Philadelphia Electric Company

Annual Report 1977

PHILADELPHIA ELECTRIC SERVICE ELECTRIC COMPANY GAS

DIRECTORS

*Gustave G. Amsterdam
Chairman of the Board and
Chief Executive Officer
Bankers Securities Corporation
(Merchandising and Real Estate)

William T. Coleman, Jr.
Senior Partner of the law firm of
O'Melveny & Myers

*James L. Everett
President of the Company

William S. Fishman
Chairman and Chief Executive
Officer of ARA Services, Inc.
(Service Management)

*Robert F. Gilkeson
Chairman of the Board and
Chief Executive Officer of
the Company

*William W. Hagerty
President, Drexel University

Robert D. Harrison
President and Chief Operating Officer,
John Wanamaker, Philadelphia
(Merchandising)

Paul R. Kaiser
Chairman of the Board and
Chief Executive Officer
Tasty Baking Company
(Diversified Manufacturing)

Joseph C. Ladd
President, Fidelity Mutual
Life Insurance Company

*Joseph J. McLaughlin
President, Beneficial Mutual
Savings Bank

*Member of Executive Committee

OFFICERS

Robert F. Gilkeson
Chairman of the Board

James L. Everett
President

Wayne C. Astley
Vice President
General Administration

John H. Austin, Jr.
Vice President
Finance and Accounting

Edward G. Bauer, Jr.
Vice President and General Counsel

Vincent S. Boyer
Vice President
Engineering and Research

Clifford Brenner
Vice President
Corporate Communications

Charles L. Fritz
Vice President
Personnel and Industrial Relations

Martin F. Gavet
Vice President
Gas Operations

John L. Hankins
Vice President
Electric Production

William L. Maruchi
Vice President
Electric Transmission and Distribution

William B. Morlok
Vice President
Commercial Operations

Clair V. Myers
Vice President
Purchasing and General Services

Theodore S. Fetter
Secretary

Morton W. Rimerman
Treasurer

Lucy S. Binder
Assistant Secretary

James D. Lynch
Assistant Secretary

George G. Eppright
Assistant Treasurer

Alfred M. Newill
Assistant Treasurer

Joseph W. Ruff
Assistant Treasurer

Donald P. Scott
Assistant Treasurer

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ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held on April 5, 1978, at eleven a.m., in the Crystal Ball Room, Benjamin Franklin Hotel, Ninth and Chestnut Streets, Philadelphia, Pennsylvania.

Shareholders of record at the close of business March 1 are entitled to vote at this meeting.

Notice of the meeting, proxy statement, and proxy will be mailed under separate cover. Prompt return of the proxies will be appreciated.

MANAGEMENT CHANGES

George G. Eppright was elected assistant treasurer on March 28.

William T. Coleman, Jr. was re-elected to the Board of Directors on May 23.

On September 26, Charles L. Fritz was elected vice president of Personnel and Industrial Relations, succeeding Henry T. Bryans who retired October 1.

Lucy S. Binder was elected assistant secretary on September 26.

GENERAL OFFICE

2301 Market Street, P.O. Box 8699
Philadelphia, Pennsylvania 19101

FINANCIAL HIGHLIGHTS

	1977	1976	Percent Increase (Decrease)
Operating Revenue	$1,394,762,229	$1,224,141,382	13.9%
Operating Expenses, including Fuel, Maintenance, Depreciation, and Taxes	1,172,599,293	1,012,716,075	15.8%
Operating Income	222,162,936	211,425,307	5.1%
Other Income, primarily Allowance for Other Funds Used during Construction	65,055,932	56,842,363	14.4%
Income before Interest Charges	287,218,868	268,267,670	7.1%
Interest Charged to Operations (Net)	113,779,779	103,648,960	9.8%
Net Income	173,439,089	164,618,710	5.4%
Preferred Stock Dividends	40,705,097	39,021,780	4.3%
Earnings Applicable to Common Stock	132,733,992	125,596,930	5.7%
Dividends on Common Stock	124,893,048	107,682,682	16.0%
Balance to Retained Earnings	$ 7,840,944	$ 17,914,248	(56.2%)
Shares of Common Stock—Average	70,843,634	65,605,660	8.0%
Earnings Per Average Share	$1.87	$1.91	(2.1%)
Dividends Paid Per Share	$1.76	$1.64	7.3%

Common stock earnings improved from $125.6 million in 1976 to $132.7 million in 1977, an increase of 5.7 percent.

Earnings per average share decreased moderately from $1.91 to $1.87 as the average number of shares outstanding increased 8.0 percent.

Dividends paid on the common stock were $1.76 a share, of which 27 percent is not taxable in 1977 as ordinary dividend income for Federal income tax purposes. The quarterly rate was increased from 41¢ to 45¢ effective with the June, 1977 payment.

Operating revenue rose to a new high of $1.4 billion, an increase of 13.9 percent over 1976, as sales to electric customers increased 3.5 percent over 1976 and set a new record.

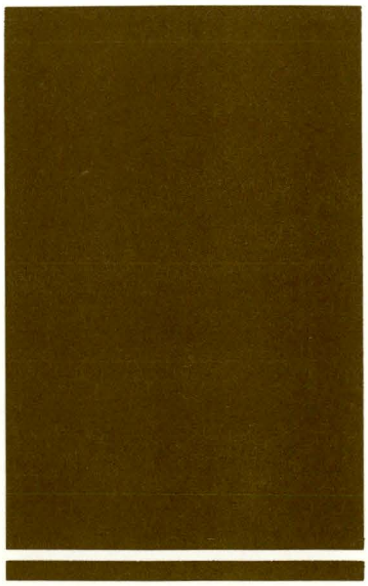
Operating expenses were up 15.8 percent reflecting continued inflation in all areas of doing business.

Construction expenditures amounted to $393 million, increasing total investment in plant to $4.2 billion.

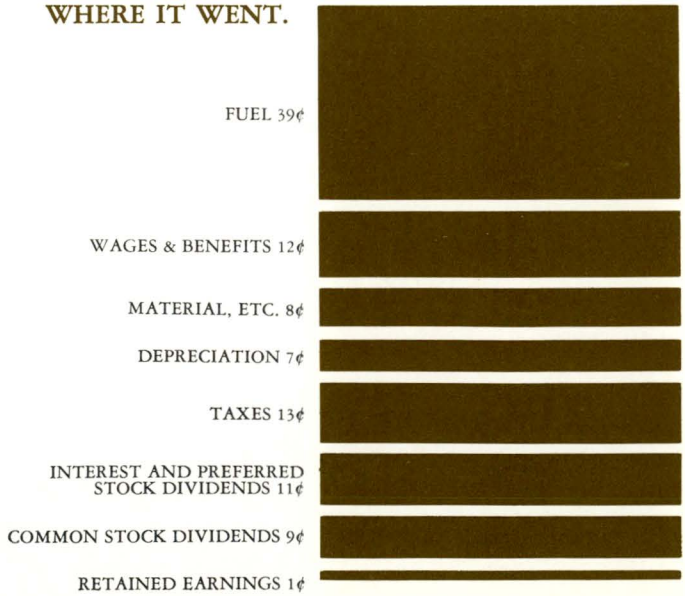
Financing requirements were met by the sale of the following securities:

	(Millions)
Mortgage Bonds	
8⅝% Series (March)	$ 75.0
8⅝% Series (July)	75.0
Pollution Control Bonds	
6% Series (February)	23.5
Common Stock	
— public offering (4,000,000 shares)	78.3
— Dividend Reinvestment and Employee Plans (1,317,952 shares)	25.6
	$277.4

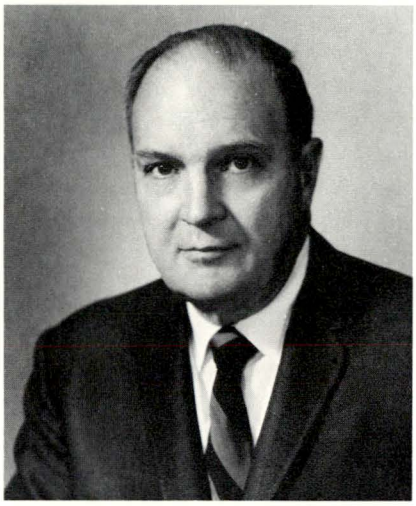
WHERE THE DOLLAR CAME FROM . . .



WHERE IT WENT.



TO OUR SHAREHOLDERS:



R. F. Gilkeson, Chairman of the Board

1977 was a year of continued progress for Philadelphia Electric Company. Electric kilowatt-hour sales set new records; the first of two units at the Salem Nuclear Power station began commercial operation; our gas supply improved substantially; and we successfully completed a major step forward in customer service. Reflecting this progress and our confidence in the future, the quarterly dividend was increased from 41¢ per share to 45¢ per share beginning in June.

However, 1977 was not without problems. The economy of our service territory continued to be sluggish and our sales growth for the year was disappointing. Inflation continued to significantly impact our expenses. Regulatory delay in approving needed rate increases for incurred costs continued to penalize earnings.

For the year, common stock earnings were $133 million, an increase of 6 percent over last year. Earnings per share were $1.87, on 8 percent more average shares outstanding, compared to $1.91 in 1976. Our 1977 earnings benefited by 11¢ per share as a result of a non-recurring revenue increase due to the conversion of residential and small commercial customers from bi-monthly to monthly meter reading and billing, but were penalized by approximately 20¢ per share as a result of the Salem unit being in service, but not in the rate base.

Electric revenue increased $153 million, or 15 percent above last year. The increase was due to the recovery of higher fuel costs, rate increases, and a 3.5 percent increase in electric sales. Recovery of higher fuel costs resulted in an increase in gas revenue of $16 million or 10 percent above last year. Steam revenue increased almost $2 million or 4 percent.

NUCLEAR POWER

The first Salem nuclear unit, constructed and operated by Public Service Electric and Gas Company, of New Jersey, was placed in commercial operation on June 30, 1977. The Company owns a 42 percent share in this 1079 megawatt unit and will own a like share of the second unit scheduled for completion in 1979. This addition brings our system nuclear generating capacity to 1346 megawatts, or about 16% of our total capacity. Nuclear energy is expected to account for over 25% of our annual output in 1978.

Our Peach Bottom nuclear units continue to perform well although we were disappointed by the length of outages due to some "shakedown" problems. The nuclear units presently in service reduce our system fuel costs by about $150 million annually.

Construction continues at the Limerick nuclear plant. The two 1055 megawatt units are scheduled for service in 1983 and 1985. When Limerick is completed, nuclear generation should account for more than half of our total output.

We carried a new record electric peak load last summer of nearly 5900 megawatts without difficulty. We have a reserve capacity of about 40% and our ability to serve our loads is comfortable after a decade of "blackout" worries.

CUSTOMER SERVICE

Efficient, reliable, reasonably priced service is our public responsibility and an essential ingredient to insuring the present and future profitability of our shareholders' investment. In 1977, we took another

major step forward in fulfilling this responsibility. Recognizing that energy costs are now a larger part of the family budget, we converted our residential and small commercial customers from bi-monthly to monthly meter reading and billing. Now our customers receive a bill each month for their actual use based on meter readings, enabling them to pay their actual bills monthly just as they do most other household bills.

Our enviable record of reliability for electric service continued through 1977. For the past four years we did not quite achieve 100% reliability, but we did achieve over 99.99%.

After years of unheeded warnings, severe shortages of natural gas finally occurred. The severe winter of 1977, one of the coldest in the recorded history of eastern Pennsylvania, provided a major test of our Company's ability to provide reliable service. The eastern half of the United States suffered from shortfalls of gas and increased curtailments. The result was the closing of schools and the curtailing of natural gas use by business and industry.

Despite the severe winter, it was not necessary to curtail our residential customers. On January 17, 1977, the Company set a new daily sendout record of 441 million cubic feet of natural gas. Our steam system also set a peak load record in January 1977.

Although we experienced a new all time winter peak and there were heavy demands on our electric system, our Company, through the PJM Interconnection, was still able to assist in supplying electric energy to other utilities.

In anticipation of the recent coal miners strike, our Company accumulated coal reserves which would permit operations through the 1977-78 winter. Nuclear units, free from the limitations of conventional fuel supply and delivery, perform well in the winter cold.

GAS OPERATIONS PLANS AHEAD

We entered the winter of 1977-78 well prepared. Supplies of natural gas from pipelines have been subject to less curtailments. In addition, we have taken some other important steps to firm up our own supply. These steps are increased underground storage capacity, purchases of synthetic natural gas and local refinery gas, and participation in ventures for exploration. We established a wholly-owned subsidiary called Eastern Pennsylvania Exploration Company. The subsidiary is a partner in ventures for exploring and drilling for gas in the Gulf Coast area. Some of the ventures have already proven successful.

In the near future, gas supplies look more plentiful. Hopefully, regulatory restrictions concerning the addition of new customers could be lifted.

FINANCING/RATE INCREASES

During 1977, we sold $173.5 million of mortgage bonds and over 5 million shares of common stock. The sale of these securities provided a financing mix which preserved our strong equity capital position.

Construction expenditures totaled $393 million, of which 45 percent was financed by internally generated funds. Conservative financing and good cash flow continue to be fundamental strengths of the Company.

In August 1977, we filed with the Pennsylvania Public Utility Commission for a two-step change in electric rates in order to recover the higher costs of new plants now in service and inflation. The first step proposed to eliminate the fuel adjustment clause for our residential and small commercial customers in return for an improved fuel clause for large commercial and industrial customers which would not pass through the fuel savings of a new nuclear plant until it is fully reflected in our base rates. The second step proposed to increase electric revenue by $119 million.

The Commission has suspended both parts of the request until April, 1978. Hearings on the full increase are underway and are expected to continue over the next several months. Pending completion of the hearings, we have asked for interim rate relief because our earnings have been decreasing as a result of the Salem unit being in service but not in rate base.

IN CLOSING

1977 was indeed a year of progress for our company—progress which was the direct result of the combined efforts of a capable and dedicated employee team. This progress was accomplished with about 1,000 fewer employees than we had five years ago.

Our report this year includes some views of our employees at work serving our customers, our community and you, our shareholders. We are justifiably proud of these individuals and acknowledge their contributions to the progress which has been achieved in the past year.

March 1, 1978

Chairman of the Board

THE 1977 TAX STORY

From time to time, questions are raised by various groups and public officials about Federal tax payments by utilities. These inquiries receive substantial publicity in the news media and frequently result in the dissemination of erroneous and grossly misleading information. For that reason, your Company, is continuing the practice begun last year of discussing, in some detail, the Company's tax obligations and payments.

The Company's total income tax obligation (Federal and state) for 1977 was $72 million. Of the total obligation, $57 million represents Federal income taxes and the remainder represents state income taxes. See Note 2 of Notes to Financial Statements on page 25.

The Company's Federal income tax bill is calculated the same way as the individual taxpayer calculates his own income tax return—the income tax rate is applied to the Company's income after deducting certain allowable expenses.

To illustrate, the Company's revenue from sales during 1977 was $1,395 million. From this, we are permitted to deduct the expenses of running the business such as fuel, labor, depreciation, etc. We can consider this our first allowable deduction, which for 1977 amounted to $1,075 million.

In addition, we are also permitted to deduct interest expenses, that is the interest we pay on both long- and short-term debt, which totaled $164 million in 1977. Other allowable deductions of $32 million reduced our taxable income for 1977 to $124 million. This is the income on which the tax rate is applied. Our calculated tax at the Federal statutory rate (48%) amounted to $59 million in 1977.

In order to encourage companies to maintain modern and efficient facilities and to expand these facilities as required, the tax laws grant an income tax investment credit for certain new plant and equipment. For 1977 this reduction amounted to $2 million and brought our total Federal income tax obligation to $57 million.

Calculation of Federal Income Tax Obligation

		(Millions)
Operating Revenue		$1,395
Less:		
Operating Expenses	$1,075	
Interest Expense	164	
Other Deductions	32	1,271
Taxable Income		124
Income Taxes on above at 48% statutory rate		59
Amortization of Investment Tax Credit		(2)
Federal Income Tax		$ 57

However, not all of our income tax obligations have to be paid currently. Tax laws permit a company to defer payment of its tax obligation to the future if the company invests in new plant and equipment for expansion or modernization. In 1977, primarily because of tax depreciation and investment tax credits, we were able to defer all but about $1 million of our tax obligation. This is not a tax "loophole." Deferral of taxes by industry was expressly provided for by Congress to stimulate the economy and increase employment.

When these tax payments are deferred, both our customers and our shareholders benefit, because these interest-free funds which would otherwise be paid to the government help us reduce our external financing requirements and hold down the cost of supplying energy.

These funds are used to finance our construction program, including our biggest project—the nuclear Limerick Generating Station which employs 2,000 workers at the site. If the Company did not invest in new facilities, it would be required to pay the entire amount of income taxes in cash currently. By investing, the deferred taxes are put to work for both our shareholders and our customers.

In addition to income taxes, we also pay many millions of dollars of taxes regardless of our income. For 1977 these taxes amounted to $92 million and included gross receipts taxes (which are only applicable to utilities), capital stock taxes, real estate taxes, and social security taxes.

