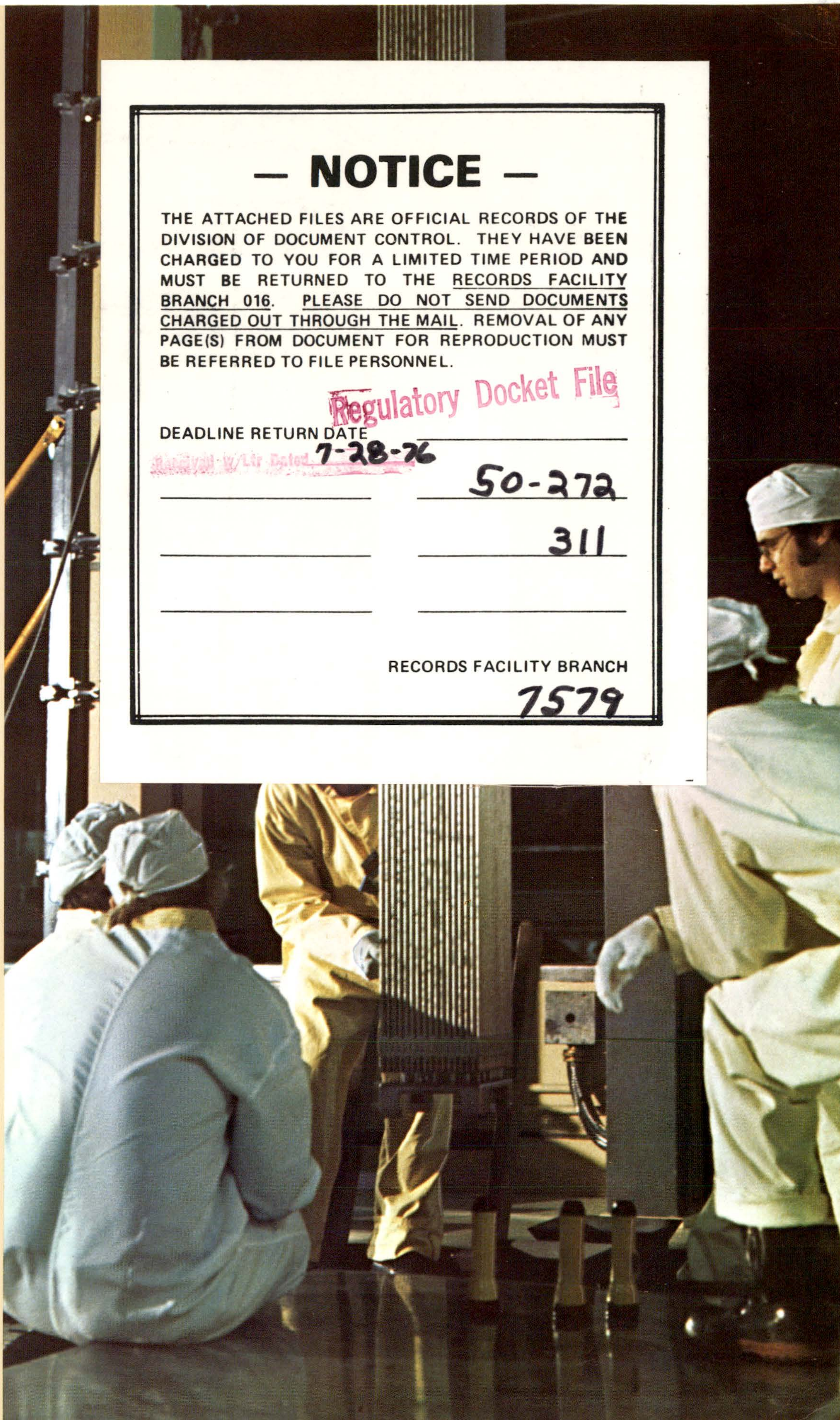
Atlantic Electric

SERVING SOUTHERN NEW JERSEY

ANNUAL REPORT 1975



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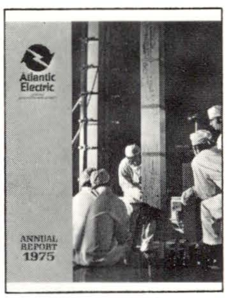


COVER

Nuclear Energy is Now! Cover photo shows fuel rods being placed in a storage chamber at a nuclear station. Uniforms are worn to protect the fuel rods from contamination. During 1975, nuclear energy accounted for about 17% of the Company's kilowatt-hours and is expected to account for 28% in 1977. Accelerated use of the domestic fuels uranium and coal in generating stations will help reduce the nation's dependence on foreign oil and continue to help stabilize the price of one of our greatest necessities—electric energy!

ADVANCE NOTICE

The 1976 Annual Meeting of Shareholders will be held Tuesday, April 13, 1976, at the Company's Data Processing Center, Black Horse Pike and Fire Road, near Pleasantville, New Jersey. A Notice of Meeting will be mailed in March to those shareholders entitled to vote.

ATLANTIC CITY ELECTRIC COMPANY

Results of Operations 1975-1971

	1975	1974	1973	1972	1971
Sales of Electricity (Billions of Kilowatt-hours)	4.378	4.376	4.429	4.052	3.764
Electric Operating Revenues (Millions)	$ 199.1	$ 176.6	$ 132.9	$ 114.7	$ 95.4
Net Income (Millions)	$ 28.3	$ 27.0	$ 22.9	$ 20.1	$ 15.9
Earnings per Share	$ 2.41	$ 2.54	$ 2.40	$ 2.26	$ 1.89
Dividends Paid per Share	$ 1.51	$ 1.50	$ 1.4688	$1.4144	$ 1.36
Gross Additions to Utility Plant (Millions)	$ 46.7	$ 71.2	$ 67.9	$ 58.4	$ 54.2
Generating Capacity (Kilowatts)	1,334,700	1,278,700	1,013,500	965,900	897,600
Utility System Peak Load (Kilowatts)	1,069,400	1,004,400	1,051,400	920,400	829,300
Average Annual Residential Kilowatt-hour Use	7,018	6,982	7,303	7,008	6,793
Electrically Heated Dwelling Units (Year-end)	41,026	38,146	34,870	29,790	26,080
Customer Service Locations (Year-end)	336,105	330,758	320,834	309,393	297,437

WILLIAM W. WHITE
Chairman of the Board

JOHN D. FEEHAN
President

To Our Shareholders:

1975 was not a banner year for Atlantic Electric in that earnings per share declined from $2.54 in 1974 to $2.41 in 1975, the first such decline since 1947. Nevertheless, several favorable developments have occurred which should pave the way for renewed progress and improved earnings in 1976.

The nationwide recession had its impact on business in Southern New Jersey and as a result industrial kilowatt-hour sales were down 8.8% in 1975. However, this decline was offset by an increase of 3% in residential kilowatt-hour sales and 3.6% in commercial kilowatt-hour sales. While total kilowatt-hour sales were essentially flat, future KWH sales will be enhanced by the addition of 5,350 new customers in 1975 and an increase of 2,880 in the number of electrically heated homes. Growth in industrial sales should return as the economy rebounds.

Stringent controls over expenditures continued in force throughout the year as further emphasis was placed upon productivity, economy and efficiency. These efforts were fruitful in the areas where management could exert control. However, in areas less subject to management control (taxes, depreciation, financing costs, etc.) results were not as rewarding and substantial increases in such items had a major adverse effect on earnings for 1975.

Recognition of the need for more timely rate relief by the New Jersey Board of Public Utility Commissioners must be highlighted as a significant favorable development. A 4.7% increase in revenues was approved by Order dated January 29, 1976, less than six months after the Company filed its request . . . the 6% increase which became effective July 3, 1975 was the result of the request filed ten months earlier. The new rates are designed to increase operating revenues by $9.3 million annually and are intended to produce a return on common equity of 13% and a rate of return on rate base of 8.65%.

Reduction in the fuel clause adjustment reflected in our customers' bills in recent months also is a source of satisfaction. Most notably, the January 1976 fuel clause adjustment was 1.3616¢ per KWH compared with 1.8045¢ per KWH in January 1975. The impact of this reduction on a customer's bill is significant and has resulted in lower electric bills for many customers even after applying the 6% general rate increase which became effective last July. Moderation in the fuel adjustment clause should continue since it is anticipated that 19% of our 1976 KWH will be produced from nuclear fuel and 44% from coal.

The financial and fuel supply dominance by the oil producing nations is still of national concern; the threat of another oil embargo is ever present; yet, an effective national energy program which will help reduce America's dependence on foreign oil had not been adopted at year-end 1975. Hopefully our nation's leaders will resolve this most critical matter in 1976. A glimmer of progress in the program to develop domestic energy resources became evident in December when, in preparation for natural gas and oil exploration off the Atlantic Coast, a drilling platform was placed in position about 73 miles east of Atlantic City. Test drillings are expected to be completed by May 1976.

The year 1976 finds the Company in a relatively strong financial position with a staff of competent and loyal personnel who are dedicated to seeking out the opportunities which the challenges of the future will hold. Although conservation and the slowdown in the economy during the past two years has enabled us to defer near-term capital expenditures, we continue to anticipate a resumption of growth in demand for electricity as Southern New Jersey develops in an orderly but sustained fashion. Construction expenditures, as warranted over the next few years, will be made to assure the availability of an adequate energy supply for Southern New Jersey's future. Hopefully, the rate of inflation will be contained thereby enabling greater stability in the price of electricity. Certainly greater use of the nation's most abundant domestic fuels, coal and uranium, together with reduced oil imports, will put further pressure on oil prices and reduce the power of OPEC on the international monetary scene.

There is a growing public awareness that the growth and prosperity of the American economy depend upon a strong electric utility industry. In this, our Country's Bicentennial Year, you may be assured that we at Atlantic Electric will do our share to keep the lights of freedom proudly burning so that our way of life may continue to prosper for the common good of all mankind.

