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April 5, 1982

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Dr. Harold R. Denton
Director
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Re: Philadelphia Electric Company
Limerick Generating Station, Units 1 and 2
Docket Nos. 50-352 and 50-353
(Construction Permits Nos. CPPR-106 and CPPR-107)

Dear Dr. Denton:

Pursuant to Section 50.71(b) of the Commission's Regulations, I am forwarding herewith for filing with the Commission seven copies of the 1981 Annual Report of Philadelphia Electric Company.

Very truly yours,

EUGENE J. BRADLEY

EJB/as
Encls.

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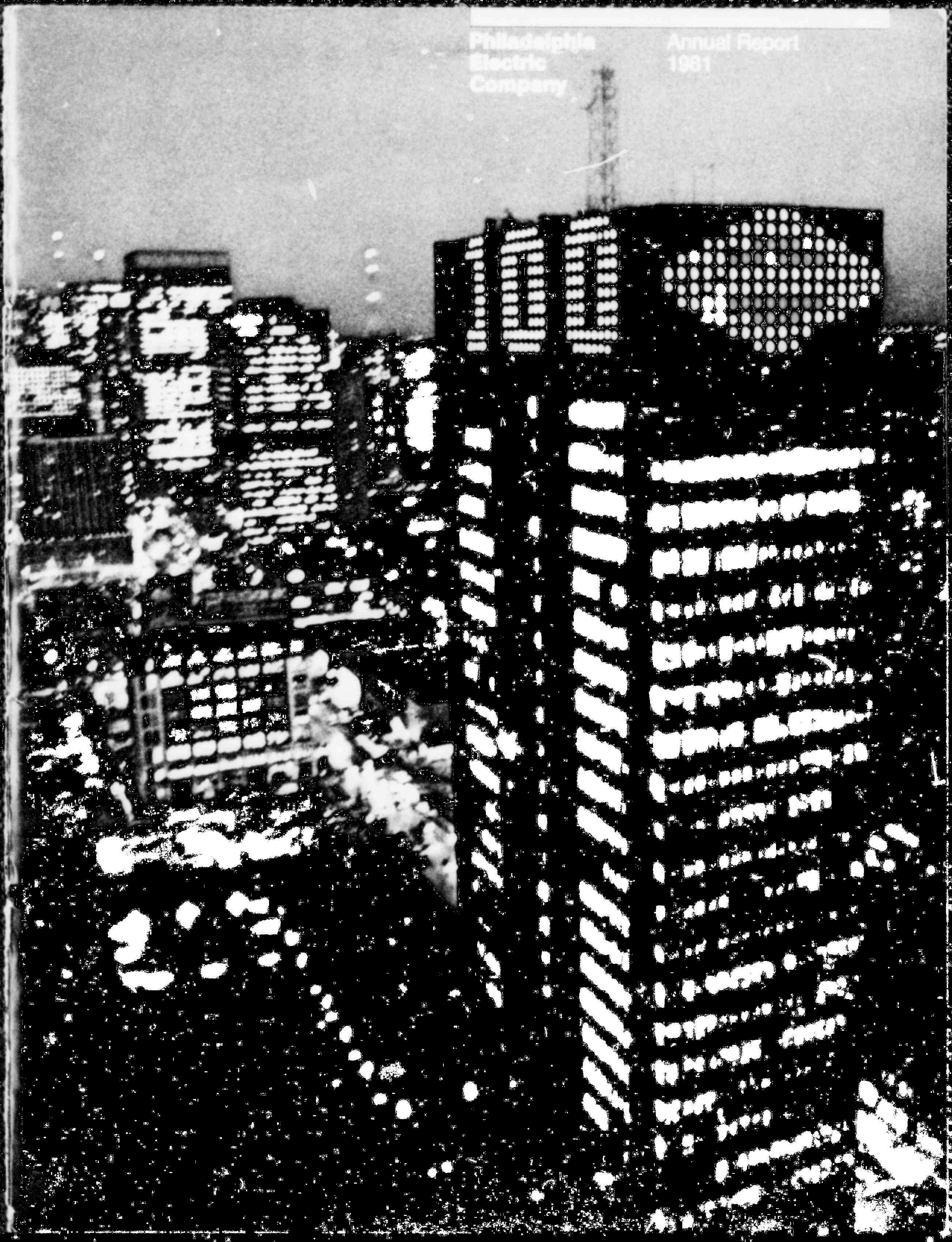
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Annual Report
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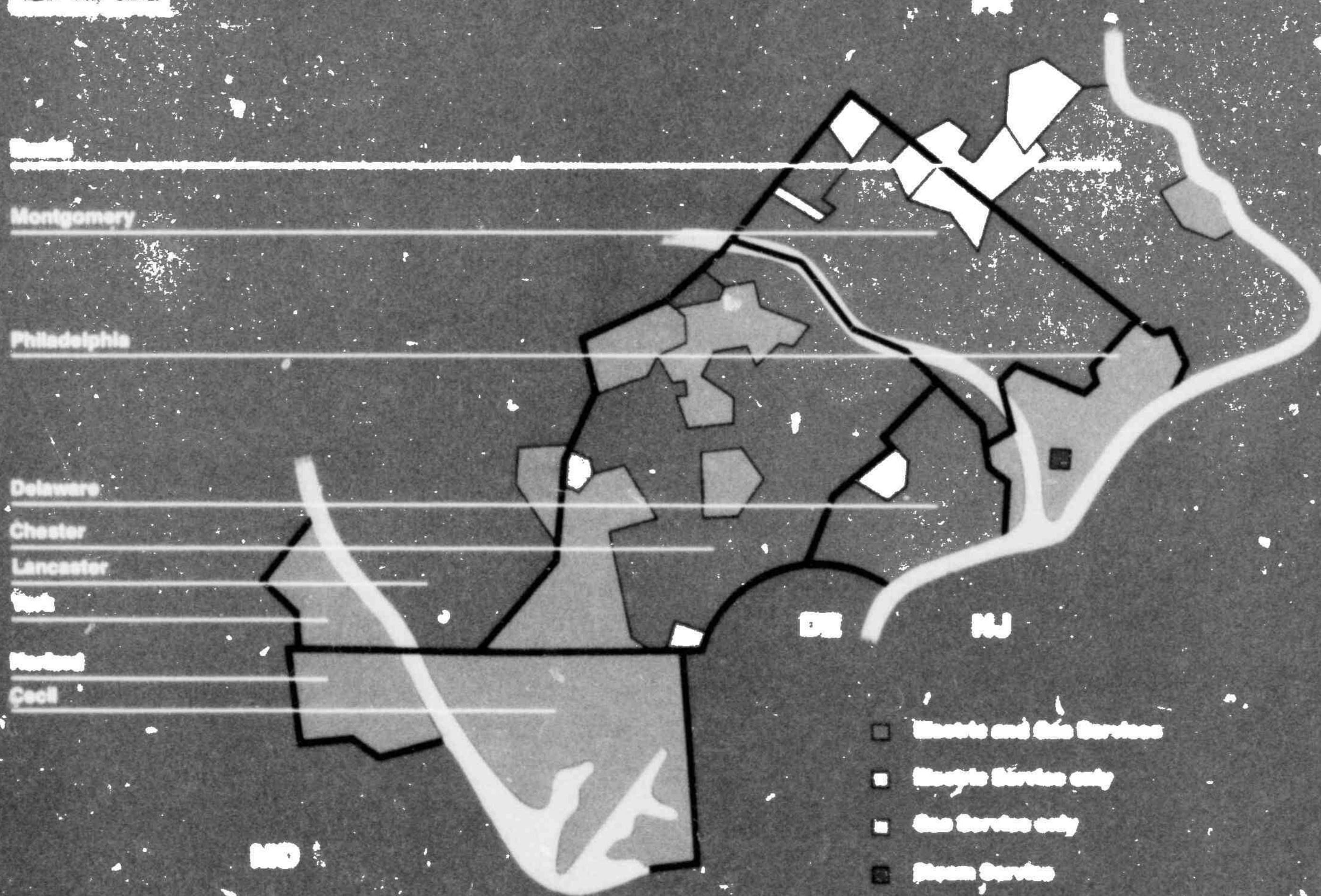
Montgomery
Philadelphia
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Chester
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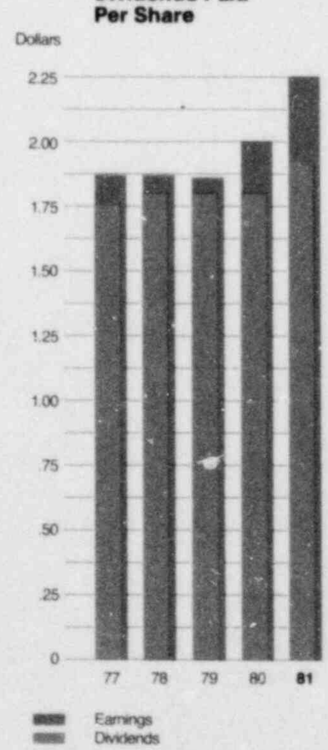
Contents

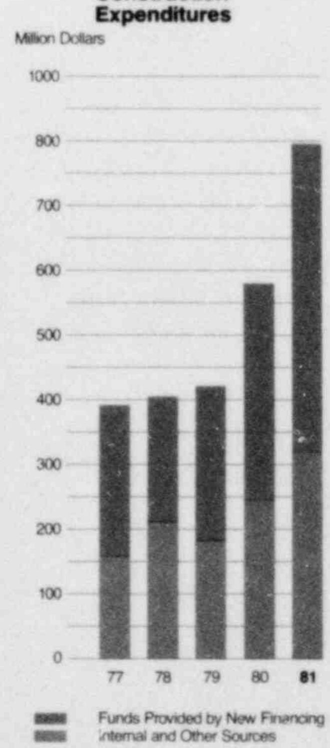
Financial Highlights

	1981	1980	Percent Change
Operating Revenues	$2,433,425,000	$2,123,394,000	15%
Operating Expenses	$2,110,432,000	$1,857,428,000	14%
Taxes Charged to Operations	$ 274,796,000	$ 227,434,000	21%
Operating Income	$ 322,993,000	$ 265,966,000	21%
Earnings Applicable to Common Stock	$ 223,761,000	$ 174,950,000	28%
Earnings per Average Common Share	$2.25	$2.00	13%
Cash Dividends Paid per Common Share	$1.90	$1.80	6%
Average Shares of Common Stock Outstanding	99,557,000	87,302,000	14%
Construction Expenditures	$ 793,959,000	$ 586,481,000	35%
Total Assets	$6,304,195,000	$5,702,549,000	11%

Earnings and Dividends Paid Per Share



Construction Expenditures



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To Our Shareholders:

Our centennial year, 1981, was a year of accomplishment, challenge and opportunity for Philadelphia Electric Company.