The Company's total tax expense for 1977 is indicated below:

Total Taxes—1977

	(Millions)
Income	$ 72
Gross Receipts	60
Capital Stock	13
Realty	9
Social Security	6
Other	4
Total	$164

WINTER OF '77 FOUND PHILADELPHIA ELECTRIC COMPANY EQUAL TO THE CRISES

The coldest January since 1790 tested the resources of the Company all over the system. All power generation equipment was used to maximum capacity. Operating personnel worked around the clock to keep equipment moving and ready. Records were broken in all three Company services: a new all-time electric winter peak of 4,510,000 kilowatts was established on January 18; gas distribution reached 441,000,000 cubic feet on January 17; steam output reached 2,796,000 pounds per hour on January 18.

The freeze caused a national gas shortage which resulted in re-allocation of supplies by the federal government. This necessitated curtailment by Philadelphia Electric Company of supplies to large industrial and commercial customers. The Company also rendered assistance to others. In response to an appeal from the Philadelphia Gas Works, PE service crews and utilization personnel helped restore heat to homes and repair leaks on the PGW system.

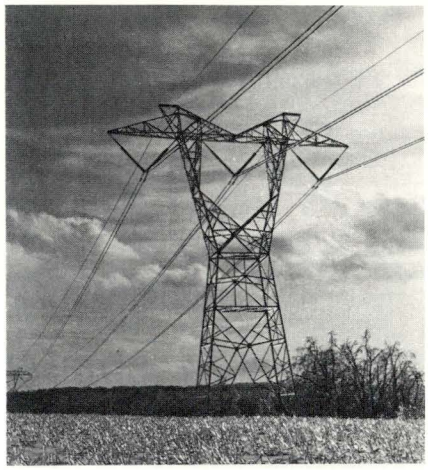
Despite heavy electric demands on its system, the Company, through the PJM Interconnection, assisted in supplying electric energy to utilities to the South and West. Philadelphia Electric and its employees are proud that their record of safety and reliability was maintained during the big freeze.

Authoritative sources reported that had the approximately 28 billion kilowatt-hours of electricity estimated to have been produced by nuclear plants in January not been available to the nation, these consequences would have resulted:

1. more than 257,000 jobs lost in the month;
2. nearly $230 million lost in monthly wages;
3. a reduction of some $3.8 billion in the month for the various goods, products, and services that make up gross national product.

In addition, ten million homes, 1 million stores, office buildings, and schools, and 60,000 factories, industries, and manufacturing plants that may have been served by this nuclear generation would have needed their energy requirements met by other means.

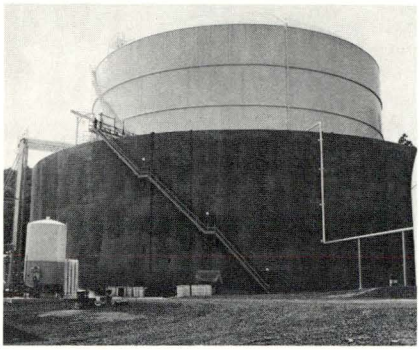
Filling these demands for electricity by other sources would have required either 32 million barrels of oil, nearly 13 percent of current monthly domestic production, or 182 billion cubic feet of natural gas, more than 10 percent of current monthly production, or 9.6 million tons of coal, about 17 percent of current monthly production.



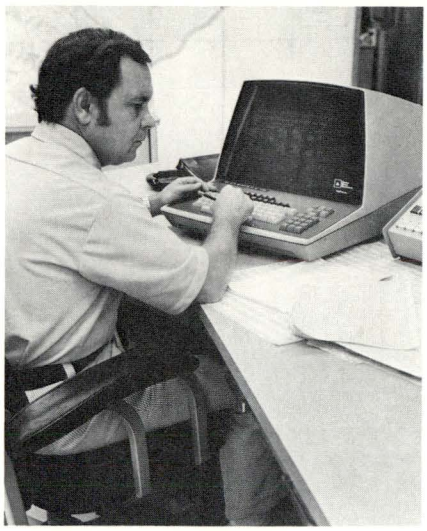
Because of its foresight in constructing 500,000-volt transmission lines such as this in 1967, Philadelphia Electric was able to send large blocks of power to distressed utilities to the South and West during the big freeze.

Daniel Fetterman, Gas Operations, instructs Donna Ranzer, RN, Bryn Mawr Hospital, in proper setting of controls for space heaters lent by Philadelphia Electric when the hospital lost its oil-fired heating system.

JANUARY

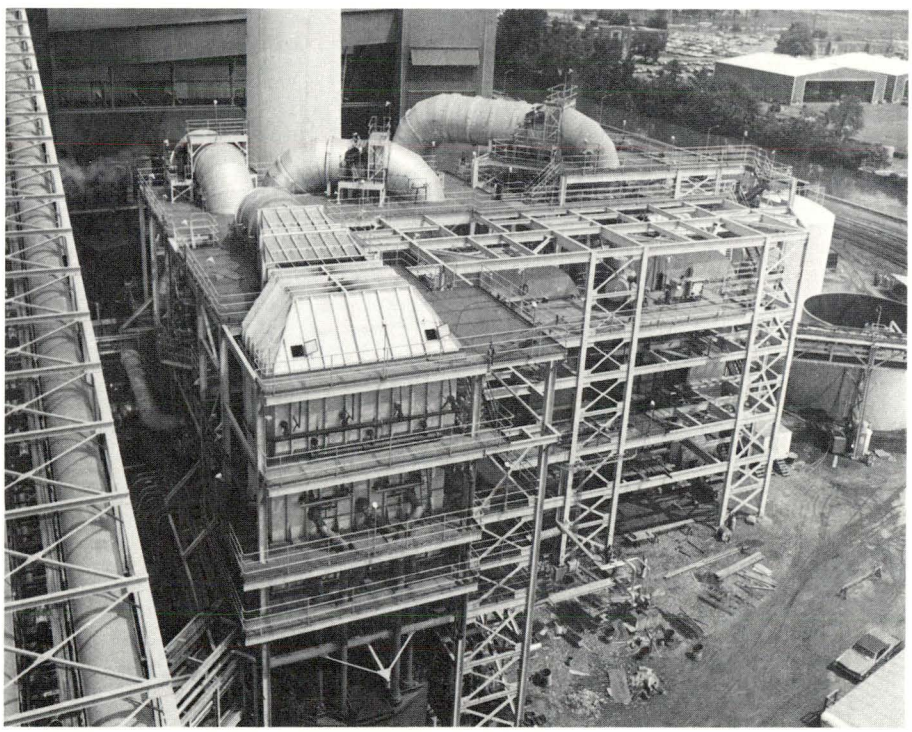


As Gas Operations experienced a new sendout record of 441 million cubic feet of gas on January 17, one quarter of the supply came from the liquefied natural gas holder at West Conshohocken, which stores the equivalent of 1.2 billion cubic feet of natural gas.

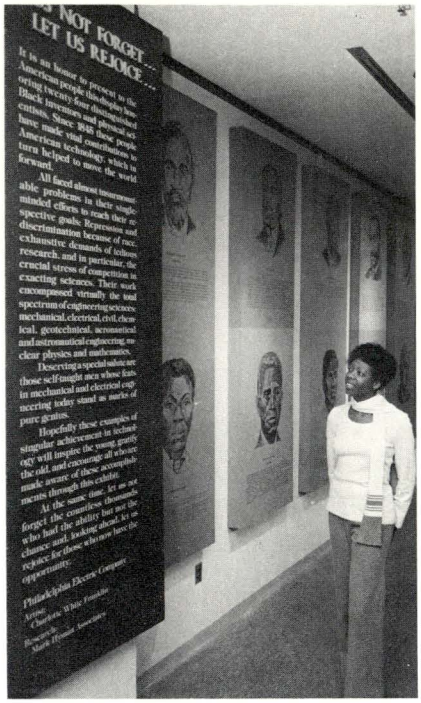


John Hagner, Gas Operations, monitors gas supply and pressures during the cold period. A number of major weather factors affect the amount of gas needed. As these factors change, new information is fed into a computerized data bank to maintain close control over gas operations.

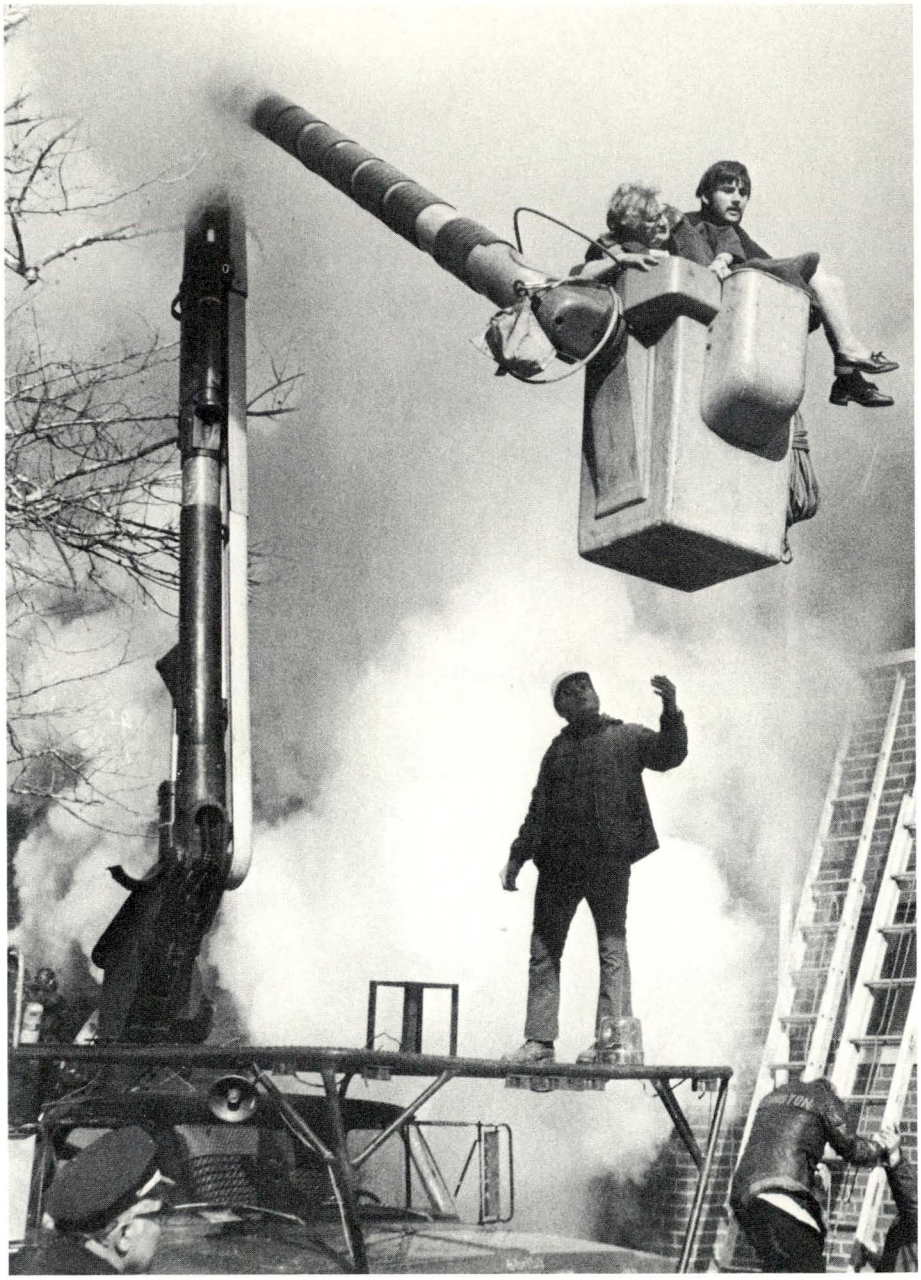
While Philadelphia Electric experienced a larger number of gas emergencies than usual during the cold weather, it was still able to help restore service to Philadelphia Gas Works customers. Gas Operations put in a total of 371 crew days during PGW's emergency.



An air quality control system such as the "scrubbing" equipment shown here at Eddystone Station, as well as water pollution control facilities at Peach Bottom Atomic Power Station, were funded by $23.5 million of pollution control revenue bonds.

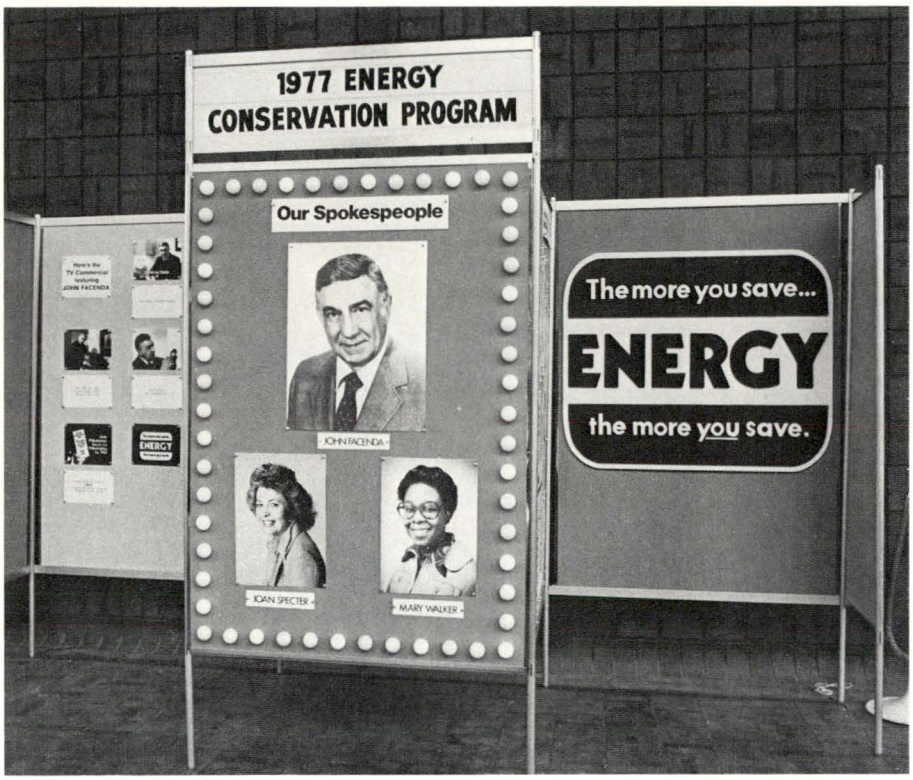


"It is our fervent hope that the achievements recorded in the collection will, indeed, inspire the young, gratify the old, and encourage all who witness these accomplishments . . ." With these words, Robert F. Gilkeson, chairman of the board, formally presented a permanent collection on outstanding Black scientists and inventors to the Afro-American Historical and Cultural Museum, in downtown Philadelphia.

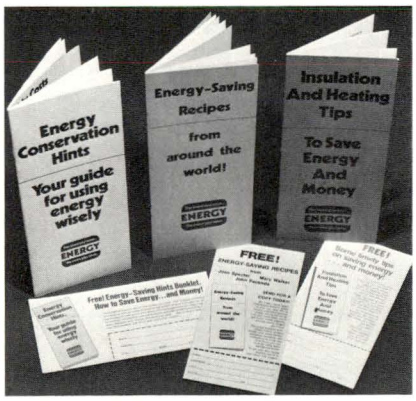


Electric T & D crew helped to save lives in apartment fire. When Clarence C. Allen, Wilmer C. Kulp, Jr., and George T. Sivel, an Electric T & D crew, saw a need, they responded quickly. Employee Allen noticed a police car, then saw smoke while the crew was replacing wooden crossarms at a site in Willow Grove. The crew ran to an intersection where a fire was in progress in an apartment building. They used their bucket truck to assist firemen in rescuing residents. One person died in the fire and four others were injured, but Willow Grove Fire Company officials said that the prompt action by the Philadelphia Electric crew had helped to prevent further tragedy.

FEBRUARY



The display shown here was part of a kickoff campaign held at the Main Office Building to promote an energy conservation program directed to residential consumers. The program provided specific advice on how to put conservation practices to work in their households. To offer reminders and tips, Joan Specter, Mary Walker, and John Facenda appeared as spokespeople for the campaign. Facenda appeared on all local television stations to introduce the campaign and provide viewers with tips emphasizing energy conservation. He also delivered similar messages on area radio stations, as did Ms. Walker, a former WHAT radio personality. In addition, her messages appeared in area newspapers in an advertisement entitled "Conservation Corner." Ms. Specter, *Evening Bulletin* food columnist and a recognized cooking authority, was also featured in "Conservation Corner" newspaper advertisements.