For the Board of Directors,

W. W. White
Chairman of the Board

J. D. Feehan
President

1975 REVENUE DOLLAR

HISTORY OF THE COMPANY

Atlantic Electric is an investor-owned electric utility serving the southern one-third of the State of New Jersey. The Company was incorporated in 1886 and reorganized under the laws of New Jersey on April 28, 1924 through the merger and consolidation of several utility companies. From a small company, formed just four years after Thomas Edison built the first central generating station in the United States, the Company has grown to a modern, integrated power system serving over 336,000 customers in eight counties.

The service area of Atlantic Electric encompasses approximately 2,700 square miles and has a year-round population of 915,000. In addition to numerous summer resorts, the region has excellent agricultural capabilities and boasts a variety of industries as well. Because of its economic diversity and its proximity to large cities, such as New York and Philadelphia, the southern New Jersey area possesses a unique potential for growth.

At year-end 1975 there were 39,400 holders of the Company's Common Stock and 2,020 holders of Preferred Stock. Approximately one-third of Atlantic Electric's holders of Common Stock are also customers of the Company and own 34% of the 9,470,073 shares outstanding.

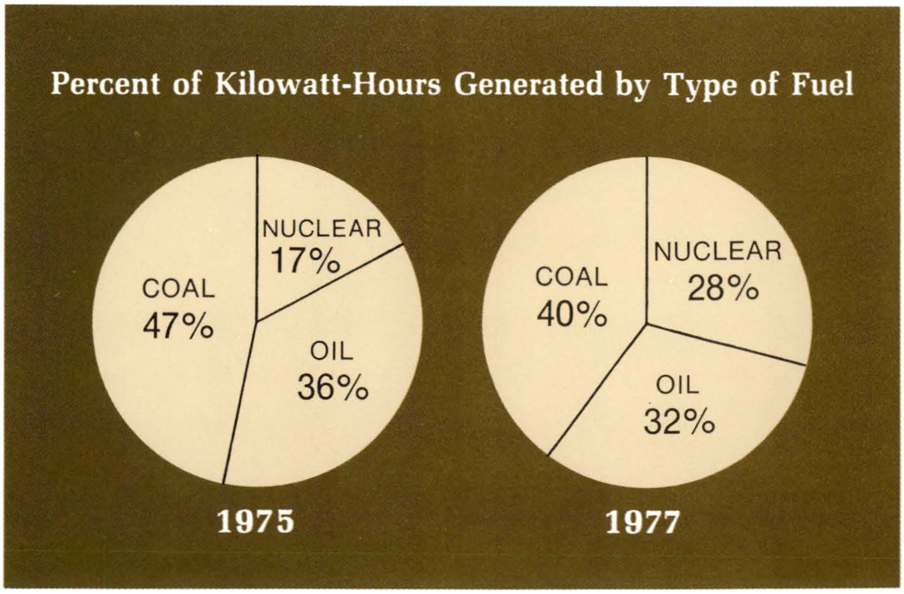
A Company line crew working on the Lewis-Motts Farm 69,000 volt line spanning the Mullica River.

Earnings and Dividends

Earnings for Common Stock amounted to $2.41 per share outstanding in 1975 compared to $2.54 per average share outstanding in 1974. Earnings for Common Stock in 1975 were affected by (1) a change in depreciation rates and increased depreciation due to the completion of major plant additions, mainly Peach Bottom Units #2 and #3 and B. L. England Unit #3; (2) a decrease in Allowance for Funds Used During Construction attributed to our reduced construction program; (3) increased Gross Receipts and Franchise Taxes and (4) increased interest charges and Preferred Stock dividends. Also, the sale of 600,000 shares of Common Stock in October, 1974 increased the total number of shares outstanding to 9,470,073 shares of Common Stock compared to 8,973,400 average shares outstanding in 1974.

However, we feel the major factor affecting 1975 earnings was the fact that rate relief granted the Company during the year not only was inadequate but came too late to offset those factors which caused the decrease in earnings. Nonetheless, the Company is confident that earnings will improve in 1976 as a result of the expeditious rate relief which was authorized

Serving One-third of the State of New Jersey



January 29, 1976 (see "Rate Increases" section).

Cash dividends of $1.51 per share of Common Stock were paid in 1975 compared to $1.50 per share in 1974. On August 27, 1975 the Board of Directors increased the quarterly dividend rate from 37½ cents per share to 38½ cents per share. The quarterly rate of 38½ cents per share was maintained for the January 15, 1976 dividend payment and is equivalent to $1.54 per share on an annual basis.

The Company has paid dividends on Common Stock for fifty-eight consecutive years and the amount of the annual dividend per share was increased in each year since 1952, an accomplishment of which we are extremely proud.

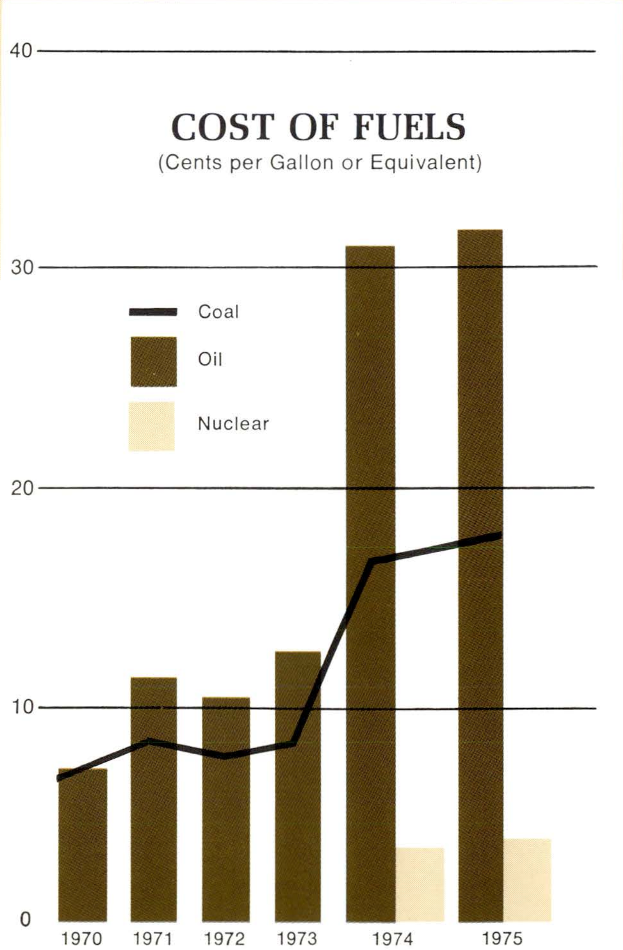
Rate Increases

Effective July 3, 1975, Atlantic Electric was permitted to implement a 6% general rate increase as a result of a request filed on August 30, 1974. Unfortunately, the increase granted by the New Jersey Public Utility Commission (PUC) was only one-third ($10.7 million) of the $30.8 million increase requested by the Company.

On January 29, 1976 the PUC granted the Company a 4.7% general rate increase as a result of a request for a $28 million increase filed August 15, 1975. The increase is expected to raise operating revenues by $9.3 million annually. The Public Utility Commissioners did not concur with our strong belief (as well as the recommendation of their Hearing Examiners in both cases) that the Company must be given the opportunity to earn a higher return on equity than in the past. However, one positive aspect of the increase was its timeliness—it was granted less than six months after we filed the request.

The Company will determine the probable effects of these increases on its operations, and will determine what revisions may be required in its construction program and other planned programs. Timely and adequate rate relief is essential to the continued financial health of the Company, especially in an inflationary period such as we have been experiencing.

To supplement electric revenue dollars, millions of dollars must be obtained from investors who, primarily because of inflation, will require

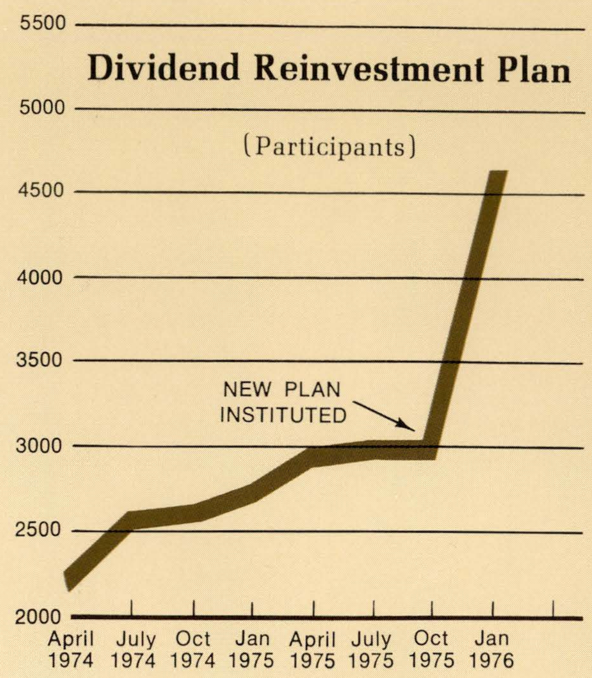


a higher return on their investments. Atlantic Electric must be permitted to earn an acceptable return if it is to attract the investment capital necessary to continue to provide adequate, safe and reliable electric service to its customers as well as to provide existing shareholders with a fair return on their investment in the Company.

Construction Program

Expenditures by the Company for additions to generating capacity, transmission and distribution facilities and other capital improvements amounted to $39.5 million in 1975 compared to $60.7 million in 1974. In addition, allowance for funds used during construction (AFDC) amounted to $7.2 million in 1975 and $10.5 million in 1974. It is estimated that construction expenditures for 1976 (excluding AFDC) will total $54 million.

