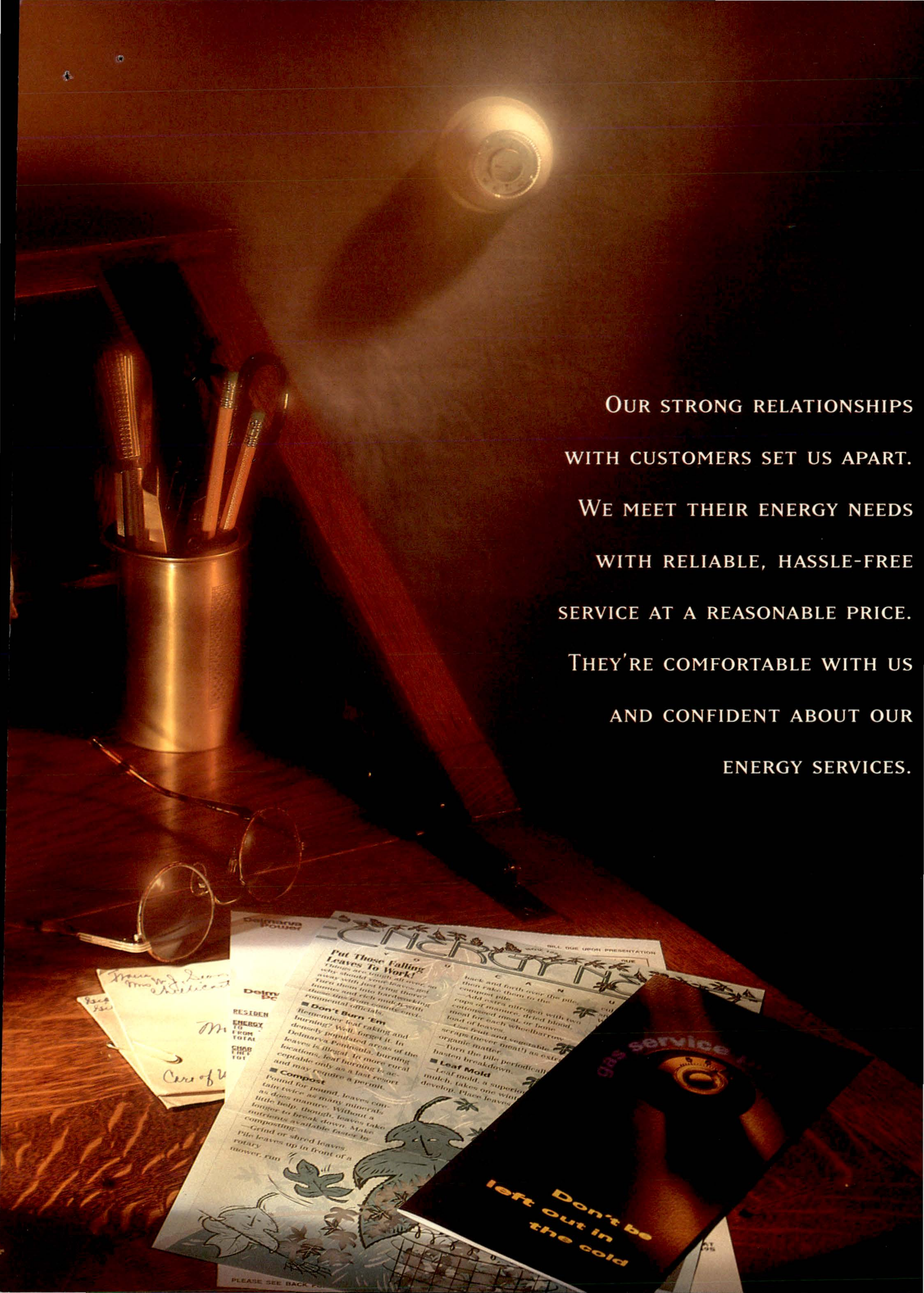
MARKETS BECAUSE OF OUR STRENGTHS AN

OUR TRACK RECORD FOR CAPITALIZING O

THOSE STRENGTHS. OUR 1994 PERFORMANC

REFLECTS OUR ABILITY AND COMMITMEN





OUR STRONG RELATIONSHIPS
WITH CUSTOMERS SET US APART.
WE MEET THEIR ENERGY NEEDS
WITH RELIABLE, HASSLE-FREE
SERVICE AT A REASONABLE PRICE.
THEY'RE COMFORTABLE WITH US
AND CONFIDENT ABOUT OUR
ENERGY SERVICES.

We have other strengths. Low prices. Customers, especially commercial and industrial customers, know our energy prices are lower than those in neighboring states. Growing service area. The Delmarva Peninsula has an economy that's growing faster than most places in the U.S. and a mix of customers that makes it less affected by national recessions. Innovative teamwork. We have pulled together to cut costs, expand markets,

SUCCESS IN THIS NEW ENVIRONMENT WILL DEPEND ON OUR CONSISTENT ABILITY TO RETAIN AND EXPAND CURRENT CUSTOMER RELATIONSHIPS AND OBTAIN NEW ONES.

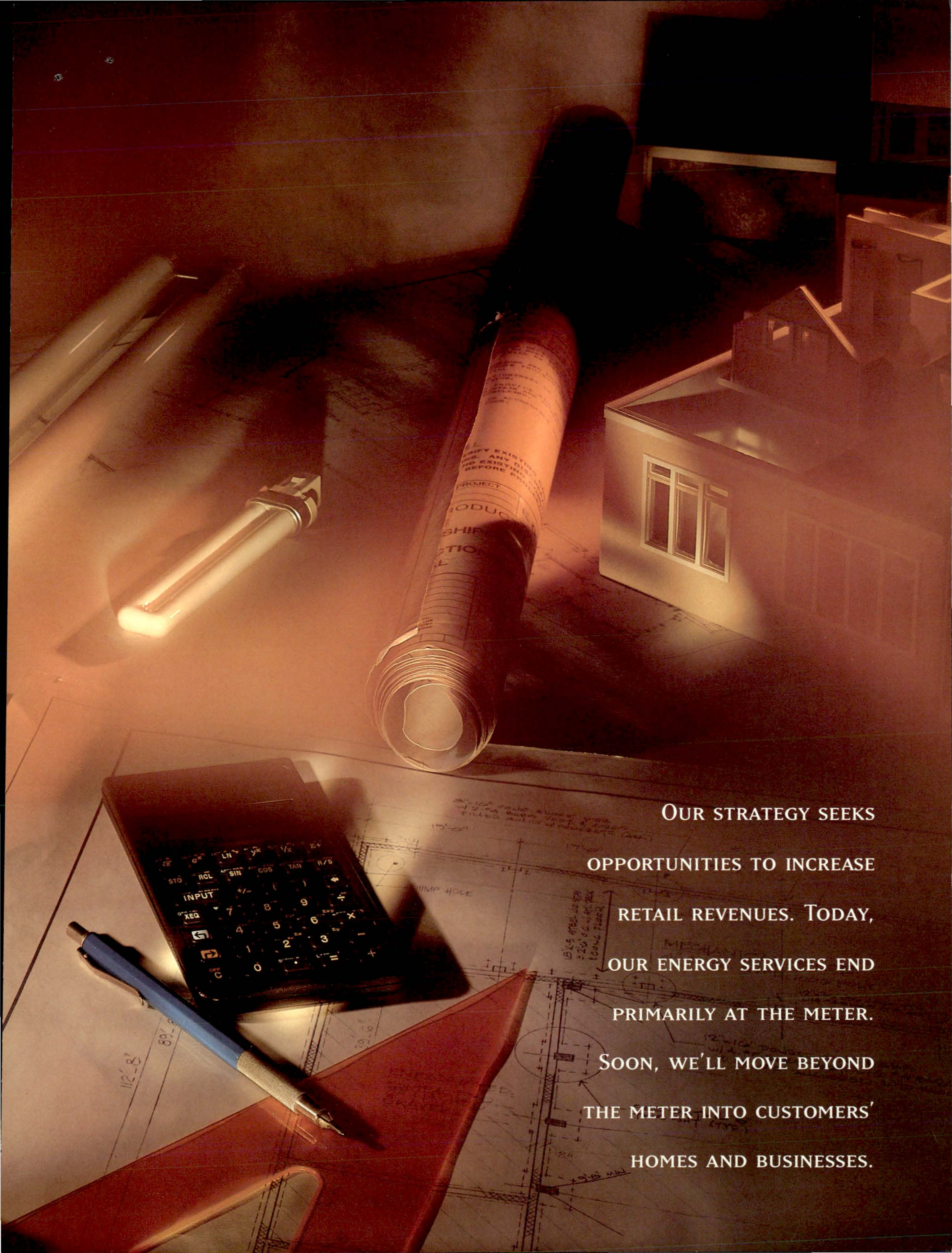

Delmarva
Power
ALWAYS
WEAR
YOUR
GLOVES

OUR EXPERIENCE AND SKILL HAVE ALLOWED US TO ACHIEVE MORE THAN WE PLANNED. WE SURPASSED SEVERAL PERFORMANCE GOALS IN 1994. MORE IMPORTANTLY, INDUSTRY CHANGE TESTED US AND WE PROVED WE CAN COMPETE.

We exceeded expectations. Return on equity. The Company made significant progress toward putting in place a three-part plan to earn at least 11.5% return on equity for 1995 and beyond. Retail market. Delmarva Power expanded its retail market by 35,000 customers through an agreement to acquire Conowingo Power Company in Maryland. Wholesale market. We signed our municipal customers for extended terms of eight

EMPLOYEE EFFORTS ENABLED US TO OVERCOME SEVERAL OBSTACLES, FROM FIERCE PRICE CUTTING TO FRIGID WINTER CONDITIONS, AND SUCCEED.