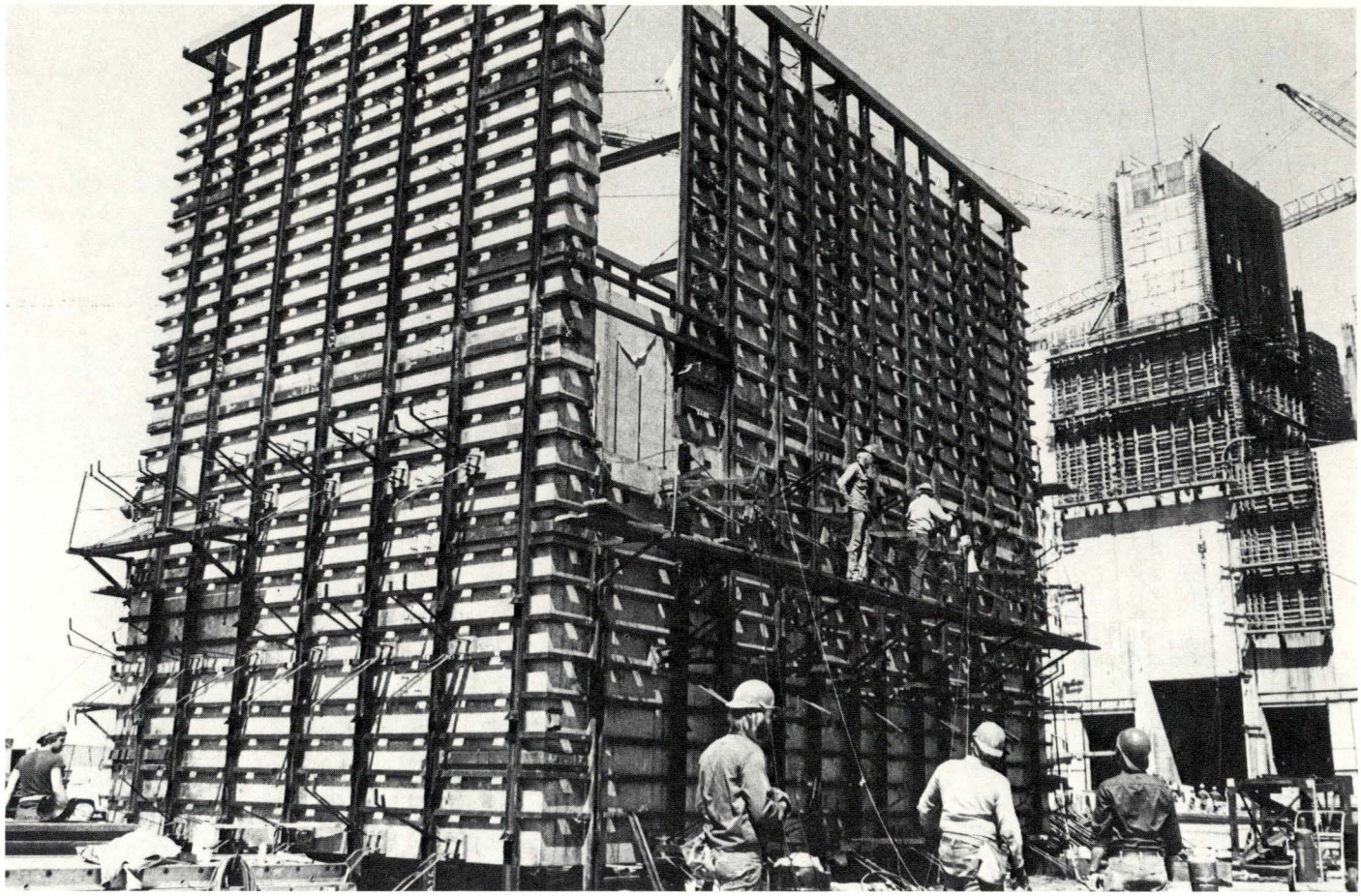


An important part of the campaign was PE's offer of free guidebooks for using energy wisely. These offers were made through coupons in the newspaper ads, and through special bill enclosures. The booklets were filled with practical, easy-to-follow hints on saving energy in the kitchen and throughout the house. While conservation is a "holding action" in the energy crisis, PE believes its program played a vital role in educating the public to its importance.

The energy conservation program generated customer requests for more than 300,000 pieces of literature during the year.

Personnel at the Lineman Training School completed five weeks of intensive training where they learned basic fundamentals of electricity, resuscitation practices, and instructions in climbing and pole-line construction techniques.

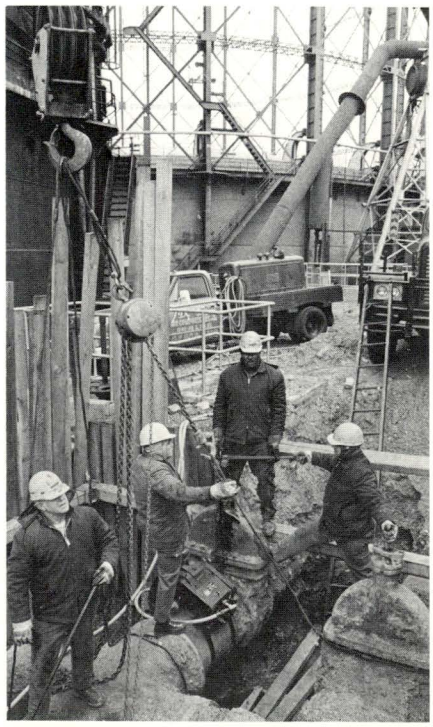
MARCH



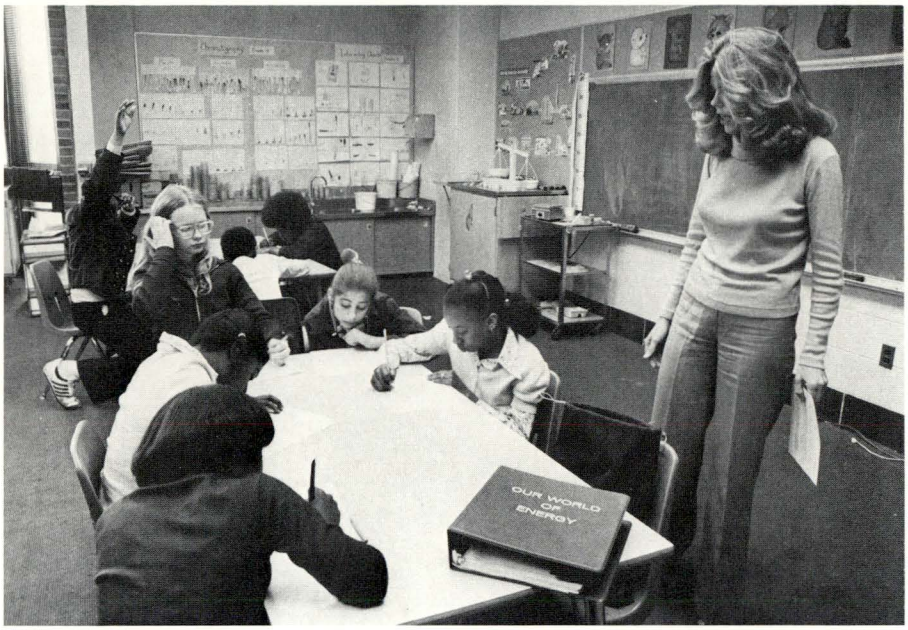
Among the milestones reached at Limerick Generating Station during 1977 was the setting in April of the 83-ton spent fuel pool liner.

Dismantling of Tilghman Street Gas Plant got underway in April. The plant had been reactivated during the January cold spell on a temporary basis, following approvals from regulatory agencies concerned with the environment. It was capable of producing eight million cubic feet of oil-gas a day during the winter emergency.

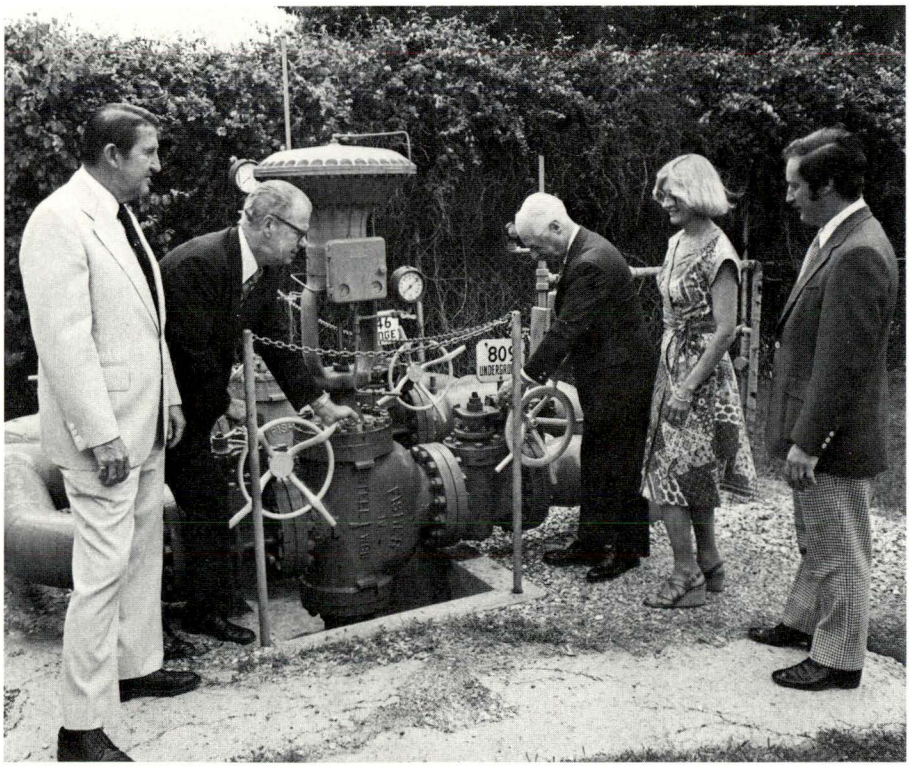
When gas manufacturing ceased at the Tilghman Street Plant, the gas holder was no longer needed, and it was dismantled in 1977. However, any vessel (holder) or pipeline containing combustible gas must be made safe before being opened to the atmosphere. First, the combustible gas must be displaced by inert gas. This process is called "purging." Photograph, right, shows the crew at work during the dismantling of the holder. The work of purging and disconnecting all piping is a delicate and difficult task and the crew did an excellent job in completing this phase of the dismantling safely and without mishap.



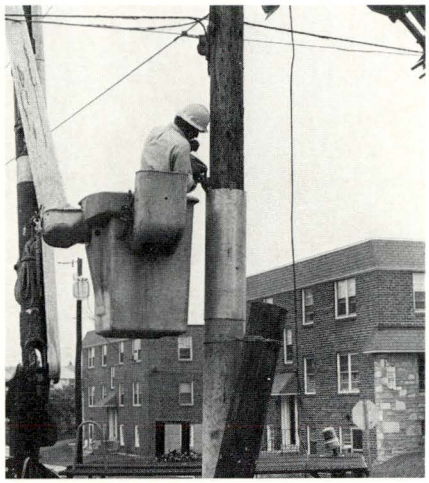
APRIL



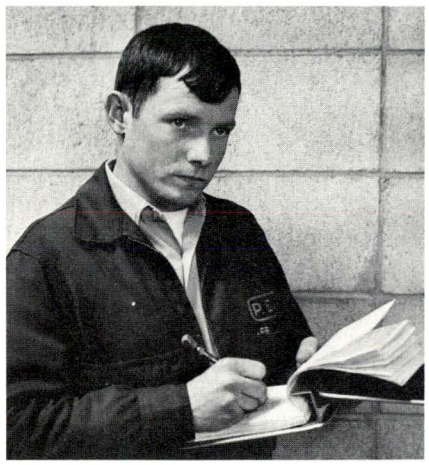
A teacher in the Philadelphia School District works with "Our World of Energy," a teacher's guide to energy awareness for elementary school students. The program was created by Philadelphia Electric's Energy Information and Education division under the auspices of the Energy Education Advisory Council. The program was developed because surveys indicated that Americans know very little about energy, the energy crisis, natural resources and conservation.



The Company's three natural gas exploration programs in the Gulf Coast area have proved successful. A fourth exploration program in West Virginia is being undertaken and drilling will begin in the Spring of 1978. Of 109 wells drilled, 29 are productive, which finding rate is better than the industry average. Martin F. Gavet (third from left), vice president, Gas Operations, early in May joined with public officials and community residents to mark symbolically the first delivery of gas from the new wells by opening a valve at West Conshohocken.



To keep Philadelphia Electric's older poles in service longer, concrete is used to replace decayed bottom section of wood pole. A steel collar is then used to join new and old sections. "Mod-pole" eliminates need to rewire top section, saves time and money.

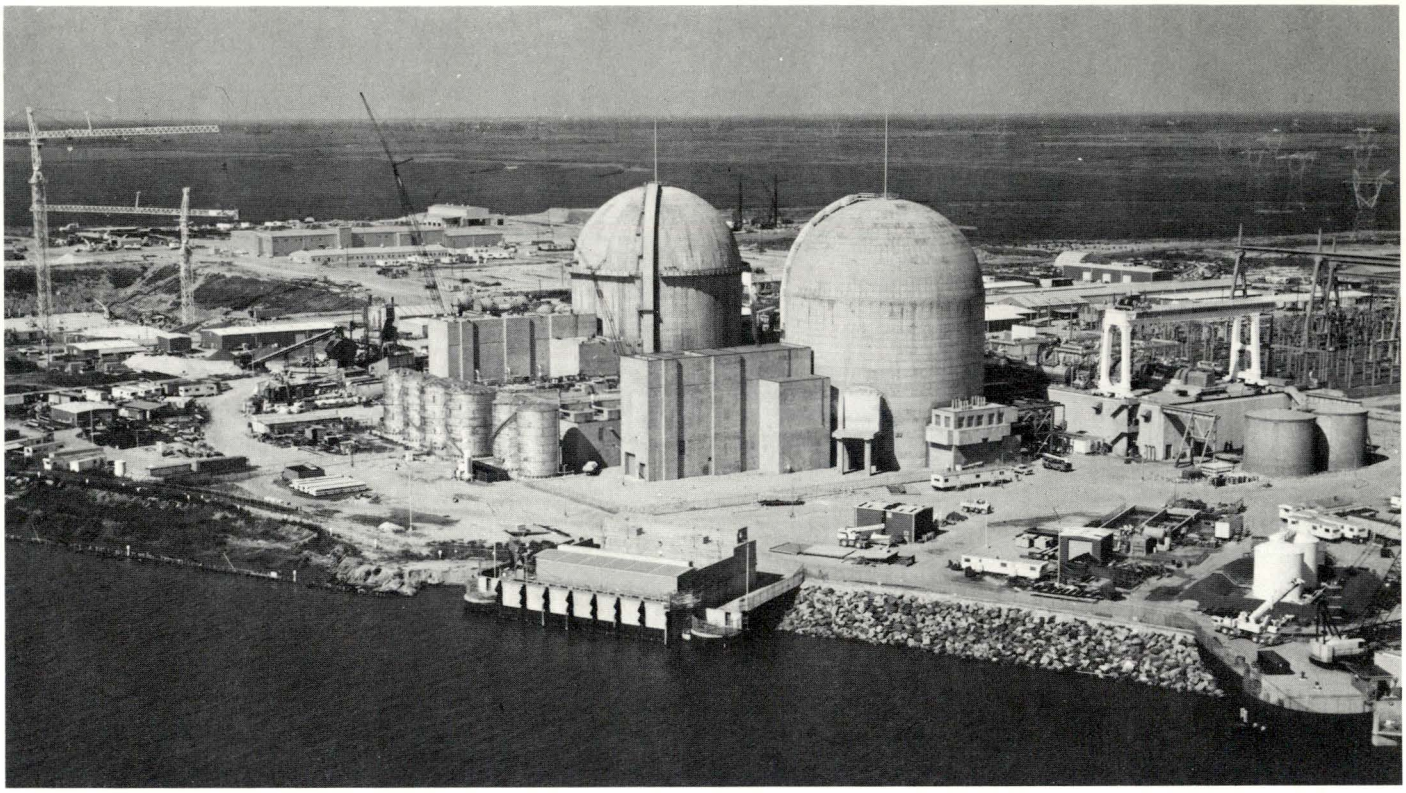


During May the Company began hiring and training additional meter readers to convert meter reading and billing from a bi-monthly to a monthly schedule. A total of 162 new meter readers was hired, since nearly twice as many readings had to be taken daily.

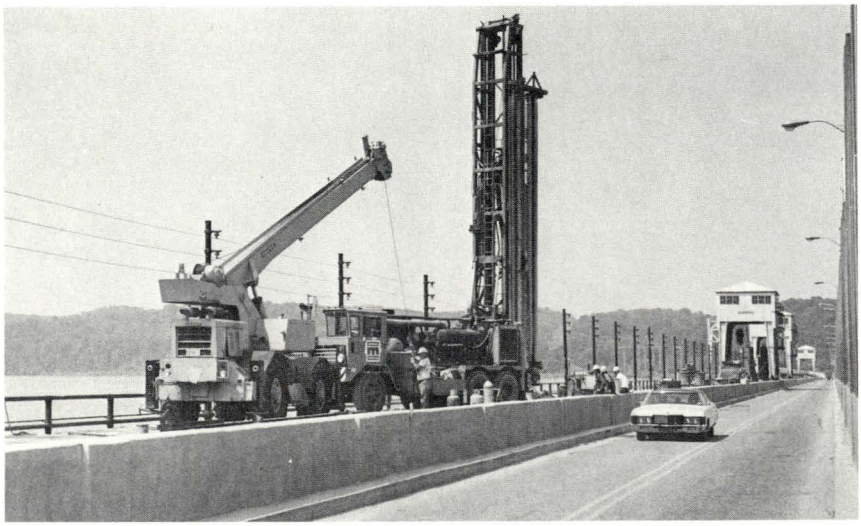
Besides providing improved service to our customers, monthly meter reading and billing reduces delinquencies and chargeoffs, more promptly identifies tampering with service facilities and brings about more frequent personal contact with customers.