A number of milestones were achieved during the year including encouraging financial results. Earnings per share showed an increase of 13% to $2.25, primarily as a result of higher electric rates granted in April. However, the return on our common shareholders' equity was still only 12%, substantially below the 16% return allowed by the Pennsylvania Public Utility Commission (PUC).

Effective September 30, the quarterly dividend rate on common stock was increased 11% to 50 cents, or $2.00 per share on an annual basis. The dividend improvement was the first increase in four years and was warranted by improved earnings.

Unit No. 2 at the Salem Nuclear Generating Station in Salem, New Jersey began commercial operation on October 13. PECo owns 42.59 percent of the Salem Station. Construction and operation of the plant is the responsibility of Public Service Electric & Gas Company of New Jersey. Our share of the output and capacity of Salem Unit No. 2 is being sold to Jersey Central Power & Light Company, a subsidiary of General Public Utilities Corporation, under an agreement signed in 1979 and effective through 1984.

Our capital needs were met by raising more than $618 million of new capital, a record amount. These funds were applied primarily to three major projects in 1981—the Limerick nuclear plant, the flue gas clean-up systems at Eddystone and Cromby, and the Salem Unit No. 2.

Limerick is our plant of the future. Its two units will add low fuel-cost, modern base-load capacity permitting the retirement of old, oil-burning plants. Although its capital cost will be in excess of $4 billion, estimated annual fuel savings will approach one billion dollars per year when it is fully operational in the late 1980's.

Work on the flue gas clean-up systems, or SO_2 scrubbers, for our coal-burning plants at Eddystone and Cromby progressed during 1981. The continued use of coal as a major

John H. Austin, Jr. Robert F. Gilkeson James L. Everett source of power, while fully complying with clean air regulations as required by law, is the goal of this project. The scrubbers will be in full compliance with all air quality regulations by December, 1982 for Eddystone and early 1983 for Cromby.

The year 1981 also presented us with a number of serious challenges which impacted us in many ways. Continuing inflation resulted in escalating costs of construction, fuel, wages, operating and maintenance expenses, and in higher costs of money to finance construction and environmental programs.

As a result of declining financial ratios, our security ratings were downgraded again by the rating agencies. A lower rating raises the interest rate we must pay to sell our securities. In September, we sold mortgage bonds rated BBB with a coupon of 18¾%, a record high interest rate for the Company. Clearly, improved financial performance will continue to be a top priority in the days ahead.

With this in mind, in July the Company filed a request with the PUC for an annual electric rate increase of $344 million. The PUC is expected to reach a decision in the case by June 1, 1982. Our ability to improve financial performance, increase the return on shareholders' investment and continue to provide funds for the construction program will depend upon that decision. A steam increase was filed in 1981 and was settled for $3 million in mid-January 1982. Also, a gas rate increase request was filed in 1981 and is pending.

In other PUC matters, hearings on the need for and economics of the Limerick project concluded in mid-November with a final determination expected in 1982. The Company's testimony clearly demonstrated the benefit of completing Limerick as planned.

We continued many projects to operate the Company more efficiently, to improve productivity, and to reduce costs. Our excellent employee organization responded diligently to these challenges.

The future is one of opportunity for your Company. With the completion of Limerick and the planned retirement of older oil-fired facilities, our electric production plant will be modern and efficient. We should require no additional capacity until the late 1990's. Our electric generation fuel supply will increasingly rely on domestic uranium and coal, thus minimizing our use of costly oil.

As we review the first 100 years of Company operations, the past prepares us for the future. Development and application of new technology, adherence to sound economics in design and operation of our system, and superior services to our customers will continue to be the keys to success.

Our Company has a proud heritage. At the beginning of our second hundred years, we again express our appreciation to our investors, employees and customers.

RF Gilkeson

Robert F. Gilkeson
Chairman of the Board

J. L. Everett

James L. Everett
President
and Chief Executive Officer

JH Austin Jr.

John H. Austin, Jr.
Executive Vice President
and Chief Operating Officer

Financial Matters

Earnings Increase. Common stock earnings in 1981 were \$2.25 per share, an increase of 13% above 1980 earnings of \$2.00. Total common stock earnings were \$224 million, up \$49 million or 28% from 1980. Average shares outstanding increased 14% to 100 million shares.

The increase in earnings was due primarily to the \$188 million electric rate increase, which became effective in April, and higher gas sales. Electric sales to retail customers were off 2% due to poor economic conditions. Operating and maintenance expenses were up 13%, interest charges rose 26%, and depreciation charges were 6% higher.

Common Stock Dividend Raised. On June 22, the Board of Directors voted to increase the quarterly common stock dividend from forty-five to fifty cents per share effective with the third quarter payment. As a result, dividends per share paid in 1981 amounted to \$1.90 as compared to \$1.80 in 1980.

This increase, the first in four years, recognizes the necessity of providing a competitive return on the common shareholders' investment. In this period of continuing inflation, the Company must be able to continue to attract the capital necessary to complete its large construction program.

Electric, Gas Sales Rise. Total electric sales increased by 2% to 28.3 billion kWh. The increase was due to the sale of power equivalent to the Company's share of the output from Salem Unit No. 2 to Jersey Central Power and Light.

Sales to regular customers, excluding Salem Unit No. 2, declined by 2% to 27 billion kWh. Sluggish economic conditions resulted in depressed kilowatt-hour sales to large commercial and industrial customers, while substantially cooler summer weather in 1981 held down air conditioner usage.

Gas sales increased by 6% to 73 billion cubic feet as a result of more customers and colder weather this year. Steam sales dropped 9% to five billion pounds as a result of continuing conservation by our steam customers and conversion to other fuels.

Revenue, Expenses Increase. Total operating revenue amounted to \$2.4 billion, 15% above 1980. Electric operating revenue rose to \$2.0 billion, an increase of \$235 million or 13% over 1980. This increase reflects higher base rates, the recovery of higher fuel costs through adjustment clauses and \$46 million of revenue from the sale of Salem Unit No. 2 output and capacity. Gas revenue amounted to \$356 million, an increase of 23% over 1980, and steam revenue reached \$75 million.

Total operating expenses amounted to \$2.1 billion, an increase of \$253 million, or 14%, over 1980. The major factors contributing to this increase were higher fuel costs and increased operating and maintenance expenses, including those related to the new Salem Unit No. 2. Your management continued to hold controllable costs to the minimum, consistent with good service. Interest charges increased \$61 million and preferred dividends increased \$2 million.

Rate Increases. As with any business in an inflationary period, Philadelphia Electric Company must regularly raise the prices of its products to reflect their current costs and value. A continuing and active program of rate increases is necessary to offset the effects of inflation, to improve the Company's financial performance, to maintain its ability to attract new capital, to balance supply and demand, and to encourage consumer conservation.

In July, 1980 the Company applied for a \$304 million electric rate request and the Pennsylvania Public Utility Commission (PUC) granted \$188 million or 62% of the request, effective April 25, 1981. The major item disallowed by the PUC was a request by the Company to begin collecting certain interest charges which are now deferred to the future.

On July 29, 1981 application was made for a \$344 million, or 17.7%, increase in electric rates. The PUC hearings began on October 13 and were concluded in February, 1982. A PUC decision is expected by June 1, 1982.

On September 28, the Company filed a request for a \$39 million, or 11.3%, increase in gas rates which has been suspended to June 27, 1982 pending hearings. A request for a \$6 million steam rate increase filed on September 28 was settled for \$3.4 million, effective January 15, 1982, about 5 months prior to the maximum suspension period.

The Federal Energy Regulatory Commission accepted a settlement for wholesale electric rate increases to Conowingo Power Company, a wholly-owned subsidiary, and to the Borough of Lansdale, effective February 27, 1981. The rates were increased by \$1.9 million, or 8.4%, for Conowingo and \$524 thousand, or 9.5%, for service to Lansdale.

On August 18, Conowingo Power Company filed a request for a \$3.6 million electric rate increase. The request has been suspended by the Maryland Public Service Commission pending an investigation.

Also, on February 1, 1981 this subsidiary was permitted to implement an Energy Cost Rate which collects from customers any additional cost of fuel above the amount previously allowed in the electric base rates prior to that date.

Limerick Investigation. In October 1980, the PUC instituted an investigation into various aspects of the Limerick Generating Station, including its necessity, economic justification, and the reasons for increases in project costs and for delays in the anticipated completion date. During the proceedings, which ran from March to November 1981, 39 days of hearings

Major Financings Millions of Dollars

4/81	Common Stock – 5,000,000 shares	$ 59
4/81	Mortgage Bonds – Private Placement 15¼% Series due 1996 $52.5 million 15% Series due 1996 $21.0 million	73.5
6/81	Pollution Control Bonds (tax exempt) Average Yield, 12.6%	100
7/81	Mortgage Bonds 17⅝% Series due 2011	125
9/81	Mortgage Bonds 18¾% Series due 2009	125
9/81	Common Stock – 7,800,000 shares	96
—	Dividend Reinvestment and Employee Stock Purchase Plans – 3,074,526 shares	40
Total		$618.5

1981 Retail Rate Increases Millions of Dollars

	Application Date	Approved	Annual Revenue
Electric-Pennsylvania	7/29/80	4/25/81	$187.6
Pennsylvania	7/29/81	Pending	344.0
Maryland	8/18/81	Pending	3.6
Gas	9/28/81	Pending	38.7
Steam	9/28/81	1/15/82	3.4

were held and the record contained almost 4,000 pages of testimony. The Company presented 17 witnesses while the intervening parties presented 20 witnesses.