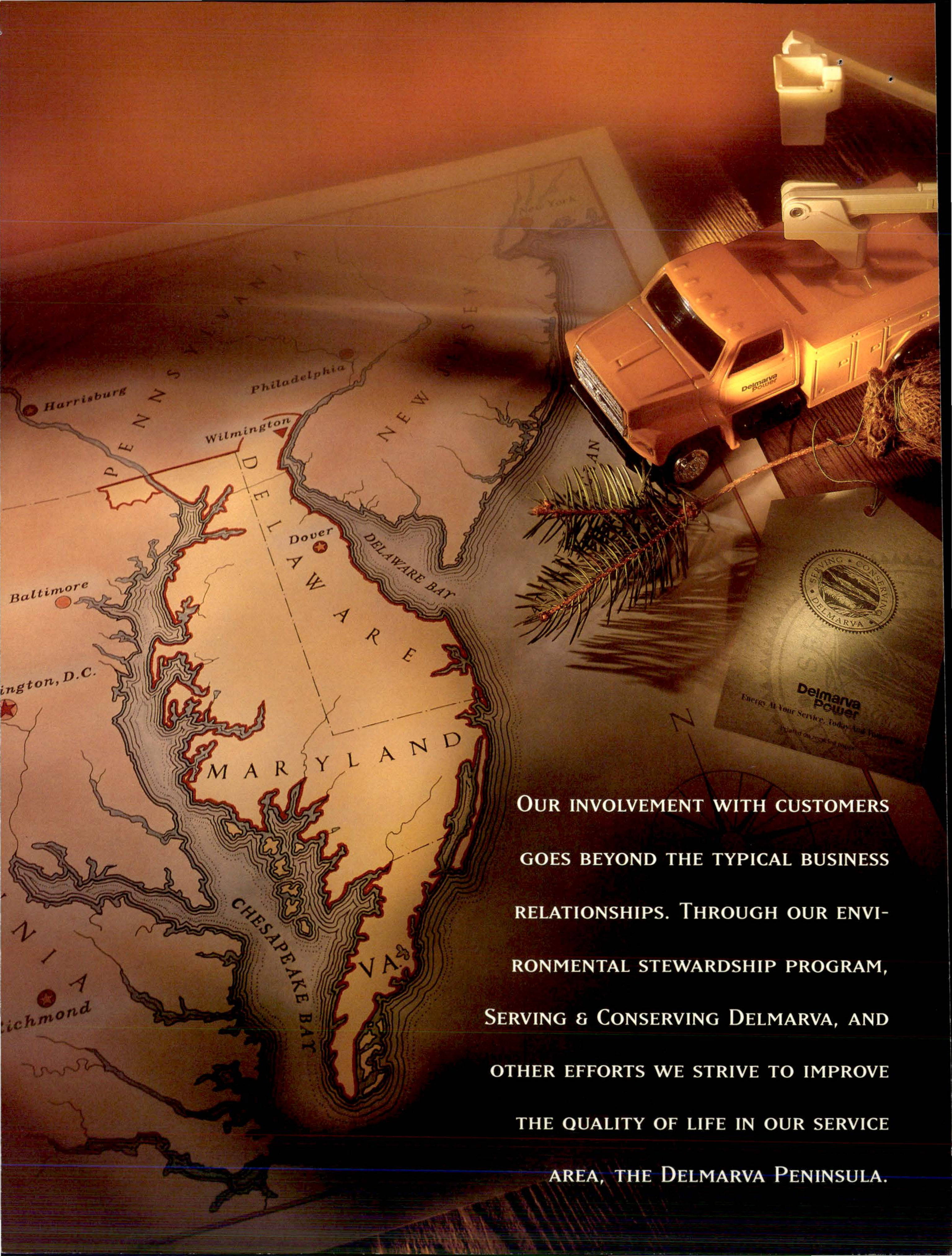

Infiltration (Air leakage)
Participation
Quality
Questions &
Technical
Appendix
ING THE QUALITIES OF POWER



OUR STRATEGY SEEKS OPPORTUNITIES TO INCREASE RETAIL REVENUES. TODAY, OUR ENERGY SERVICES END PRIMARILY AT THE METER. SOON, WE'LL MOVE BEYOND THE METER INTO CUSTOMERS' HOMES AND BUSINESSES.

we have a plan for future success. Customer base expansion. The Company is seeking to grow its retail energy market on and off the Delmarva Peninsula. Strategic partnerships. Delmarva Power may enter new energy-related markets by joining with organizations outside our industry. New products. We expect to introduce new programs that help our customers increase the usefulness and value of our electricity

WE SEEK TO GROW OUR BUSINESS BY OFFERING CUSTOMERS MORE CHOICES THROUGH NEW CONNECTIONS WITH TECHNOLOGY AND WITH OUR PEOPLE.



OUR INVOLVEMENT WITH CUSTOMERS GOES BEYOND THE TYPICAL BUSINESS RELATIONSHIPS. THROUGH OUR ENVIRONMENTAL STEWARDSHIP PROGRAM, SERVING & CONSERVING DELMARVA, AND OTHER EFFORTS WE STRIVE TO IMPROVE THE QUALITY OF LIFE IN OUR SERVICE AREA, THE DELMARVA PENINSULA.

Officers as of January 1, 1995

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

H. Ray Landon, Executive Vice President

Barbara S. Graham, Senior Vice President, Treasurer, and Chief Financial Officer

Ralph E. Klesius, Senior Vice President

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

Donald E. Cain, Vice President, Administration

Paul S. Gerritsen, Vice President

Wayne A. Lyons, Vice President

Frank J. Perry Jr., Vice President, Production

Dale G. Stoodley, Vice President and General Counsel

Jack Urban, Vice President, Gas Division

W. Douglas Boyce, Vice President, Central Division

Donald P. Connelly, Secretary

Richard H. Evans, Vice President, Corporate Communications

Hudson P. Hoen III, Vice President, Southern Division

James P. Lavin, Comptroller and Chief Accounting Officer

Dennis R. McDowell, Comptroller—Operating

Duane C. Taylor, Vice President, Information Systems

D. Wayne Yerkes, Vice President, Northern Division

Committees

Audit Committee

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

Compensation Committee

Sarah I. Gore, Chairperson;
Michael B. Emery; James H. Gilliam Jr.; James C. Johnson

Executive Committee

Howard E. Cosgrove, Chairperson;
James T. McKinstry, Vice Chairperson;
Sarah I. Gore; James C. Johnson; H. Ray Landon

Investment Committee

Howard E. Cosgrove, Chairperson;
Audrey K. Doberstein; 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; Robert D. Burris; Howard E. Cosgrove

Dividend Reinvestment and Common Share Purchase Plan

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

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

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

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 58,073 holders of common stock as of December 31, 1994.

1994	Dividend Declared	Price High	Price Low	1993	Dividend Declared	Price High	Price Low
First Quarter	$.38 1/2	$23 5/8	$20 1/2	First Quarter	$.38 1/2	$24	$22 1/8
Second Quarter	$.38 1/2	$21	$16 7/8	Second Quarter	$.38 1/2	$24 1/8	$21 1/2
Third Quarter	$.38 1/2	$20	$17 3/4	Third Quarter	$.38 1/2	$25 7/8	$23 1/8
Fourth Quarter	$.38 1/2	$19 1/4	$17 5/8	Fourth Quarter	$.38 1/2	$25 5/8	$21 1/4

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 25, 1995, 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
Dr. Robert J. McMahon—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 21202-6806

Virginia State Corporation Commission
Hullihen W. Moore—Chairperson
Tyler Building
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

Common and Preferred Stock
Wilmington Trust Company
Corporate Trust Division
1100 N. Market Street
Wilmington, Delaware 19890

Walk-in office:
1103 N. Market Street
Wilmington, Delaware

Additional Reports

To supplement information in this Annual Report, a Financial and Statistical Review (1984–1994) 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

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.

CONSOLIDATED STATISTICS

		1994	1993	1992	1991	1990
ELECTRIC REVENUES						
(Thousands)	Residential	$312,224	$305,446	$273,463	$275,888	$259,113
	Commercial	242,506	237,785	220,659	218,558	209,174
	Industrial	145,594	150,178	144,094	144,272	140,288
	Resale	105,350	104,983	96,491	98,785	87,574
	Other sales revenues (1)	6,816	9,716	7,142	5,961	5,605
	Sales revenues	812,490	808,108	741,849	743,464	701,754
	Interchange deliveries	62,388	61,437	30,606	33,523	23,905
	Miscellaneous revenues	8,237	6,118	7,720	7,612	6,722
	Total electric revenues	$883,115	$875,663	$780,175	$784,599	$732,381
ELECTRIC SALES						
(1,000 Kilowatt-Hours)	Residential	3,578,743	3,499,387	3,228,237	3,236,616	3,081,943
	Commercial	3,461,058	3,336,847	3,140,149	3,098,599	2,979,738
	Industrial	3,248,131	3,232,233	3,115,677	3,105,338	3,142,439
	Resale	2,166,154	2,131,920	1,987,393	1,952,312	1,829,573
	Other sales (2)	50,996	79,843	49,355	67,415	47,518
	Total electric sales	12,505,082	12,280,230	11,520,811	11,460,280	11,081,211
ELECTRIC CUSTOMERS						
(End of Period)	Residential	347,997	342,710	336,076	330,632	326,175
	Commercial	44,060	43,324	42,427	41,539	40,766
	Industrial	699	715	726	753	774
	Resale	12	12	12	12	12
	Other	604	593	578	566	550
	Total electric customers	393,372	387,354	379,819	373,502	368,277
GAS REVENUES						
(Thousands)	Residential	$55,091	$47,022	$43,147	$35,636	$38,487
	Commercial	28,088	23,065	20,175	16,370	16,939
	Industrial	17,589	17,586	15,365	14,395	16,498
	Interruptible and other (1)	5,498	6,274	3,775	3,746	6,819
	Gas transported	1,191	561	1,032	710	602
	Miscellaneous revenues	449	436	375	365	491
	Total gas revenues	$107,906	$94,944	$83,869	$71,222	$79,836
GAS SALES AND GAS TRANSPORTED						
(Million Cubic Feet)	Residential	7,717	7,311	7,264	6,410	6,484
	Commercial	4,746	4,423	4,286	3,653	3,452
	Industrial	3,858	4,348	4,358	4,398	4,418
	Interruptible and other (2)	1,766	1,984	1,105	1,113	1,715
	Total gas sales	18,087	18,066	17,013	15,574	16,069
	Gas transported	2,255	1,539	3,155	2,610	2,194
	Total gas sales and gas transported	20,342	19,605	20,168	18,184	18,263
GAS CUSTOMERS						
(End of Period)	Residential	88,518	86,027	82,996	80,874	78,893
	Commercial	6,982	6,751	6,500	6,313	5,983
	Industrial	150	150	152	154	154
	Interruptible and other	12	12	11	10	14
	Total gas customers	95,662	92,940	89,659	87,351	85,044

(1) Includes unbilled revenues.

(2) Includes unbilled sales.

20. Segment Information

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

(Dollars in Thousands)	1994	1993	1992
Electric Operations			
Operating revenues	$883,115	$875,663	$780,175
Operating income	153,409	154,412	134,260
Depreciation	102,746	94,549	89,421
Construction expenditures	133,884	142,238	192,493
Gas operations			
Operating revenues	107,906	94,944	83,869
Operating income	9,747	9,727	9,451
Depreciation	6,777	6,380	5,864
Construction expenditures	20,235	17,753	14,888
Identifiable assets, net			
Electric	2,314,448	2,267,050	2,042,496
Gas	188,813	160,618	142,740
Assets not allocated	166,524	164,811	189,557

21. Quarterly Financial Information (Unaudited)

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

Quarter Ended	Operating Revenue	Operating Income (Dollars in Thousands)	Net Income	Earnings Applicable to Common Stock	Average Shares Outstanding (In Thousands)	Earnings per Average Share
1994						
March 31	$292,394	$ 53,770	$39,641	$37,377	59,022	$0.63
June 30	218,465	33,994	20,776	18,453	59,402	0.31
September 30	260,601	42,921	29,366	27,008	59,542	0.46
December 31	219,561	32,471	18,527	16,102	59,542	0.27
	$991,021	$163,156	$108,310	$98,940	59,377	$1.67
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

In the third quarter of 1994, the Company expensed the costs associated with the early retirement offer (Note 4 to the Consolidated Financial Statements) which decreased net income by $10.7 million ($0.18 per share).

In the fourth quarter of 1994, the Company reduced the rate of salary increase assumed for computation of pension cost, effective January 1, 1994. This change increased net income and earnings per share in the fourth quarter by $2.1 million and $0.03, respectively.