Meter reader Peter R. Supplee, who is assigned to the Coatesville area, has read more than 200,000 meters over a 3½ year period without an error. His achievements illustrate the standards of excellence which employees set for themselves to render customers reliable and accurate service.

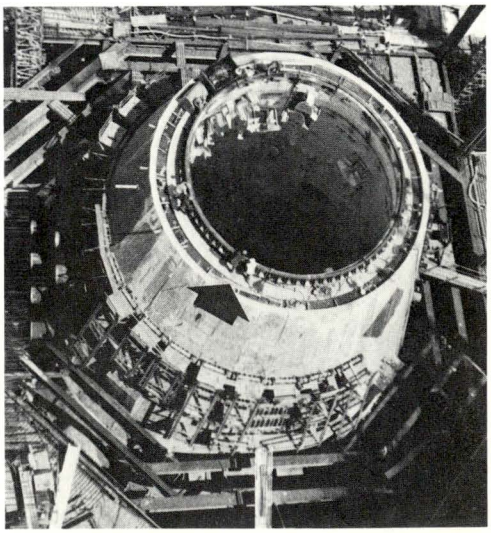
MAY



Salem Generating Station of Public Service Electric and Gas Company on the Delaware River in Lower Alloways Creek Township, New Jersey. No. 1 unit (right) began commercial operation in June, 1977, and construction on No. 2 unit is 78 percent completed. Each unit has a capacity of more than a million kilowatts. Philadelphia Electric has a 42 percent share in the Salem installation.



Traffic in the southbound lane of U.S. Route 1 atop Conowingo Dam resumed on June 22. It had been closed since March 1976, for construction work on the dam. Drills such as the one shown here bored 537 holes through the structure and cables were installed to anchor the dam and powerhouse to bedrock to assure safety and stability exceeding the original flood design standards. Project is sheduled for completion in the Spring of 1978 at a total cost of about $7 million.



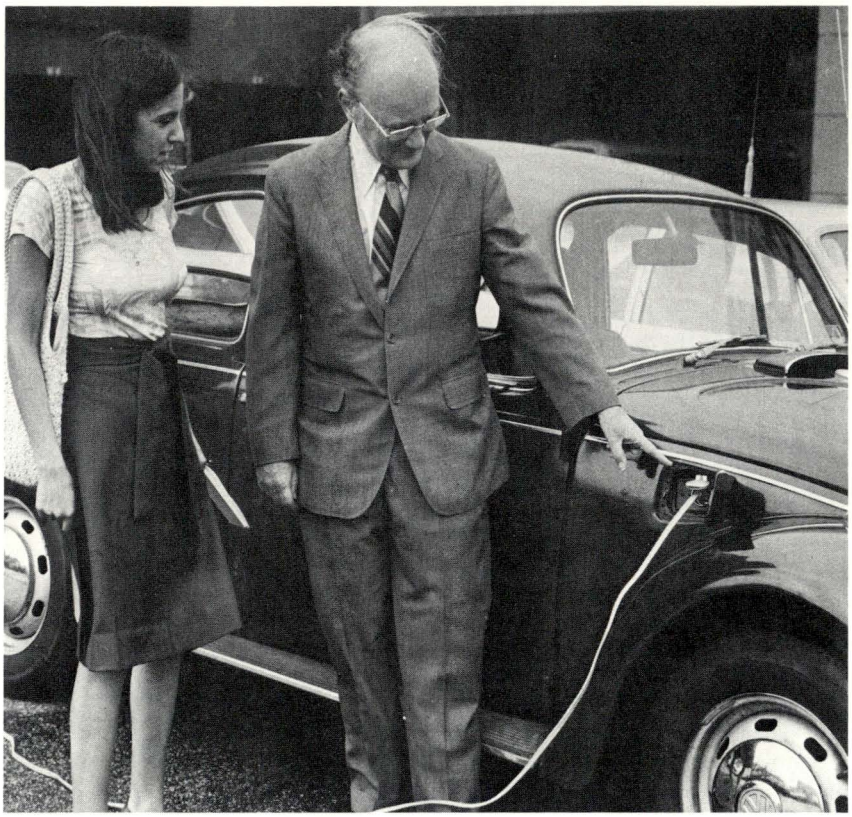
The last major concrete placement at Limerick Generating Station was made in connection with the pour to the top of Unit 2 containment. Note men at rim of structure.

JUNE

Since today's children are tomorrow's citizens, an education in electric power and its uses will equip them to make decisions with respect to energy needs in the future. Energy Education programs were presented at summer day camps and shopping malls throughout the Company's service area. They combined fun with learning when youngsters pedaled a bicycle equipped with a generator to create their own electricity. Depending upon the amount of energy the cyclists pedaled, they could turn on a small portable TV, a radio, and up to a 100 watt light bulb. Tips on safety during an electrical storm were illustrated by use of props to dramatize outdoor dangers.

In Harford County, Maryland, W. Howard Jarman, superintendent, Conowingo Hydroelectric Station, presents checks totalling $966,800 in payment of real estate and capital stock taxes assessed against the station, and Susquehanna Power Company. Philadelphia Electric subsidiaries paid taxes in Maryland totalling about $1.5 million in 1977.

In Pennsylvania, Philadelphia Electric paid nearly $100 million in state taxes for the year.



E. S. Halfmann, Director, Research Division, is pictured with the Volkswagen "beetle" which he has converted to electric operation. Car consumes about three-quarters of a kilowatt-hour per mile. The Research Division keeps abreast of battery developments in the hope that electric energy for autos can one day help to alleviate our growing energy shortage. Looking on is a reporter for a local newspaper.

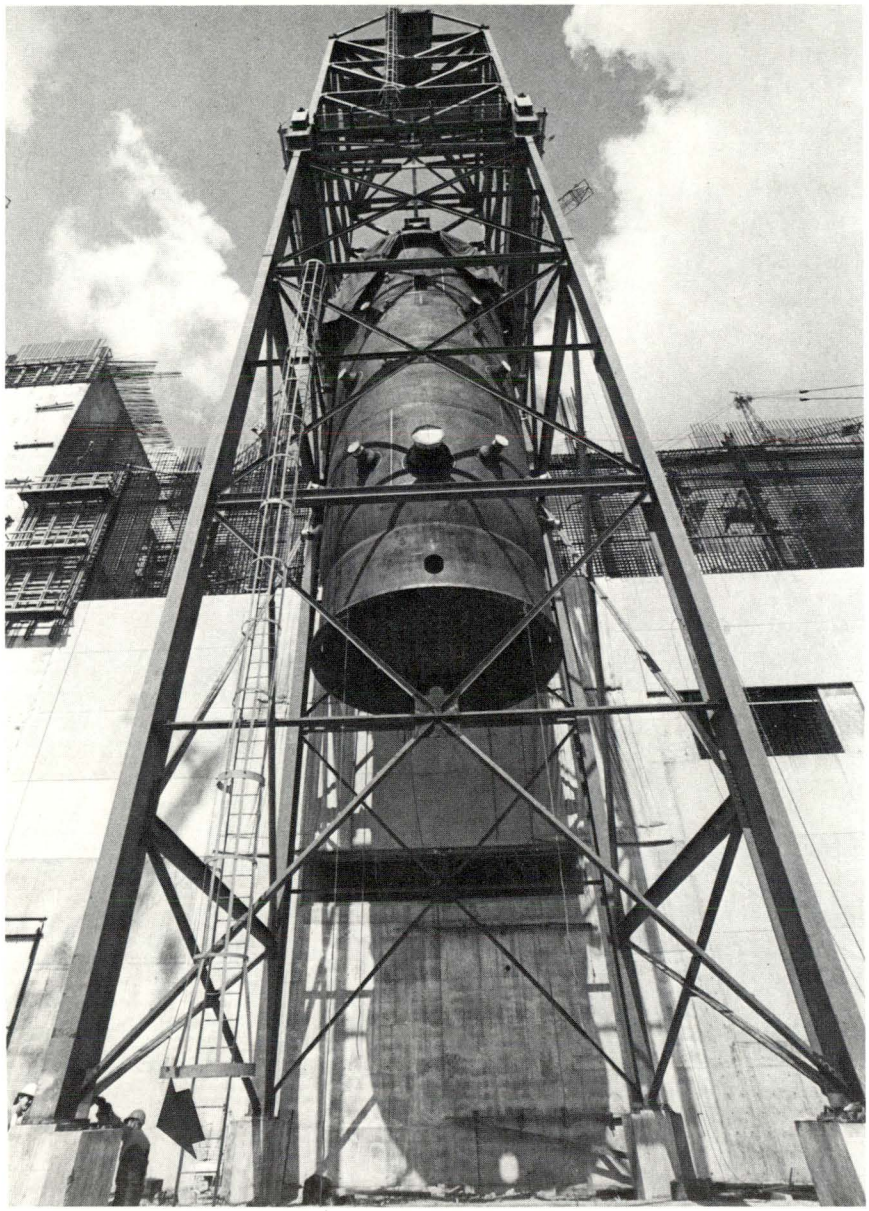
On August 5, the Company filed with the Pennsylvania Public Utility Commission for an 11.5 percent rate increase ($119 million) in electric rates to be applied to all customers. Lydia Brennan, Rate Division, stands with the thousands of pages of statistics, exhibits and other supporting data generated by the Finance and Accounting Department for its presentation of Philadelphia Electric's case for rate relief. The volume of paper involved is even greater than that shown here, since fifty copies of many of these documents had to be produced.

Last summer, Philadelphia Electric's Muddy Run Recreation Park, adjacent to the Company's pumped-storage hydroelectric facility, celebrated the arrival of its two-millionth visitor.

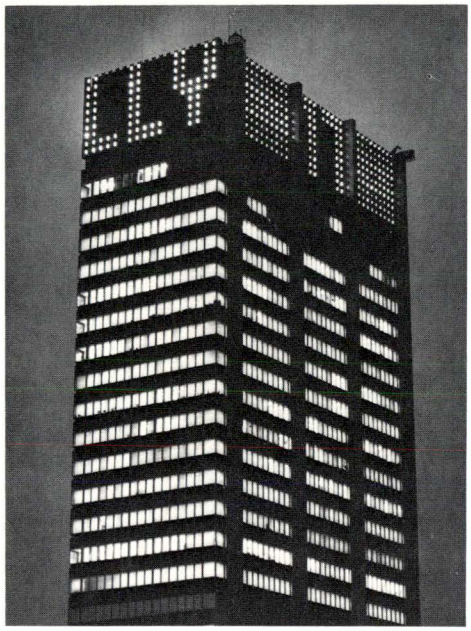
The Park's camping, picnicking, fishing and boating facilities have provided recreational enjoyment for the entire family since its opening, Memorial Day, 1969.

AUGUST

In the fall of the year the Company began increasing its inventory of coal in anticipation of a miners' strike in December. This view of Eddystone Station shows a stockpile of about 374,000 tons. By the end of 1977, the Company had on hand a supply of coal sufficient for 100 days of generation at its coal burning units at Eddystone and Cromby Stations.



Late in September, a major milestone was reached at Limerick Generating Station when the plant's second reactor vessel was placed into the No. 2 Unit Containment vessel. The vessel, constructed of six-inch thick carbon steel, weighs 650 tons, is 63 feet high and has an inside diameter of 21 feet. Note how it dwarfs men at lower left.

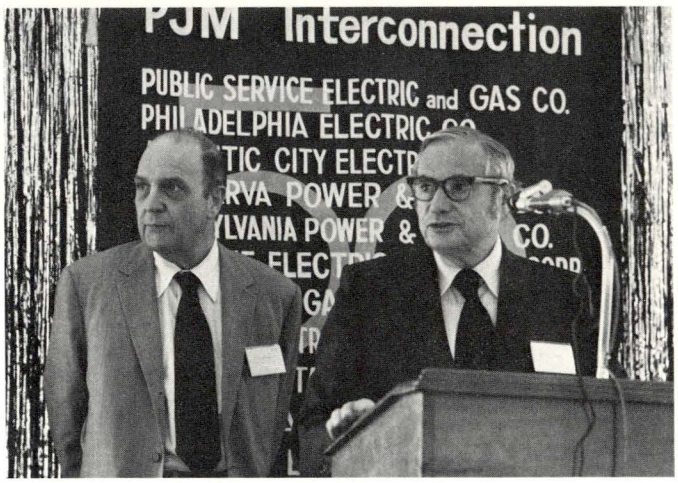


Beginning September 26 display lights on the top of Philadelphia Electric Company's headquarters building at 2301 Market Street accented the United Way's theme for 1977, *Lucky, Lucky You.* The lights were on each night from dusk until 1 a.m., until the end of the campaign.

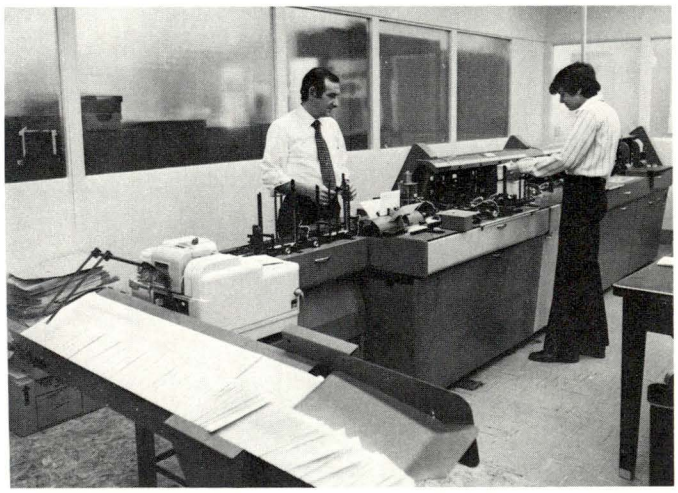
SEPTEMBER

Problems and alternatives were explored at the Energy Scholars Conference by 140 Philadelphia area students who participated in the day-long conference which was sponsored by The Electrical Association of Philadelphia, the Company's Energy Education Advisory Council and the Franklin Institute.

The Pennsylvania-New Jersey-Maryland Interconnection (PJM), America's pioneer power pool completed 50 years of operation in 1977. Governor Milton Shapp of Pennsylvania joined with government officials, civic leaders and utility executives from five states and the District of Columbia to celebrate the anniversary at ceremonies held in PJM headquarters. At the podium with Mr. Shapp is Robert F. Gilkeson, chairman of Philadelphia Electric. The Interconnection coordinates the bulk electricity supply of eleven investor-owned electric companies in the Mid-Atlantic Region serving 21 million people in a 50,000-square-mile territory. Philadelphia Electric is represented in PJM through its General Administration Department.



Under Philadelphia Electric Company's program known as PREP (Program Resulting in Employment Possibilities), conducted in cooperation with the School District of Philadelphia, area high school seniors receive on-the-job training by attending school four hours a day and working four hours in the afternoon. Training sessions supplement the classroom subjects with practical applications to business situations. Students also receive counseling and guidance in career opportunities so that they will be better prepared to enter the mainstreams of business and industry upon graduation.