The economics of Limerick as presented by the Company showed that completing Limerick would provide customers with savings ranging from about $200 million to almost $1 billion per year when compared to the alternatives of building a series of small coal plants to replace Limerick or cancelling Limerick without replacement. The Administrative Law Judge's Recommended Decision is expected soon.

Financing Highlights. During 1981, the Company successfully raised more than $618 million, a record amount of new capital, to meet the needs of our construction program and refundings.

In addition, to the major financings shown above, arrangements were completed in April for a $100 million, two-year revolving Line of Credit through a group of European banks. In November, the Company finalized arrangements to finance its portion of the Salem Generating Station nuclear fuel through a lease with an independent fuel company in an amount up to $125 million. In December, the Company received $54 million by selling, for Federal income tax purposes only, the tax depreciation and investment tax credit associated with its share of the Salem Generating Station Unit No. 2. This transaction was permitted by the Economic Recovery Tax Act of 1981 and it allowed the Company to receive cash proceeds now which would otherwise have been deferred to the future.

Ratings on the Company's mortgage bonds, preferred stocks, debentures and pollution control notes were lowered during the year due to inadequate earnings and cash flow in the face of the need to raise large amounts of capital for our construction program. This action has the effect of increasing the cost of borrowing new funds and reducing the potential for marketing the Company's securities.

Our 1982 financing program will require the sale of approximately $670 million of new debt and equity securities. A satisfactory conclusion to the present electric rate case is essential to assure adequate access to the capital markets.

Construction Program. Expenditures for new plant and equipment in 1981 amounted to $794 million. Estimated construction outlays are $881 million for 1982 and $3.1 billion for the entire 1982-85 period. Approximately 60% of these construction funds are earmarked for completion of the two nuclear units at Limerick and flue gas clean-up systems at the Eddystone and Cromby coal-fired units.

Electric Operations

Coal Strike. On March 28, 1981, the United Mine Workers began a nationwide strike which lasted 10 weeks. However, service to PE customers was not affected because of adequate coal inventories which were increased in anticipation of the strike, the availability of the Company's nuclear plants and the purchase of energy from other utilities.

New Transmission Line Energized. A 17.4 mile, 500 kV line between PECo's new Elroy Substation in Montgomery County and Pennsylvania Power & Light's Hosensack Substation was energized on March 22, 1981 after nearly five years of regulatory delays and extensive litigation. The connection was designed to reinforce our transmission system and to achieve economies of operation.

The total cost of the project, including Elroy Substation, was $17.2 million but the project will result in annual savings to Philadelphia Electric of $4 million in reduced system losses and lower-cost generation.

Eddystone and Cromby Stations—Environmental Projects. Construction continues on the flue gas scrubbing systems being installed for the coal-fired boilers at the Eddystone and Cromby Generating Stations. Eddystone Unit No. 1 now operates with particulate scrubbers to maintain the stack emission for particulate and visible emissions within the Federal and state standards. The full program of implementation of SO_2 removal systems at Eddystone and Cromby Stations is expected to remove 90% of all SO_2 and particulate emissions discharged at these sites. The Company, through valuable expertise gained in recent years, has become a leader in the use of the magnesium oxide regenerative air pollution control technology.

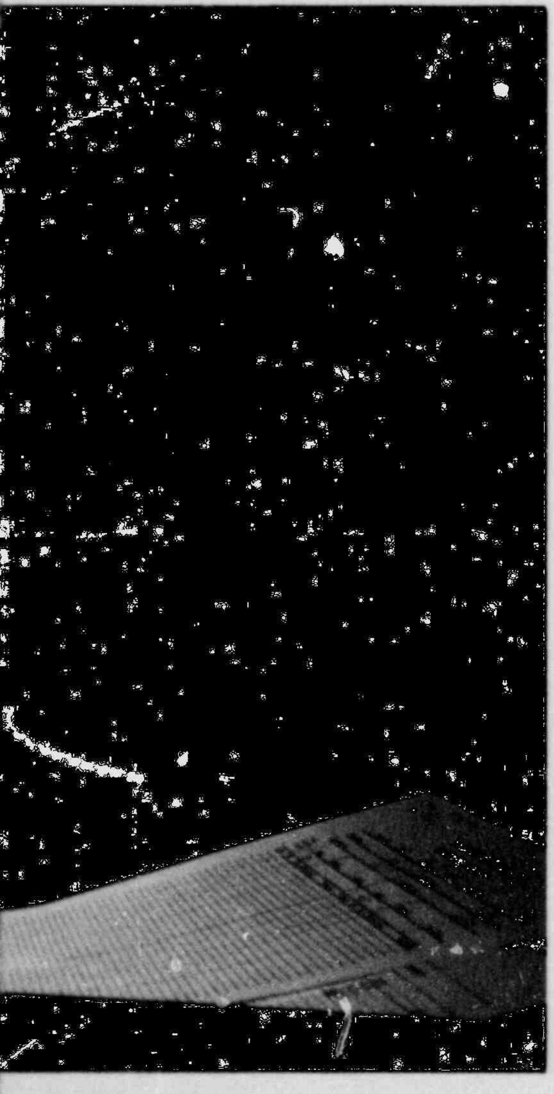
The scrubbing system installations are proceeding on schedule and are expected to be in full compliance with all Federal and state air quality regulations by December 1982 for Eddystone and early 1983 for Cromby. The projected final cost for the environmental systems, including scrubbers and an upgraded waste water treatment facility at Eddystone Station and scrubbers and a new waste water treatment facility at Cromby Station, is approximately $300 million.

The operation of the scrubbing system produces magnesium sulfite. In order to convert magnesium sulfite into its usable com-

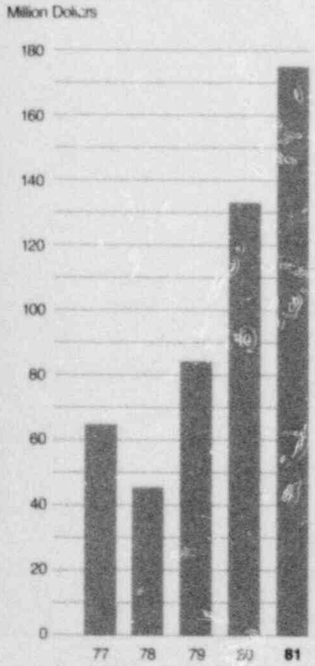
David Wallin, a Power Director in System Operation, monitors the power system in the Company's control center.

Construction of pollution-control equipment at Eddystone, a coal-fired station, progressed in 1981.

ponent compounds, the Company is constructing two magnesium oxide regeneration facilities which will be located at the Allied Chemical Company Sulfuric Acid Plant in Claymont, Delaware and at the Essex Chemical Company Sulfuric Acid Plant in Clifton, New Jersey. The regeneration facilities will convert magnesium sulfite to magnesium oxide and sulfur dioxide. The magnesium oxide will then be reused in the scrubbing systems of the Company's generating facilities. The sulfur dioxide will be used to produce sulfuric acid. These facilities are expected to cost approximately $75 million.



Annual Savings from PE Interchange and Power Purchases



Power Purchases from Allegheny Power System and Central Hudson. The Company was a pioneer in developing interconnections with other systems to provide high-quality service at the lowest possible cost. Never has this effort been more beneficial in reducing the cost of power to PE customers than during 1981.

A decade ago, the Company converted five of its major generating plants from coal to low-sulphur oil to meet air quality regulations. The major escalation in the price of oil in the past several years has dictated that PE should now avoid operating these high-cost plants whenever a lower-cost alternative source of power was available.

Beginning in February 1981, PE has purchased coal-fired electricity from systems in West Virginia, Ohio, Indiana and Illinois. The savings produced by these purchases amounted to $96 million in 1981.

An additional $3 million was saved by continuing the arrangements made in 1980 to purchase lower-cost, oil-fired power during summer peak load hours from Central Hudson Gas and Electric Corporation in New York.

These advantageous power purchases from other systems have been possible because of the strong interconnected transmission system that PE has developed with neighboring systems.