19. Nonutility Subsidiaries

The following presents condensed financial information of the Company's nonregulated wholly owned subsidiaries: Delmarva Capital Investments, Inc.; Delmarva Energy Company; and Delmarva Industries, 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)	1994	1993	1992
Revenues and Gains			
Landfill and waste hauling	$14,186	$11,745	$9,021
Operating services	22,468	22,118	3,038
Other revenues	4,923	2,117	998
Leveraged leases (1)	272	835	61
Other investment income	1,293	821	1,279
	43,142	37,636	14,397
Costs and Expenses			
Operating expenses	38,499	36,424	15,765
Interest expense, net	370	—	319
Income taxes	1,921	(596)	(2,176)
	40,790	35,828	13,908
Net income	$2,352	$1,808	$489
Earnings per share of common stock attributed to subsidiaries	$0.04	$0.03	$0.01

(1) On an after-tax basis, leveraged leasing, including gains on sales of equity and residual value interests, contributed $242,000, $1,754,000, and $1,813,000 to earnings in 1994, 1993, and 1992, respectively.

Condensed Subsidiary Balance Sheets

(Dollars in Thousands) Assets	As of December 31, 1994	1993	Liabilities and Stockholders' Equity	As of December 31, 1994	1993
Current assets			Current liabilities		
Cash and cash equivalents	$8,631	$15,929	Debt due within one year	$489	$193
Other	5,702	7,489	Other	6,873	11,903
	14,333	23,418		7,362	12,096
Noncurrent assets					
Investment in			Noncurrent liabilities		
Leveraged leases	49,595	50,914	Long-term debt	5,225	1,114
Other	4,354	4,623	Deferred income taxes	53,592	55,008
Landfill & waste hauling property, plant & equipment	25,424	27,420	Other	2,342	1,975
				61,159	58,097
Other	9,558	4,210	Stockholders' equity	34,743	40,392
	88,931	87,167			
Total	$103,264	$110,585	Total	$103,264	$110,585

16. Environmental Matters

The Company is subject to regulation with respect to the environmental effects of its operations, including air and water quality control, solid and hazardous 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 two federal superfund sites and is alleged to be a third party contributor at two other federal superfund sites. The Company also has three former coal gasification sites and the Company is currently participating with the State of Delaware in evaluating two of the three sites for extent of contamination and risk to the environment. The Company has accrued a liability for clean-up and other potential costs related to the PRP and coal gasification sites. The Company does not expect such costs to have a material effect on the Company's financial position or results of operations.

17. Contingencies

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 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 $2.8 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 $4.7 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.

Other

On October 20, 1994, the Company and Star Enterprise signed a settlement agreement resolving Star Enterprise's claims that it had allegedly been overcharged under a contract with the Company. The settlement did not have a material effect on the Company's financial position or results of operations.

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.

18. Supplemental Cash Flow Information

Cash Paid During the Year For	Year Ended December 31,		
(Dollars in Thousands)	1994	1993	1992
Interest, net of capitalized amount	$57,837	$58,154	$62,127
Income taxes, net of refunds	$67,922	$72,384	$46,310

15. Postretirement Benefits Other Than Pensions

The Company provides health-care and life insurance benefits to its retired employees and substantially all of the Company's employees may become eligible for these benefits upon retirement. 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. As permitted by SFAS No. 106, the Company elected to amortize its transition obligation (the accumulated postretirement benefit obligation as of January 1, 1993) over 20 years. Prior to adoption of SFAS No. 106, the Company expensed postretirement benefits other than pensions as paid. The amount expensed in 1992 was $4,496,000.

The Company's policy is to fund its obligation to the extent that SFAS No. 106 costs are reflected in customer rates, including amounts which are capitalized. Plan assets held in external trust funds consist primarily of investments in bond mutual funds.

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

Reconciliation of Funded Status of the Plan

(Dollars in thousands)	As of December 31, 1994	1993
Accumulated postretirement benefit obligation (APBO)		
Active employees fully eligible for benefits	$9,319	$17,380
Other active employees	12,638	20,351
Current retirees	58,445	43,118
	80,402	80,849
Plan assets at fair value	15,140	5,825
APBO in excess of plan assets	65,262	75,024
Unrecognized transition obligation	(65,110)	(68,728)
Unrecognized net loss	(256)	(4,939)
Accrued/(prepaid) postretirement benefit cost	$(104)	$1,357

Annual Cost of Postretirement Benefits Other Than Pensions

(Dollars in thousands)	Year ended December 31, 1994	1993
Service cost—benefits earned during period	$2,127	$2,206
Interest cost on projected benefit obligation	5,520	5,613
Actual return on plan assets	100	—
Amortization of the unrecognized transition obligation	3,617	3,617
Other, net	(481)	—
Net postretirement benefit cost	$10,883	$11,436

Assumptions

	1994	1993
Discount rates used to determine APBO as of December 31	8.25%	7.25%
Expected long-term rates of return on assets	8.25%	8.25%
Rates of increase in compensation levels	5.50%	6.50%
Health-care cost trend rate	11.00%	12.00%

The health-care cost trend rate, or the expected rate of increase in health-care costs, is assumed to decrease to 10.5% in 1995 and gradually decrease to 5.5% by 2005. Increasing the health-care cost trend rates of future years by one percentage point would increase the accumulated postretirement benefit obligation by $2.9 million and would increase annual aggregate service and interest costs by $0.2 million.

14. 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. 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

(Dollars in Thousands)	As of December 31, 1994	1993
Accumulated benefit obligation		
Vested	$265,597	$236,209
Nonvested	19,311	25,721
	284,908	261,930
Effect of estimated future compensation increases	67,947	123,562
Projected benefit obligation	352,855	385,492
Plan assets at fair value	502,588	521,897
Excess of plan assets over projected benefit obligation	149,733	136,405
Unrecognized prior service cost	19,155	19,255
Unrecognized net gain	(129,842)	(108,183)
Unrecognized net transition asset	(33,141)	(36,455)
Prepaid pension cost	$5,905	$11,022

Components of Net Pension Cost

(Dollars in Thousands)	Year Ended December 31, 1994	1993	1992
Service cost—benefits earned during period	$10,939	$13,152	$12,606
Interest cost on projected benefit obligation	26,574	26,411	24,261
Actual return on plan assets	3,349	(58,247)	(39,104)
Net amortization and deferral	(52,601)	14,748	(1,715)
Net pension cost	$(11,739)	$(3,936)	$(3,952)

Assumptions

	1994	1993	1992
Discount rates used to determine projected benefit obligation as of December 31	8.25%	7.25%	7.25%
Rates of increase in compensation levels	5.50%	6.50%	6.50%
Expected long-term rates of return on assets	8.25%	8.25%	8.25%

The net pension cost excludes the expense recorded in 1994 under SFAS No. 88 for the Company's early retirement offer. Prepaid pension cost as of December 31, 1994, was reduced by the early retirement offer. Refer to Note 4 to the Consolidated Financial Statements for additional information.

The net 1994 pension cost reflects a decrease of $4.5 million attributed to a reduction in the assumed rate of increase in compensation levels from 6.5% to 5.5%, effective January 1, 1994. Also, the discount rate was increased from 7.25% to 8.25%, effective October 1,1994.

On August 17, 1994, a nonutility subsidiary of the Company borrowed $4,640,000 at 8% from a bank to partially finance the purchase of an office building. Monthly payments of principal and interest, based on a 15-year principal amortization, are due through September 1999 when the loan matures.

As of December 31, 1994, the Company had $75 million of bank lines of credit, including $45 million of such credit lines under which the Company may convert short-term borrowings to a term loan maturing on July 26, 1997, (or earlier at the discretion of the Company). As of December 31, 1994, $45 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.

Maturities of long-term debt and sinking fund requirements during the next five years are as follows: 1995—$1,649,000; 1996—$1,726,000; 1997—$26,815,000; 1998—$32,546,000; 1999—$31,728,000.

As of December 31, 1994, the fair market value of the Company's long-term debt was $752,461,000 in comparison to the book value of $774,558,000. 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. 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.

13. Commitments

The Company currently estimates its commitments for construction of utility plant, excluding AFUDC, and purchases under fuel supply contracts, excluding nuclear fuel, to be approximately $207 million in 1995 and $214 million in 1996.

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. As discussed in Note 6 to the Consolidated Financial Statements, the Company also has agreements to purchase capacity and energy from PECO beginning upon the closing of the COPCO acquisition. Under the terms of these agreements, the Company's expected commitments for capacity and energy charges are as follows: 1995—$52.9 million; 1996—$56.6 million; 1997—$61.9 million; 1998—$65.1 million; 1999—$71.8 million; after 1999—$604.8 million; total—$913.1 million.

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 $30.3 million as of December 31, 1994.

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 $161.8 million in aggregate. The Company also has long-term leases for certain other facilities and equipment. Minimum commitments as of December 31, 1994, under the Merrill Creek Reservoir lease and all other noncancellable lease agreements (excluding payments under the nuclear fuel energy contract which cannot be reasonably estimated) are as follows: 1995—$6.1 million; 1996—$6.0 million; 1997—$6.0 million; 1998—$6.0 million; 1999—$5.9 million; after 1999—$145.1 million; total—$175.1 million. Approximately 92% of the minimum lease commitments shown above are payments due under the Merrill Creek Reservoir lease.

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)	1994	1993	1992
Interest on capital leases	$1,560	$1,296	$1,432
Amortization of capital leases	11,456	10,243	10,554
Operating leases	14,552	15,176	14,063
	$27,568	$26,715	$26,049

10. Common Stock

Refer to the Consolidated Statements of Changes in Common Stockholders' Equity for information concerning issuances and redemptions of common stock during 1992–1994.

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, 1994, approximately $231.3 million was available for payment of common dividends.

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.

	1994		1993		1992	
	Number of Shares	Option Price	Number of Shares	Option Price	Number of Shares	Option Price
Beginning-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
Options granted	—	—	—	—	59,900	$20 1/2
Options exercised	—	—	139,050	$17 1/2–$21 1/4	129,500	$17 1/2–$21 1/4
Options forfeited	—	—	—	—	8,500	$21 1/4
End-of-year balance	53,050	$17 1/2–$21 1/4	53,050	$17 1/2–$21 1/4	192,100	$17 1/2–$21 1/4
Exercisable	53,050	$17 1/2–$21 1/4	53,050	$17 1/2–$21 1/4	132,200	$17 1/2–$21 1/4

11. Preferred Stock

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. On December 1, 1993, the Company used the proceeds and cash on-hand to redeem $28.28 million of preferred stock previously issued by the Company, including $18.28 million of the 7.88% series and $10.0 million of the 7.84% series.

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.

12. Debt

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

The Company redeemed its 4 5/8% First Mortgage Bonds, $25 million principal amount, at maturity on October 1, 1994.

On October 12, 1994, the Delaware Economic Development Authority issued on behalf of the Company $30 million of Variable Rate Demand Gas Facilities Revenue Bonds, due on demand or at maturity on October 1, 2029. The bonds may bear interest at a daily rate, weekly rate, short-term interest rate, or fixed rate as determined from time to time in accordance with the indenture. Proceeds from the bonds are being used to finance enhancements to and expansion of the Company's gas system.