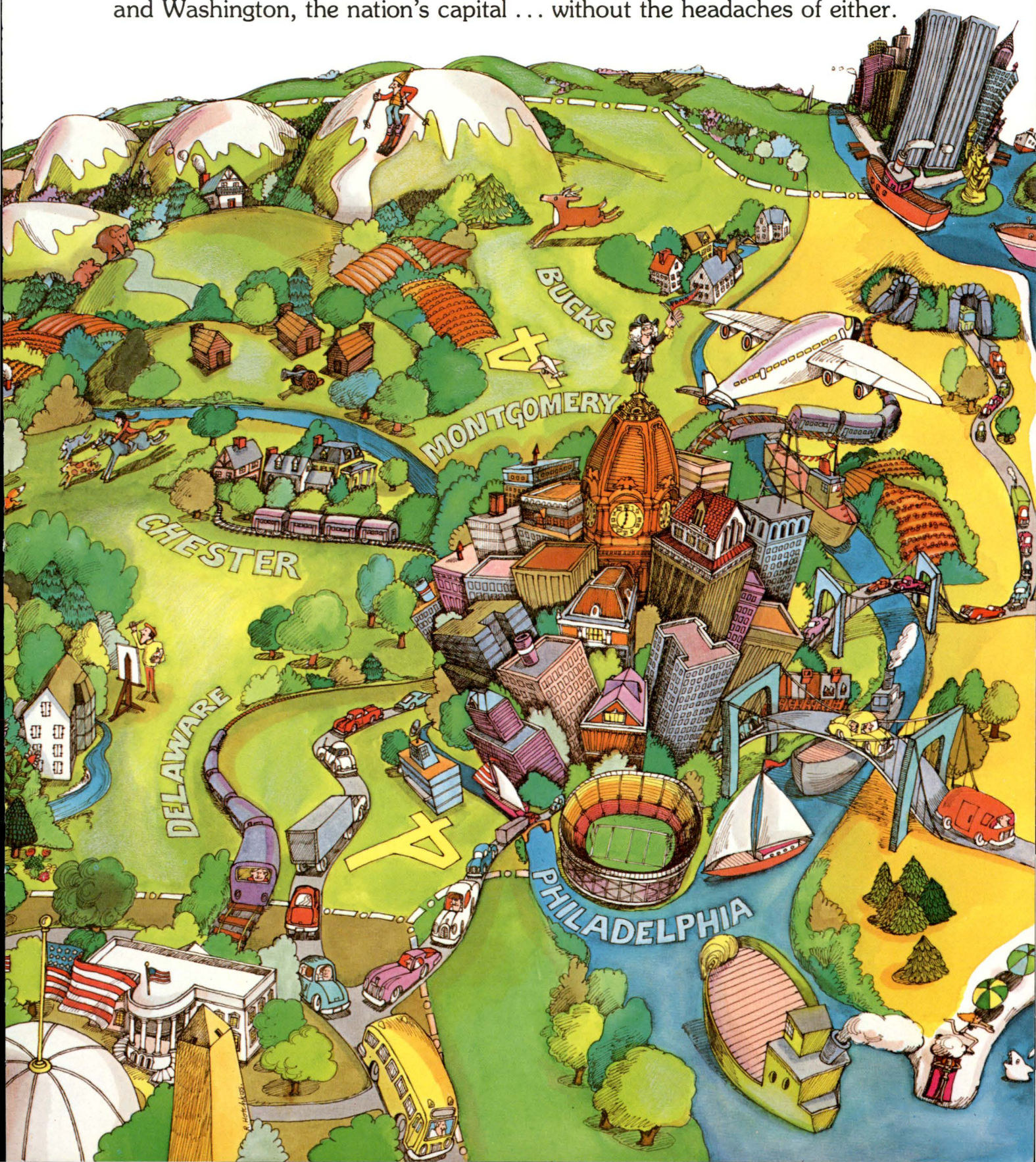
James J. Dougherty, Jr., supervisor, and Michael C. Smith both work in Data Processing's dispatch group which is responsible for inserting and mailing of more than one million bills per month to customers.

Philadelphia Electric was one of the first companies to take advantage of a one-cent discount offered by the U.S. Postal Service for large volume mailers who pre-sort mail by zip codes. During 1977, total savings in postage amounted to about $140,000.

OCTOBER

It's good business to be in Southeastern Pennsylvania

... midway between New York, a world financial center,
and Washington, the nation's capital ... without the headaches of either.



Why Southeastern Pennsylvania?

Here's what five outstanding business leaders say . . .

". . . reasonably priced land . . . and lower overall building and construction costs."

G. G. Probst
President, Sperry Univac, Blue Bell, PA

The decision to move Sperry Univac division headquarters to Montgomery County was made based on such considerations as reasonably-priced land — to effectively insure planned company expansion — and lower overall building and construction costs. Of course, being a world-wide company, it was imperative that we be located as close as possible to shipping and transportation centers.

Because Sperry Univac is highly technology-oriented, we need to be able to draw from a large number of talented, well-educated personnel. The many fine colleges and universities in the Philadelphia area provide a wealth of such competent, degreed people to choose from.

We chose a suburban setting, too, because of the ease of travel and quiet surroundings for our employees. The beauty of the Pennsylvania countryside is appreciated by all of us.

". . . highway, air and rail transit is exceptional."

Donald L. Felley
Group Vice President-North America, Rohm and Haas, Bristol, PA

The first plant designed and built by the Rohm and Haas Company was our Bristol Plant in Bucks County. It has many advantages for Rohm and Haas, including an excellent riverfront location, ample land, a superb labor force and, most important, a great transportation network at our doorstep. The plant is also close to our corporate headquarters in Philadelphia.

About one-third of the population of the U.S. lives within 200 miles of our Bucks County facility and highway, air and rail transit is exceptional.

Particularly important to us is the convenience of the Philadelphia Port, since we're its largest shipper of containerized goods. We find that our trucks can move materials down I-95 to a pier in a matter of minutes. The Port also serves as an important link to our European markets.

". . . Delaware County provides an ideal environment for business."

Charles L. Andes

Chairman of the Board, Franklin Mint Corporation, Franklin Center, PA

We believe that Delaware County provides an ideal environment for business. The area has a long tradition of craftsmanship and is rich in highly skilled and motivated workers. The range and quality of the area's cultural, educational and recreational facilities are impressive. Being adjacent to Philadelphia and relatively close to New York, Washington and the seashore are additional advantages.

When we outgrew our facilities in Yeadon, we had no trouble finding suitable and sufficient acreage in Franklin Center to accommodate our office, manufacturing, museum and parking facilities. Then, as now, it made good business sense to stay in Delaware County.

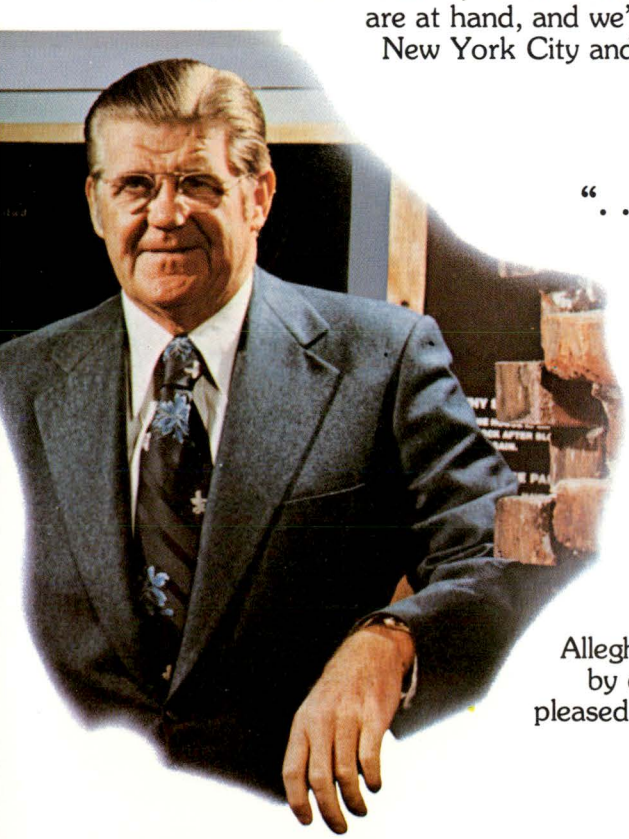
"Chester County is a superb place to live."

Bud Carlson

Vice Chairman, Lukens Steel Company, Coatesville, PA

When Lukens started at its present site in Southeastern Pennsylvania in 1810, water power was available, raw materials were plentiful and products could be moved to nearby customers over the Pennsylvania Toll Road.

Even though times have changed, Lukens stayed and today operates profitably as a specialist in plate steels. We adequately serve our customers from this location and are convenient for suppliers. Chester County is a superb place to live. Excellent schools, cultural and recreational facilities are at hand, and we're close to Philadelphia, New York City and the Nation's Capital.



". . . without a doubt, the best location for us."

Paul R. Kaiser

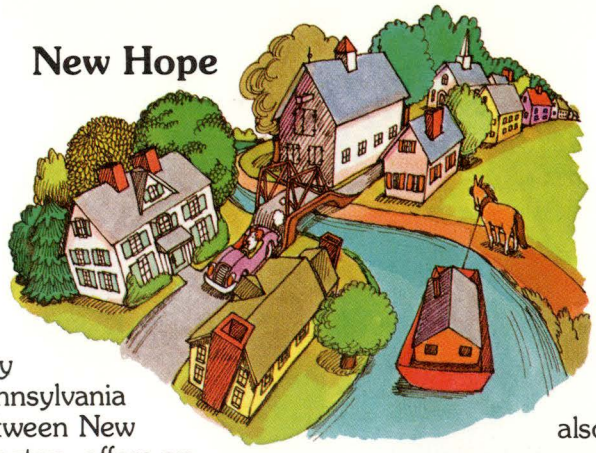
Chairman of the Board, Tasty Baking Co., Philadelphia, PA

Ten years ago, we made a hard-nosed economic decision to keep our company, and its 2,000 jobs, in Philadelphia. We had a big investment here, and we were very satisfied with the city services and the availability of labor. It was, without a doubt, the best location for us.

With that decided, we felt we needed to do something to help stabilize the neighborhoods adjacent to our headquarters.

We began with a $40,000 annual investment. Today, our Allegheny West Community Development program has been joined by other business, government and private foundations. We're so pleased with the results that we recently bought a 260,000 square-foot neighboring building for expansion.

New Hope

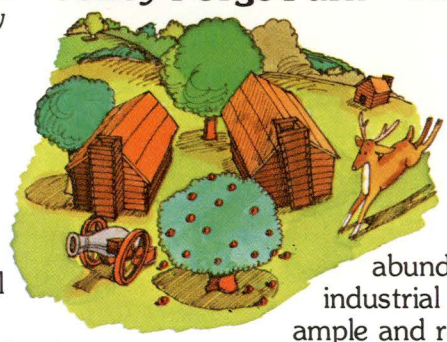


The five-county Southeastern Pennsylvania area, midway between New York and Washington, offers an exceptionally convenient location combined with a unique quality of life you can't really find anywhere else.

This is an area with so many attractive places to live that making a choice will be difficult. Whether you prefer rolling countryside or the sophisticated atmosphere of colonial Society Hill in Philadelphia, you'll find a delightful mix of cosmopolitan city neighborhoods, beautiful suburbs or country acres to choose from.

And, you'll join a wonderfully diversified business and industrial community. We have about 90% of all U.S. manufacturing-industrial classifications represented here — a cross-section of the economic base of the country. And they're not all corporate giants, either. Many are small businesses, so vital to the economic health of any area.

Valley Forge Park



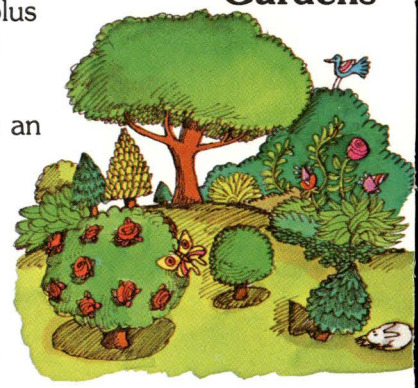
Of course, there are many practical reasons why businessmen prefer Southeastern Pennsylvania. For example, our convenient air, sea, rail, highway and mass transit systems. They make for easy access of goods, raw materials *and* people in this market area of over five million.

You'll find too, that the cost of living is lower than in comparable metropolitan areas. You'll also find that workers are more skilled, better educated and less inclined to strike than in other areas.

And, you can count on a diversified pool of engineering and professional people who graduate from the 50 universities and colleges in the area. Most of them prefer to live here.

We also have an abundance of water for industrial use, plus ample and reliable energy supplies.

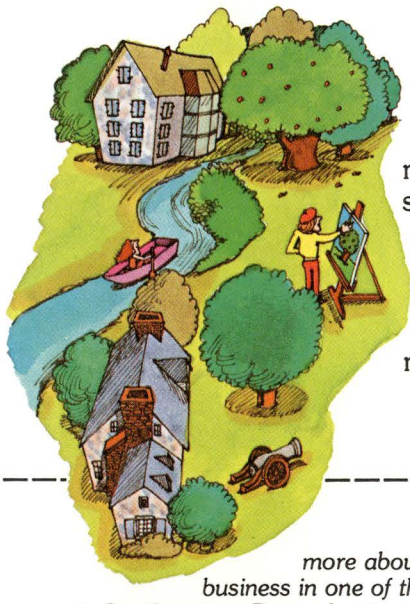
Longwood Gardens



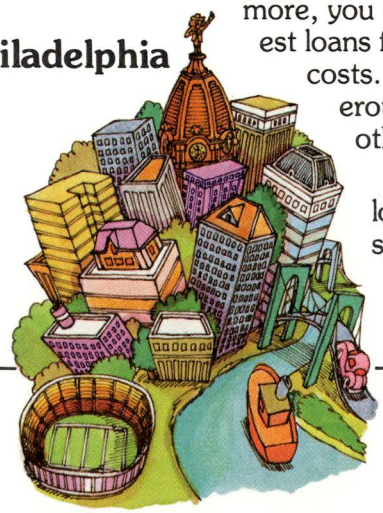
Best of all, this is not an overcrowded area. Choice plant sites are available in all five counties. That includes over 7500 acres in suburban industrial parks. Within the city of Philadelphia, we have 1300 acres of fully-improved land available for relocation, and selling for 10% of the market value. Furthermore, you can get long-term, low-interest loans for 100% of your development costs. You won't find a more generous urban land offer in any other major city!

Before you make a move, look at Southeastern Pennsylvania. Write or call today.

Brandywine Museum and Battlefield



Philadelphia



To find out more about locating your business in one of the five counties in Southeastern Pennsylvania, simply fill in this coupon, attach it to your letterhead and mail to:

Mr. James O'Brien
Manager of Area Development
Philadelphia Electric Company
2301 Market Street
Philadelphia, PA 19101
Telephone **(215) 841-5657**

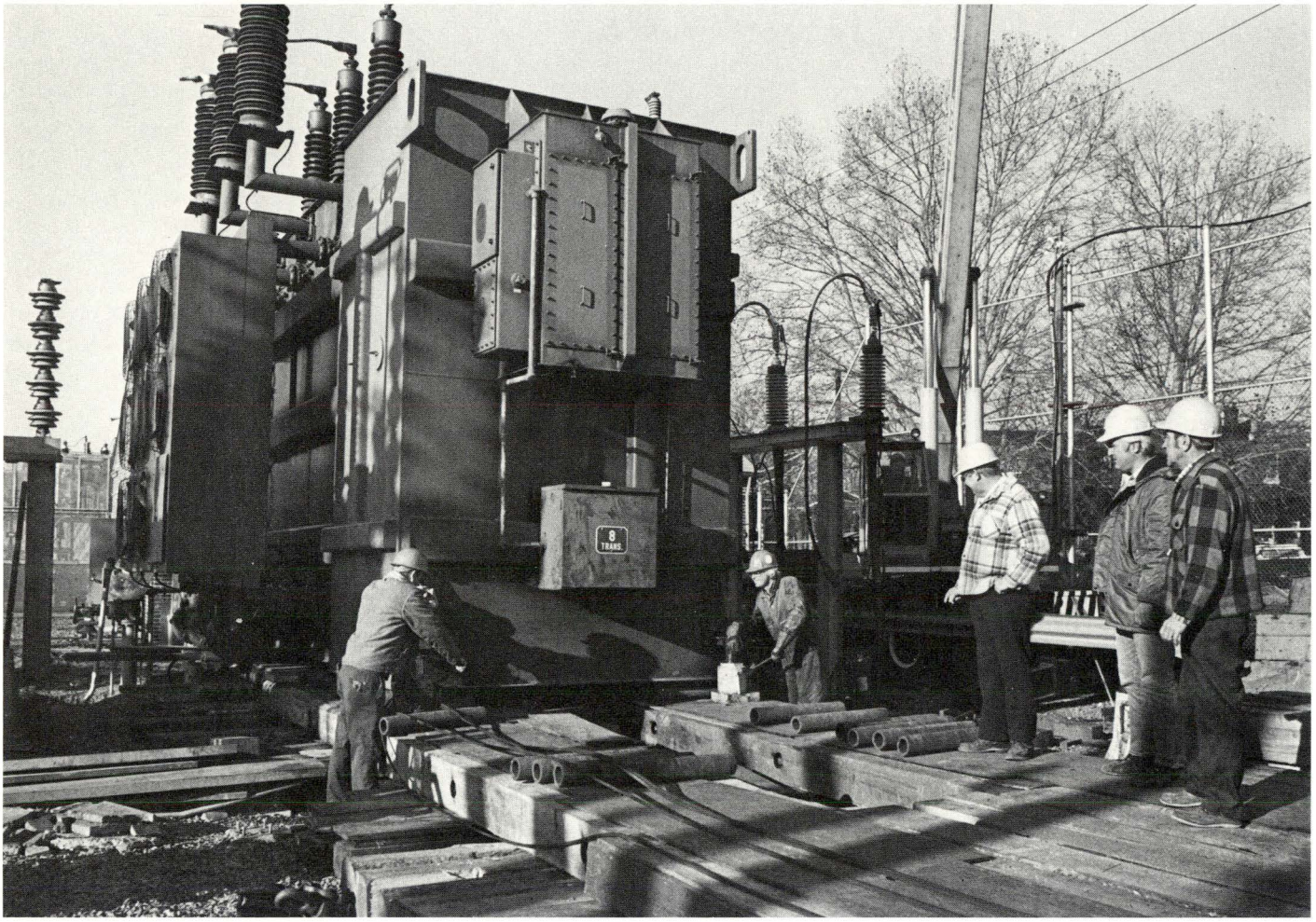
Name _____

Title _____

Company _____

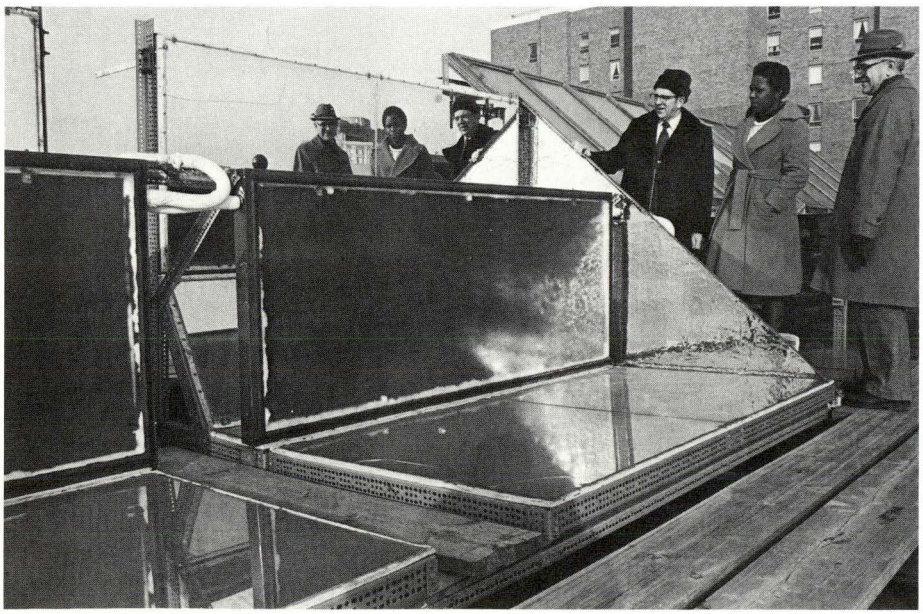
Address _____

City _____ State _____ Zip _____



A construction program at the North Philadelphia Substation converted the supply from 132,000 volts to a 220,000 volt transmission system, thereby increasing reliable service to the central and northern city areas which it serves. Here, one of two massive new transformers is being rolled into place.