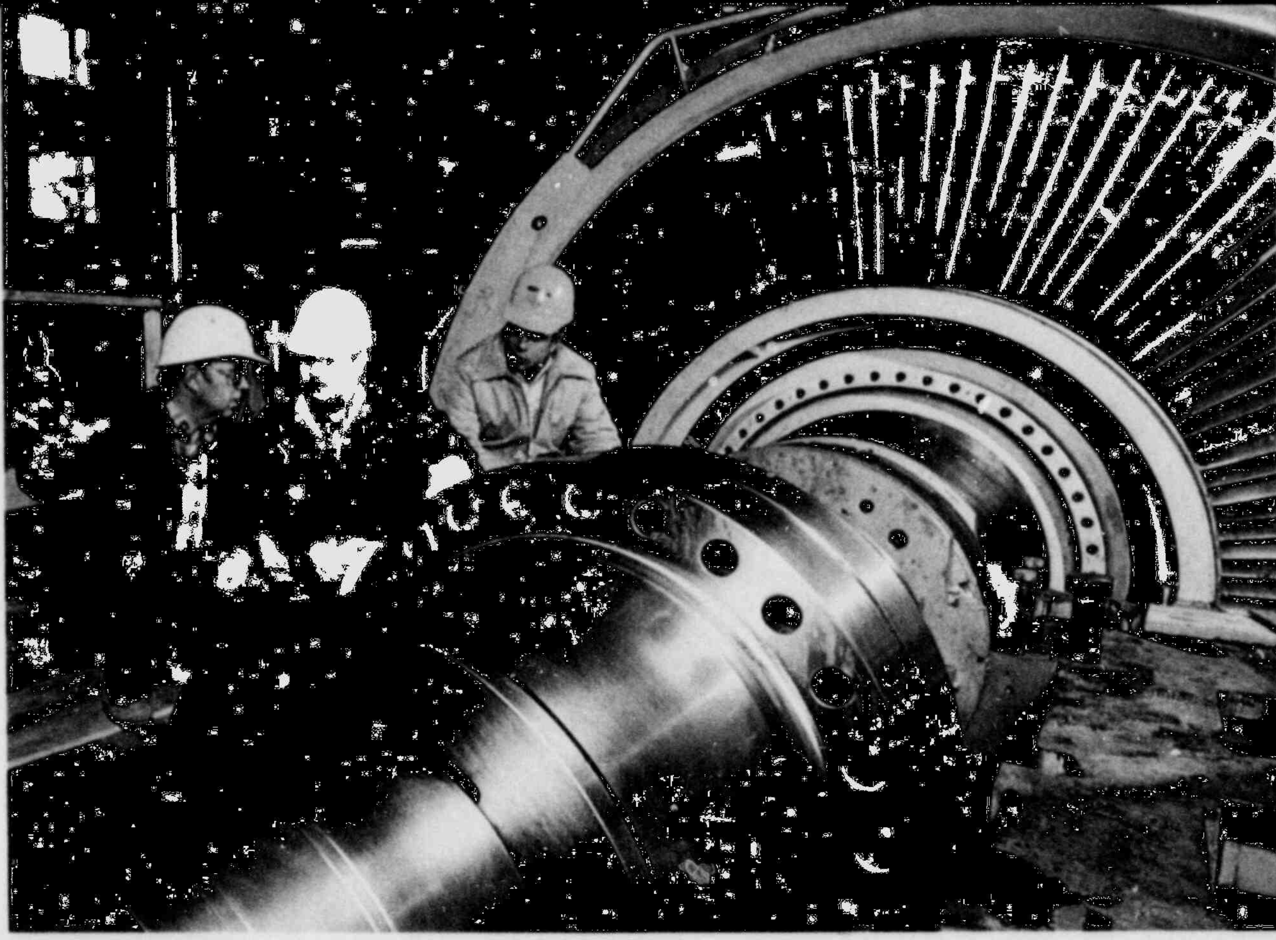
Electric T&D Manpower Reduction Program. In the early 1970's, more than 2,500 Electric Transmission and Distribution (T&D) Department employees and over 1,000 contract forces were needed to construct and maintain facilities or perform other functions involved in delivering power from generating stations to customers. When the 1974 oil embargo and escalating fuel costs resulted in reduced growth in energy use, the construction program was reduced accordingly. The resulting reduction in personnel requirements was met first by reducing contract forces. As further reductions became necessary, the number of employees was reduced through attrition and by two early retirement incentive programs.

During 1980, an additional program for Electric T&D employees was initiated providing incentives for employees to transfer to fill needs in other Company departments, or to retire early. This plan was completed during 1981 and reduced T&D manpower by an additional 132 people.

These programs have been effective in reducing the total number of Electric T&D employees by 700 without any layoffs to keep the department's manpower and workload in balance.

Panoramic view of Limerick Generating Station, a nuclear facility under construction in Limerick Township, Montgomery County, Pennsylvania.

In the center are two natural-draft cooling towers which will prevent overheating of the nearby Schuylkill River. The Schuylkill and Delaware Rivers will provide cooling water for plant operation. One tower is essentially complete and the second tower is nearly 60% complete. The completed shell of the reactor and turbine building is seen to the right.



Construction Engineers Jonathan Moffitt (center) and Joseph Brozonis (right) discuss low pressure turbine installation at Limerick Station with manufacturer representative Charles Bruck (left).

Nuclear Activities

Limerick Construction. Construction continues at a rapid pace at Limerick Generating Station. In 1981, the Company spent $423 million at Limerick bringing the total expenditures through December 31, 1981 on the project to $2.0 billion. Total construction cost upon completion in 1987 is estimated at about $4.2 billion. Unit No. 1 was 68% complete and Unit No. 2 was 30% complete as of December 31, 1981. Commercial service dates for the two units are 1985 and 1987.

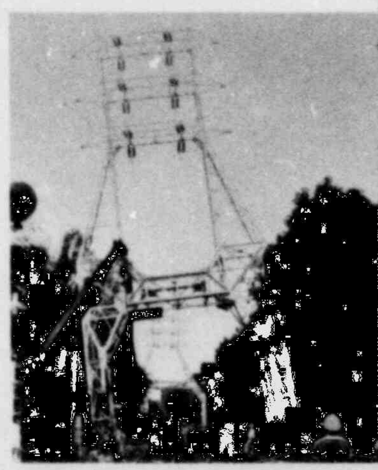
Highlights during 1981 include completion of the Unit No. 1 cooling tower structure, excavation of the 10-acre spray pond, and completion of the Administration Building. Erection of the Unit No. 1 turbine-generator nears completion. Over 70,000 feet of small pipe and over 1,000,000 feet of cable were installed in 1981. Pressure testing of piping systems commenced in preparation for start-up testing in 1983. The workforce reached 3,950.

Unit No. 2 milestones include setting the generator stator and installation of the 70,000 condenser tubes. An interesting side light occurred during the year when excavation for the spray pond uncovered rocks bearing dinosaur tracks estimated to be over 200 million years old.

Application to the Nuclear Regulatory Commission (NRC) for an operating license was made in March, 1981. Following a preliminary review, the NRC accepted the application for docketing in July, 1981.

Nuclear Training Limerick Training Center. The Limerick Training Center began formal nuclear training on January 5, 1981, with a group of licensed operators from Peach Bottom receiving requalification training in the simulator. Use of the simulator makes it possible for operators to be trained in a short period of time without disrupting normal plant operations.

The center's training personnel also instructed a group of operator trainees for the Limerick plant, selected from the Com-



In July, a derailed flat car from an 89-car freight train severed two legs of a 66kV transmission tower in Philadelphia. Sixteen Transmission and Distribution men completed the repairs within two days without any customer service interruptions.

pany's Electric Production Department. The trainees underwent an 18-week course in fundamentals and theory as the beginning of training which will ultimately lead to certification as licensed operators.

In addition, various engineer orientation courses, laboratory courses and other short non-operator courses have been conducted throughout the year. In September, a series of college level evening courses, conducted by Drexel University, were started at the training center.

Peach Bottom. During 1981 Peach Bottom Unit No. 3 underwent a scheduled outage for refueling and completion of a number of major NRC mandated modifications. In order to increase the level of safety and improve the ability of equipment and personnel to respond properly to plant malfunctions, significant changes were made to the reactor pressure suppression system, the reactor vessel feedwater inlet nozzles, the emergency control rod insertion system and specific safety-related piping and instrumentation. These modifications to the facility were the result of the TMI experience as well as on-going PE and NRC concerns.

The cost of these modifications on Unit No. 3 amounted to more than $35 million (PE share $15 million) toward improved nuclear safety and were completed in seven months. Much of this work has already been completed on Peach Bottom Unit No. 2.

Even with the extended outage of Peach Bottom Unit No. 3, it is estimated that the net fuel savings to PECo customers from the operation of Peach Bottom was over $185 million in 1981.

Salem Unit No. 2 in Service. The second unit of the Salem, New Jersey nuclear generating station was placed in commercial operation on October 13. PE owns 42.59 percent of the jointly-owned, 1,115 megawatt station which is operated by Public Service Electric and Gas Company of New Jersey which owns a similar percentage of the plant. Delmarva Power & Light Company and Atlantic City Electric Company each own 7.41 percent.

Lee Mine Construction. During 1981, construction started on the Lee Mine Uranium Project located in New Mexico, 60 miles west of Albuquerque, under an agreement which PE entered into with Kerr-McGee Nuclear Corporation during 1980. This is a joint venture operation in which Kerr-McGee is the constructor and will operate the mine. The uranium will be shared equally between Kerr-McGee and the Peach Bottom owners.

The mine shaft now under construction is 14 feet in diameter and will extend into the earth to a depth of 1,665 feet. The first uranium from this mine will be produced in 1985 and, at full production, the mine will have a 600 ton per day capacity. Uranium from this mine will supply a portion of the requirements for the Peach Bottom reactors until at least 1993. This uranium mining venture is another of PE's efforts to obtain an assured and diverse supply of uranium for our nuclear plants.

Pooled Inventory Management Service. In January, 1981, Philadelphia Electric Company and seven other utilities initiated a cost-sharing program for stocking spare common nuclear components for similar nuclear plants owned by this group of utilities. The program, called Pooled Inventory Management Service (PIMS), provides valuable protection to our customers against lengthy outages at Peach Bottom caused by the unavailability of a nuclear component at a fraction of what it would cost the Company to stock this equipment independently.

Peach Bottom Station engineer inspects the reactor pressure suppression system during modifications at Unit No. 3. The system provides cooling water for emergency shut-down.

Unit No. 2 at Salem was placed in service during 1981 by PSE&G. PE owns 42.59% of the station.

Gas Operations

Peak Gas Sendouts. During the 1980-81 heating season, total gas sendout surpassed the previous recorded peak day total on five days. Prior to Christmas Day, 1980, the record daily sendout had been 441 million cubic feet, which occured on January 17, 1977. Total sendout for December 25, 1980 established a peak of 444 million cubic feet, when the average temperature was 4°F. Continued cold weather produced a series of records in early 1981 and the final peak daily total amounted to 486 million cubic feet on Monday, January 12 when the average temperature was 7°F.

On January 17, 1982, a new daily sendout record of 529 million cubic feet of natural gas was established as the temperature averaged minus 2°F.

Record Gas Sales. Gas sales increased 6% in 1981 to a record 73 billion cubic feet. This amount surpassed the previous yearly sales record of 70 billion cubic feet set in 1972.

Gas Supplies Increased for 1982 and 1983. Natural gas availability from the Company's interstate pipeline suppliers continued to improve in 1981 and is expected to remain at the current level through 1982.

William Fulmer (center), Assistant Supervisor—Mains and Services, and Street-Mechanics Joseph Gambino (left) and Steven Allen (right) inspect the gauge on a hydraulic pump used to compress a coupling in making a final connection for a six-inch, plastic gas main extension for service to a new business area.