The Company's debt obligations included Variable Rate Demand Bonds (VRDB) in the amounts of $71.5 million as of December 31, 1994 and $41.5 million as of December 31, 1993. Although VRDB are classified as current liabilities because VRDB are due on demand by the bondholder, such bonds are immediately remarketed because the interest rate is set at market. The Company may also utilize one of the fixed rate/fixed term conversion options of the bonds. Thus, the Company considers the VRDB to be a source of long-term financing. The $71.5 million balance of VRDB outstanding as of December 31, 1994 matures in 2017 ($26 million), 2028 ($15.5 million), and 2029 ($30 million). Average annual interest rates on the VRDB were 3.0% in 1994.

4. Early Retirement Offer

In the third quarter of 1994, the Company completed a voluntary early retirement offer (ERO) for all management and union employees at least 55 years old with at least 10 years of continuous service by December 31, 1994. The ERO was accepted by 10.5% of the Company's workforce (296 people), which represented an 82% participation rate among eligible employees. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the Company expensed the costs associated with the ERO of $17.5 million ($10.7 million after taxes or $0.18 per share).

5. Other Income, Net of Income Taxes

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. Thus, beginning in 1993, revenues and expenses associated with the contract were included in the operating results of the Company's nonutility subsidiaries as reported in Note 19 to the Consolidated Financial Statements. In 1992, the revenues and expenses associated with the contract were reflected in the Consolidated Statement of Income as "other income, net of income taxes."

On July 27, 1988, the Company, Atlantic City Electric Company, and Public Service Electric and Gas Company filed lawsuits against PECO Energy Company (PECO) to recover replacement power and other costs incurred as a result of the shutdown of Peach Bottom by the 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 $18.5 million to the Company. The settlement agreement increased 1992 net income by $11.4 million ($0.21 per share).

6. Purchase of Conowingo Power Company

On May 24, 1994, the Company entered into an agreement with PECO to buy its Maryland retail electric subsidiary, Conowingo Power Company (COPCO), for $150 million. The Company plans to finance the acquisition of COPCO with approximately 50% long-term debt and 50% common equity. The MPSC has approved the Company's proposal to recover, through Maryland retail rates, the $47 million acquisition premium (purchase price in excess of book value) and a carrying charge, over 20 years beginning at the time of the next Maryland base rate case. The purchase price also reflects COPCO's deferred asset of about $25 million for costs to be collected pursuant to a rate phase-in plan. The MPSC has approved recovery, from COPCO customers, of this deferred asset and a carrying charge over 10 years beginning in 1996.

In conjunction with the COPCO acquisition, the Company signed a contract with PECO which provides for the purchase of electric capacity and energy from the PECO system beginning on the later of the closing date of the COPCO acquisition or February 1, 1996, and ending on May 31, 2006. The base amount of the capacity purchase, which is subject to certain possible adjustments, will start at 205 megawatts (MW) and will increase annually to 259 MW in 2006. If the COPCO acquisition closes prior to February 1, 1996, the Company has agreed in another contract that it will purchase COPCO's electric power requirements from PECO on an interim basis until February 1, 1996.

The acquisition and purchased power agreements are contingent on various regulatory approvals. The purchased power agreements are conditioned upon closing of the COPCO acquisition. The DPSC and MPSC approved the Company's filings for regulatory approval on November 22, 1994, and January 18, 1995, respectively. The Company expects the VSCC and FERC will approve the Company's filings by mid-1995.

7. 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, 1994, 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	$124,913	$62,641	$9,836
Salem	7.41%	164 MW	204,958	86,203	8,094
Coal-Fired					
Keystone	3.70%	63 MW	17,642	6,937	641
Conemaugh	3.72%	63 MW	27,627	7,853	3,792
Transmission Facilities	Various		4,564	2,037	—
Total			$379,704	$165,671	$22,363

8. Nuclear Decommissioning

The Company records a liability for its shares of the estimated cost of decommissioning the Peach Bottom and Salem nuclear reactors over the remaining lives of the plants based on amounts collected in rates charged to electric customers. For rate-making purposes, the Company estimates its share of future nuclear decommissioning costs based on NRC regulations concerning the minimum financial assurance amount for nuclear decommissioning. The Company is presently recovering through electric rates nuclear decommissioning costs based on the 1990 NRC minimum financial assurance amount of approximately $50 million.

Subsequently, the NRC minimum financial assurance amount increased to $118 million primarily due to higher estimated costs for disposing of low level radioactive waste. Based on prior decisions by regulatory commissions, the Company expects that rates charged to electric customers will be adjusted to provide for recovery of the Company's current estimate of nuclear decommissioning costs of $118 million over the remaining lives of the plants. As discussed in Note 2 to the Consolidated Financial Statements, the Company has filed in the Delaware and Maryland retail electric jurisdictions applications for base rate increases which include recovery of each jurisdiction's share of the updated nuclear decommissioning cost estimate of $118 million.

The Company's accrued nuclear decommissioning liability, which is reflected in the accumulated reserve for depreciation, was $32.4 million as of December 31, 1994. The provision reflected in depreciation expense for nuclear decommissioning was $2.4 million in 1994, $2.3 million in 1993, and $2.2 million in 1992. External trust funds established by the Company for the purpose of funding nuclear decommissioning costs had an aggregate balance of $20.7 million as of December 31, 1994. Earnings on the trust funds are recorded as an increase to the accrued nuclear decommissioning liability, which, in effect, reduces the expense recorded for nuclear decommissioning.

The ultimate cost of nuclear decommissioning for the Peach Bottom and Salem reactors may exceed the NRC minimum financial assurance amount which is updated annually under a NRC prescribed formula.

9. Investments

As of December 31, 1994, the Company had $36.6 million of investments in securities which were included in the following balance sheet classifications: cash and cash equivalents—$2.2 million; funds held by trustee—$32.8 million; other investments and nonutility property, net—$1.6 million. These securities, based on the Company's intent and criteria established by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," are categorized as available-for-sale securities. The fair value of such securities was not materially different from book value as of December 31, 1994. Gains and losses from the sale of investment securities were not material to the Company's operating results in 1994, 1993, or 1992. As of December 31, 1994, the Company's investments in debt securities other than those considered to be cash equivalents had the following maturities: $11.4 million due in 1995–2000; and $7.6 million due in 2001–2004.

Components of Consolidated Income Tax Expense

(Dollars in Thousands)		1994	1993	1992
Operation				
Federal:	Current	$50,276	$50,264	$30,819
	Deferred	5,592	7,710	11,597
State:	Current	11,268	10,839	6,755
	Deferred	928	1,832	2,638
Investment tax credit adjustments, net		(1,898)	(2,515)	(2,417)
Total operation		66,166	68,130	49,392
Other income				
Federal:	Current	2,789	9,398	7,559
	Deferred	(2,008)	(9,398)	(3,482)
State:	Current	349	287	1,369
	Deferred	317	(1,315)	(4)
Total other income		1,447	(1,028)	5,442
Total income tax expense		$67,613	$67,102	$54,834

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.

	1994		1993		1992	
(Dollars in Thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax expense	$61,574	35%	$62,362	35%	$52,142	34%
Increase (decrease) due to						
Depreciation not normalized	1,797	1	1,676	1	1,959	1
ITC amortization/flow-through	(1,938)	(1)	(2,832)	(2)	(2,780)	(2)
State income taxes, net of federal tax benefit	8,361	4	7,567	4	7,099	5
Other, net	(2,181)	(1)	(1,671)	—	(3,586)	(2)
Total income tax expense	$67,613	38%	$67,102	38%	$54,834	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:

	As of December 31,	
(Dollars in Thousands)	1994	1993
Deferred Tax Liabilities		
Utility plant basis differences		
Accelerated depreciation	$296,651	$292,655
Other	98,437	97,530
Leveraged leases	47,080	49,339
Deferred recoverable income taxes	64,130	62,124
Other	44,418	30,630
Total deferred tax liabilities	550,716	532,278
Deferred Tax Assets		
Deferred ITC	17,763	17,316
Other	36,794	28,218
Total deferred tax assets	54,557	45,534
Total deferred taxes, net	$496,159	$486,744

Valuation allowances for deferred tax assets were not material as of December 31, 1994 and 1993.

On September 1, 1994, the Company filed an application with the MPSC for a $3.9 million "limited issue" increase in electric base rates. The proposed increase, when netted with ODEC related fuel savings, is $2.2 million or 1.1%. This "limited issue" increase is designed to recover costs similar to those in the Delaware "limited issue" case, except for demand side management and conservation program costs which are recoverable from Maryland customers through a surcharge. The MPSC staff's testimony proposes a rate decrease of $9.6 million, reflecting a historical test year, a lower return on equity, and certain adjustments which are beyond the scope of the limited-issue filing. On February 3, 1995, the Hearing Examiner issued his report recommending no change in current rates. The Company expects a MPSC decision on the case by the end of the first quarter of 1995.

Electric base rate increases which became effective in 1993 and were in effect for all of 1994 are summarized in the following table. Electric base rates were increased during 1993 pursuant to the Company's filings with regulatory commissions for recovery of higher costs associated with completion of Hay Road Unit 4, postretirement benefit costs under SFAS No. 106, and other items including general inflation.

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 5.4%	10/05/93
Resale (FERC) [4]	$1.5 million or 1.5%	06/03/93

(1) Included an 11.5% return on equity. Net of fuel savings from Hay Road Unit 4, customer rates increased 3.7%.
(2) Although a return on equity was not specified, 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) Reflects an 11.05% return on equity.
(4) The settlement agreement did not specify a return on equity.

On October 18, 1994, the DPSC approved a $3.1 million or 3.1% increase in gas base rates, including an 11.5% return on equity. The rate increase was designed to recover higher operating costs and investment levels than were reflected in the previous rates. The increase became effective November 1, 1994, at which time lower fuel rates also became effective. The reduced fuel rates, when combined with the base rate increase, resulted in a net average decrease of 1.75%.

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.

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 increased net deferred tax liabilities which were offset by an asset, "deferred recoverable income taxes." This asset represents expected future recovery of the net deferred tax liabilities over the lives of the related assets through rates charged to utility customers. Deferred recoverable income taxes were $149.2 million and $144.5 million as of December 31, 1994 and 1993, respectively. In 1993, net deferred tax liabilities and deferred recoverable income taxes increased $17.4 million in recognition of an increase in the federal income tax rate from 34% to 35%.

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

Depreciation Expense
The annual provision for depreciation on utility property is computed on the straight-line basis using composite rates by classes of depreciable property. The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.6% for 1994, 3.7% for 1993, and 3.6% for 1992. Depreciation expense includes a provision for the Company's share of the estimated cost of decommissioning nuclear power plant reactors based on amounts billed to customers for such costs. Refer to Note 8 to the Consolidated Financial Statements for additional information on nuclear decommissioning.

Interest Expense
The amortization of debt discount, premium, and expense, including refinancing expenses, is included in interest expense.

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. In the Consolidated Statements of Income, the borrowed funds component of AFUDC is reported as a reduction of interest charges and the equity funds component of AFUDC is reported as other income. AFUDC was capitalized on utility plant construction at the rates of 9.3% in 1994 and 9.6% in 1993 and 1992.

Cash Equivalents
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.