During 1975 the Company received electric energy from its 157,000 kilowatt share of two nuclear generating units located at Peach Bottom, Pennsylvania. By the summer of 1984, the Company expects to be receiving energy from an additional 378,000 kilowatts of nuclear



In November, the Company announced the availability of a new Dividend Reinvestment and Stock Purchase Plan to replace the Dividend Reinvestment Program which had been in effect since April 1974. The new plan enables holders of record of Common Stock to have cash dividends paid on their shares of Common Stock automatically reinvested in additional new shares of Common Stock of the Company. Alternatively, shareholders may continue to receive cash dividends on shares registered in their names and invest in Company Common Stock by making optional cash payments of up to $3,000 per quarter; or they may invest both their dividends and optional cash payments. Because shares are purchased directly from the Company and not on the open market, there are no brokerage fees or commissions. All service charges and costs of administration are paid by the Company. Reinvestment of dividends under the new plan began with the January 15, 1976 dividend and we are pleased with shareholder response. For the January 15, 1976 dividend payment, 4,620, or about 12% of the shareholders, participated in the Dividend Reinvestment and Stock Purchase Plan, resulting in the issuance of 18,984 shares of Common Stock.

power. Of that amount, 164,000 kilowatts will come as a result of the Company's 7.4% ownership of two nuclear units, having a combined capacity of 2,205,000 kilowatts, currently under construction at the Salem Nuclear Generating Station, Lower Alloways Creek, New Jersey. These units are being constructed by Public Service Electric and Gas Company; the first unit is scheduled for service in 1976 and the second in 1979.

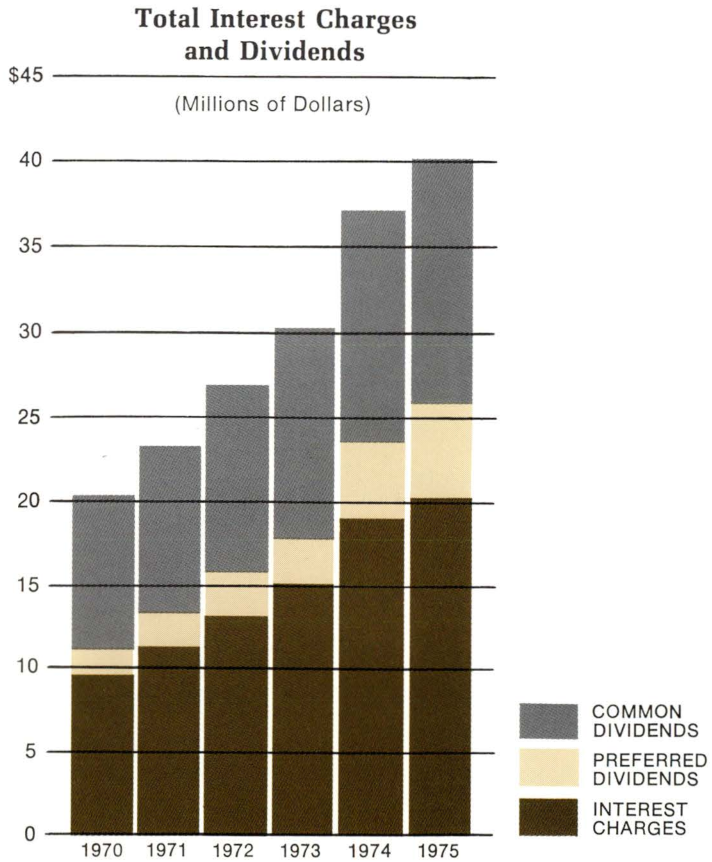
The Company also has an ownership interest of 213,400 kilowatts in two nuclear units which will have a combined capacity of 2,134,000 kilowatts, to be constructed by Public Service at the Hope Creek Generating Station located adjacent to the Salem Nuclear Station. The first unit is scheduled for completion during 1982 and the second in 1984.

Financing

To help finance the Company's continuing construction program, it was necessary to issue various capital securities during 1975. $10 million of 9.90% Notes due 1977 were issued in January 1975. (This was part of a negotiated sale totaling $15 million of 9.90% Notes due 1977, the first $5 million of which were issued in December 1974.) Also in January 1975, the Company issued $6.5 million principal amount of First Mortgage Bonds, 7⅝% Pollution Control Series due 2005. $15,000,000 of First Mortgage Bonds, 8¼% Series, were redeemed at maturity on April 1, 1975.

The net proceeds from the sale in May 1975 of $35 million of First Mortgage Bonds, 9¼% Series due May 1, 1983, were also applied toward the cost of the Company's continuing construction program and toward the repayment of $31.7 million of outstanding Notes Payable to banks. Short-term borrowings from banks and commercial paper borrowings totaled $13.7 million at year-end.

Cash generated within the Company consisting of retained earnings, depreciation accruals and



similar items provided approximately 66% of construction requirements in 1975 compared with 19% in 1974. It is the Company's goal to continue that trend which is so important to its continued financial health.

We estimate that 51% of the amount needed to meet 1976 construction requirements will be provided from internal sources and the remaining 49% from external sources. Also, $10 million of 8½% Debentures will mature on September 1, 1976. The sale of common stock through the Dividend Reinvestment and Stock Purchase Plan will provide a portion of the external funds. We expect to temporarily finance the balance through short-term bank loans and the issuance of commercial paper. Ultimately of course, it will be necessary to issue long-term debt or equity securities to repay short-term borrowings. We do presently expect to sell some type of equity security before the end of 1976—the timing, amount and form will depend upon market conditions.

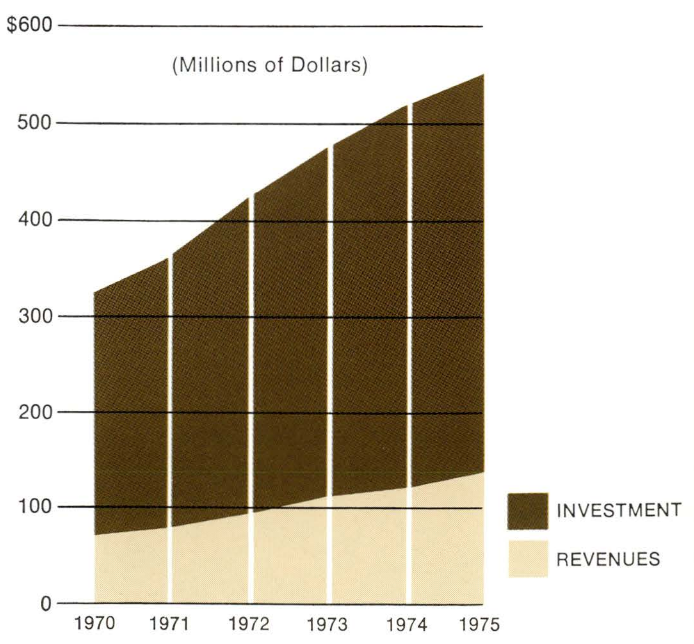
Fuel

1975 marked the first full year in which Atlantic Electric's customers were the recipients of electric power generated by nuclear units. Approximately 17% of the kilowatt-hours produced by the Company in 1975 was from the Company's share of the Peach Bottom nuclear units. This nuclear energy replaced what would have been generated by oil-fired units at a price of 31.8 cents per gallon of oil versus only 3.7 cents for the equivalent nuclear fuel. During 1976, nuclear energy is expected to account for 19% of the Company's kilowatt-hours.

Coal continued as the primary fuel for Units #1 and #2 at B. L. England Station. The consent order from the New Jersey Department of Environmental Protection permitting this coal burning was renewed and now expires in July 1976. In the interim, the N.J.D.E.P. is conducting a regional air quality study to determine the potential for relaxing its emissions limitations. Approximately 47% of the kilowatt-hours

Net Investment in Utility Plant (Year End) and Operating Revenues

(Excluding Fuel Adjustment Revenue)



produced by the Company in 1975 was from coal-fired units.

Oil produced 36% of the Company's total kilowatt-hours in 1975, compared with 70% before the oil embargo. Utilization of coal and nuclear power has reduced our dependence on foreign oil and has helped to reduce the overall cost of fuel to the Company. Fuel costs in 1975 were 2% below those in 1974.