The Company has increased its winter supply from underground storage by contracting for an additional 3% of normal winter natural gas supplies for the 1981-82 heating season. The next phase of this storage expansion project is expected to provide a further increase of 2% for the 1982-83 winter heating season.

Two New Gate Stations for Natural Gas Distribution. The increase in new gas sales experienced by the Company over the past two years has been greater than in any similar period in the Company's history. The sharp increase in new load required the construction of two additional supply points to feed the Company's natural gas distribution system. The supply points, known as gate stations, are locations where the Company purchases gas from two natural gas transmission companies.

When placed in service during the winter of 1981-82, one of the new gate stations, located in Chester County, will reinforce the gas distribution system in the Paoli-Downingtown-West Chester areas. The second station, located in Bucks County, will provide similar reinforcement to the Morrisville-Levittown-Bristol areas. With the addition of the new stations, which have a total expected cost of $1.8 million, the Company's natural gas distribution system will have a total of thirteen supply points feeding a network of 4,475 miles of mains. These mains cover an area of 1,475 square miles serving 293,000 customers.

Operation of the thirteen supply points is directed from the Gas System Control Center in King of Prussia where distribution system pressures and sendout requirements are constantly being monitored and updated through a computerized network of supervisory control equipment.

During 1981, gas operations continued to expand as new gas connections were completed. In order to supply this new load, 88 miles of new main were installed at a cost of $15 million.

Twelve-inch gas main is welded for crossing the Schuylkill River at the Betzwood Bridge, near Valley Forge.

Home energy audits identify costs and savings of home conservation measures. A customer observes Mark Thompson, Home Energy Auditor, operating a portable computer terminal.

Customer Activities

Cogeneration and Alternate Energy Sources. Alternative methods of generating electricity are gaining wider attention through the media and government programs aimed at conserving non-renewable energy resources.

In April, 1981, the Company established an Alternative Energy Section to coordinate the increasing involvements of cogeneration and alternate energy sources. This group is involved with the applications of solar energy, wind energy and cogeneration facilities.

For over three years the Company has had a policy concerning the purchase of electric energy from private generating facilities and will continue to extend every cooperation to those customers who desire to operate their private facilities. A process for the implementation of the Federal rules and regulations governing the manner in which we contract with a private generation customer is now being prepared by Pennsylvania, while Maryland has its rules in effect.

Home Energy Audits. In conformance with the Residential Conservation Service (RCS) Program of the National Energy Conservation Policy Act, Philadelphia Electric Company began offering residential energy audits to its customers last summer. The charge for this service is $15 per residence.

All residential customers were advised of the availability of audits by bill enclosures. By the end of the year 11,400 customers had applied for audits of their homes, and 1,400 audits had been completed.

The Company trained a team of ten Customers Service employees in the skills required to inspect homes and identify places where adding weatherization improvements—insulation, sealing, caulking, glazing—or improving the efficiency and operation of the heating system can save energy and money for the customer. At the conclusion of each audit, the customer receives a print-out from a portable computer terminal. This informs the customer of the approximate cost and savings of each conservation step that can be taken in his home.

Residential Space Heating. During 1981, 19,700 additional residential units chose PECo supplied electricity and gas for space heating as oil prices increased to $1.25/gallon.

Electric space heating was selected for 9,900 units, 7,000 of which were new and 2,900 were conversions from other heating systems, mostly oil-fired. Of these units, 5,500 or 56% chose heat pumps, an efficient source for year-round comfort. At year end, there were 94,200 electrically heated homes on our lines.

Gas space heating was installed in 9,800 additional units, of which 1,600 were new construction while 8,200 converted from oil.

While gas prices are expected to rise further with complete deregulation, at year end the cost of gas was equivalent to 74¢ per gallon of oil.

In the new construction market, 69% chose electric heat while 16% chose gas for a total penetration in 1981 of 85% for PECo energy.

Area Development. In spite of the high interest rates and the nation's depressed economy, the downtown Philadelphia construction boom, which started in the last decade, continued during 1981. The construction of office buildings and new hotels is apparent throughout the city.

A 40-story office building joins three other office buildings in various stages of construction on Philadelphia's Market Street. Another 30-story office building is under construction at Logan Circle on the Parkway. In the suburbs, along the Turnpike and Expressway, there is also growth in office construction.

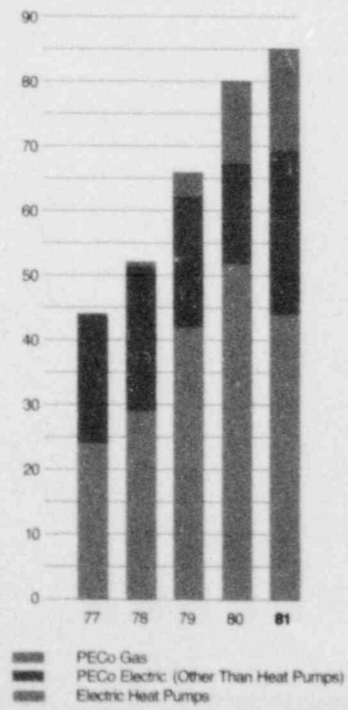
The growth of the hotel industry indicates the confidence investors have in Philadelphia's future. Construction is underway on a 25-story, 450-room Hershey Philadelphia Hotel on Broad Street. An 8-story, 375-room, luxury hotel to be operated by Four Seasons is under construction on the Parkway at Logan Circle. A 33-story luxury hotel and condominium has been topped out on Rittenhouse Square, and a 350-room Best Western Hotel is underway in City Line's Golden Mile area. Since 1975, almost 400 new restaurants have opened.

The new office buildings, hotels, restaurants, other commercial development and cultural activities have stimulated residential development in downtown Philadelphia.

During the past year, ten ships were assigned to the Navy Yard for refurbishing. Including the aircraft carrier Saratoga which arrived in late 1980, almost $800 million in contracts have been involved in these projects.

PECo Residential Space Heating Market Penetration

Percent of total new residential construction



The Stock Exchange Building on Market Street features a multi-tiered atrium.

The Great Hall of the newly-renovated Bourse Building across from Independence Hall Park in center city.

The Bourse is an 88-year old, historically-certified building which has undergone extensive reconstruction and is now a retail complex and office center.

Cleaning Up PCB's. The Company is field-testing a unique process designed to detoxify and destroy the suspected cancer-causing chemicals known as polychlorinated biphenals (PCB's). The Company is cooperating with the Franklin Institute Research Labs (FIRL) in this demonstration program, which involves a process developed by FIRL chemists. This process reduces PCB's to harmless table salt, thereby eliminating the hazards associated with handling and transporting this material.

Previously, the Company shipped transformer oils long distances to incinerators or landfills. This is now prevented by government regulation. PCB's were manufactured on a large scale between 1929 and 1977 and were used in numerous products, including adhesives, inks, lubricants, paints and plastics. In the utility industry, PCB's were used as an insulating fluid in capacitors and transformers.

The process has been effective in laboratory trials and has the approval of the Environmental Protection Agency (EPA), the city of Philadelphia, and the Pennsylvania Department of Environmental Resources. Once the field trials are proven successful, the Company will seek the EPA's permission to continue batch processing. This project is another

PE Is field-testing a unique process to destroy polychlorinated biphenals, or PCBs. George Raudenbush, an Assistant Foreman in Maintenance Division, checks the PCB processing.

Bud Lockwood, a Senior Engineer in Construction Division, inspects the coupling equipment for the new microwave communication system which was completed in August 1981. The system provides voice and data communications between the main office and the Peach Bottom-Muddy Run-Conowingo area as well as intermediate points.

example of how modern technology is being applied effectively.

Electric Vehicles. Philadelphia Electric Company was selected by the Department of Energy to participate in the Electric and Hybrid Vehicle Demonstration Program. The goal of the program is to advance electric vehicle technology and market potential.

Under the cost-sharing agreement between Philadelphia Electric and the Department of Energy, Philadelphia Electric purchased 6 vans and trucks and 14 passenger cars for use in its transportation fleet. Each electric vehicle will replace a petroleum-fueled vehicle.

During the three-year program, the Company will collect data on performance, reliability and safety, vehicle maintenance and public awareness. Periodic reports to the Department of Energy will record the Company's experience for use in a national data base.

Acoustic Stress Monitoring. Acoustic Emission Testing techniques, which were initially developed by the Company to inspect buried gas pipe lines, have been recently applied to other Company structures. The most recent successful application of acoustic emission by PE engineers is the development of a system to continuously monitor the stress of fiberglas booms on aerial lift trucks. This system measures the energy waves produced by the fiberglas material indicating any deterioration of the material well before failure, assuring the integrity and safety of the boom.

In a Research and Testing program now underway, Acoustic Emission Testing techniques are being used to determine the integrity of fiberglas ladders. An examination rig and associated instrumentation have been developed to test and qualify all Company fiberglas ladders.

The Company is participating in an electric vehicle demonstration program sponsored by the Department of Energy. One of the electric cars is shown at Head House Square, Philadelphia.

Communications

Community Outreach Program. The Corporate Communications Department is carrying out a community outreach program, designed to bring the personal touch to meeting customers' needs. The key to the program is letting people know that PE is really thousands of individuals trained and willing to help our customers. The program also serves the Company by opening a dialogue with many customers, giving the Company a better insight into customer thinking.

Among the best ways to achieve this give-and-take communication with the public was to get groups of customers with similar broad interests together with Company people to talk over mutual concerns. Eight customer councils were formed by the suburban division managers and by the Philadelphia district managers. The councils meet regularly on matters of topical and timely interest. Members of these councils live in the same geographic area and reflect broadly the opinions of their varied communities. A Clergy Council is made up of 40 members of the Philadelphia clergy who have arranged for PE representatives to speak at church meetings and after church services, primarily on energy conservation. A Social Services Council is composed of over 50 members representing public and private social service agencies. An Hispanic Council is composed of 41 members who represent business, social agencies, civic and community groups and organizations in the growing Hispanic community. An Energy Education Advisory Council (EEAC) was established in 1976 to broaden the base of public understanding on energy. The EEAC, composed of teachers, administrators, curriculum and environmental specialists, has developed extensive curricula materials on energy as well as debates, seminars, in-service training ranging the entire education spectrum. A Professional Advisory Council on Energy was established recently composed of professionals in science, engineering and technology.