Leveraged Leases
As of December 31, 1994, the Company's portfolio of leveraged leases, held by a nonutility subsidiary, consisted of five aircraft which are leased to three separate airlines. 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
On August 16, 1994, the Company filed an application with the DPSC for a $13.5 million "limited issue" increase in electric base rates. The Company subsequently revised the amount of the proposed increase to $11.1 million. The proposed increase, when netted with fuel savings related to reduction in load by a resale customer (ODEC) beginning in 1995, is $6.4 million or 1.3%. This "limited issue" increase is designed to recover costs specific to the Company's compliance with the Clean Air Act Amendments of 1990, the 1% increase in the marginal federal income tax rate to 35% during 1993, demand side management and conservation programs, and an increase in funding for nuclear decommissioning based on the current Nuclear Regulatory Commission (NRC) minimum funding requirements. The DPSC staff and other parties to the case have recommended that no revenue increase be granted due to the Company's current return earned from its Delaware electric operations. However, the DPSC staff has suggested that if the DPSC decides to consider a "limited issue" approach, an alternative to approving a rate increase would be to instead authorize a $9 million increase if monthly or quarterly 1995 earnings fall below certain levels. The Company expects a DPSC decision on the case by the end of February 1995.

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 464,000 in northern Delaware, including the City of Wilmington. In addition, the Company has wholly owned subsidiaries engaged in nonutility activities.

Regulation of Utility Operations

The Company is subject to regulation with respect to its retail utility sales by the Delaware and Maryland Public Service Commissions (DPSC and MPSC, respectively) and the Virginia State Corporation Commission (VSCC), which have broad powers over rate matters, accounting, and terms of service. Gas sales are subject to regulation by the DPSC. The Federal Energy Regulatory Commission (FERC) exercises jurisdiction with respect to the Company's accounting systems and policies, and the transmission and wholesale (resale) sale of electricity. The FERC also regulates the price and other terms of transportation of natural gas purchased by the Company. The percentage of electric and gas utility operating revenues regulated by each Commission for the year ended December 31, 1994, was as follows: DPSC, 64%; MPSC, 22%; VSCC, 3%; and FERC, 11%.

Regulatory Assets

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 (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company defers expense recognition of certain costs and records an asset, a result of the effects of rate regulation. These "regulatory assets" are included on the Company's balance sheet under "Deferred Charges and Other Assets." As of December 31, 1994, the Company had $210,368,000 of regulatory assets which included the following: deferred debt refinancing costs—$26,530,000; deferred recoverable plant costs—$12,693,000; deferred recoverable income taxes—$149,206,000 (refer to Note 3 to the Consolidated Financial Statements); and other regulatory assets—$21,939,000. The costs of these assets are either being recovered through customer rates or are probable of being recovered through customer rates. Generally, the costs of these assets are recognized in operating expenses over the period the cost is recovered from customers.

Reporting of Subsidiaries

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries—Delmarva Capital Investments, Inc., Delmarva Energy Company; Delmarva Industries, Inc.; and Delmarva Services Company. The results of operations of the Company's nonutility subsidiaries are reported in the consolidated statements of income as "Other Income." Refer to Notes 5 and 19 to the Consolidated Financial Statements for financial information about the Company's subsidiaries.

Utility Revenues

At the end of each month, there is an amount of electric and gas service rendered from the last meter reading to the month-end which has not yet been billed to customers. The non-fuel (base rate) revenues associated with such unbilled services are recorded by the Company through an accrual.

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.

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, 1992	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
Net income				108,310			108,310
Cash dividends declared							
Common stock ($1.54)				(91,436)			(91,436)
Preferred stock				(9,370)			(9,370)
Issuance of common stock							
DRIP (2)	703,726	1,584	13,199				14,783
Other issuance	8,997	20	171				191
Reacquired shares	(36,840)				(794)		(794)
Shares granted (3)	36,840				794	(794)	—
Amortization of unearned compensation						289	289
Other			10	(9)			1
BALANCE AS OF DECEMBER 31, 1994	59,542,006	$133,970	$484,377	$267,002	—	$(1,180)	$884,169

(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, 1994, 2,114,810 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.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(Dollars in Thousands)			As of December 31, 1994	1993
COMMON STOCKHOLDERS' EQUITY				
Total common stockholders' equity (1)			$884,169	$862,195
CUMULATIVE PREFERRED STOCK				
Par value $1 per share, 10,000,000 shares authorized, none outstanding				
Par value $25 per share, 3,000,000 shares authorized,				
7 3/4% Series, 1,600,000 shares outstanding (2)			40,000	40,000
Par value $100 per share, 1,800,000 shares authorized:				
Series	Shares outstanding	Current call price per share		
3.70%–5%	320,000	$103.00–$105.00	32,000	32,000
6 3/4%	200,000	(3)	20,000	20,000
7.52%	150,000	$103.50	15,000	15,000
Adjustable—5.54%, 5.54% (4)	160,850	$103.00	16,085	16,085
Auction rate—3.32%, 2.71% (4)	450,000	$100.00	45,000	45,000
			168,085	168,085
LONG-TERM DEBT				
First Mortgage Bonds:				
Maturity	Interest Rates			
1994	4 5/8%		—	25,000
1997	6 3/8%		25,000	25,000
2002–2003	6.40%–6.95%		120,000	120,000
2014–2015	7.30%–8.15%		81,000	81,000
2018–2022	5.90%–8.50%		208,200	208,200
2032	6.05%		15,000	15,000
			449,200	474,200
Other Bonds, due 2011–2017, 7.15%-7.50%			54,500	54,500
Pollution Control Notes:				
Series 1973, due 1995–1998, 5.75%			6,375	6,500
Series 1976, due 1995–2006, 7 1/8%–7 1/4%			3,200	3,300
Medium Term Notes, due 1998, 5.69%			25,000	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)			7,606	8,244
First Mortgage Note, 8% (6)			4,588	—
Term Loan, due 1997, 6.56% (7)			45,000	10,000
Other Obligations, due 1995–2000, 9.56%			1,126	1,307
Unamortized premium and discount, net			(638)	(697)
Current maturities of long-term debt			(1,399)	(25,986)
Total long-term debt			774,558	736,368
Total capitalization			1,826,812	1,766,648
Variable Rate Demand Bonds (8)			71,500	41,500
Total capitalization with Variable Rate Demand Bonds			$1,898,312	$1,808,148

(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 1994 and 1993, respectively.
(5) Repaid through monthly payments of principal and interest over 15 years ending November 2002.
(6) Repaid through monthly payments of principal and interest using a 15-year principal amortization, with the unpaid balance due in September 1999.
(7) Refer to Note 12 to the Consolidated Financial Statements for additional information.
(8) Classified under current liabilities as discussed in Note 12 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	1994	1993	1992
	Year Ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$108,310	$111,076	$98,526
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	120,803	112,926	105,624
Allowance for equity funds used during construction	(3,389)	(5,309)	(5,631)
Investment tax credit adjustments, net	(1,898)	(2,515)	(2,417)
Deferred income taxes, net	4,829	(1,171)	10,749
Provision for early retirement offer	17,500	—	—
Net change in:			
Accounts receivable	7,980	(15,851)	(4,384)
Inventories	(21,409)	5,314	9,696
Accounts payable	5,811	(3,749)	8,779
Other current assets & liabilities (1)	(10,668)	11,441	(680)
Other, net	(3,282)	(5,438)	491
Net cash provided by operating activities	224,587	206,724	220,753
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures, excluding AFUDC	(154,119)	(159,991)	(207,439)
Allowance for borrowed funds used during construction	(1,774)	(3,404)	(4,077)
Change in working capital for construction	(439)	3,123	(9,823)
Cash flows from leveraged leases			
Sale of interests in leveraged leases	—	21,542	—
Insurance proceeds from casualty loss	—	—	4,115
Other	1,592	1,511	1,858
Proceeds from the sale of subsidiary property	4,596	—	—
Investment in subsidiary projects and operations	(11,045)	(2,827)	(7,013)
Net (increase)/decrease in bond proceeds held in trust funds	(11,816)	1,152	6,076
Deposits to nuclear decommissioning trust funds	(2,438)	(2,657)	(3,770)
Other, net	(2,336)	(389)	(2,677)
Net cash used by investing activities	(177,779)	(141,940)	(222,750)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends: Common	(91,175)	(87,989)	(81,986)
Preferred	(9,464)	(10,042)	(8,492)
Issuances: Long-term debt (2)	4,640	148,200	273,335
Variable rate demand bonds	30,000	15,500	—
Common stock	14,974	109,463	32,200
Preferred stock	—	20,000	40,000
Redemptions: Long-term debt	(26,096)	(184,206)	(257,178)
Variable rate demand bonds	—	(15,500)	—
Common stock	(794)	(748)	(259)
Preferred stock	—	(28,280)	—
Principal portion of capital lease payments	(11,280)	(9,956)	(10,339)
Net change in term loan	35,000	10,000	—
Net change in short-term debt	10,000	(17,000)	5,950
Cost of issuances and refinancings	(601)	(13,097)	(16,187)
Net cash used by financing activities	(44,796)	(63,655)	(22,956)
Net change in cash and cash equivalents	2,012	1,129	(24,953)
Beginning of year cash and cash equivalents	23,017	21,888	46,841
End of year cash and cash equivalents	$25,029	$23,017	$21,888

(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, 1994	1993
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Statements of Capitalization)		
Common stock, $2.25 par value; shares authorized—90,000,000; shares outstanding: 1994—59,542,006, 1993—58,829,283	$133,970	$132,366
Additional paid-in capital	484,377	470,997
Retained earnings	267,002	259,507
Unearned compensation	(1,180)	(675)
Total common stockholders' equity	884,169	862,195
Preferred stock	168,085	168,085
Long-term debt	774,558	736,368
	1,826,812	1,766,648
CURRENT LIABILITIES		
Short-term debt	10,000	—
Long-term debt due within one year	1,399	25,986
Variable rate demand bonds	71,500	41,500
Accounts payable	59,596	55,175
Taxes accrued	7,264	10,987
Interest accrued	15,459	15,522
Dividends declared	22,831	22,664
Current capital lease obligation	12,571	12,684
Deferred energy costs	12,241	14,229
Other	27,538	31,631
	240,399	230,378
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	505,435	497,457
Deferred investment tax credits	47,577	49,475
Long-term capital lease obligation	19,660	23,335
Other	29,902	25,186
	602,574	595,453
Commitments and Contingencies (Notes 13, 16, and 17)	—	—
Total	$2,669,785	$2,592,479

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	As of December 31, 1994	1993
ASSETS		
UTILITY PLANT—AT ORIGINAL COST		
Electric	$2,676,871	$2,561,507
Gas	196,188	176,167
Common	120,933	122,182
	2,993,992	2,859,856
Less: Accumulated depreciation	1,062,565	989,351
Net utility plant in service	1,931,427	1,870,505
Construction work-in-progress	85,220	91,001
Leased nuclear fuel, at amortized cost	30,349	33,905
	2,046,996	1,995,411
INVESTMENTS AND NONUTILITY PROPERTY		
Investment in leveraged leases	49,595	50,914
Funds held by trustee	32,824	17,577
Other investments and nonutility property, net	57,289	55,248
	139,708	123,739
CURRENT ASSETS		
Cash and cash equivalents	25,029	23,017
Accounts receivable		
Customers	93,739	98,472
Other	15,144	18,405
Inventories, at average cost		
Fuel (coal, oil and gas)	48,262	27,335
Materials and supplies	37,055	37,687
Prepayments	9,014	9,534
Deferred income taxes, net	9,276	10,713
	237,519	225,163
DEFERRED CHARGES AND OTHER ASSETS		
Unamortized debt expense	11,387	11,222
Deferred debt refinancing costs	26,530	28,794
Deferred recoverable plant costs	12,693	14,563
Deferred recoverable income taxes	149,206	144,463
Other	45,746	49,124
	245,562	248,166
Total	$2,669,785	$2,592,479