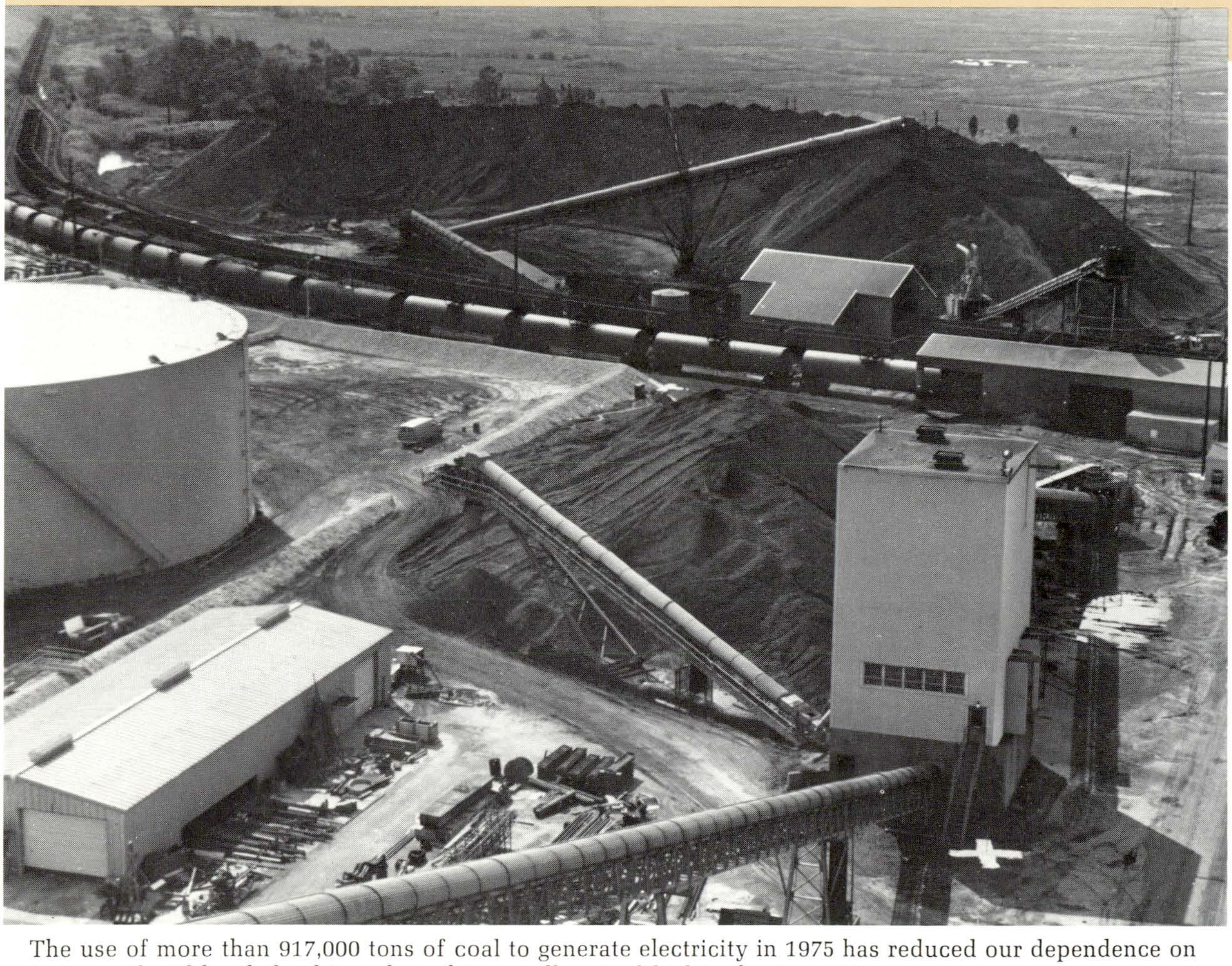
Operations

Continued efficient operation of an electric utility company is accomplished through new technology and improved procedures implemented by a highly skilled, imaginative and hard working management and employee staff. Atlantic Electric is indeed fortunate to have such a staff.

Each department within the Company continued to make all-out efforts in 1975 to reduce the Company's financial requirements, improve earnings and provide service to our customers at the lowest practical cost.

A number of methods were utilized during 1975 to hold the line on labor and other costs. These include a reduction of the work force made possible by limited replacement of retirees and other persons who terminated employment, reduction of overtime and limited use of contract personnel.

Also, the Company's comprehensive cost control program included elimination, reduction or deferment of a number of programs and/or expenditures originally planned for 1975. Many cost-cutting measures were required as a result of inadequate rate relief and many were made possible as a result of reductions in the 1975-1976 construction programs attributable to downward revisions in anticipated future load growth. Management is ever mindful of its responsibility to provide adequate, reliable electric service to its customers.



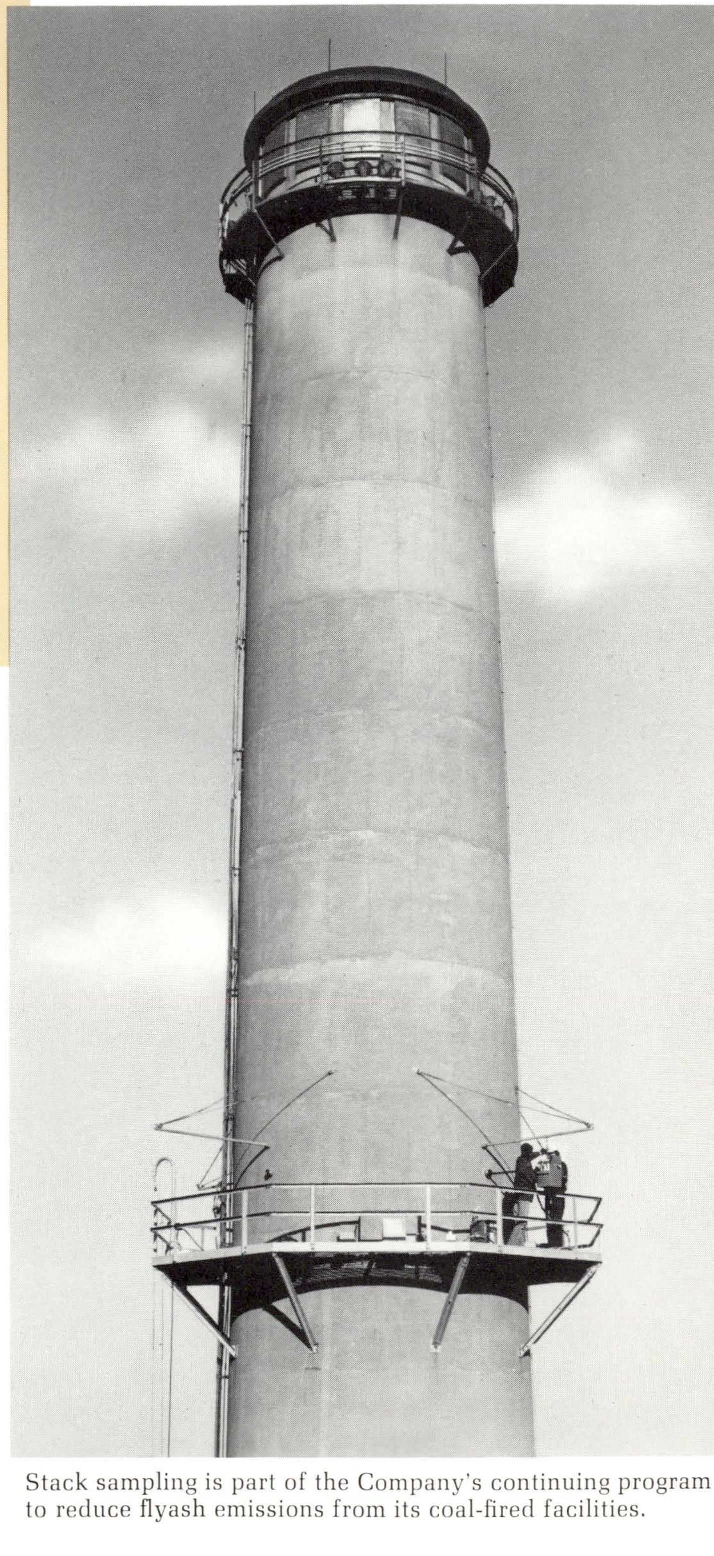
The use of more than 917,000 tons of coal to generate electricity in 1975 has reduced our dependence on foreign oil and has helped to reduce the overall cost of fuel to the Company.

Environment

Atlantic Electric has been a continuous supporter of long-range objectives aimed at improving and protecting the quality of the environment. The Company has invested, and will continue to invest, in numerous environmental protection facilities and studies connected with its generating stations. These range from fish sampling and air monitoring studies to the construction and installation of cooling towers, containment dikes and waste water treatment facilities.

The Company is subject to regulation with respect to air and water quality and other environmental matters by various Federal, state and local authorities. Stringent New Jersey Department of Environmental Protection standards often exceed the requirements set forth by the Environmental Protection Agency at the national level.

It is the Company's belief that there must be a realistic balance between environmental controls and future energy requirements. Everyone is aware of the danger and the potential costs involved in allowing the environment to



Stack sampling is part of the Company's continuing program to reduce flyash emissions from its coal-fired facilities.

deteriorate. However, protection of the environment is also costly. Overly restrictive environmental regulations only serve to increase the cost of electricity (a cost which has already risen dramatically due to increased fuel costs, inflation and various other factors) while providing only marginal benefit to environmental quality.

Employees

Employees were put to the test in 1975. While implementing a most stringent cost-cutting program, employees were asked to respond to a great number of customer inquiries both on and off the job, and asked to combat the same inflation that they are faced with in their personal lives. They performed magnificently.

Salaries and wages paid to employees amounted to $28.8 million in 1975. The Company's cost of employee benefits totaled an additional $5.5 million. A general increase, effective December 1975, will add $2.5 million to 1976 payroll costs. Employees numbered 1,741 at year-end 1975, a reduction of 70 from the 1,811 employees on the payroll at year-end 1974.

The Company is not insensitive or unresponsive to the effect of rate increases on its customers. Employees in their day-to-day contact with customers, friends and family, must be prepared to fairly present facts about increased electric rates, nuclear station siting and other matters. A program designed to further educate employees about increasing fuel and material costs, taxes paid, and the need to pay a fair return to our shareholders, was presented to all employees again in 1975. Designed and presented by Officers of the Company, the program provided employees with data to enable them to better respond to inquiries from the public.

Meetings are held periodically to keep employees informed of the latest developments in Company operations and to provide them with data so they can better communicate with the public. Pictured is Mr. R. M. Wilson, Senior Vice President, addressing employees.