Management Training Programs. During 1981, the third phase of an in-depth development program for management/supervisory employees began. This third phase provides training in managing performance and will be offered to about 1,800 employees.

Since 1976, all levels of the Company's management team have undergone training to improve and upgrade managerial skills. It is the aim of Philadelphia Electric Company to provide managerial personnel with the tools to develop to the fullest extent of their capabilities.

In addition, the Company continued training in problem-solving and decision-making techniques. This program, which began in 1976, has been offered to 1,300 employees including both managerial/supervisory personnel and key non-supervisory employees.

C P R Program. Cardiopulmonary Resuscitation (CPR) training, a life saving method of resuscitation which combines mouth-to-mouth respiration and closed chest heart compressions, was introduced by the Company in 1976. Over the past five years Company instructors—all volunteers and Red Cross certified—have trained over 9,000 employees in the use of CPR.

The value of this training was realized within a few months of its introduction on the system. In June of 1976 one of the original instructors successfully applied CPR to save a neighborhood child. Since this first successful effort, fifteen employees have received recognition from the National Safety Council or the American Red Cross for their use of CPR to save or attempt to save lives of victims of cardiac arrest.

Customers Service Representatives, such as Debby Morgan, are assisted by modern computer technology to respond rapidly to customer questions.

Financial Section Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

General. The revenue growth of recent years has been accompanied by substantial increases in operating costs and carrying charges on increased investment in plant and equipment. Any future increases in such costs and charges may be expected to affect future net income and earnings per average common share adversely unless periodic rate relief is obtained to offset them. See Note 14 of Notes to Financial Statements for the estimated effects of inflation. In addition, the capital carrying charges associated with the construction of the Limerick station and other projects which are capitalized by crediting income with an allowance for funds used during construction (AFUDC) and recovered through future depreciation now represents a major portion of net income and will continue to increase until the first Limerick unit goes into service unless prior to that time, some of the carrying charges are recovered in revenue.

Sluggish economic conditions in the Company's service area also are having an adverse effect on operating results. Although the return on average common equity has increased slightly during the past three years, the return on investment is still substantially below what the Pennsylvania Public Utility Commission (PUC) allowed as a fair rate of return in the Company's last rate order.

Effective April 25, 1981, the Company put into effect a rate increase for electric operations amounting to $188 million. On January 15, 1982, the Company put into effect a rate increase for steam operations amounting to $3.4 million. On July 29, 1981, the Company filed a request with the PUC for an additional $344 million in electric revenue. Hearings have been completed with briefing, oral argument and decision to follow. The PUC has suspended the rate increase under agreement with the Company to May 21, 1982 when a final order is expected. On September 28, 1981, the Company filed with the PUC for an additional $38.7 million in gas revenue. The PUC has suspended the rate increase until June 27, 1982. Hearings on the gas increase began in January, 1982. The total $383 million of requested increases in revenue is designed to improve the Company's earnings and cash flow to enable the Company to attract the capital necessary to finance its construction program. The Company has no assurance that all or any portion of the requested increases will be granted.

The Company estimates that 56 percent of the $1.90 per share dividend paid to common shareholders in 1981 represents a return of capital which is not taxable as dividend income for Federal income tax purposes.

Electric Operating Revenue. Increases in 1981 and 1980 reflect both higher base rates and the recovery of higher fuel costs through fuel or energy adjustment clause billings. In addition, the increase in 1981 over 1980 reflects the sale of the energy and capacity equivalent of Salem Unit No. 2 to Jersey Central Power and Light Company during the second half of 1981. Kilowatt-hour sales of electricity to retail customers declined slightly throughout the period.

Gas Operating Revenue. Increases in 1981 and 1980 primarily reflect the recovery of higher fuel costs. Mcf sales of gas increased 5.5 percent in 1981 over 1980 and 8.9 percent in 1980 over 1979, due to increased house heating and small commercial customers.

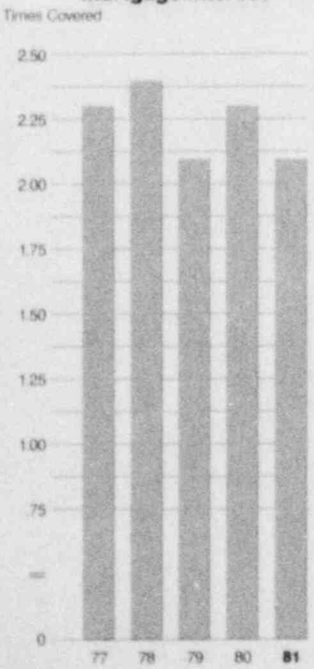
Fuel and Energy Interchange Expense. Fuel and interchange expense increased 8.9 percent in 1981 over 1980 and 64.8 percent in 1980 over 1979 as a result of higher prices for all fuels.

Other Operation and Maintenance Expenses. Other operation and maintenance expenses have increased in the last two years due to inflation and to growth in utility plant.

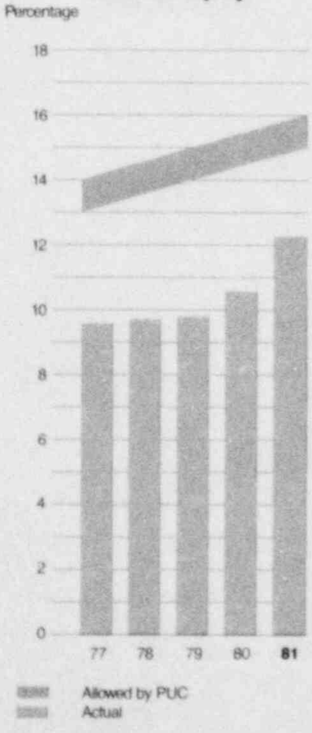
Depreciation. Increases in depreciation in the last two years result from additions to plant in service. The increase of 6.0% in 1981 over 1980 is due primarily to Salem Unit No. 2 being placed in commercial operation.

Taxes on Income. Taxes on operating income increased in 1981 and 1980 as the result of higher income. Income tax credits, net, included in other income, have increased in the last two years as a result of the higher Allowance for Borrowed Funds Used During Construction.

Ratio of Earnings to Mortgage Interest



Return on Average Common Equity



Taxes, Other than Income. Taxes, other than income, have increased due to increases in revenue, which is subject to a gross receipts tax, and due to higher capital stock, realty and social security taxes.

Allowance for Funds Used During Construction. The increases in AFUDC for the last two years resulted from a higher cost of capital for construction and increases in construction work in progress.

Interest Charges. Interest charges on long- and short-term debt increased in the last two years because of higher costs of money and additional debt outstanding. The ratio of earnings to mortgage interest, which is a measure of the Company's ability to issue additional long-term debt, has remained only slightly above 2.0 times, which is the minimum required for the issuance of new mortgage debt.

Capital Expenditures and Changes in Financial Position. The Company is carrying on a construction program which is estimated to require expenditures of $881 million in 1982 and $2.3 billion from 1983 to 1985. Of these expenditures, approximately $1.9 billion relates to the construction of the Company's two, 1055-mw nuclear generating units at Limerick, which are scheduled for commercial operation in 1985 and 1987. The final costs of these units are currently estimated to be $4.2 billion. Successful completion of this program is dependent on the Company's ability to obtain external financing, primarily through sales of new debt and equity securities which are subject to market conditions and certain earnings tests. The program also is subject to the licensing requirements of the Nuclear Regulatory Commission, financing approvals by the PUC and changes due to litigation. The Company cannot predict the outcome of such regulatory reviews, but believes the safety requirements have been or will be met and that the economic desirability of the program has been demonstrated and that the program will be successfully completed.

Placing the Limerick units into service will enable the Company to retire some of its older, less-efficient fossil units and to lessen its dependence on high-cost oil. In addition, when the units are completed, it is expected that the Company will realize fuel savings estimated to be from $250 million to $1.0 billion per year as compared with obtaining electricity from alternative generating sources.

Interim financing of the construction program is provided by commercial paper borrowings and short- and intermediate-term bank loans, which are also dependent on the Company's financial position.

Consolidated Statements of Income

		For the Year Ended December 31		
		1981	1980	1979
		(Thousands of Dollars)		
	Operating Revenues			
	Electric	**$2,002,063**	$1,766,956	$1,311,891
	Gas	**356,431**	290,743	221,135
	Steam	**74,931**	65,695	45,479
Total Operating Revenues		**2,433,425**	2,123,394	1,578,505
	Operating Expenses			
	Fuel and Energy Interchange	**1,187,635**	1,090,497	661,724
	Other Operation Expense	**360,840**	279,587	247,152
	Maintenance	**156,878**	136,963	117,491
	Depreciation	**130,283**	122,947	120,608
	Taxes on Income	**129,484**	93,673	79,055
	Taxes, Other than Income	**145,312**	133,761	106,676
	Total Operating Expenses	**2,110,432**	1,857,428	1,332,706
Operating Income		**322,993**	265,966	245,799
	Other Income			
	Allowance for Other Funds Used During Construction	**65,013**	50,483	46,008
	Income Tax Credits, net	**63,164**	49,025	33,884
	Other, net	**2,457**	3,425	1,710
	Total Other Income	**130,634**	102,933	81,602
Income Before Interest Charges		**453,627**	368,899	327,401
	Interest Charges			
	Long-Term Debt	**266,691**	224,970	192,990
	Short-Term Debt	**33,155**	13,865	7,315
	Allowance for Borrowed Funds Used During Construction	**(123,784)**	(97,067)	(67,375)
	Net Interest Charges	**176,062**	141,768	132,930
Net Income		**277,565**	227,131	194,471
	Preferred Stock Dividends	**53,804**	52,181	44,773
Earnings Applicable to Common Stock		**$ 223,761**	$ 174,950	$ 149,698
	Average Shares of Common Stock Outstanding (Thousands)	**99,557**	87,302	80,529
	Earnings Per Average Common Share (Dollars)	**$2.25**	$2.00	$1.86
	Dividends Per Common Share (Dollars)	**$1.90**	$1.80	$1.80

See notes to financial statements.