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands)	1994	1993	1992
	Year Ended December 31,		
OPERATING REVENUES			
Electric	$883,115	$875,663	$780,175
Gas	107,906	94,944	83,869
	991,021	970,607	864,044
OPERATING EXPENSES			
Electric fuel and purchased power	282,570	298,307	261,784
Gas purchased	63,814	53,631	43,797
Operation and maintenance	267,207	248,052	233,038
Depreciation	109,523	100,929	95,285
Taxes other than income taxes	38,585	37,419	37,037
Income taxes	66,166	68,130	49,392
	827,865	806,468	720,333
OPERATING INCOME	163,156	164,139	143,711
OTHER INCOME			
Nonutility Subsidiaries			
Revenues and gains	43,142	37,636	14,397
Expenses including interest and income taxes	(40,790)	(35,828)	(13,908)
Net earnings of nonutility subsidiaries	2,352	1,808	489
Allowance for equity funds used during construction	3,389	5,309	5,631
Other income, net of income taxes	(285)	511	12,855
	5,456	7,628	18,975
INCOME BEFORE UTILITY INTEREST CHARGES	168,612	171,767	162,686
UTILITY INTEREST CHARGES			
Interest expense	62,076	64,095	68,237
Allowance for borrowed funds used during construction	(1,774)	(3,404)	(4,077)
	60,302	60,691	64,160
EARNINGS			
Net income	108,310	111,076	98,526
Dividends on preferred stock	9,370	10,002	8,349
Earnings applicable to common stock	$98,940	$101,074	$90,177
COMMON STOCK			
Average Shares of Common Stock Outstanding (000)	59,377	57,557	53,456
Earnings Per Average Share of Common Stock	$1.67	$1.76	$1.69
Dividends Declared Per Share of Common Stock	$1.54	$1.54	$1.54

See accompanying Notes to Consolidated Financial Statements.

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 L.L.P., 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
Senior Vice President, Treasurer, 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, 1994 and 1993, 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, 1994. 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, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in notes 3 and 15, respectively, to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes and postretirement benefits other than pensions.

Coopers & Lybrand L.L.P.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 3, 1995

The Company's capital structure as of December 31, 1994, and 1993, expressed as a percentage of total capitalization, is shown below.

	1994	1993
Long-term debt and variable rate demand bonds	44.6%	43.0%
Preferred stock	8.8%	9.3%
Common stockholders' equity	46.6%	47.7%

Capital requirements for the period 1995–1996 are estimated to be $448 million, including $150 million for the purchase of COPCO and $263 million for utility construction, excluding AFUDC. The estimate of 1995–1996 utility construction requirements includes $50 million of expenditures related to environmental compliance plans, including provisions of the Clean Air Act Amendments of 1990. During 1997–1999, an additional $27 million of construction expenditures (excluding AFUDC) related to compliance with environmental regulations are planned.

The Company anticipates that $267 million will be generated internally during 1995–1996. Forecasted internally generated funds are net of expected power purchase commitments, including the planned power purchase from PECO associated with the COPCO acquisition. Forecasted internally generated funds for 1995–1996 represent 90% of estimated capital requirements, adjusted to exclude the COPCO acquisition, and 102% of estimated utility construction expenditures. During 1995–1996, long-term external financings are presently estimated at $221 million, including $170 million of long-term debt and $51 million (market value) of common stock. These amounts reflect the Company's plans to finance the COPCO acquisition and to reduce the term loan balance in 1996.

Nonutility Subsidiaries

Information on the Company's nonutility subsidiaries, in addition to the following discussion, can be found in Notes 1, 5, and 19 to the Consolidated Financial Statements.

Earnings per share of nonutility subsidiaries were $0.04 in 1994 in comparison to $0.03 in 1993. The $0.01 per share increase in earnings was mainly attributed to gains on the sale of real estate (including the mini-storage facility), improved operating results of the solid waste group, and higher earnings from various other nonutility business activities. These earnings increases were largely offset by a 1994 adjustment to the realizable value of oil and gas wells and by 1993 after-tax gains on sales of leveraged leases.

Earnings per share of nonutility subsidiaries were $0.03 in 1993 in comparison to $0.01 in 1992. The $0.02 per share increase in earnings was primarily due to earnings from the waste hauling and landfill businesses in 1993 versus a loss in 1992 and 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. The 1993 after-tax gains on sales of interests in leveraged leases were offset by lower operating leveraged leasing income and the one percent increase in the federal income tax rate.

In 1994, total subsidiary revenues and gains increased by $5.5 million to $43.1 million principally due to gains on the sale of real estate. In 1993, total subsidiary revenues and gains were $37.6 million compared to $14.4 million in 1992. The $23.2 million revenue increase was mainly due to transfer of the contract for operation and maintenance of the Delaware City Power Plant from the parent company to a subsidiary.

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 utility plant construction expenditures and other capital requirements, such as repayment of maturing debt and capital lease obligations. Utility construction expenditures are the Company's largest capital requirement and 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.

Operating activities provided net cash inflows of $224.6 million in 1994, $206.7 million in 1993, and $220.8 million in 1992. Net cash provided by operating activities increased $17.9 million in 1994 primarily due to higher non-fuel electric revenues from rate increases and higher sales. 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. After considering common and preferred dividend payments of $100.6 million in 1994, $98.0 million in 1993, and $90.5 million in 1992, internally generated funds were $123.9 million in 1994, $108.7 million in 1993, and $130.3 million in 1992. Internally generated funds provided 80%, 68%, and 63% of the cash required for utility construction in 1994, 1993, and 1992, respectively.

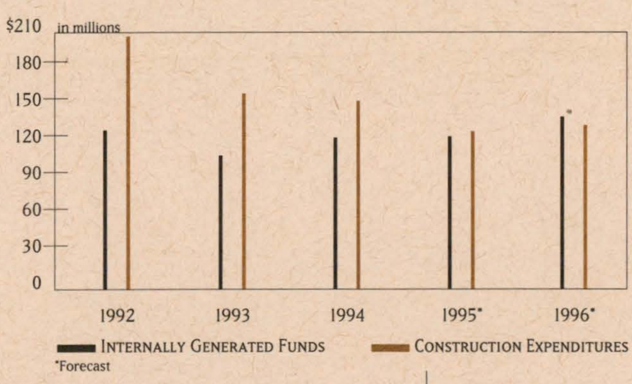
Utility construction expenditures were $154.1 million in 1994, $160.0 million in 1993, and $207.4 million in 1992. Construction expenditures in 1994 included $20.7 million for projects attributed to environmental compliance. Construction expenditures decreased $47.4 million in 1993 primarily because construction of Hay Road Unit 4 was completed in mid-1993.

In 1994, investments by the Company's nonutility subsidiaries included purchase of a $5.7 million office building and $5.3 million of other capital investments, which were primarily construction expenditures at the Pine Grove Landfill. In 1994, the subsidiaries also sold real estate parcels and a mini-storage facility, raising $4.6 million. In 1993, the subsidiaries sold interests in leveraged leases, which resulted in a $21.5 million cash inflow.

Capital raised externally during 1992–1994, net of $513.1 million of refinancings and redemptions, consisted of $154.8 million of common stock, $31.7 million of preferred stock, $30 million of variable rate demand bonds, and $3.7 million of long-term debt. Issuances of common stock during 1992–1994 included a public offering in 1993 of 3,300,000 shares for $77.1 million. The Company's 1993 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. After considering $29.9 million of costs associated with issuing and refinancing debt and equity securities during 1992–1994, the net amount of capital raised from external financings during this period was $190.3 million.

In 1994, the Company issued $30 million of variable rate demand bonds, which are being used to finance investments in the Company's gas system, and $4.6 million of long-term debt associated with the Company's nonutility subsidiaries. In addition, the Company's term loan balance increased by $35 million. The only significant debt redemption in 1994 resulted from maturity of 4 5/8% First Mortgage Bonds, $25 million principal amount, on October 1, 1994.

The Company issued $15.0 million of common stock in 1994 primarily through the Dividend Reinvestment and Common Share Purchase Plan (DRIP). Depending on the financing needs of the Company, shares issued through the DRIP may be either newly issued shares or shares purchased in the open market, as occurred during the last seven months of 1994. In conjunction with the Company's plans to finance the COPCO acquisition with 50% common equity, the DRIP began issuing new shares on January 1, 1995. Book value per share of common stock increased to $14.85 as of December 31, 1994, from $14.66 as of December 31, 1993.



INTERNALLY GENERATED FUNDS & CONSTRUCTION EXPENDITURES

The percentage of construction expenditures funded internally is expected to rise through 1996.

Energy Supply

The Challenge 2000 Plan reflects the Company's strategy to provide an adequate, reliable supply of electricity to customers, while minimizing adverse impacts on the environment and keeping prices competitive. The Company's plan, which is updated annually, is based on forecasts of demand for electricity in the service territory and reserve requirements of the PJM Interconnection. The Company's plan emphasizes balance and flexibility, and may be accelerated, slowed, or altered in response to changing energy demands, fluctuating fuel prices, and emerging technologies. The plan combines customer-oriented load management and strategic conservation programs ("Save Some"), short-term power purchases and long-term power contracts ("Buy Some"), and new or renovated power plants ("Build Some").

The Company's current plan closely matches customers' energy requirements and does not require large investments for new resources during the next two years. The capacity and energy that will be required to serve COPCO subsequent to the planned acquisition will be purchased from PECO. The power purchase, which is contingent on closing of the acquisition, is expected to provide 205 megawatts (MW) of capacity beginning in 1996 or later, increasing to 259 MW by the end of the contract in 2006.

On October 27, 1994, the Company exercised its right to cancel an agreement with the Delaware Clean Energy Project which would have provided 165 MW of capacity for 30 years beginning in 1999. The decision to terminate the agreement was based on uncertainties associated with the Company's load requirements, a general decline in wholesale market prices, and absence of need for long-term capacity.

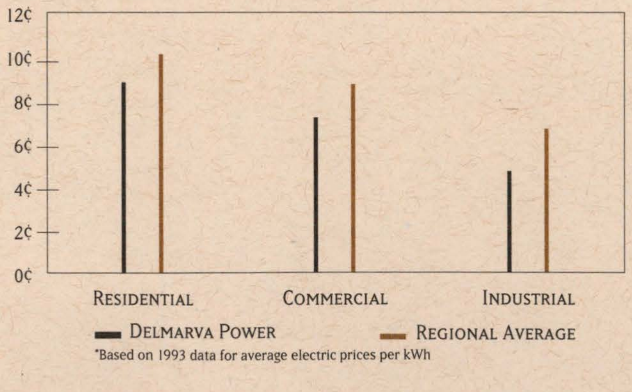
The Company must balance the potential risks of providing too much or insufficient capacity. The main risks of excess capacity are that the Company's prices may become uncompetitive or that regulators may not allow the associated costs to be recovered through customer rates. The principal risks of inadequate capacity are unreliable service and the payment of capacity deficiency charges to the PJM Interconnection. The PJM Interconnection Agreement requires the Company to plan for and provide an adequate capacity level.