Income and Retained Earnings

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

	Year Ended December 31 1975	1974
OPERATING REVENUES—ELECTRIC (Note 9)	$199,079,150	$176,611,265
OPERATING EXPENSES:		
Fuel	71,644,673	73,167,066
Other Operation	28,886,894	29,086,792
Maintenance	8,866,990	9,865,228
Depreciation (Note 1)	16,846,038	12,946,590
Taxes Other Than Federal Income Taxes	23,394,142	17,832,852
Federal Income Taxes (Notes 1 and 6)	1,035,029	(1,601,412)
Federal Income Taxes Deferred:		
Liberalized Depreciation (Note 1)	2,342,355	690,000
Accelerated Amortization	(110,507)	(115,746)
Investment Tax Credit Adjustments—Net (Note 1)	5,422,214	(602,731)
Total Operating Expenses	158,327,828	141,268,639
OPERATING INCOME	40,751,322	35,342,626
OTHER INCOME:		
Allowance for Funds Used During Construction (Note 1)	7,229,745	10,567,696
Miscellaneous Non-Operating Income Less Income Deductions	516,755	187,428
Net Other Income	7,746,500	10,755,124
INCOME BEFORE INTEREST CHARGES	48,497,822	46,097,750
INTEREST CHARGES:		
Interest on Long-Term Debt	18,403,404	15,288,146
Amortization of Debt Expense and Premium—Net	25,335	(8,237)
Interest on Short-Term Debt	1,694,322	3,746,663
Other Interest Expense	95,026	61,159
Total Interest Charges	20,218,087	19,087,731
NET INCOME	28,279,735	27,010,019
RETAINED EARNINGS AT BEGINNING OF YEAR	65,764,596	56,756,492
	94,044,331	83,766,511
DIVIDENDS DECLARED:		
Dividends on Cumulative Preferred Stock	5,483,936	4,471,602
Dividends on Common Stock (per share 1975—$1.52, 1974—$1.50)	14,394,717	13,530,313
Total Dividends Declared	19,878,653	18,001,915
RETAINED EARNINGS AT END OF YEAR	$ 74,165,678	$ 65,764,596
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,470,073	8,973,400
EARNINGS PER SHARE OF COMMON STOCK (Note 4):		
Based on average shares outstanding	$2.41	$2.54
Based on average shares—fully diluted	$2.38	$2.51

The accompanying Notes to Financial Statements are an integral part of this statement.

Statement of Changes in Financial Position

	Year Ended December 31 1975	1974
SOURCE OF FUNDS		
Funds from Operations:		
Net Income	$ 28,279,735	$ 27,010,019
Principal Non-Cash Charges (Credits) to Income:		
Depreciation	16,846,038	12,946,590
Allowance for Funds Used During Construction	(7,229,745)	(10,567,696)
Federal Income Taxes—Deferred (Net)	2,231,848	574,254
Investment Tax Credit Adjustments (Net)	5,422,214	(602,731)
Other (Net)	471,723	(59,950)
Total Funds from Operations	46,021,813	29,300,486
Funds from Outside Sources:		
Long-Term Debt	51,500,000	5,000,000
Sale of Common Stock	—	7,595,804
Sale of Preferred Stock	—	29,826,200
Increase in Short-Term Debt	—	24,800,000
Total Funds from Outside Sources	51,500,000	67,222,004
Debentures Maturing in 1976	10,000,000	—
Other Sources (Net)	(793,301)	1,206,182
Total Source of Funds	$106,728,512	$ 97,728,672
APPLICATION OF FUNDS		
Gross Additions to Utility Plant	$ 46,744,820	$ 71,219,796
Allowance for Funds Used During Construction	(7,229,745)	(10,567,696)
Net	39,515,075	60,652,100
Dividends on Preferred Stock	5,483,936	4,471,602
Dividends on Common Stock	14,394,717	13,530,313
Retirement and Maturity of Long-Term Debt	15,125,000	255,000
Debentures Maturing in 1976	10,000,000	—
Decrease in Short-Term Debt	23,650,000	—
Investments in Subsidiary Companies	894,446	478,761
Increase (Decrease) in Working Capital (excluding short-term debt) (see below)	(2,334,662)	18,340,896
Total Application of Funds	$106,728,512	$ 97,728,672
NET INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL (EXCLUDING SHORT-TERM DEBT)		
Current Assets:		
Cash and Cash Items	$ (2,812,009)	$ 4,780,609
Accounts Receivable	157,868	3,815,287
Fuel	2,391,684	6,294,209
Materials and Supplies	(70,487)	1,311,103
Prepayments	207,626	313,270
Other Current Assets	(2,106,348)	2,106,348
Total	(2,231,666)	18,620,826
Current Liabilities:		
Accounts Payable	(1,633,447)	(2,727,265)
Taxes Accrued	296,281	438,683
Interest Accrued	(32,377)	373,440
Other	1,472,539	2,195,072
Total	102,996	279,930
Net Increase (Decrease) in Working Capital	$ (2,334,662)	$ 18,340,896

The accompanying Notes to Financial Statements are an integral part of this statement.

Balance Sheet – December 31, 1975–1974

Assets

	December 31 1975	December 31 1974
ELECTRIC UTILITY PLANT (Note 1):		
In Service:		
Production	$252,255,291	$254,760,072
Transmission	95,672,272	88,003,720
Distribution	185,854,216	177,150,588
General	15,806,598	14,900,972
Construction Work in Progress	119,478,320	97,820,024
Nuclear Fuel (Note 8)	6,549,957	4,614,794
Total Electric Utility Plant	675,616,654	637,250,170
Less Accumulated Provision for Depreciation	122,988,944	113,745,335
Electric Utility Plant—Net	552,627,710	523,504,835
INVESTMENTS:		
Investment in Subsidiary Companies, at Equity (Note 2)	4,621,320	3,780,045
Land Purchase Contracts	635,231	551,689
Other Investments	494,078	412,823
Total Investments	5,750,629	4,744,557
CURRENT ASSETS:		
Cash (Note 5)	4,786,613	7,996,540
Temporary Cash Investments	1,800,000	1,400,000
Special Deposits and Working Funds	182,718	184,800
Accounts Receivable:		
Utility Services	12,870,557	13,032,711
Subsidiary Companies	39,077	34,188
Miscellaneous	2,372,419	1,907,286
Allowance for Doubtful Accounts	(430,000)	(280,000)
Fuel (at average cost)	16,964,948	14,573,264
Materials and Supplies (at average cost)	7,198,353	7,268,840
Prepayments	1,572,498	1,364,872
Other Current Assets	—	2,106,348
Total Current Assets	47,357,183	49,588,849
DEFERRED DEBITS:		
Unamortized Debt Expense (Note 1)	2,289,175	1,646,771
Other Work in Progress	724,506	831,556
Other Deferred Debits	622,051	312,115
Total Deferred Debits	3,635,732	2,790,442
Total	$609,371,254	$580,628,683

The accompanying Notes to Financial Statements are an integral part of this statement.

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

Liabilities

	December 31 1975	December 31 1974
LONG-TERM DEBT (see page 19)	$288,864,954	$262,632,846
SHAREHOLDERS' EQUITY (Note 3):		
Cumulative Preferred Stock	80,091,045	80,091,045
Common Stock, Par Value $3:		
Authorized Shares, 14,000,000 in 1975 and 11,000,000 in 1974		
Outstanding Shares 9,470,073	28,410,219	28,410,219
Premium on Common Stock	81,955,984	81,955,984
Total Common Stock	110,366,203	110,366,203
Capital Stock Expense (not being amortized)	(1,511,187)	(1,470,954)
Retained Earnings	74,165,678	65,764,596
Total Shareholders' Equity	263,111,739	254,750,890
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	10,000,000	—
Notes Payable to Banks (Note 5)	7,150,000	37,300,000
Commercial Paper (Note 5)	6,500,000	—
Accounts Payable	1,517,747	3,167,700
Accounts Payable—Subsidiary Companies	196,133	179,627
Customer Deposits	1,648,070	1,234,593
Taxes Accrued	2,061,578	1,765,297
Interest Accrued	3,819,993	3,852,370
Dividends Declared	5,016,960	4,922,259
Other Current Liabilities	5,952,493	4,988,132
Total Current Liabilities	43,862,974	57,409,978
DEFERRED CREDITS:		
Customer Advances for Construction	541,977	576,257
Accumulated Deferred Investment Tax Credits (Note 1)	7,638,388	2,216,174
Accumulated Deferred Income Taxes:		
Liberalized Depreciation (Note 1)	3,032,355	690,000
Accelerated Amortization	979,413	1,089,920
Other Deferred Credits	175,602	491,983
Reserve for Storm Damage	558,852	315,635
Other Reserves	605,000	455,000
Total Deferred Credits	13,531,587	5,834,969
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)		
Total	$609,371,254	$580,628,683

The accompanying Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES:

REGULATION—The accounting and rates of the Company are subject in certain respects to the requirements of the Board of Public Utility Commissioners of the State of New Jersey (PUC) and in certain respects to the Federal Power Commission.

ELECTRIC UTILITY PLANT—Property is stated at original cost (cost to the person first devoting the plant to public service). Generally the plant is subject to first mortgage liens. The cost of property additions, including replacements of units of property and betterments, is capitalized. Included in such additions is an Allowance for Funds Used During Construction which is defined in the applicable regulatory systems of accounts as the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The rate used for such allowance was 8% in 1975 and 1974.

DEPRECIATION AND MAINTENANCE—The Company provides for depreciation on the basis of the estimated service lives of depreciable property on a straight-line basis. The over-all composite rate of depreciation was approximately 3.2% and 3% for the years 1975 and 1974, respectively. In 1975, changes in depreciation rates had the effect of increasing depreciation expense by approximately $990,000. In addition to the provision for depreciation, income is charged with the cost of labor, material, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient condition. The accumulated provision for depreciation is charged with the cost of depreciable property units retired, together with removal costs less salvage.

DEBT EXPENSE AND PREMIUM—Debt issuance expense and premium are being amortized over the lives of the issues to which they pertain.

INCOME TAXES—Tax reductions resulting from the use of accelerated depreciation including Class Life (ADR) System for depreciable property added prior to 1974 are reflected in income tax expense currently in accordance with the prescribed rate-making policy of the PUC. Deferred income taxes are provided in amounts equal to the tax effect of the difference between tax depreciation computed on depreciable property added after 1973 using accelerated methods under the ADR System and the straight line method using asset guideline periods.

Investment tax credits are being deferred in a balance sheet account and are being restored to income over the life of the related property.

PENSION PLAN—The Company and Deepwater, referred to in Note 2, have in effect a noncontributory insured retirement annuity plan covering all regular employees. The cost of the plan determined under the aggregate cost actuarial method for the years 1975 and 1974 respectively, amounted to $2,164,000 and $2,069,000 for the Company (including $510,000 and $518,000 charged to construction) and $362,000 and $392,000 for Deepwater. Based on an actuarial study as of December 31, 1974, the vested benefits computed under the plan were in excess of pension fund assets by approximately $215,000. The effects, if any, of conforming the plan to the requirements of the Employee Retirement Income Security Act of 1974 are not determinable at this time.