Consolidated Balance Sheets

ASSETS	December 31 1981	December 31 1980
	(Thousands of Dollars)	
Utility Plant, at original cost		
In Service		
Electric	$4,163,088	$3,708,715
Gas	371,239	332,599
Steam	54,152	53.955
Common, used in all services	118,701	118,387
	4,707,180	4,213,656
Less: Accumulated Depreciation	1,330,611	1,235,715
Net Utility Plant in Service	3,376,569	2,977,941
Construction Work in Progress	2,337,517	2,202,100
	5,714,086	5,180,041
Nonutility Property and Other Investments	77,780	58,697
Current Assets		
Cash and Temporary Cash Investments	30,678	6,678
Accounts Receivable		
Customers	277,292	262,447
Other	65,131	37,910
Materials and Supplies, at average cost		
Fuel (coal, oil and gas)	83,612	82,216
Operating and Construction	48,581	38,870
Deferred Fuel Expense	(31,299)	11,048
Prepayments	6,819	6,180
	480,814	445,349
Deferred Debits	31,515	18,462
Total	$6,304,195	$5,702,549

See notes to financial statements.

LIABILITIES

	December 31 1981	December 31 1980
	(Thousands of Dollars)	
Capitalization		
Common Shareholders' Equity		
Common Stock	**$1,572,388**	$1,377,463
Other Paid-In Capital	**3,888**	2,581
Retained Earnings	**387,251**	353,570
	1,963,527	1,733,614
Preferred Stock		
Series Without Mandatory Redemption Requirements	**372,472**	372,472
Series With Mandatory Redemption Requirements	**266,929**	274,330
Long-Term Debt	**2,745,723**	2,371,933
	5,348,651	4,752,349
Current Liabilities		
Short-Term Debt		
Bank Loans	**54,225**	5,900
Commercial Paper	**—**	46,690
Current Maturities of Long-Term Debt	**36,062**	130,789
Accounts Payable	**165,485**	164,637
Taxes Accrued	**68,421**	72,121
Deferred Income Taxes—Fuel	**(17,052)**	5,717
Interest Accrued	**82,294**	64,943
Dividends Declared	**23,380**	22,969
Other	**18,130**	17,372
	430,945	531,138
Deferred Credits		
Accumulated Deferred Income Taxes	**273,528**	224,953
Accumulated Deferred Investment Tax Credits	**204,061**	163,422
Other	**47,010**	30,687
	524,599	419,062
Total	**$6,304,195**	$5,702,549

See notes to financial statements.

Consolidated Statements of Retained Earnings

	For the Year Ended December 31		
	1981	1980	1979
	(Thousands of Dollars)		
Balance, January 1	**$ 353,570**	$338,154	$333,649
Net Income	**277,565**	227,131	194,471
	631,135	565,285	528,120
Cash Dividends Declared			
Preferred Stock (at specified annual rates)	**53,762**	52,973	44,760
Common Stock ($1.90 per share in 1981 and $1.80 per share in 1980 and 1979)	**189,476**	157,423	144,984
Expenses of Capital Stock Issues	**646**	1,319	222
	243,884	211,715	189,966
Balance, December 31	**$ 387,251**	$353,570	$338,154

Consolidated Statements of Changes in Financial Position

		1981	1980	1979
	Sources of Funds			
	Net Income	**$ 277,565**	$227,131	$194,471
	Charges (Credits) Not Affecting Funds			
	Depreciation, Amortization and Spent Fuel Costs	**144,031**	130,354	123,066
	Deferred Income Taxes, net	**2,011**	(12,121)	44,854
	Investment Tax Credits, net of Amortization	**25,049**	28,135	(3,019)
	Allowance for Other Funds Used During Construction	**(65,013)**	(50,483)	(46,008)
Total from Operations		**383,643**	323,016	313,364
	Sale of Securities			
	Long-Term Debt	**423,500**	275,000	200,000
	Preferred Stock	**—**	72,000	—
	Common Stock	**194,925**	137,816	99,988
	Increase (Decrease) in Short-Term Debt	**1,635**	(32,[illegible]7)	68,968
	Sale of Salem Station Nuclear Fuel	**100,166**	—	—
	Sale of Tax Benefits	**53,743**	—	—
Total from Financings		**773,969**	452,219	368,956
Total Sources		**$1,157,612**	$775,235	$682,320
	Uses of Funds			
	Additions to Utility Plant	**787,075**	579,802	421,615
	Allowance for Other Funds Used During Construction	**(65,013)**	(50,483)	(46,008)
	Dividends on Preferred and Common Stock	**243,238**	210,396	189,744
	Increase (Decrease) in Deferred Fuel Expense	**(42,347)**	(72,464)	79,285
	Retirement of Long-Term Debt	**137,470**	140,671	56,169
	Increase (Decrease) in Other Items of Working Capital	**62,144**	(36,286)	(28,114)
	Other, net	**35,045**	3,599	9,629
Total Uses		**$1,157,612**	$775,235	$682,320

See notes 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 f-ncial statements. Non-utility subsidiaries are included in investments and accounted for by the equity method. The accounts are maintained in accordance with the uniform systems 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 the regulatory authorities.

Fuel Expenses. For financial reporting purposes, the Company defers the under or over collection of fuel expense which is recoverable under energy adjustment clauses until it is subsequently billed. For income tax purposes, fuel expense is considered an expense when incurred.

The Company leases nuclear fuel for use in its nuclear generating stations. Nuclear fuel costs are 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 life of the fuel. Commencing in May, 1981, the estimated disposal costs of spent fuel are being charged to operations as permitted for rate making purposes. Such amounts, net of related deferred income taxes, are deposited in an escrow account for funding of future costs. The Company believes that any additional costs, which may be significant, would be recoverable through adjustments of rates charged to its customers.

Depreciation. For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on a straight-line basis. Commencing in May, 1980, the estimated decommissioning costs of portions of the nuclear plants are being charged to operations as permitted for rate making purposes. Such amounts, net of deferred income taxes, are deposited in an escrow account for funding of future costs. The Company believes that any additional costs, which may be significant, would be recoverable through adjustments of rates charged to its customers. The annual depreciation provisions, expressed as a percent of average depreciable utility plant in service, were approximately 3.01% for 1981, 3.06% for 1980 and 3.11% for 1979.

Income Taxes. Deferred income taxes are provided for differences between book and taxable income to the extent permitted 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 a non[illegible] item which is defined in the uniform systems of accounts as "the net cost for the period of construction of b[illegible]owed funds used for construction purposes and a reasonable rate on other funds when so used." AFUDC is recorded as a charge to Construction Work In Progress, and the equivalent credits are to "Interest Charges" for the pre-tax cost of borrowed funds and to "Other Income" for the remainder as the allowance for equity funds. The rate used for capitalizing AFUDC, which averaged 8.65% in 1981, 7.85% in 1980, and 7.45% in 1979, is computed under a method prescribed by the regulatory authorities. The rate is a "net after-tax rate" and the current income tax reductions applicable to the interest charges capitalized, $63,875,000 in 1981, $50,083,000 in 1980 and $34,754,000 in 1979, are recorded in "Other Income." AFUDC is not included in taxable income and the depreciation of capitalized AFUDC is not a tax-deductible expense.

Retirement Plan. The Company has a non-contributory trusteed retirement plan applicable to all regular employees. Pension costs include normal cost for the year and amortization of unfunded prior service costs, over ten to twenty-year periods (see Note 10). Approximately 79% of such costs were charged to operating expense and the remainder, associated with construction labor, to the cost of new utility plant.

Gas Exploration and Development Costs. The Company has invested in several joint ventures for exploring and drilling for gas. These costs are capitalized under the full cost method and charged to operations commensurate with the use of gas produced by these ventures. Non-utility property and other investments at December 31, 1981, and 1980, include unamortized capitalized costs of $46,294,000 and $32,224,000, respectively.

2. Common Stock: At December 31, 1981 and 1980, Common Stock, without par value consisted of 160,000,000 shares authorized and 108,507,097 shares and 92,632,571 shares, respectively, outstanding. At December 31 1981, there were 4,787,024 shares reserved for issuance under stock purchase plans.

Common Stock issued:	Number of Shares 1981	1980	1979	Amounts 1981	1980	1979
				(Thousands of Dollars)		
Public Sales	**12,800,000**	7,000,000	4,000,000	**$154,786**	$101,360	$63,460
Dividend Reinvestment and Stock Purchase Plan	**2,667,081**	2,399,418	1,740,991	**34,809**	31,593	26,389
Employee Stock Purchase Plan	**407,445**	349,937	279,315	**5,330**	4,863	4,416
Tax Reduction Act Stock Ownership Plan	**—**	—	350,225	**—**	—	5,723
Totals	**15,874,526**	9,749,355	6,370,531	**$194,925**	$137,816	$99,988

3. Preferred Stock, $100 par, cumulative, at December 31, 1981 and 1980:

	Current Redemption Price (a)	Refunding Restricted Prior to (b)	Number of Shares Authorized	Outstanding 1981	Outstanding 1980	Amount 1981	Amount 1980
						(Thousands of Dollars)	
Series (without mandatory redemption requirements):							
9.50%	$106.50		750,000	**750,000**	750,000	**$ 75,000**	$ 75,000
8.75%	107.00		650,000	**650,000**	650,000	**65,000**	65,000
7.85%	105.00		500,000	**500,000**	500,000	**50,000**	50,000
7.80%	105.50		750,000	**750,000**	750,000	**75,000**	75,000
7.75%	103.00		200,000	**200,000**	200,000	**20,000**	20,000
4.68%	104.00		150,000	**150,000**	150,000	**15,000**	15,000
4.4%	112.50		274,720	**274,720**	274,720	**27,472**	27,472
4.3%	102.00		150,000	**150,000**	150,000	**15,000**	15,000
3.8%	106.00		300,000	**300,000**	300,000	**30,000**	30,000
			3,724,720	**3,724,720**	3,724,720	**372,472**	372,472
Series (with mandatory redemption requirements) (c) and (d):							
15.25% (Sold 1980)	115.25	5-1-90	500,000	**500,000**	500,000	**50,000**	50,000
10% (Sold 1980)	104.44	5-1-85	220,000	**220,000**	220,000	**22,000**	22,000
9.52%	106.25	5-1-86	500,000	**453,920**	490,210	**45,392**	49,021
8.75%	108.75	5-1-88	500,000	**500,000**	500,000	**50,000**	50,000
7.325%	104.98		750,000	**660,000**	690,000	**66,000**	69,000
7%	104.00		400,000	**335,370**	343,090	**33,537**	34,309
			2,870,000	**2,669,290**	2,743,300	**266,929**	274,330
Unclassified			3,405,280	**—**	—	**—**	—
Total Preferred Stock			10,000,000	**6,394,010**	6,468,020	**$639,401**	$646,802