During the past three years, the Challenge 2000 Plan has reduced customers' demand for electricity by an additional 77 MW, provided 48 MW of capacity from a long-term power contract which began in 1992, and provided 175 MW of capacity from a new power plant, Hay Road Unit 4. Looking forward through 1999, the Company's current plan includes the following resources:

(1) "**Save Some**"—Approximately 51 MW of additional peak load reduction through customer-oriented load management and strategic conservation programs.

(2) "**Buy Some**"—During 1998 to 1999, up to 200 MW of short-term power purchases, in addition to the power purchase from PECO discussed above.

(3) "**Build Some**"—Repowering of Indian River Units 1 and 2, 89 MW units, with new, cleaner-burning boilers during consecutive two-year outages beginning in 1999.



Regional Electric Price Comparison*

Our prices for electricity are below the regional averages. A balanced and flexible energy supply plan helped us gain this advantage.

Operation, Maintenance, Depreciation, and Income Tax Expenses

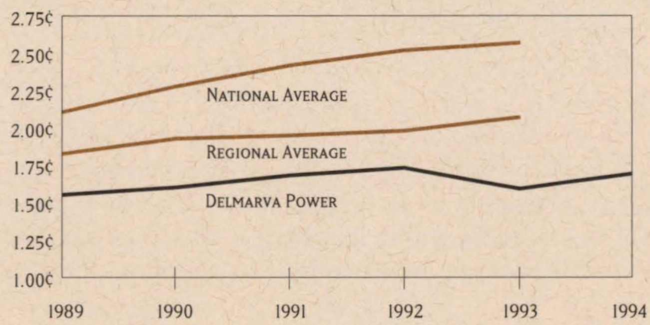
In comparing 1994 operation and maintenance expenses versus 1993, four principal factors accounted for a $19.2 million increase: the $17.5 million pre-tax charge for the Company's voluntary early retirement offer; a $7.8 million reduction in pension expense of which $4.5 million was due to a lower assumed rate of salary increase; higher winter storm damages of $3.5 million; and a $6.0 million increase in other expenses, including postretirement benefits other than pensions (OPEB). The Company's OPEB costs were deferred during part of 1993 due to probable rate recovery. In 1994, the deferral for the Delaware jurisdiction (electric and gas) was expensed in accordance with a settlement agreement, approved October 18, 1994, concerning the Company's gas base rate case.

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 OPEB costs due to adoption of the accounting required by Statement of Financial Accounting Standards (SFAS) No. 106.

Depreciation expense increased $8.6 million in 1994 and $5.6 million in 1993 primarily due to additions to the electric system, including Hay Road Unit 4 in mid-1993.

Inflation affects the Company through increased operating expenses and higher replacement costs for utility plant assets. Although timely rate increases can lessen the effects of inflation, the regulatory process can result in a lag between the time when costs rise and when prices can be adjusted. Also, due to competition and the changing nature of the utility industry, raising prices is becoming more difficult. Thus, the Company's existing cost control programs are becoming increasingly important.

In 1994, income tax expense on operations decreased $2.0 million in comparison to 1993 principally due to lower pre-tax income. In 1993, income tax expense on operations increased $18.7 million in comparison to 1992 mainly due to higher pre-tax income. The $18.7 million increase also reflects $1.6 million of higher income taxes due to an increase in the federal income tax rate from 34% to 35%, effective January 1, 1993.



Electric Operation & Maintenance Expenses per kWh sold

Keeping costs down contributes to our competitiveness. Our O&M costs remain well below industry averages.

Utility Financing Costs

In comparison to the prior year, interest charges of the core utility decreased $2.0 million in 1994 and $4.1 million in 1993 mainly due to redemption on June 1, 1993, of $50 million of 10% First Mortgage Bonds with proceeds from a public offering of common stock.

Dividends on preferred stock decreased $0.6 million in 1994 primarily due to a net $8.3 million reduction in preferred stock outstanding which occurred in November and December 1993, as discussed in Note 11 to the Consolidated Financial Statements. In 1993, dividends on preferred stock increased $1.7 million 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.

Allowance for equity and borrowed funds used during construction (AFUDC) decreased $3.6 million in 1994 and $1.0 million in 1993 mainly due to lower average construction work-in-progress balances resulting from completion of Hay Road Unit 4 in mid-1993.

Due to common equity financing, the average number of shares of common stock outstanding increased in 1994 and 1993. The additional shares outstanding decreased earnings per share by $0.05 in 1994 and $0.13 in 1993. However, when customer rates are increased, additional revenues offset the dilution of earnings per share due to increased common equity financing.

In 1994, electric fuel revenues decreased $15.4 million due to lower rates charged to customers under the fuel adjustment clauses, partially offset by higher kWh sales. In 1993, electric fuel revenues increased $5.9 million due to higher kWh sales, partially offset by lower fuel adjustment clause rates.

In 1993, interchange delivery revenues increased $30.8 million due to higher sales to utilities in the PJM Interconnection, which resulted from increased demand for electricity in the region and greater availability of the Company's generating units.

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 other suppliers.

Total 1994 gas revenues increased $13.0 million from 1993 due to a $3.0 million increase in non-fuel revenues and a $10.0 million increase in fuel revenues. The increase in non-fuel revenues was due to $0.6 million of additional revenue from the $3.1 million base rate increase that became effective November 1, 1994, and a $2.4 million increase in sales volume. Total cubic feet of gas sold and transported in 1994 increased 3.8% over 1993 due to a 2.9% increase in the number of customers and colder winter weather during the first quarter. Gas fuel revenues increased $10.0 million in 1994 due to higher average fuel rates and higher sales.

In 1993, total gas revenues increased $11.1 million from 1992 because of 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 a 3.7% increase in the number of customers which was partially offset by lower average usage per customer. The $9.9 million increase in gas fuel revenues was principally attributed to higher average fuel rates.

Electric Fuel and Purchased Power Expenses

In 1994, electric fuel and purchased power expenses decreased $15.7 million for the following reasons. (1) Expenses decreased $17.5 million due to variances in fuel costs deferred and subsequently amortized under the Company's fuel adjustment clauses. (2) Expenses increased $4.4 million due to increased kWh output which was attributed to higher sales demand within the Company's service territory and the region served by the PJM Interconnection. (3) Expenses decreased $2.6 million due to a lower average cost per kWh of output which was largely the result of lower prices paid for purchased gas and the effect of a full year's operation of Hay Road Unit 4, a combined cycle unit added to the electric system on June 1, 1993. This generating unit uses exhaust heat from three combustion turbine units as its energy source. These favorable average cost variances were partially offset by higher average oil prices.

In 1993, electric fuel and purchased power expenses increased $36.5 million for the following reasons. (1) Expenses increased $39.2 million due to increased kWh output which resulted from stronger sales demand in the Company's service territory and in the region served by the PJM Interconnection. (2) Expenses decreased $6.9 million due to a lower average cost per kWh of output which was primarily due to completion of Hay Road Unit 4. (3) Expenses increased $4.2 million due to variances in fuel costs deferred and subsequently amortized under the Company's fuel adjustment clauses.

The kWh output required to serve load within the Company's service territory is basically equivalent to total output less interchange deliveries. In 1994, the Company's output for load within its service territory was provided by 41.9% coal generation, 30.7% oil and gas generation, 15.6% nuclear generation, and 11.8% net purchased power.

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 primarily from the sale of electric power to utilities in the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM Interconnection). The PJM Interconnection is an electric power pool comprised of eight 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 ratemaking treatment, interchange delivery revenues do not affect net income.

Electric Revenues and Sales

In 1994, the percentages of total billed sales revenues contributed by the various customer classes were as follows: residential—38.4%; commercial—29.8%; industrial—17.9%; 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)	1994	1993
Non-fuel (Base Rate) Revenue		
Increased Rates	$15.9	$26.6
Sales Volume and Other	6.0	32.2
Fuel Revenue	(15.4)	5.9
Interchange Delivery Revenue	1.0	30.8
Total	$7.5	$95.5

The increases in non-fuel revenues shown above as "Increased Rates" of $15.9 million for 1994 and $26.6 million for 1993 resulted from the increases in electric customer base rates which became effective in April, June, and October of 1993. Refer to Note 2 to the Consolidated Financial Statements for information concerning these rate increases.

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. For 1994 compared to 1993, "Sales Volume and Other" variances were principally due to a 1.8% increase in total kilowatt-hours (kWh) sold, which resulted from a 1.6% increase in the total number of customers, an improving economy in the Company's service territory, and colder winter weather during the first quarter. The sales increase was reduced by cooler summer weather. Sales to residential, commercial, and resale customers increased by 2.3%, 3.7%, and 1.6%, respectively. Sales to industrial customers were relatively flat.

"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 hotter summer weather. Industrial sales increased 3.7% due to increased production levels of certain large customers and more kWh sales to a major customer that provides some of its own power. In 1993, the total number of customers increased by 2.0%

purchase about one-half of its electricity from another utility beginning in 1995 and price incentives offered to other resale customers to secure extended purchase commitments. The Company's initiatives are discussed further below.

Cost Initiatives

The Company's voluntary 1994 early retirement offer, which has reduced the workforce by about 10.5%, is expected to result in annual cost savings of $13 million to $17 million. In order to capture these savings, the Company identified areas where work could be streamlined, reduced, or eliminated. In addition, the Company's 1995 budget is structured to attain savings of approximately $5 million in other operation and maintenance expenses and $8 million in capital-related costs, primarily due to lower capital expenditures.

Sales Initiatives

In December 1992, General Motors, one of the Company's largest electric and gas customers, announced plans to close its Delaware manufacturing plant in 1996. In November 1994, General Motors announced that it will continue to operate the plant through 1998. General Motor's decision, a regional unemployment rate which is falling and is less than the national average, and other indicators signal that the economy of the Company's service territory is improving. Due to the improving economy, the Company expects that 1995 sales revenues will be higher than previously projected and will contribute to the sales initiative.

On May 24, 1994, the Company entered into an agreement with PECO to buy its Maryland retail electric subsidiary, Conowingo Power Company (COPCO), for $150 million. This purchase is contingent upon various regulatory approvals, which the Company expects to receive by mid-1995. The COPCO purchase will add approximately 35,000 new electric retail customers, equivalent to 9% of the Company's current customer base. The Company plans to finance the purchase with approximately 50% long-term debt and 50% common equity. The Company expects the COPCO purchase to contribute $0.04 to $0.06 incremental earnings per share by 1997.

The Company proposed to purchase the electric system of the City of Dover, Delaware in 1993 for $103.5 million. On November 23, 1994, Dover's City Council requested proposals from utilities and independent power producers for power purchase agreements and potentially the purchase of, or the operation and maintenance of, the city's generating facilities. On January 30, 1995, the Company filed a proposal in response to Dover's request. City officials expect to decide on a future power source in the summer of 1995.

Price Initiatives

In 1994, the Company filed applications with the Delaware Public Service Commission (DPSC) and Maryland Public Service Commission (MPSC) for increases in electric base rates of $13.5 million and $3.9 million, respectively. The Company subsequently revised its proposed Delaware electric base rate increase to $11.1 million. As further discussed in Note 2 to the Consolidated Financial Statements, both these cases are designed to recover the cost of "limited issues," which are primarily costs imposed by government and are outside the reasonable control of the Company. Net of related decreases in fuel rates, prices would increase 1.3% in Delaware and 1.1% in Maryland under the Company's proposals. Even with these proposed price increases, the Company's prices are expected to remain well below the regional average. The DPSC Staff, MPSC Staff, and other parties to the rate cases are opposing the proposed increases. Decisions on the cases are expected in the first quarter of 1995.