NOTE 2: INVESTMENT IN SUBSIDIARY COMPANIES:

The Company has an investment of $1,856,000 at December 31, 1975 and $1,631,000 at December 31, 1974 in Deepwater Operating Company (Deepwater), a wholly-owned subsidiary which operates generating and process steam units owned by the Company. The assets of Deepwater consist almost wholly of working capital in which the equity of the Company is fairly represented by its investment in Deepwater. The net production costs of Deepwater (after deducting charges to E. I. duPont deNemours & Company) are charged to the Company. These costs are included in the Company's income account, classified as to maintenance, taxes, etc. Also, the Company has an investment in Overland Realty, Inc. (Overland), a wholly-owned subsidiary which acquired, prior to 1974, land to be used as sites for the location of future generating stations or industrial and residential developments. The Company's investment in Overland amounted to $2,765,220 at December 31, 1975 and $2,148,945 at December 31, 1974. At December 31, 1975, Overland had $10,865,217 invested in mortgages and land of which $1,784,332 is invested in a future generating station and industrial site which is subject to a mortgage of which the Company is liable for the payment of $900,000 principal amount and interest under a suretyship agreement. At December 31, 1975 Overland had outstanding $4,182,593 in short-term mortgage notes payable to banks and $2,740,081 of advances from the Company (included in the Company's investment referred to above) which are subordinated to the mortgage notes. The mortgage note agreement requires the Company to advance to Overland any amounts necessary to maintain the real estate covered by the agreement. Carrying costs of land held for resale (principally interest and property taxes) are being capitalized by the subsidiary and net carrying costs capitalized in 1975 were approximately $812,000. The combined assets of the subsidiaries were approximately 2% of the Company's assets at December 31, 1975 and December 31, 1974 and their net income is not significant.

NOTE 3: PREFERRED AND COMMON STOCKS:

CUMULATIVE PREFERRED STOCK, Par Value $100
(authorized 1,200,000 shares in 1975 and 1,000,000 shares in 1974)

	December 31 1975	December 31 1974	Current Redemption Price Per Share	Refunding Restricted Prior to (A)
Issued and Outstanding Series:				
4% Series—77,000 Shares	$ 7,700,000	$ 7,700,000	$105.50	
4.10% Series—72,000 Shares	7,200,000	7,200,000	101.00	
4.35% Series—15,000 Shares	1,500,000	1,500,000	101.00	
4.35% 2nd Series—36,000 Shares	3,600,000	3,600,000	101.00	
4.75% Series—50,000 Shares	5,000,000	5,000,000	101.00	
5% Series—50,000 Shares	5,000,000	5,000,000	100.00	
5⅞% Convertible Series—99,979 Shares (B)	9,997,900	9,997,900	104.50	
7.52% Series—100,000 Shares	10,000,000	10,000,000	108.65	April 1, 1977
8.40% Series—100,000 Shares (C)	10,000,000	10,000,000	115.00	Feb. 1, 1979
9.96% Series—200,000 Shares (D)	20,000,000	20,000,000	109.61	Aug. 1, 1984
	79,997,900	79,997,900		
Premium on Preferred Stock	93,145	93,145		
Total Cumulative Preferred Stock	$80,091,045	$80,091,045		

(A) Prior to the date specified, no shares may be redeemed through certain refunding operations.

(B) The 5⅞% Convertible Series is convertible (subject to adjustment of certain events) into Common Stock at the rate of 3.5 shares of Common Stock for each share of the Preferred (349,927 shares of authorized Common Stock are reserved for the conversion of the Series).

(C) On February 1, 1985, and annually thereafter, 4,000 shares must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share, plus, at the option of the Company, an additional 4,000 shares may be redeemed on any sinking fund date, without premium, up to 32,000 shares in the aggregate.

(D) On August 1, 1979, and annually thereafter, 8,000 shares of the 9.96% Series must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share, plus, at the option of the Company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium, up to 40,000 shares in the aggregate.

COMMON STOCK—Issues of capital stock include the sale of 600,000 shares of Common Stock in October, 1974. Premium on Common Stock was credited in 1974 with the amount of $5,892,000 representing the excess of proceeds over the par value of shares of Common Stock issued and sold. The Company has reserved 200,000 shares of Common Stock under its Dividend Reinvestment and Stock Purchase Plan which became effective in 1976. In January, 1976, 18,984 shares were issued under the Plan.

NOTE 4: EARNINGS PER SHARE:

Earnings per share of Common Stock has been computed by dividing net income net of applicable preferred stock dividend requirements ($5,483,936 in 1975 and $4,233,384 in 1974) by the average common shares outstanding during the year.

Earnings per share assuming full dilution reflects the net reduction in earnings per share which would have been realized if the 5⅞% Series preferred stock had been converted in full at the beginning of each year.

NOTE 5: SHORT-TERM BORROWINGS AND COMPENSATING BALANCES:

The Company had arrangements for short-term borrowings as follows:

	1975	1974
Maximum amount of short-term borrowings outstanding at any month end during the year	$41,200,000	$55,000,000
Average daily amount outstanding during the year	$18,500,000	$33,000,000
Average daily interest rate on above	8.8%	11.1%
Weighted average interest rate on short-term borrowings outstanding at year end:		
Notes Payable to Banks	7.9%	11.6%
Commercial Paper	5.6%	

Notes to Financial Statements

The unused lines of credit available at December 31, 1975 and December 31, 1974 were $43,000,000 and $33,000,000, respectively. Demand deposits are maintained with lending banks certain of which are deemed to constitute compensating balances which are not legally restricted. Based on lines of credit and loans outstanding at December 31, 1975 and December 31, 1974, respectively, such compensating balances approximated $3,300,000 and $5,000,000.

NOTE 6: FEDERAL INCOME TAXES:

Federal income tax returns, except for certain claims for refund, have been settled through 1971. The U. S. Department of Justice has recommended to the Joint Committee on Internal Revenue Taxation a settlement of claims for the years 1962 and 1963 in the amount of $338,902 plus interest of $262,853. Such amounts were credited to income in 1975.

Federal income tax expense applicable to current operations is less than the income tax that would have resulted by applying the statutory rate because of the following:

	Year ended December 31, 1975	Year ended December 31, 1974
Federal income tax expense at 48% of pre-tax income	$17,784,703	$12,198,115
Decrease resulting from:		
Excess of tax depreciation over book depreciation	(6,188,621)	(7,135,455)
Exclusion of allowance for funds used during construction from taxable income	(3,470,278)	(5,072,494)
Capitalized overheads deducted for tax purposes	(744,889)	(654,060)
Investment tax credit	(5,874,512)	458,738
Other	(388,734)	(1,363,645)
Federal income tax expense (credit) included in Statement of Income	$ 1,117,669	$(1,568,801)
Charged (credited) to:		
Operating Expense	$ 1,035,029	$(1,601,412)
Other Income	82,640	32,611
Total	$ 1,117,669	$(1,568,801)

At December 31, 1975, investment tax credit of approximately $250,000 is available for carryforward to subsequent years.

NOTE 7: LEASES:

Rentals incurred in 1975 and 1974 were approximately $2,552,000 and $1,606,000, respectively.

Minimum rental commitments under noncancelable leases (principally noncapitalized financing leases) as of December 31, 1975 are approximately as follows:

1976	$2,550,000	1981-1985	$10,584,000
1977	2,446,000	1986-1990	8,444,000
1978	2,342,000	1991-1995	7,020,000
1979	2,281,000	After 1995	3,929,000
1980	2,237,000		

The total minimum rental commitments as of December 31, 1975 are applicable to combustion turbine generating units (65%), fuel transportation and storage facilities (17%), real estate (12%), and other (6%).

The present value of future noncancelable lease commitments at December 31, 1975 and December 31, 1974 is less than 5% of capitalization in each case. If all noncapitalized financing leases were capitalized, the impact on net income for 1975 and 1974 would be less than 3% of the average net income for the most recent three years.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES:

Construction expenditures, excluding production plant, are estimated at $30,000,000 for 1976. Commitments for the construction of production plant amount to approximately $270,000,000 of which it is estimated that $32,000,000 will be expended in 1976.

In connection with a long-term agreement for the purchase of fuel oil the Company has a commitment for use of terminal facilities for a fifteen-year period from May 27, 1971 at a minimum annual amount of approximately $1,300,000, with the right to cancel the commitment five years thereafter upon payment of an estimated $4,200,000. The amounts paid under the above agreement are a part of the cost of fuel and are recoverable under the fuel clause surcharge in the Company's tariff schedules.

Nuclear fuel requirements for Peach Bottom Units No. 2 and 3 are being provided by the operating company for Peach Bottom through a fuel purchase contract. The Company is responsible for payment of its proportionate interest (7.51%) of the cost of the fuel burned and of certain operating costs and interest expense during the term of the contract.

NOTE 9: RATE INCREASES:

Effective July 18, 1974 the PUC granted the Company an increase in rates which would have the effect of increasing the annual revenues of the Company by about $12.2 million, or 9.5%, when applied to the billing determinants for 1973, the test year.

Effective July 3, 1975 the PUC granted the Company an increase in rates which would have the effect of increasing the annual revenues of the Company by about $10.7 million, or 6%, when applied to the billing determinants for 1974, the test year.

On January 29, 1976 the PUC granted the Company an increase in rates which would have the effect of increasing the annual revenues of the Company by about $9.3 million, or 4.7%, when applied to the billing determinants for 1975, the test year.