Through the years, Philadelphia Electric has been honored with numerous awards for the landscaping of its facilities. Last year, it received the 1977 Landscape Horticultural Award of the Greater Philadelphia Chamber of Commerce in cooperation with the Pennsylvania Horticultural Society. At the 150th annual meeting of the Society the award was given for Knowlton Substation which was cited as conforming to the "usual high standards of many of the Company's facilities."

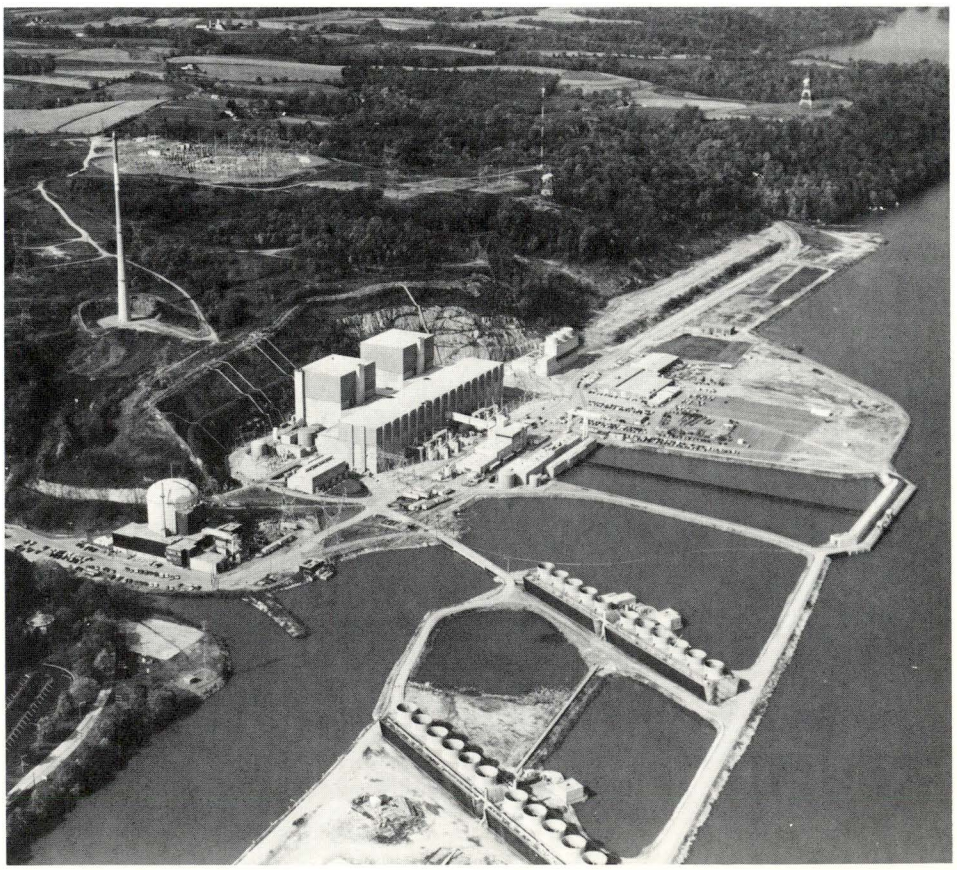


Commercial Operations is working closely with Drexel University, builders, and equipment manufacturers to obtain data and operating experience on solar energy. In a test program, solar panels atop a student dormitory at the University provide the building with domestic hot water. The solar hot water system utilizes a 300-gallon preheat tank in conjunction with an existing 150-gallon oil-fired hot water system.

NOVEMBER

Aerial view of Limerick Generating Station construction. By the end of 1977, Unit 1 was 38 percent complete and Unit 2 was 26 percent finished. Overall construction was 34 percent complete.

During 1977, the total Peach Bottom plant generated 8.8 billion kilowatt-hours of electricity, bringing its total generation since beginning operation to 34.5 billion kilowatt-hours. In that time Peach Bottom generation will have saved 22 million barrels of expensive oil.



DECEMBER

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENTS OF INCOME

Electric operating revenue increases of $46.4 million in 1976 over 1975 and $152.9 million in 1977 over 1976 principally reflect higher fuel adjustment revenues and increased base rates which added an aggregate of $23.5 million in 1976 and $123.2 million in 1977. Kwh sales of electricity in 1976 increased 3.7 percent over 1975, principally reflecting economic recovery. For 1977, sales of electricity, excluding the effect of a change from bi-monthly to monthly meter reading and billing (see below), increased 2.2 percent over 1976.

Gas operating revenue increases of $40.9 million in 1976 over 1975 and $16.0 million in 1977 over 1976 reflect higher fuel adjustment revenues and increased base rates. Higher fuel cost adjustment revenues and base rates added an aggregate of $27.0 million in 1976 and $16.9 million in 1977. Mcf sales of gas for 1976 increased 13.4 percent over 1975 as a result of the availability of gas under emergency contracts and increased sendout due to colder weather in October, November and December 1976. For 1977, Mcf sales of gas, excluding the effect of a change from bi-monthly to monthly meter reading and billing (see below), decreased 2.7 percent below 1976 due to curtailments by the Company's pipeline suppliers which were necessitated by the nation's severe winter.

In June 1977, the Company began converting its residential and small commercial electric and gas customers from bi-monthly to monthly meter reading and billing. This conversion, which was completed in November 1977, increased billed sales, and decreased unbilled sales, of electricity and gas by approximately 340 million kwh and 2,140 million cubic feet, respectively, for 1977. As a result, there was a non-recurring revenue increase of approximately $24 million, ($17 million electric and $7 million gas).

Fuel and energy interchange expense increased by $94.6 million in 1977 over 1976. This increase was due primarily to higher fuel costs and decreased coal generation primarily at Eddystone station (Unit 2 was out of service over 6 months due to planned inspections and the need for additional work revealed by such inspections) which was replaced by higher cost interchange purchases.

Other operation and maintenance expenses have increased in each period due to growth in utility plant and inflationary pressures. The first refueling outage at Peach Bottom Unit 2 contributed to higher maintenance expenses in 1976 over 1975. The outages associated with the refueling of both Peach Bottom units contributed to higher maintenance expenses in 1977 over 1976. In addition, operation and maintenance expenses were increased in 1977 over 1976 due to Salem Unit 1 going into commercial operation on June 30, 1977.

Increases in depreciation in 1976 reflect major additions to new plant in service. Beginning July 1, 1977, depreciation charges increased by approximately $950,000 per month as a result of Salem Unit 1 being placed in commercial operation.

Salem Unit 1 nuclear generating unit, in which the Company has an ownership interest of approximately 42 percent, qualified as in service for income tax purposes in December 1976. Federal and state income taxes for 1976 and for 1977 reflect reductions of $9.1 million and $17.1 million, respectively, associated with Salem Unit 1 tax depreciation. For 1976, $5.5 million was deferred and $3.6 million flowed through to income. For 1977, $9.8 million was deferred. The remainder ($7.3 million) flowed through to income but was substantially offset by book depreciation ($5.7 million) on the unit. The related investment tax credit of $29 million for 1976 reduced Federal income taxes payable and was deferred by charging investment tax credits, net of amortization.

Taxes, other than income taxes, have escalated primarily due to increases in revenue, which is subject to a gross receipts tax.

The increase in the AFUDC in 1976 over 1975 resulted from an increase in construction work in progress and a higher cost of capital for construction. The increase in 1977 over 1976 was primarily due to the higher cost of capital.

Beginning August 1, 1977, AFUDC has been reduced in the aggregate by approximately $2.0 million per month as a result of Salem Unit 1 being placed in commercial operation.

Interest charges on debt and dividends on preferred stock have increased substantially in recent years because of the higher cost of money and increases in the amounts of debt and preferred stock outstanding.

Earnings available for common stock increased from $108 million in 1975 to $126 million in 1976 and to $133 million in 1977. The sales of approximately 5.1 million shares of common stock in 1976, and approximately 5.3 million in 1977 increased the average number of shares outstanding by 13 percent in 1976 and 8 percent in 1977. Earnings per average share increased from $1.86 in 1975 to $1.91 in 1976, but decreased slightly to $1.87 in 1977. The 1977 earnings were penalized by approximately 20¢ per share as a result of Salem Unit 1 being in service, with the resultant discontinuance of AFUDC and the accrual of related depreciation charges, while the unit is not reflected in base rates. The non-recurring revenue increase for the conversion of residential and small commercial customers from bi-monthly to monthly meter reading and billing added 11¢ to earnings per share.

Dividends on common stock were paid at the rate of $1.64 per share in each of the years 1975 and 1976. A dividend of $.41 per share for the first quarter of 1977 was paid on March 30, and dividends of $.45 per share for the remaining quarters of 1977 were paid on June 29, September 29 and December 21 respectively.

CONSOLIDATED STATEMENTS OF INCOME

Philadelphia Electric Company and Subsidiary Companies

		For the Year Ended December 31	
		1977	1976
		(Thousands of Dollars)	
Operating Revenue	Electric	$1,177,689	$1,024,814
	Gas	174,818	158,865
	Steam	42,255	40,462
	Total Operating Revenue	1,394,762	1,224,141
Operating Expenses	Fuel and Energy Interchange	575,272	480,663
	Other Operation Expense	201,231	175,801
	Maintenance	99,398	75,030
	Depreciation	107,761	97,980
	Taxes on Income	97,267	100,598
	Taxes, Other than Income	91,670	82,644
	Total Operating Expenses	1,172,599	1,012,716
Operating Income		222,163	211,425
Other Income	Allowance for Other Funds Used During Construction	36,230	30,127
	Income Tax Credits, net	25,282	24,167
	Other, net	3,544	2,548
	Total Other Income	65,056	56,842
Income Before Interest Charges		287,219	268,267
Interest Charges	Interest on Long-Term Debt	161,055	147,596
	Interest on Short-Term Debt	2,573	3,567
	Allowance for Borrowed Funds Used During Construction	(49,848)	(47,514)
	Net Interest Charges	113,780	103,649
Net Income		173,439	164,618
Preferred Stock Dividends		40,705	39,022
Earnings Applicable to Common Stock		$ 132,734	$ 125,596
Shares of Common Stock-Average (Thousands)		70,844	65,606
Earnings Per Average Share (Dollars)		$1.87	$1.91
Dividends Per Share (Dollars)		$1.76	$1.64

See notes and schedules to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Philadelphia Electric Company and Subsidiary Companies

		For the Year Ended December 31	
		1977	1976
		(Thousands of Dollars)	
Source of Funds	Net Income	$173,439	$164,618
	Charges (Credits) Not Affecting Funds		
	Depreciation	107,761	97,980
	Deferred Income Taxes, net	37,237	28,882
	Investment Tax Credits, net	26,488	52,668
	Allowance for Other Funds Used During Construction	(36,230)	(30,127)
	Total from Operations	308,695	314,021
	Sale of		
	Long-Term Debt	173,500	200,000
	Preferred Stock	—	50,000
	Common Stock	103,917	86,128
	Increase (Decrease) in Short-Term Debt	7,649	(100,728)
	Proceeds from Contract Terminations—Nuclear Projects	—	64,000
	Total	$593,761	$613,421
Use of Funds	Additions to Utility Plant	$393,134	$380,007
	Allowance for Other Funds Used During Construction (Deduction)	(36,230)	(30,127)
	Dividends on Preferred and Common Stock	165,605	147,097
	Retirement of Long-Term Debt	38,945	63,271
	Increase in Other Items of Working Capital	23,433	40,222
	Other, net	8,874	12,951
	Total	$593,761	$613,421

See notes and schedules to financial statements.

CONSOLIDATED BALANCE SHEETS

Philadelphia Electric Company and Subsidiary Companies

ASSETS		December 31 1977	December 31 1976
		(Thousands of Dollars)	
Utility Plant, at original cost	In Service		
	Electric	$3,485,102	$3,034,654
	Gas	282,123	278,181
	Steam	52,177	50,877
	Common, used in all services	118,570	118,085
		3,937,972	3,481,797
	Less: Accumulated Depreciation	955,301	860,349
	Net Utility Plant in Service	2,982,671	2,621,448
	Construction Work in Progress	1,094,157	1,189,315
	Nuclear Fuel, at amortized cost	89,019	76,128
		4,165,847	3,886,891
Nonutility Property and Other Investments		27,431	13,203
Current Assets	Cash and Temporary Cash Investments	30,771	23,847
	Accounts Receivable		
	Customers	163,254	137,920
	Refundable Federal Income Taxes	—	14,671
	Other	20,761	15,428
	Deferred Fuel Expense	23,008	19,854
	Materials and Supplies, at average cost		
	Fuel (Coal, Oil and Gas)	69,811	58,722
	Operating and Construction	32,424	29,614
	Prepayments	3,796	2,597
		343,825	302,653
Deferred Debits		10,894	14,669
	Total	$4,547,997	$4,217,416

See notes and schedules to financial statements.

LIABILITIES		December 31 1977	December 31 1976
		(Thousands of Dollars)	
Capitalization	Stockholders' Equity		
	Preferred Stock—See Schedule, page 28	$ 534,268	$ 535,072
	Common Stock—See Schedule, Page 28	1,106,684	1,002,767
	Other Paid-In Capital	1,819	1,713
	Retained Earnings	328,699	321,190
		1,971,470	1,860,742
	Long-Term Debt—See Schedule, page 28	2,078,273	1,936,417
		4,049,743	3,797,159
Current Liabilities	Short-Term Debt		
	Bank Loans	2,200	800
	Commercial Paper	12,675	6,426
	Current Maturities of Long-Term Debt	28,653	36,898
	Accounts Payable	82,193	72,278
	Taxes		
	Accrued	24,480	20,170
	Deferred (fuel expense)	12,217	10,531
	Interest Accrued	48,597	43,183
	Dividends Declared	10,174	11,570
	Other	4,150	4,654
		225,339	206,510
Deferred Credits	Accumulated Deferred Income Taxes	146,378	110,829
	Accumulated Deferred Investment Tax Credits	110,709	87,957
	Other	15,828	14,961
		272,915	213,747
	Total	$4,547,997	$4,217,416

See notes and schedules to financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Philadelphia Electric Company and Subsidiary Companies

	For the Year Ended December 31	
	1977	1976
	(Thousands of Dollars)	
Balance, January 1	$321,190	$304,678
Net Income (from page 20)	173,439	164,618
	494,629	469,296
Cash Dividends Declared		
Preferred Stock	40,712	39,414
Common Stock	124,893	107,683
Expenses of Capital Stock Issues	325	1,009
	165,930	148,106
Balance, December 31	$328,699	$321,190

See notes and schedules to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

General: All utility subsidiary companies of Philadelphia Electric Company are wholly-owned and are included in the consolidated financial statements. The accounts are maintained in accordance with the uniform system of accounts prescribed by the regulatory authorities having jurisdiction.

Revenues: Revenues are recorded in the accounts upon billing to the customer. Rate increases are billed from dates authorized or permitted to become effective by regulatory authorities. Due to the use of cycle billing there is an amount of unbilled revenue at the end of any period. See "Management's Discussion and Analysis of the Consolidated Statements of Income" for effect of meter reading and billing change in 1977.

Fuel Expenses: For financial reporting purposes the Company defers that portion of fuel expense which is recoverable under fuel adjustment clauses until it is subsequently billed as fuel adjustment revenue in order to effect a better matching of fuel expense with related revenues. Amounts of fuel expense recovered under the fuel adjustment clauses are charged to operations with equivalent credits to deferred fuel expense.