On October 18, 1994, the DPSC approved a settlement agreement for a $3.1 million, or 3.1% increase in gas base rates. The increase became effective November 1, 1994, when lower fuel rates also became effective. The reduced fuel rates combined with the base rate increase resulted in a net average decrease of 1.75%.

Certain Other Potential Ramifications of Competition

Traditionally, prices charged to utility customers are designed to recover a regulated utility's costs of providing service. Generally accepted accounting principles require regulated utilities that have cost-of-service pricing to defer the recognition of certain costs which are being or are probable of being recovered from customers. These deferred costs are often referred to as "regulatory assets." (Refer to Note 1 to the Consolidated Financial Statements for additional information on regulatory assets.) As the utility industry shifts from traditional cost-of-service pricing to prices set by competitive market forces or alternate innovative regulatory methods, regulatory assets, and possibly other utility assets, could be required to be written down. The Company cannot predict the amount, if any, of such a write-down; however, it could be material. The Company's regulatory assets as a percentage of total assets or stockholders' equity are substantially lower than the averages for the utility industry.

Core utility earnings for 1994 and 1992 reflect certain unusual items. In 1994, as discussed in Note 4 to the Consolidated Financial Statements, the Company recorded a charge to earnings ($10.7 million after taxes or $0.18 per share) to reflect its voluntary early retirement offer which resulted in a workforce reduction of 10.5% or 296 people. In 1992, as discussed in Note 5 to the Consolidated Financial Statements, net income and earnings per share were increased by $11.4 million and $0.21, respectively, due to settlement with PECO Energy Company (PECO) of a lawsuit filed by the Company concerning the 1987 to 1989 shutdown of the Peach Bottom Atomic Power Station by the Nuclear Regulatory Commission.

Strategic Plans for Competition

Competition for the business of electric wholesale (resale) customers has increased primarily due to federal legislation and customer demands. Resale customers can choose their local utility or another power producer to supply their electricity requirements. While the Company's resale business accounted for 13% of its 1994 electric revenues, neighboring utilities' resale revenues average only 1% to 2% of their electric revenues. Thus, compared to these utilities, the Company has higher resale market risk.

The Company has reduced its resale market risk through extended service contracts and longer notice provisions for load reductions. The Company has signed electric supply contracts with eight of its nine municipal customers, representing about 95% of municipal revenues, for extended terms of eight to twenty years. The Company also has signed agreements with its other electric resale customers which require two years notice for load reductions up to 30% and five years notice for load reductions greater than 30%.

In addition to increased competition in the resale market, changes affecting competition in the retail markets are developing. Individual states, including Maryland, New Jersey, and Pennsylvania, are beginning to consider what changes in regulatory policies might be appropriate, and whether retail customers should be able to purchase electricity from sources other than their local utility.

Market-Driven Strategies

Recognizing changes in the utility industry, the Company has implemented market-driven strategies and segmented markets according to customer needs and buying patterns. The major market segments are the core market, the competitive market, and the commodity market.

The core market segment, which represents about 60% of the Company's electric sales revenues, is comprised of residential and small to medium-size commercial and industrial customers. The Company's strategies for growth in the core market focus on sustaining relative price stability, maintaining superior customer service, and expanding and growing energy-related value added products and services.

The competitive market segment, which represents about 25% of the Company's electric sales revenues, consists of large commercial and industrial (retail) and service-oriented resale customers. The Company's goal for this segment is to grow and secure existing relationships and to position the Company to take advantage of competitive opportunities. Prices charged to current Company customers in the competitive market are among the lowest in the region.

The commodity market segment, which represents about 15% of the Company's electric sales revenues, consists of energy intensive industrial, and price-focused resale customers. As previously discussed, the Company has negotiated electric supply contracts with its resale customers, reducing market risk in the commodity market.

"Three-Legged Stool"

In 1994, the Company announced its "Three-Legged Stool" strategy, which includes three initiatives designed to aid the Company in achieving its financial goals of maintaining the current dividend level, growing earnings, and earning a return on equity of at least 11.5%, while keeping prices competitive. The three initiatives are as follows: (1) reduce costs by $15 million to $20 million; (2) increase revenues by $10 million to $20 million through short-term energy and capacity sales to regional utilities and additional retail sales; (3) increase revenues through $10 million to $15 million of targeted price increases. The amounts of the cost reductions and revenue increases are based on comparison to an earlier projection of the Company's 1995 financial results. The Company expects that its targeted total of cost reductions and revenue increases of $40 to $45 million will be achieved, allowing the Company to meet its financial goals despite lower expected sales revenues from resale customers in 1995. Non-fuel revenues from resale customers will decrease approximately $28 million in 1995 due to Old Dominion Electric Cooperative's (ODEC) decision to

EARNINGS

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

	1994	1993	1992
Core Utility			
Operations	$1.81	$1.73	$1.47
Early retirement offer	(0.18)	—	—
Peach Bottom lawsuit settlement	—	—	0.21
	1.63	1.73	1.68
Nonutility subsidiaries	0.04	0.03	0.01
Total	$1.67	$1.76	$1.69

DIVIDENDS

On December 21, 1994, the Board of Directors declared a common stock dividend of $0.38 1/2 per share for the fourth quarter. During 1994, the Board reaffirmed their commitment to the current dividend of $1.54 per year. The Board believes the dividend is secure and sustainable at its current level, barring major unforeseen changes. Future earnings and cash flow are expected to support the current dividend, which provides a competitive yield for the Company's stock. On a historical basis, common dividends per share as a percentage of earnings per share were 92% in 1994, 88% in 1993, and 91% in 1992.

CORE UTILITY EARNINGS

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

	1994 vs. 1993	1993 vs. 1992
Operations		
Electric revenues, net of fuel expense		
Rate increases	$0.17	$0.31
Sales volume and other	0.08	0.37
Gas revenues, net of fuel expense	0.03	0.01
Operation and maintenance expense	(0.02)	(0.17)
Depreciation	(0.09)	(0.07)
Effect of increased number of average common shares	(0.05)	(0.13)
Other	(0.04)	(0.06)
	0.08	0.26
Early retirement offer	(0.18)	—
Peach Bottom lawsuit settlement	—	(0.21)
	$(0.10)	$0.05

Excluding the effects of unusual items discussed below, earnings per share from core utility operations compared to the prior year increased by $0.08 in 1994 and $0.26 in 1993. Both years' earnings increases were primarily due to additional electric base revenues from increased electric sales and rate increases which were effective for part of 1993 and all of 1994. Significant variances which partially offset the growth in earnings from core utility operations in 1994 and 1993 included higher depreciation expense and the dilutive effect of additional common shares outstanding. In 1993, higher operation and maintenance expense also substantially reduced the earnings growth. The variance in other net financing costs—interest expense, preferred dividends, and allowance for funds used during construction—did not significantly affect 1994 and 1993 earnings per share comparisons against the prior year.

SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)	1994	1993	1992	1991	1990
	Year Ended December 31,				
OPERATING RESULTS AND DATA					
Operating Revenues	$991,021	$970,607	$864,044	$855,821	$812,217
Operating Income	$163,156(1)	$164,139	$143,711(2)	$136,410	$144,473(3)
Income Before Cumulative Effect of a Change in Accounting Principle	$108,310(1)	$111,076	$98,526(2)	$80,506	$37,311(3)
Cumulative Effect of a Change in Accounting for Unbilled Revenues	—	—	—	$12,730	—
Net Income	$108,310(1)	$111,076	$98,526(2)	$93,236	$37,311(3)
Earnings Applicable to Common Stock	$98,940(1)	$101,074	$90,177(2)	$85,259	$28,527(3)
Electric Sales (kWh 000) (4)	12,505,082	12,280,230	11,520,811	11,460,280	11,081,211
Gas Sold and Transported (mcf 000)	20,342	19,605	20,168	18,184	18,263
COMMON STOCK INFORMATION					
Earnings Per Share of Common Stock Before Cumulative Effect of a Change in Accounting Principle	$1.67(1)	$1.76	$1.69(2)	$1.44	$0.60(3)
Cumulative Effect of a Change in Accounting for Unbilled Revenues	—	—	—	$0.25	—
Total Earnings Per Share	$1.67 (1)	$1.76	$1.69 (2)	$1.69	$0.60 (3)
Dividends Declared Per Share of Common Stock	$1.54	$1.54	$1.54	$1.54	$1.54
Average Shares Outstanding (000)	59,377	57,557	53,456	50,581	47,534
Year-End Common Stock Price	$18 9/64	$23 5/8	$23 1/4	$21 1/4	$18 1/8
Book Value Per Common Share	$14.85	$14.66	$13.77	$13.42	$12.84
Return on Average Common Equity	11.1 %	12.0 %	12.2 %	12.4 %	4.3 %
CAPITALIZATION					
Variable Rate Demand Bonds (VRDB) (5)	$71,500	$41,500	$41,500	$41,500	$41,500
Long-Term Debt	774,558	736,368	787,387	770,146	741,032
Preferred Stock	168,085	168,085	176,365	136,365	136,365
Common Stockholders' Equity	884,169	862,195	745,789	706,583	614,692
Total Capitalization with VRDB	$1,898,312	$1,808,148	$1,751,041	$1,654,594	$1,533,589
OTHER INFORMATION					
Total Assets	$2,669,785	$2,592,479	$2,374,793	$2,263,718	$2,125,715
Long-Term Capital Lease Obligation	$19,660	$23,335	$26,081	$29,337	$32,354
Construction Expenditures (6)	$154,119	$159,991	$207,439	$181,820	$187,823
Internally Generated Funds (IGF) (7)	$123,948	$108,693	$130,275	$96,081	$112,551
IGF as a Percent of Construction Expenditures	80 %	68 %	63 %	53 %	60 %

(1) An early retirement offer decreased earnings net of income taxes and earnings per share by $10.7 million and $0.18, respectively.

(2) The settlement of a lawsuit with PECO Energy Company increased earnings net of income taxes and earnings per share by $11.4 million and $0.21, respectively.

(3) The write-off of joint venture subsidiary investments decreased earnings net of income taxes and earnings per share by $42.5 million and $0.89, respectively.

(4) Excludes interchange deliveries.

(5) 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 12 to the Consolidated Financial Statements.

(6) Excludes Allowance for Funds Used During Construction.

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

Financial Table of Contents

Directors as of 12/31/94, Pictured left to right

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

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

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 and nuclear oversight committees; 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 1997.

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.

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 1997.

Michael B. Emery, Senior Vice President of E.I. duPont de Nemours & Company (a diversified chemical, energy, and specialty products company), Wilmington, Delaware; member since 1994; serves on compensation committee; term expires in 1997.

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 in 1996.

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.

Delmarva Power
800 King Street
P.O. Box 231
Wilmington, DE 19899

BULK RATE
U S POSTAGE
PAID
Permit No 68

- NOTICE -

THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE INFORMATION & RECORDS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION, T5 C3. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

- NOTICE -

50-272 9504180344 4/12/95