Long-Term Debt

	December 31 1975	December 31 1974
First Mortgage Bonds:		
8¼% Series due (April 1) 1975	$ —	$ 15,000,000
2⅞% Series due (June 1) 1979	3,000,000	3,000,000
2¾% Series due (July 1) 1980	4,600,000	4,600,000
2⅞% Series A due (Nov. 1) 1980	18,400,000	18,400,000
3¼% Series due (March 1) 1982	4,620,000	4,620,000
3¼% Series due (Jan. 1) 1983	4,050,000	4,050,000
9¼% Series due (May 1) 1983	35,000,000	—
3% Series due (March 1) 1984	5,000,000	5,000,000
3¼% Series due (March 1) 1985	10,000,000	10,000,000
4½% Series due (Jan. 1) 1987	10,000,000	10,000,000
3⅞% Series due (April 1) 1988	10,000,000	10,000,000
4½% Series due (April 1) 1989	5,000,000	5,000,000
4½% Series due (March 1) 1991	10,000,000	10,000,000
4½% Series due (July 1) 1992	15,000,000	15,000,000
4⅜% Series due (March 1) 1993	15,000,000	15,000,000
5⅛% Series due (Feb. 1) 1996	10,000,000	10,000,000
8⅞% Series due (Sept. 1) 2000	20,000,000	20,000,000
8% Series due (May 1) 2001	27,000,000	27,000,000
7½% Series due (April 1) 2002	20,000,000	20,000,000
7¾% Series due (June 1) 2003	30,000,000	30,000,000
7⅝% Pollution Control Series due (Jan. 1) 2005	6,500,000	—
Debentures:	263,170,000	236,670,000
8½% Debentures due (Sept. 1) 1976	—	10,000,000
5¼% Sinking Fund Debentures due (Feb. 1) 1996	4,299,000	4,399,000
7¼% Sinking Fund Debentures due (May 1) 1998	4,555,000	4,580,000
Notes:		
9.90% Notes due (Dec. 15) 1977	15,000,000	5,000,000
	287,024,000	260,649,000
Add: Unamortized Premium (Note 1)	1,840,954	1,983,846
	$288,864,954	$262,632,846

Deposits in sinking funds for retirement of debentures are required on February 1 of each year, from 1976 through 1995 for the 5¼% debentures, and on May 1 of each year from 1976 to 1997 for the 7¼% debentures, in amounts in each case sufficient to redeem $100,000 principal amount plus, at the election of the Company, up to an additional $100,000 principal amount in each year. Prior to December 31, 1975 the Company had reacquired and cancelled $201,000 principal amount of the 5¼% debentures and $145,000 principal amount of the 7¼% debentures toward its requirements for 1976 and subsequent periods.

Sinking fund requirements of $1,246,700 required in connection with certain first mortgage bonds outstanding, are being satisfied by certification of property additions as provided for in the related mortgage indentures.

Principal amount of 8½% debentures due September 1, 1976 is included in current liabilities at December 31, 1975.

Accountants' Opinion

Haskins & Sells
Certified Public Accountants

Two Broadway
New York, New York 10004

Atlantic City Electric Company:

We have examined the balance sheet of Atlantic City Electric Company as of December 31, 1975 and 1974 and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1975 and 1974 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

January 30, 1976

1975–1965 Statistical Profile and Summary of Operations

	1975	1974	1973
Facilities for Service			
Total Utility Plant (Thousands)	$ 675,617	$ 637,250	$ 572,55
Gross Additions to Utility Plant (Thousands)	$ 46,745	$ 71,220	$ 67,86
Pole Miles of Transmission and Distribution Lines	6,645	6,580	6,50
Generating Capacity (Kilowatts)[a]	1,334,700	1,278,700	1,013,50
Maximum Utility System Demand—Kw	1,069,400	1,004,400	1,051,40
Source of Energy (Thousands of Kwh)			
Net Generation	4,715,357	4,651,334	4,236,08
Purchased and Interchanged—Net	190,852	229,197	665,55
Total	4,906,209	4,880,531	4,901,64
Electric Sales (Thousands of Kwh)			
Residential	1,938,724	1,882,560	1,899,12
Commercial	1,346,216	1,298,858	1,351,97
Industrial	1,036,755	1,136,935	1,119,47
All Others	56,465	57,477	58,12
Total	4,378,160	4,375,830	4,428,70
Gross Revenue (Thousands of Dollars)			
Energy Sales			
Residential	$ 90,956	$ 78,512	$ 59,85
Commercial	63,544	55,713	42,80
Industrial	34,974	33,565	22,00
All Others	4,881	4,207	3,86
Total	194,355	171,997	128,52
Other Electric Revenue	4,724	4,614	4,36
Total	$ 199,079	$ 176,611	$ 132,89
Residential Electric Service (Average per Customer)			
Amount of Electricity used during the year (Kwh)	7,018	6,982	7,30
Amount paid for a year's service	$ 329.25	$ 291.21	$ 230.1
Price paid per Kilowatt-hour (cents)	4.69¢	4.17¢	3.1
Customer Service Locations—Electric (Year-End)[b]	336,105	330,758	320,83
Population Served	915,000	894,000	865,00
*Summary of Operations (Thousands of Dollars)			
Operating Revenues—Electric	$ 199,079	$ 176,611	$ 132,89
Operating Expenses			
Fuel	71,645	73,167	37,14
Other Operation and Maintenance Expenses	37,754	38,952	38,08
Depreciation	16,846	12,946	11,74
Taxes	32,083	16,203	16,61
Total Operating Expenses	158,328	141,268	103,59
Operating Income	40,751	35,343	29,30
Other Income and Deductions—Net	7,747	10,755	8,74
Income before interest charges	48,498	46,098	38,04
Interest Charges	20,218	19,088	15,12
Net Income	28,280	27,010	22,91
Dividends Paid or Accrued on Preferred Stock	5,484	4,233	2,65
Earnings for Common Stock	$ 22,796	$ 22,777	$ 20,26
Average Shares of Common Stock Outstanding	9,470,073	8,973,400	8,453,40
Earnings Per Share of Common Stock[c]	$2.41	$2.54	$2.40
Dividends Declared Per Share of Common Stock	$1.52	$1.50	$1.476
Dividends Paid on Common Stock (Cash)	$1.51	$1.50	$1.468

(a) Excludes capacity allocated to a large industrial customer.
(b) Restated.
(c) See Income and Retained Earnings statement for earnings per share of common stock assuming conversion of convertible preferred.
*See page 22 for Management's Discussion.

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

1972	1971	1970	1969	1968	1967	1966	1965
511,274	$ 455,956	$ 404,364	$ 357,863	$ 324,561	$ 300,435	$ 284,957	$ 270,838
58,434	$ 54,151	$ 48,200	$ 35,306	$ 25,406	$ 17,063	$ 15,841	$ 10,901
6,408	6,333	6,252	6,187	6,109	6,038	5,945	5,932
965,900	897,600	821,400	757,800	700,800	678,500	636,500	636,500
920,400	829,300	755,500	721,800	671,600	563,900	542,000	489,500
4,071,225	4,262,062	4,294,352	4,227,315	3,929,222	3,598,431	3,323,888	3,016,998
458,050	−74,395	−358,203	−566,932	−615,766	−574,707	−475,760	−450,345
4,529,275	4,187,667	3,936,149	3,660,383	3,313,456	3,023,724	2,848,128	2,566,653
1,741,895	1,624,793	1,520,939	1,375,546	1,253,772	1,140,797	1,038,428	948,299
1,183,668	1,059,498	977,210	879,916	821,538	742,486	689,245	625,895
1,061,932	990,363	954,111	911,138	801,664	755,624	746,996	661,875
64,531	88,963	101,703	116,021	91,467	81,966	73,616	68,984
4,052,026	3,763,617	3,553,963	3,282,621	2,968,441	2,720,873	2,548,285	2,305,053
51,544	$ 42,623	$ 36,979	$ 32,672	$ 29,850	$ 27,673	$ 25,709	$ 23,963
35,868	28,648	23,933	20,584	18,912	17,345	16,335	15,100
19,350	16,529	13,036	11,303	9,738	9,225	9,011	8,133
3,763	3,919	3,795	3,753	3,302	3,054	2,848	2,666
110,525	91,719	77,743	68,312	61,802	57,297	53,903	49,862
4,128	3,687	3,648	3,731	3,688	3,737	3,694	3,680
114,653	$ 95,406	$ 81,391	$ 72,043	$ 65,490	$ 61,034	$ 57,597	$ 53,542
7,008	6,793	6,542	6,072	5,685	5,313	4,959	4,662
207.37	$ 178.19	$ 159.06	$ 144.22	$ 135.34	$ 128.88	$ 122.78	$ 117.80
2.96¢	2.62¢	2.43¢	2.38¢	2.38¢	2.43¢	2.48¢	2.53¢
309,393	297,437	288,538	282,274	279,976	274,360	268,739	261,665
828,000	796,000	773,000	753,000	733,000	714,000	697,000	679,000
114,653	$ 95,406	$ 81,391	$ 72,043	$ 65,490	$ 61,034	$ 57,597	$ 53,542
29,944	28,705	22,457	15,691	13,057	11,928	10,297	8,895
31,427	23,333	17,862	16,103	13,964	12,735	12,727	12,721
11,190	10,355	9,632	9,043	7,892	7,479	7,129	6,475
15,359	10,603	11,129	12,292	12,748	11,935	11,300	10,231
87,920	72,996	61,080	53,129	47,661	44,077	41,453	38,322
26,733	22,410	20,311	18,914	17,829	16,957	16,144	15,220
6,647	5,164	3,520	1,773	1,097	450	306	101
33,380	27,574	23,831	20,687	18,926	17,407	16,450	15,321
13,297	11,641	9,276	6,302	6,226	5,700	5,129	4,744
20,083	15,933	14,555	14,385	12,700	11,707	11,321	10,577
2,456	1,900	1,900	1,900	1,672	1,313	1,313	1,313
17,627	$ 14,033	$ 12,655	$ 12,485	$ 11,028	$ 10,394	$ 10,008	$ 9,264
7,810,073	7,436,740	6,920,073	6,817,083	6,270,000	6,270,000	6,270,000	6,270,000
$2.26	$1.89	$1.83	$1.83	$1.76	$1.66	$1.60	$1.48
$1.4316	$1.37	$1.345	$1.31	$1.27	$1.23	$1.16	$1.095
$1.4144	$1.36	$1.34	$1.30	$1.26	$1.22	$1.14	$1.08

This Annual Report has been prepared for the purpose of providing general and statistical information concerning the Company and not in connection with any sale, offer for sale or solicitation of an offer to buy any securities.