Nuclear energy costs are calculated at a zero net salvage value (assuming reprocessing facilities will be available for spent fuel as needed) and charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to the estimated total thermal units to be produced over the approximate four-year life of the fuel. If such reprocessing facilities are not available, the Company would incur additional costs to dispose of spent fuel.

Depreciation: For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on a straight-line basis. No provision is presently provided for the estimated decommissioning costs of the nuclear plants. The annual depreciation provisions, expressed as a percent of average depreciable utility plant in service, were approximately 2.99% for 1977 and 2.97% for 1976.

Income Taxes: Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory authorities for rate-making purposes.

Investment tax credits, other than credits resulting from contributions to the Tax Reduction Act Stock Ownership Plan for employees which do not affect income, are deferred and amortized by credits to income over the estimated useful life of the related utility plant.

Allowance for Funds Used During Construction (AFUDC): AFUDC is defined in the applicable regulatory system of accounts as "the net cost for the period of construction

of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used." The net after-tax rates used in determining the allowance averaged 8.65% in 1977 and 8.30% in 1976. The allowance is recorded as a noncash charge to construction in the plant accounts and the corresponding credits, in conformity with a change in the regulatory system of accounts effective January 1, 1977, are to "Interest Charges" for cost of borrowed funds, excluding the related income tax benefits, and to "Other Income" for cost of other funds. AFUDC in 1976 has been reclassified in the consolidated statements for comparative purposes. For income tax purposes, the allowance is not included in taxable income, nor is the depreciation of the capitalized allowance a tax deductible expense. Income tax benefits of $26,237,000 in 1977 and $24,701,000 in 1976, arising from interest charges associated with borrowed funds used to finance construction, were allocated from operating expenses to other income.

2. Taxes on Income:

	1977	1976
	(Thousands of Dollars)	
Included in operating expenses:		
Current income taxes		
Federal	$ 21,413	$ 6,147
State	12,129	12,901
Total	33,542	19,048
Deferred income taxes, net		
Federal	29,778	23,447
State	7,459	5,435
Total	37,237	28,882
Investment tax credits, net		
Federal	26,488	52,668
Total		
Federal	77,679	82,262
State	19,588	18,336
Total	$ 97,267	$100,598
Included in other income:		
Current income taxes		
Federal	$(20,225)	$(19,684)
State	(5,057)	(4,483)
Total	$(25,282)	$(24,167)
Total income tax provisions:		
Federal	$ 57,454	$ 62,578
State	14,531	13,853
Total	$ 71,985	$ 76,431

Investment tax credits consist of (a) the basic credits allowable at the Federal statutory rate (10%) plus (b) an additional (1½%) $3,708,000 in 1977 and (1%) $4,935,000 in 1976 allowed the Company to offset Federal income taxes providing such amounts are passed on to the employees of the Company in the form of Philadelphia Electric Company common stock. Such additional credits have no effect on net income. For Federal income tax purposes the 1976 investment tax credits eliminated current Federal income taxes payable, $39,635,000 in 1976, and resulted in a claim for refund of prior years' Federal income taxes of $14,671,000 which was received in 1977.

The aforementioned income tax provisions differ from amounts computed by applying the Federal statutory tax rate to adjusted income before income taxes for the following reasons:

	1977	1976
	(Thousands of Dollars)	
Net Income	$173,439	$164,618
Total income tax provisions	71,985	76,431
Income before income taxes	245,424	241,049
Deduct—Allowances for Funds Used During Construction (non-taxable)	(86,078)	(77,641)
Adjusted income before income taxes	$159,346	$163,408
Income taxes on above at Federal statutory rate (48%)	$ 76,486	$ 78,436
Increase (Decrease) due to:		
Excess of tax depreciation over book depreciation not normalized	(4,702)	(5,285)
State income tax, net of Federal income tax benefits	10,467	9,812
Amortization of investment tax credits previously deferred	(2,183)	(1,638)
Other, net	(8,083)	(4,894)
Total income tax provisions	$ 71,985	$ 76,431
Provision for income taxes as a percent of:		
Income before income taxes	29.3%	31.7%
Adjusted income before income taxes	45.2%	46.8%

Provisions for deferred income taxes consist of the following tax effects of timing differences between tax and book income:

	1977	1976
	(Thousands of Dollars)	
Depreciation	$37,492	$29,770
Deferred fuel expense	1,687	1,054
Other	(1,942)	(1,942)
	$37,237	$28,882

3. Taxes, Other than Income:

	1977	1976
	(Thousands of Dollars)	
Gross Receipts	$59,545	$52,103
Capital Stock	13,002	10,817
Realty	9,467	11,127
Other, principally social security	9,656	8,597
	$91,670	$82,644

4. Short-Term Debt:

The average short-term borrowings during 1977 aggregated $33,595,000 at an average rate of 7.66% and during 1976 aggregated $51,131,000 at an average rate of 6.74%. The maximum short-term borrowings outstanding were $94,326,000 in 1977 and $132,200,000 in 1976. The average rate of interest on short-term borrowings at December 31, 1977 was 7.75% for bank loans and 6.85% for commercial paper. As of December 31, 1977 the Company had informal lines of credit with banks aggregating $212,875,000. The Company generally does not have formal compensating balance arrangements with these banks. The Company maintains deposits with banks for working funds for normal operations.

5. Retirement Plan:

The Companies have a noncontributory, trusteed plan applicable to all regular employees. Pension costs which are funded as accrued, consisting of current and prior service costs, if any, over a twenty-year period, aggregated $18,708,000 in 1977 and $15,225,000 in 1976. Approximately 76% of such amounts was charged to operating expense and 24%, associated with construction labor, was included in the cost of new utility plant. Based upon actuarial assumptions, the estimated prior service liability of the Plan was substantially fully funded at December 31, 1977.

6. Commitments and Contingent Liabilities:

The Companies have incurred substantial commitments in connection with their construction program. Construction expenditures are estimated to be $434,000,000 for 1978 and $1,510,000,000 for 1979-1981.

The Price-Anderson Act places a "Limit of Liability" of $560,000,000 on each nuclear generating facility for public liability claims that could arise from a nuclear incident. The Company and its co-owners of the Peach Bottom and Salem Stations have insured for this exposure by purchasing private insurance in the maximum available amount of $140,000,000 and the remainder is provided by indemnity agreements with the Nuclear Regulatory Commission (NRC); however, since August 1977, the indemnity by the NRC has decreased and in the event of a nuclear incident, the Company to the extent of its ownership participation, could be assessed $5,000,000 for each reactor owned (maximum $10,000,000 per reactor in a year). On March 31, 1977, the United States District Court for the Western District of North Carolina rendered a declaratory judgment, in a case brought by an environmental group and other plaintiffs against the NRC and an electric utility company, to the effect that the $560,000,000 "Limit of Liability" under the Price-Anderson Act contravenes the due process and equal protection provisions of the Fifth Amendment to the United States Constitution and is, therefore, unenforceable. Both defendants appealed the decision directly to the United States Supreme Court and on November 7, 1977 the Court announced it would review the lower court's decision.

For damage to the nuclear plant facilities which could arise from an incident at the Peach Bottom Station, the Company and its co-owners have private insurance up to $220,000,000; for the Salem Station, the Company through the operator of the Station is a member of Nuclear Mutual Limited (NML) which provides for coverage up to $175,000,000. In the event of a loss at any plant insured by NML, the Company may be subject to a maximum of fourteen times its annual premium (currently not material for any one incident). The Company is a self-insurer, to the extent of its ownership interests, for any property loss in excess of the aforementioned amounts.

The Company's proportionate share of a commitment for nuclear fuel at the Peach Bottom Station as of December 31, 1977, was $51,907,000. An independent fuel company has been authorized to acquire and own up to a maximum of $150,000,000 of such fuel at any one time and has agreed to sell the energy therefrom to the Company, as the operator of the Station.

The minimum rental commitments under all noncancelable agreements aggregated $162,008,000 at December 31, 1977. Annual rental commitments are estimated to be $21,533,000 for 1978; $20,484,000 for 1979; $18,892,000 for 1980; $18,-712,000 for 1981 and $6,067,000 for 1982. Rentals charged to operating expenses were $25,470,000 in 1977 and $25,293,000 in 1976.

Certain leases, including the nuclear fuel contract, meet the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board, but are not accounted for as such in the rate making process. If such leases were capitalized, the amounts thereof would not have a material effect on assets, liabilities, or related expenses.

Complaints have been filed before the Pennsylvania Public Utility Commission against the Electric Fuel Adjustment Clause. Counsel for the Company is of the opinion that no refunds will be required of revenues collected under the fuel adjustment clause.

Actions have been filed in the U.S. District Court against the Company with respect to alleged discrimination in its employment or promotion practices. Counsel for the Company is of the opinion that the Company has meritorious defenses to these suits.

7. Replacement Cost Information (Unaudited):

Inflation has resulted in replacement costs of utility plant in service that are significantly greater than the recorded original cost. The current replacement cost of the gross utility plant in service at December 31, 1977, is estimated at $8,800,000,000 which compares to recorded cost of $3,937,972,000.

The estimated replacement cost of utility plant, determined by applying indices to recorded cost, does not necessarily reflect the current value of these assets, nor does the excess of replacement cost over recorded cost represent additional equity for the Company's common shareholders. Replacement cost of utility plant is the Company's estimate of the current cost to replace existing plant with similar plant of most recent design.

This replacement cost information should not be used to evaluate the effect of inflation upon the Company's financial position and results of operations, as reported.

In compliance with reporting requirements additional replacement cost information is disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

8. Segment Information:

Segment information for the year ended December 31, 1977 is as follows:

	Electric	Gas	Steam	Total
	(Thousands of Dollars)			
Operating revenue	$1,177,689	$174,818	$42,255	$1,394,762
Operating expenses, excluding depreciation	881,168	145,713	37,957	1,064,838
Depreciation	97,916	8,243	1,602	107,761
Total operating expenses	979,084	153,956	39,559	1,172,599
Operating income	$ 198,605	$ 20,862	$ 2,696	$ 222,163
Construction expenditures	$ 382,992	$ 8,941	$ 1,201	$ 393,134
Assets, December 31, 1977:				
Net utility plant(*)	$3,883,906	$248,054	$33,887	$4,165,847
Materials and supplies	90,056	11,990	189	102,235
	$3,973,962	$260,044	$34,076	$4,268,082
Nonallocable assets				279,915
Total assets				$4,547,997

(*) Includes Construction Work in Progress and allocated Common Utility Plant.

9. Quarterly Data (Unaudited):

Quarter Ended	Operating Revenue		Net Income		Earnings Applicable to Common Stock		Average Shares Outstanding (Thousands)		Earnings Per Average Share (Dollars)	
	(Thousands of Dollars)									
	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976
Mar 31	$365,822	$324,740	$49,559	$42,986	$39,379	$33,983	69,336	64,221	$.57	$.53
Jun 30	318,772	282,408	39,683	32,715	29,503	23,057	69,676	64,498	.42	.36
Sep 30	380,356	316,011	50,168	44,875	39,990	34,693	70,112	64,818	.57	.54
Dec 31	329,812	300,982	34,029	44,042	23,862	33,863	74,206	68,859	.32	.48

SCHEDULE OF CAPITAL STOCK—DECEMBER 31, 1977

Philadelphia Electric Company

Preferred Stock ($100 par) cumulative: Series	Current Redemption Price (A)	Number of Shares Authorized	Number of Shares Outstanding	Amount (Thousands of Dollars)
9.52% (Sold 1976 at $100 per share)	$109.52	500,000	500,000(B)	$ 50,000
9.50%	109.50	750,000	750,000	75,000
8.75%	110.00	650,000	650,000	65,000
7.85%	108.00	500,000	500,000	50,000
7.80%	105.50	750,000	750,000	75,000
7.75%	105.50	200,000	200,000	20,000
7.325%	106.15	750,000	750,000(C)	75,000
7%	107.00	400,000	367,960(D)	36,796
4.68%	104.00	150,000	150,000	15,000
4.4%	112.50	274,720	274,720	27,472
4.3%	102.00	150,000	150,000	15,000
3.8%	106.00	300,000	300,000	30,000
Unclassified		4,625,280	—	—
Total Preferred Stock		10,000,000	5,342,680	$ 534,268
Common Stock—no par (E)		100,000,000	74,624,517	$1,106,684

(A) Redeemable at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.

(B) 20,000 shares to be redeemed annually at $100 per share commencing May 1, 1981.

(C) 30,000 shares to be redeemed annually at $100 per share commencing May 1, 1979.

(D) 8,000 shares are being redeemed annually at $100 per share. The Company purchased 8,040 shares in 1977 and 7,915 shares in 1976 for this purpose and at December 31, 1977 had applied 40 shares to future redemption requirements. The excess of the aggregate par value of such shares over the aggregate purchase price is reflected in Other Paid-In Capital ($106,000 in 1977 and $215,000 in 1976).

(E) At December 31, 1977 there were 2,040,560 shares reserved for issuance under stock purchase plans. Common Stock issued in 1977 and 1976 was as follows:

	Public Sales	Dividend Reinvestment Plan	Employee Purchase Plan	Tax Reduction Act Stock Ownership Plan	Total
1977—Shares	4,000,000	882,793	179,618	255,541	5,317,952
Proceeds	$78,340,000	$17,159,000	$3,483,000	$4,935,000	$103,917,000
1976—Shares	4,000,000	899,660	165,878	44,689	5,110,227
Proceeds	$67,680,000	$14,981,000	$2,760,000	$ 707,000	$ 86,128,000

SCHEDULE OF LONG-TERM DEBT—DECEMBER 31, 1977

Philadelphia Electric Company

First and Refunding Mortgage Bonds (A):

Series	Due	Amount (Thousands of Dollars)	Series	Due	Amount (Thousands of Dollars)	Series	Due	Amount (Thousands of Dollars)
2⅞%	1978	$ 25,000	5%	1989	$ 50,000	11%	2000	$ 80,000
11%	1980	125,000	6½%	1993	60,000	11⅝%	2000	65,000
2¾%	1981	30,000	4½%	1994	50,000	7⅜%	2001	80,000
3¼%	1982	35,000	9%	1995	75,200	9⅝%	2002 (Sold 1976)	100,000
3⅛%	1983	20,000	8¼%	1996	80,000	8⅝%	2003 (Sold 1977)	75,000
3⅛%	1985	50,000	6⅛%	1997	75,000	8½%	2004	125,000
4⅜%	1986	50,000	7½%	1998	100,000	9⅛%	2006 (Sold 1976)	100,000
4⅝%	1987	40,000	7½%	1999	100,000	6%	2007 (Sold 1977)	23,500
3¾%	1988	40,000	7¾%	2000	74,625	8⅝%	2007 (Sold 1977)	75,000
Total First and Refunding Mortgage Bonds								1,803,325
Note Payable—Bank		8.835%	1979-84					125,000
Pollution Control Note		5.5%	1978-97					36,000
Debentures		12¾%	1981					100,000
Debentures		4.85%	1986					26,294
Unamortized Debt Discount and Premium, Net								(6,218)
Total Philadelphia Electric Company								2,084,401
Philadelphia Electric Power Company—a subsidiary:								
Sinking Fund Debentures		4½%	1995					22,628
Unamortized Debt Discount								(103)
Total Long-Term Debt (Annual interest requirements $165,564,000) (B)								2,106,926
Current Maturities included in Current Liabilities								(28,653)
Long-Term Debt included in Capitalization								$ 2,078,273

(A) Utility plant is subject to the lien of the Company's mortgage.

(B) Long-term debt maturities in the period 1978-1982 are as follows: 1978—$28,653,000; 1979—$55,694,000; 1980—$130,800,000; 1981—$140,300,000; and 1982—$70,300,000.

REPORT OF AUDITORS

To Shareholders and the Board of Directors
Philadelphia Electric Company
Philadelphia, Pennsylvania

We have examined the consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1977 and 1976, and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were 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 consolidated financial statements referred to above present fairly the financial position of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Girard Plaza
Philadelphia, Pennsylvania
February 8, 1978

COOPERS & LYBRAND

FINANCIAL STATISTICS

Summary of Earnings (Millions of dollars)

	1977	1976	1975	1974	1973	1972	1967
Operating Revenue (for details see pages 31 and 32)	$1,394.8	$1,224.1	$1,134.8	$1,011.7	$766.6	$685.0	$376.5
Operating Expenses							
Fuel and Energy Interchange	575.3	480.7	457.8	439.2	260.3	212.0	86.7
Labor	179.2	161.9	152.2	134.0	125.6	120.4	81.4
Other Materials, Supplies and Services	121.4	88.9	72.6	73.4	65.5	55.0	27.6
Total Operation and Maintenance	875.9	731.5	682.6	646.6	451.4	387.4	195.7
Depreciation	107.8	98.0	91.2	77.8	64.3	60.5	41.8
Taxes	188.9	183.2	163.9	134.3	102.5	93.6	51.5
Total Operating Expenses	1,172.6	1,012.7	937.7	858.7	618.2	541.5	289.0
Operating Income	222.2	211.4	197.1	153.0	148.4	143.5	87.5
Other Income							
Allowance for Other Funds Used During Construction*	36.2	30.1	23.3	25.3	28.1	21.4	2.2
Income Tax Credits, net	25.3	24.2	22.3	25.5	3.4	(0.4)	(0.3)
Other, net	3.5	2.6	2.0	0.3	2.7	0.2	0.6
Total Other Income	65.0	56.9	47.6	51.1	34.2	21.2	2.5
Income Before Interest Charges	287.2	268.3	244.7	204.1	182.6	164.7	90.0
Interest Charges							
Interest on Long-Term Debt	161.0	147.6	136.5	106.3	84.8	73.4	26.8
Interest on Short-Term Debt	2.6	3.6	7.9	14.2	5.5	4.4	2.6
Allowance for Borrowed Funds Used During Construction*	(49.8)	(47.5)	(43.6)	(45.5)	(30.6)	(21.1)	(2.6)
Net Interest Charges	113.8	103.7	100.8	75.0	59.7	56.7	26.8
Net Income	173.4	164.6	143.9	129.1	122.9	108.0	63.2
Preferred Stock Dividends	40.7	39.0	36.0	33.7	27.6	21.6	3.7
Earnings Applicable to Common Stock	132.7	125.6	107.9	95.4	95.3	86.4	59.5
Dividends on Common Stock	124.9	107.7	95.4	86.4	78.4	67.7	44.8
Earnings Retained	$ 7.8	$ 17.9	$ 12.5	$ 9.0	$ 16.9	$ 18.7	$ 14.7
Earnings per Average Share (dollars)	$1.87	$1.91	$1.86	$1.81	$1.99	$2.08	$2.13
Dividends Paid per Share (dollars)	$1.76	$1.64	$1.64	$1.64	$1.64	$1.64	$1.60
Common Stock Equity (Per Share)	$19.26	$19.13	$19.05	$20.21	$20.22	$20.00	$17.66
Shares of Common Stock—Average (Millions)	70.8	65.6	58.1	52.7	47.8	41.5	27.9

*1976 and prior years reclassified for comparative purposes.

See page 19 for Discussion and Analysis of the Consolidated Statements of Income.

FINANCIAL STATISTICS

Summary of Financial Condition—December 31 (Millions of dollars)

		1977	1976	1975	1974	1973	1972	1967
Assets	Utility Plant, at Original Cost	$5,121.1	$4,747.2	$4,445.6	$4,123.9	$3,672.1	$3,222.6	$1,791.5
	Less: Accumulated Depreciation	955.3	860.3	775.8	717.8	665.4	624.2	459.8
	Total Utility Plant	4,165.8	3,886.9	3,669.8	3,406.1	3,006.7	2,598.4	1,331.7
	Nonutility Property and Other Investments	27.4	13.2	12.3	12.7	11.5	9.5	6.3
	Current Assets							
	Cash	30.8	23.8	17.4	16.0	16.2	17.8	15.2
	Pollution Control Funds	—	—	—	—	12.2	38.0	—
	Accounts Receivable	184.0	168.0	139.8	111.9	75.6	72.1	47.0
	Deferred Fuel Expense	23.0	19.9	17.9	21.7	—	—	—
	Materials and Supplies	102.3	88.3	88.0	72.5	40.2	38.8	23.8
	Other	3.8	2.6	2.5	21.1	3.8	2.8	3.0
	Deferred Debits	10.9	14.7	13.8	6.0	9.9	7.5	4.1
	Total Assets	$4,548.0	$4,217.4	$3,961.5	$3,668.0	$3,176.1	$2,784.9	$1,431.1
Liabilities	Preferred Stock	$ 534.2	$ 535.1	$ 485.9	$ 486.4	$ 412.0	$ 337.5	$ 87.5
	Common Stock	1,106.7	1,002.8	916.6	782.9	771.8	622.5	298.3
	Other Paid-In Capital	1.8	1.7	1.5	1.3	1.3	1.2	1.2
	Retained Earnings	328.7	321.2	304.7	293.7	286.2	271.0	213.1
	Total Stockholders' Equity	1,971.4	1,860.8	1,708.7	1,564.3	1,471.3	1,232.2	600.1
	Long-Term Debt	2,078.3	1,936.4	1,776.9	1,597.7	1,319.1	1,287.2	691.9
	Total Capitalization	4,049.7	3,797.2	3,485.6	3,162.0	2,790.4	2,519.4	1,292.0
	Current Liabilities							
	Bank Loans	2.2	0.8	50.2	115.1	83.5	41.1	47.7
	Commercial Paper	12.7	6.4	57.8	62.8	64.2	62.7	—
	Current Maturities of Long-Term Debt	28.7	36.9	60.9	91.9	67.3	13.5	9.6
	Accounts Payable and Dividends Declared	92.4	83.9	80.1	78.8	67.4	49.5	23.9
	Taxes Accrued	24.5	20.2	34.7	16.5	18.1	18.4	6.8
	Taxes Deferred (fuel expense)	12.2	10.5	9.5	11.5	—	—	—
	Other	52.7	47.8	41.3	34.3	27.4	23.7	9.4
	Deferred Credits	272.9	213.7	141.4	95.1	57.8	44.0	31.1
	Contributions in Aid of Construction*	—	—	—	—	—	12.6	10.9
	Total Liabilities	$4,548.0	$4,217.4	$3,961.5	$3,668.0	$3,176.1	$2,784.9	$1,431.1

*Transferred to Utility Accounts in 1973.

Common Stock Prices, Earnings and Dividends by Quarters (Per Share)

	1977				1976			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	$20¼	$21¼	$20⅜	$18⅝	$18	$17¾	$16⅞	$17⅛
Low Price	$19⅛	$18⅝	$18½	$17⅛	$15⅝	$15⅝	$15	$14⅞
Earnings	32¢	57¢	42¢	57¢	48¢	54¢	36¢	53¢
Dividends	45¢	45¢	45¢	41¢	41¢	41¢	41¢	41¢

OPERATING STATISTICS

	1977	1976	1975	1974	1973	1972	1967
ELECTRIC OPERATIONS							
Output (millions of kilowatt-hours)							
Steam	11,468	13,385	12,814	16,649	18,536	20,181	17,087
Nuclear	4,596	4,937	4,387	1,745	176	97	144
Hydraulic	1,997	2,065	2,275	1,938	2,132	2,242	1,895
Pumped Storage Output	1,223	1,062	1,275	1,075	1,318	1,430	400
Pumped Storage Input	(1,761)	(1,506)	(1,785)	(1,515)	(1,876)	(2,018)	(555)
Purchase and Net Interchange	9,759	7,666	7,363	5,300	7,094	3,472	1,090
Internal Combustion	847	792	914	1,200	688	946	53
Other	716	36	—	1,016	27	1	56
Total Electric Output	28,845	28,437	27,243	27,408	28,095	26,351	20,170
Sales (millions of kilowatt-hours)							
Residential	8,110	7,585	7,424	7,159	7,493	6,856	4,763
Small Commercial and Industrial	2,825	2,755	2,624	2,558	2,663	2,503	2,125
Large Commercial and Industrial	14,912	14,662	14,060	14,622	14,953	14,011	10,724
All Other	1,350	1,271	1,227	1,217	1,192	1,136	1,091
Total Electric Sales	27,197	26,273	25,335	25,556	26,301	24,506	18,703
Number of Customers, December 31							
Residential	1,148,171	1,137,544	1,120,981	1,113,036	1,103,163	1,090,921	1,021,216
Small Commercial and Industrial	115,883	115,422	114,896	117,237	118,009	118,522	138,898
Large Commercial and Industrial	5,772	5,747	5,719	5,724	5,663	5,645	4,993
All Other	2,381	2,345	2,305	2,248	2,207	2,163	2,021
Total Electric Customers	1,272,207	1,261,058	1,243,901	1,238,245	1,229,042	1,217,251	1,167,128
Operating Revenue (millions of dollars)							
Residential	$ 427.6	$ 373.2	$ 364.7	$ 314.4	$ 254.4	$ 222.7	$ 110.7
Small Commercial and Industrial	168.4	149.3	138.9	122.0	97.5	88.1	54.0
Large Commercial and Industrial	513.4	442.9	418.3	388.1	257.5	228.6	115.5
All Other	68.3	59.4	56.5	49.0	37.4	35.0	20.7
Total Electric Revenue	$1,177.7	$1,024.8	$ 978.4	$ 873.5	$ 646.8	$ 574.4	$ 300.9
Operating Income Before Income Taxes (millions of dollars)	$ 284.1	$ 273.8	$ 261.5	$ 196.5	$ 170.1	$ 166.1	$ 105.2
Average Use per Residential Customer (kilowatt-hours)	7,097	6,710	6,645	6,460	6,829	6,317	4,699
Electric Peak Load, Net Hourly Demand (thous. kw)	5,888	5,346	5,530	5,431	5,760	5,313	3,727
Net Electric Generating Capacity—Summer Rating (thous. kw)	8,198	7,742	7,186	7,808	6,650	6,348	4,678
Cost of Fuel per Million Btu	$1.40	$1.24	$1.23	$1.42	$0.71	$0.62	$0.32
Btu per Net Kilowatt-hour Generated	10,882	10,529	10,523	10,676	10,523	10,666	10,689

OPERATING STATISTICS

	1977	1976	1975	1974	1973	1972	1967
GAS OPERATIONS							
Sales (millions of cubic feet)							
Residential	2,394	2,342	2,334	2,281	2,317	2,418	2,309
House Heating	26,335	24,540	20,817	23,793	24,125	26,026	22,197
Commercial and Industrial	31,017	33,390	30,012	35,913	37,868	41,490	33,054
All Other	86	89	74	79	90	104	69
Total Gas Sales	59,832	60,361	53,237	62,066	64,400	70,038	57,629
Number of Customers, December 31							
Residential	88,775	89,459	90,117	90,870	91,682	94,035	98,991
House Heating	162,978	162,993	162,914	163,093	163,096	159,780	136,371
Commercial and Industrial	19,422	19,669	19,874	20,276	20,518	20,312	20,566
Total Gas Customers	271,175	272,121	272,905	274,239	275,296	274,127	255,928
Operating Revenue (millions of dollars)							
Residential	$ 9.6	$ 8.7	$ 8.1	$ 7.1	$ 6.7	$ 6.2	$ 5.6
House Heating	84.1	73.3	54.8	55.4	51.3	48.4	37.6
Commercial and Industrial	80.4	76.1	54.5	45.7	42.0	38.2	23.4
All Other	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Subtotal	174.3	158.3	117.5	108.3	100.1	92.9	66.7
Other Revenue	0.5	0.6	0.5	0.6	0.4	0.4	0.3
Total Gas Revenue	$ 174.8	$ 158.9	$ 118.0	$ 108.9	$ 100.5	$ 93.3	$ 67.0
Operating Income Before Income Taxes (millions of dollars)	$ 30.9	$ 34.4	$ 19.6	$ 26.9	$ 22.8	$ 16.9	$ 19.0
STEAM OPERATIONS							
Sales (millions of pounds)	7,165	7,735	7,117	7,600	7,762	8,328	7,252
Number of Customers, December 31	670	679	689	710	723	737	1,157
Total Steam Revenue (millions of dollars)	$ 42.3	$ 40.5	$ 38.5	$ 29.3	$ 19.4	$ 17.3	$ 8.6
Operating Income Before Income Taxes (millions of dollars)	$ 4.5	$ 3.8	$ 2.3	$ (3.2)	$ 0.7	$ 1.2	$ 0.8

FISCAL AGENTS FOR STOCKS AND BONDS

PHILADELPHIA ELECTRIC COMPANY—Preferred and Common Stocks

Registrars	Transfer Agents
GIRARD BANK One Girard Plaza, Philadelphia, Pa. 19101	PHILADELPHIA ELECTRIC COMPANY 2301 Market Street, Philadelphia, Pa. 19101
CHEMICAL BANK 20 Pine Street, New York, N.Y. 10015	MORGAN GUARANTY TRUST CO. of N.Y. 30 West Broadway, New York, N.Y. 10015

PHILADELPHIA ELECTRIC COMPANY—First and Refunding Mortgage Bonds

Trustee	New York Agent
THE FIDELITY BANK Broad & Walnut Streets, Philadelphia, Pa. 19109	MORGAN GUARANTY TRUST CO. of N.Y. 23 Wall Street, New York, N.Y. 10015

PHILADELPHIA ELECTRIC COMPANY—Sinking Fund Debentures
PHILADELPHIA ELECTRIC POWER COMPANY (A Subsidiary)—Debentures

Trustee	New York Agent
THE PHILADELPHIA NATIONAL BANK Broad & Chestnut Streets, Philadelphia, Pa. 19101	IRVING TRUST COMPANY One Wall Street, New York, N.Y. 10015

All Philadelphia Electric Company securities, except the Sinking Fund Debentures and those series of First and Refunding Mortgage Bonds and Preferred Stock which were sold privately to institutional investors, are listed on the Philadelphia Stock Exchange and the New York Stock Exchange. Philadelphia Electric Power Company Debentures are listed on the Philadelphia Stock Exchange.

PHILADELPHIA ELECTRIC PROMOTES SOUTHEASTERN PENNSYLVANIA

The center spread in this report is illustrative of the efforts your Company is making toward the revitalization of the area we serve. The pull-out is being made available in substantial quantities to area development agencies and area banks and businesses which are mailing it to their own shareholders.

Ever since PE's first predecessor companies were organized, the health of the Philadelphia regional economy has been of concern to Company management, employees, and shareholders alike. Our corporate philosophy—and I'm certain our employees and shareholders agree—has always been that a healthy utility company, providing high quality service to customers and adequate returns to investors, is much more likely to exist in a vigorous, expanding region than in a sick or declining region.

A review of PECo annual reports in the 1960's and early 1970's reveals a very active area development effort on the part of your Company. National advertising campaigns described the advantages of Philadelphia as a place in which to live and do business. Company employees, who are experts in area development matters, assisted hundreds of businesses each year in their efforts to move into, or expand within, our service territory. This assistance included a multitude of activities from finding building sites, and helping to cut regional red tape, to preparing to provide reliable electric, gas, and steam services.

In the last few years, our regional development efforts have been significantly curtailed in order that we might act as responsible corporate citizens in an era of energy restrictions, and in response to demands from regulatory agencies to refrain from actively "selling" our services.

However, regional trends which began 10 or 15 years earlier, have become increasingly dominant. The Philadelphia city economy has been moving from a period of virtual stagnation to one of slow decline when measured in terms of population and jobs. Similarly, the economic activity in the surrounding four-county region in Southeastern Pennsylvania has been moving from reasonably healthy economic growth toward stagnation.

These trends toward outmigration and economic stagnation are not unique to Philadelphia but are characteristic of many of the large urban areas of the Middle Atlantic states, the Northeast and the Midwest. But not all parts of these regions have suffered equally. Some, such as New York City, have experienced more severe problems over larger periods than Philadelphia. Others, such as Boston, have managed to regain a measure of vigor, while yet others such as the cities in Wisconsin and Minnesota have managed to sustain reasonably healthy growth rates throughout the post-World War II period.

These differences, along with our natural optimism about Philadelphia and the qualities of its citizens, encourage us to believe that Philadelphia and its suburbs can rejuvenate themselves and become, once again, a more vigorous, more vital, more rewarding place in which to live, work, and prosper.

We believe that several distinct steps are necessary to achieve the major turnaround which is called for. First is a frank and uncompromising evaluation of the advantages and disadvantages of the region as a place in which to do business. We know it is a good place in which to live, and so do the businessmen who go elsewhere when they move or expand their business. What we must do is make the region a good place in which to do business.

The second step in the turnaround process is to forge a strong tri-partite coalition of government, business, and labor committed fully to doing whatever is necessary to improve the region's business climate. We can and must do much better. All three parts of the coalition will have to be willing to change, adapt, and compromise in order to improve this climate. State government will have to help. National government assistance will be welcomed. But there is much that we, as citizens of the Philadelphia area can do without outside help.

Achieving the degree of change needed will require the assistance and forebearance of each citizen as well as of our political, labor, and business leaders. They will have to be convinced that the reward is worth the effort.

James L. Everett, President

Therefore, education is a crucial part of the turnaround process.

Of course, initial steps have already been taken or have been underway for years, and various area development agencies in the five-county area have done splendid work.

However, Philadelphia Electric Company is convinced the best efforts of every private and corporate citizen will be needed. We are convinced we can and must play our part. Company management and employees are intimately familiar with all parts of the region, both as a result of their corporate responsibilities, and through the individual responsibilities which many have assumed over the years in civic and community activities.

We have a statistical data base descriptive of the region, that, in many ways, is second to none in the quality and diversity of its data. Our area development activity, though somewhat less active in the last few years, has retained its basic expertise and is in a position to expand its efforts quickly and efficiently. The center spread is one example of our resurgent posture in this regard.

We are convinced a job must be done. We are convinced, as a major corporate citizen, we can and must help. We are convinced that you, as shareholders, will agree. We are going to make a major effort in this direction in 1978.

J. L. Everett

President

PHILADELPHIA ELECTRIC COMPANY
2301 MARKET STREET
P.O. BOX 8699
PHILADELPHIA, PA 19101

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