Printed in U.S.A.

Management's Discussion and Analysis of The Summary of Operations

The Summary of Operations reflects the results of past operations and is not intended as any representation as to results of operations for any future period. Future operations will necessarily be affected by various and diverse factors and developments including possible changes in electric rates, business activity, taxes, labor contracts, fuel costs, environmental expenditures, the effects of various electricity conservation programs, and other matters, the nature and effect of which cannot now be determined.

The following discussion relates to the Summary of Operations for the years 1973, 1974 and 1975.

Operating Revenues: Operating revenues increased by the following percentages over the preceding year: 1974, 33%, 1975, 13%. These changes reflect increases resulting from fuel cost adjustments and rate increases in 1974 and 1975, increased kilowatt-hour sales in 1973, and a leveling in customer usage in 1974 and 1975 due to national concern over fuel supplies, conservation efforts and milder weather conditions. During the period 1970-1973 the Company experienced annual increases in the number of kilowatt-hours delivered to ultimate customers averaging 7.8%. During 1974 the Company experienced a decrease in the kilowatt-hours delivered to ultimate customers of approximately 1.2%, as compared with 1973, and during 1975 the Company experienced no significant change as compared to 1974.

Fuel: Fuel costs increased by 97% in 1974 vs. 1973, and decreased by 2% in 1975 vs. 1974. The increase in 1974 was primarily due to higher fuel prices and an increase of approximately 10% in energy generated by the Company. The decrease in fuel costs in 1975 vs. 1974 was made possible by greater use of nuclear fuel and a moderation of increases in the cost of coal and oil. (See charts on pages 4 and 5).

Other Operation and Maintenance Expenses: These expenses increased by only 2.3% in 1974 vs. 1973, and decreased by 3.1% in 1975 vs. 1974. The increase in 1974 was a result of inflationary pressures (including higher costs of materials and supplies and of wages), an increase in the net cost of purchased and interchanged energy, and an increase in customers served, offset in part by decreases in expenses as a result of leveling of customer usage and management's comprehensive cost control program. In 1975 the leveling of customer usage, the availability of energy from the interchange at a lower net cost, and management's comprehensive cost control program offset increases caused by inflationary pressures and the increase in customers served.

Depreciation: Depreciation increased by 10% in 1974 vs. 1973, and increased by 30% in 1975 vs. 1974. These increases are primarily due to increase in plant. The increase for 1975 is primarily the result of the addition of three major generating units during the second half of 1974 and an increase in the depreciation rates effective as of January 1, 1975.

Taxes: Taxes other than Federal Income Taxes increased by 16% in 1974 vs. 1973 and increased by 31% in 1975 vs. 1974. These expenses (principally New Jersey tax on gross receipts) have increased as a direct result of increases in Operating Revenues.

1974 Federal Income Taxes declined as a result of increased operating and interest expenses and the use of accelerated depreciation. The increase in Federal Income Taxes for 1975 is primarily due to the fact that since mid 1974 the Company has been normalizing the benefits of accelerated depreciation by vintage years of plant additions and as a result of rate increases granted in July, 1974 and July, 1975. (See Notes 1 and 6 of Notes to Financial Statements).

Other Income and Deductions — Net: Other Income and Deductions (principally Allowance for Funds Used During Construction) increased by 23% in 1974 vs. 1973 primarily as a result of increases in construction expenditures, and decreased by 28% in 1975 vs. 1974 primarily as a result of a decrease in construction expenditures.

Total Interest Charges; Preferred Stock Dividend Requirements: These charges and requirements increased 33% in 1974 vs. 1973 and increased 9% in 1975 vs. 1974. Interest charges on long-term debt and short-term debt and dividends on Preferred Stock have increased because of higher costs of money during certain periods and the sale of additional series of debt and preferred stock to help finance the Company's construction program.

Price Range of Stock and Dividends Paid on Stock

Common Stock

The Common Stock of the Company is traded on the New York Stock Exchange (principal market) and the PBW Stock Exchange. The reported high and low sale prices of the Common Stock on the New York Stock Exchange for each quarterly period during 1974 and 1975 are listed below.

	High		Low	
	1974	1975	1974	1975
First Quarter	$20.375	$17.75	$16.75	$12.625
Second Quarter	18.75	19.50	14.00	15.00
Third Quarter	17.25	19.00	12.50	15.75
Fourth Quarter	14.50	18.50	12.00	16.25

Cumulative Preferred Stock

The 5⅞% Cumulative Convertible Preferred Stock (par value $100) of the Company is traded on the New York Stock Exchange. The reported high and low sale prices of such Preferred Stock for each quarterly period during 1974 and 1975 are listed below. No other series of Cumulative Preferred Stock is listed on a Stock Exchange.

	High		Low	
	1974	1975	1974	1975
First Quarter	$78.00	$62.00	$72.00	$58.25
Second Quarter	75.00	70.00	61.50	64.50
Third Quarter	61.00	69.50	50.00	62.00
Fourth Quarter	59.00	69.00	50.00	60.50

Common Stock

The Company has paid cash dividends on its Common Stock in each year since 1919. The quarterly cash dividend paid per share was 37½¢ in 1974, 37½¢ for the first three quarters of 1975 and 38½¢ for the fourth quarter of 1975.

Cumulative Preferred Stock

During 1974 and 1975 the Company paid quarterly cash dividends on each series of Cumulative Preferred Stock as listed below:

Series	1974 Quarterly Rate	1975 Quarterly Rate
4%	$1.00	$1.00
4.10%	1.025	1.025
4.35%	1.0875	1.0875
4.75%	1.1875	1.1875
5%	1.25	1.25
5⅞%	1.46875	1.46875
7.52%	1.88	1.88
8.40%	2.10[1]	2.10
9.96%	2.49[2]	2.49

[1]Series issued in February 1974.
[2]Series issued in August 1974.

Officers

John D. Feehan
President and Director

William S. Cowart, Jr.
Senior Vice President

Richard M. Wilson
Senior Vice President

Charles F. Morgan
Vice President,
Secretary and Treasurer

David V. Boney
Vice President—
Customer and Community Services

Frank J. Ficadenti
Vice President—
Engineering, Research and Development

Edwin L. Gerber
Vice President—
Personnel and Public Relations

Frederick Lange
Vice President—
Control

John F. Born
Assistant Vice President—
Electric Operations

Ernest D. Huggard
Assistant Vice President—
Production

Martin R. Meyer
Assistant Secretary
and Assistant Treasurer

Jerrold L. Jacobs
Assistant Treasurer

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

TRANSFER AGENTS

For Common Stock

Irving Trust Company
1 Wall Street
New York, N.Y. 10015

First National Bank of South Jersey
Atlantic City, N.J. 08404

For Cumulative Preferred Stock

Chemical Bank
20 Pine Street
New York, N.Y. 10015

For Cumulative Convertible Preferred Stock

Irving Trust Company
New York, N.Y. 10015

REGISTRARS

For Common Stock

Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

Guarantee Bank
Atlantic City, N.J. 08404

For Cumulative Preferred Stock

Irving Trust Company
New York, N.Y. 10015

For Cumulative Convertible Preferred Stock

Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

SHARE LISTINGS

Common Stock of the Company is listed on the New York Stock Exchange and the PBW Stock Exchange, Inc. The 5⅞% Cumulative Convertible Preferred Stock of the Company is listed on the New York Stock Exchange.

Directors

Karl R. Bopp
Retired. Former President of Federal Reserve Bank of Philadelphia.

Eleanor S. Daniel
Self employed. Former Assistant Vice President of the Mutual Life Insurance Company of New York (Senior Economic Adviser).

Richard M. Dicke
Counselor at Law. Senior Partner of the law firm of Simpson Thacher & Bartlett.

John D. Feehan
President and Chief Executive Officer of the Company.

James P. Hayward
Retired. Former President of the Company.

Mack C. Jones
President of Radette Company. Engaged in research, and development of electronic products.

Alfred C. Linkletter
Senior Vice President of The Prudential Insurance Company of America.

John M. Miner
Senior Executive Vice President of The Fidelity Bank.

Frank H. Wheaton, Jr.
President of Wheaton Industries. Manufacturer of glass and plastic containers.

William W. White
Chairman of the Board of Directors of the Company.
Chairman of the Board of Allied Power and Light Company.

Karl R. Bopp, who has served on the Board since 1970, will retire April 13, 1976.

Top—Left to Right
Frank H. Wheaton, Jr., William W. White, Mack C. Jones.

Middle—Left to Right
John M. Miner, Eleanor S. Daniel, John D. Feehan.

Bottom—Left to Right
Richard M. Dicke, James P. Hayward, Alfred C. Linkletter.

Atlantic Electric
SERVING SOUTHERN NEW JERSEY
1600 PACIFIC AVE.,
ATLANTIC CITY, N.J. 08404

★ ★ ★ ★ ★ ★ ★ ★

As our Nation begins celebration of its 200th Birthday, Americans are becoming increasingly aware of activities that took place, locally and nationally, during the fight for Independence. The monument pictured at the right was erected to commemorate the site of a battle in 1778 at Chestnut Neck, New Jersey. Although not as large or well known as the battles that took place at Trenton, Princeton or Monmouth, the British laid siege to the tiny village to put an end to the capture of British ships and cargo by local privateers. The British also intended to move inland and destroy the iron works at Batsto, a primary source of armament for Washington's armies. However, this attempt was thwarted by Continental troops and New Jersey Militia.

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