(a) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.
(b) Prior to the date specified, none of the shares of each series indicated may be redeemed through refunding at an interest cost or dividend rate which is less than the dividend rate of such series.
(c) Redemption requirements (par value) in the period 1982-1986 are as follows: 1982—$3,000,000; 1983—$5,129,000; 1984—$5,800,000; 1985—$5,800,000; and 1986—$12,700,000.
(d) The excess of the aggregate par value of reacquired shares, 74,010 shares in 1981, 45,210 shares in 1980 and 40,490 shares in 1979, over the aggregate purchase price is reflected in Other Paid-In Capital: $1,307,000 in 1981, $378,000 in 1980 and $235,000 in 1979.

4. Long Term Debt, at December 31, 1981 and 1980:

Philadelphia Electric Company	Series	Due	**1981**	1980
			(Thousands of Dollars)	
First Refunding Mortgage Bonds (**a**)			**$**	$
	2¾%	1981	**—**	30,000
	3¼%	1982	**35,000**	35,000
	3⅛%	1983	**20,000**	20,000
	3[illegible]/8%	1985	**50,000**	50,000
	4⅜%	1986	**50,000**	50,000
	3¾%-5%	1987-1989	**130,000**	130,000
	4½%-15¼%	1992-1996	**455,256**	383,007
	6⅛%-11⅝%	1997-2001	**559,988**	565,089
	8½%-12½%	2002-2006	**500,000**	500,000
	6%-18¾%	2007-2011	**448,500**	198,500
Total First and Refunding Mortgage Bonds			**2,248,744**	1,961,596
Notes Payable—Banks	(**b**)	1984-1987	**225,000**	225,000
Pollution Control Notes	5.5%-13%	1982-2011	**130,205**	31,250
Debentures	12¾%	1981	**—**	100,000
Debentures	4.85%	1986	**22,710**	22,710
Debentures	14⅛%	1990	**50,000**	50,000
Debentures	14¾%	2005	**100,000**	100,000
Unamortized Debt Discount and Premium, Net			**(14,162)**	(7,190)
Total Philadelphia Electric Company			**2,762,497**	2,483,366
Philadelphia Electric Power Company—a subsidiary:				
Sinking Fund Debentures	4½%	1995	**19,356**	19,429
Unamortized Debt Discount			**(68)**	(73)
Total Long-Term Debt			**2,781,785**	2,502,722
Current Maturities included in Current Liabilities (c)			**(36,062)**	(130,789)
Long-Term Debt included in Capitalization			**$2,745,723**	$2,371,933

(**a**) Utility plant is subject to the lien of the Company's mortgage.
(**b**) At interest rates ranging from prime rate to 112½% of prime rate.
(**c**) Long-term debt maturities in the period of 1982-1986 are as follows: 1982—$36,062,000; 1983—$29,207,000; 1984—$85,300,000; 1985—$160,300,000, and 1986—$80,300,000.

The Company has an agreement with a group of banks for a $400 million revolving credit and term loan. The agreement provides a revolving credit availability through May 31, 1985 and repayment during the period June 1, 1985 to May 31, 1987. There is a commitment fee of ½% on the $400 million during the credit availability period and thereafter ½% on outstanding balances. The interest rate during the credit availability period is 105% of either the prime rate of a major bank or 1% above the rate on 90-day certificates of deposit, whichever is higher, and 107% of such higher rate during the repayment period.

5. Short-Term Debt:

	1981	1980
	(Thousands of Dollars)	
Average Short-Term Borrowings	**$146,273**	$54,716
Average Interest Rates, Computed on Daily Basis	**17.80%**	15.07%
Maximum Short-Term Borrowings Outstanding	**$266,512**	$161,143
Average Interest Rates on Short-Term Borrowings at December 31:		
Bank Loans	**16.37%**	20.53%
Commercial Paper	**—**	15.11%

Included in Bank Loans as of December 31, 1981 is $50,000,000 at an interest rate of 16.5%, under a $100,000,000 Two-Year Euro Dollar revolving credit facility, effective April 6, 1981. Such credit facility provides for a commitment fee of 3/8% on the unused amount of the credit facility.

As of December 31, 1981 the Company had borrowed $4,225,000 under informal lines of credit with domestic banks aggregating $239,175,000. The Company generally does not have formal compensating balance arrangements with these banks.

6. Jointly-Owned Electric Utility Plant:

The Company's ownership interests in jointly-owned utility plant, at December 31, 1981 were as follows:

	Production Plants				Transmission Plant
	Peach Bottom	Salem	Keystone	Conemaugh	
Operator	Philadelphia Electric Company	Public Service Electric and Gas Company	Pennsylvania Electric Company	Pennsylvania Electric Company	Various Companies
Participating Interest	42.49%	42.59%	20.99%	20.72%	21% to 43%
Company's share of:			(Thousands of Dollars)		
Plant in Service	$387,761	$798,805	$47,015	$57,163	$69,141
Accumulated Depreciation	73,520	56,528	19,894	16,388	7,275
Construction Work in Progress	12,064	18,588	1,068	761	—

The Company's participating interests are financed with Company funds and, when placed in service, all operations are accounted for as if such participating interests were wholly-owned facilities.

7. Taxes on Income:

	1981	1980	1979
		(Thousands of Dollars)	
Included in operating expenses:			
Current Federal	**$ 75,558**	$ 55,416	$ 29,844
Current State	**26,866**	22,243	7,376
	102,424	77,659	37,220
Deferred Federal	**6,007**	(4,653)	41,058
Deferred State	**(3,996)**	(7,468)	3,796
	2,011	(12,121)	44,854
Investment tax credits, net of amortization—Federal	**25,049**	28,135	(3,019)
Total Federal	**106,614**	78,898	67,883
Total State	**22,870**	14,775	11,172
	$129,484	$ 93,673	$ 79,055
Included in other income:			
Current Federal	**(50,299)**	(39,132)	(27,021)
Current State	**(12,865)**	(9,893)	(6,863)
	$(63,164)	$(49,025)	$(33,884)
Total income tax provisions:			
Federal	**56,315**	39,766	40,862
State	**10,005**	4,882	4,309
	$ 66,320	$ 44,648	$ 45,171

Investment tax credits reduced Federal income taxes currently payable by $29,817,000 in 1981, $32,428,000 in 1980 and $605,000 in 1979. Approximately $53,000,000 of additional investment tax credits available in 1981 have not been realized due to limitations based on taxable income. These credits may be used to reduce Federal income taxes in future years through 1996. Investment tax credits consist of (a) the basic credits allowable of 10% plus (b) a credit of 1½% resulting from the Tax Reduction Act Stock Ownership Plan for employees ($6,200,000 in 1981, none realized in 1980 and 1979). The additional credits which are passed on to the employees of the Company in the form of Philadelphia Electric Company Common Stock have no effect on net income.

In December, 1981, the Company sold the tax benefits attributable to its ownership interest in the Salem Station Unit No. 2. This transaction was structured under the safe harbor lease provisions of the Economic Recovery Tax Act of 1981. The proceeds from the sale, $53,743,000, have been credited to Deferred Income Taxes ($24,759,000), Deferred Investment Tax Credits ($21,863,000) and other Deferred Credits ($7,121,000) and will be amortized by credits to income over the estimated useful life of the plant.

Beginning May 1, 1981, the normalization of income taxes associated with capitalized pension costs and payroll and realty taxes was adopted for both accounting and rate making purposes.

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

	1981	1980	1979
		(Thousands of Dollars)	
Depreciation and amortization	**$ 25,452**	$ 25,655	$ 26,981
Recoupment revenue	**—**	—	(18,462)
Deferred fuel expense	**(21,804)**	(37,369)	40,899
Other	**(1,637)**	(407)	(4,564)
	$ 2,011	$(12,121)	$ 44,854

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

	1981	1980	1979
Net income	**$277,565**	$ 227,131	$ 194,471
Total income tax provisions	**66,320**	44,648	45,171
Income before income taxes	**343,885**	271,779	239,642
Deduct—allowance for funds used during construction (non-taxable)	**188,797**	147,550	113,383
Adjusted income before taxes	**$155,088**	$ 124,229	$ 126,259
Income taxes on above at Federal statutory rate of 46%	**71,340**	57,145	58,079
Increase (decrease) due to:			
Excess of tax depreciation over book depreciation not normalized	**(551)**	(1,338)	(2,987)
State income tax, net of Federal income tax benefits	**5,436**	2,636	2,327
Taxes and pension costs capitalized but expensed for tax purposes	**(3,226)**	(7,028)	(6,382)
Amortization of investment tax credits previously deferred	**(4,769)**	(4,293)	(3,624)
Other, net	**(1,910)**	(2,474)	(2,242)
Total income tax provisions	**$ 66,320**	$ 44,648	$ 45,171
Provision for income taxes as a percent of:			
Income before income taxes	**19.3%**	16.4%	18.8%
Adjusted income before income taxes	**42.8%**	35.9%	35.8%

8. Taxes, Other than Income:

	1981	1980	1979
Gross receipts	**$100,912**	$ 90,487	$ 67,385
Capital stock	**19,600**	19,046	17,030
Realty	**9,555**	9,398	8,819
Other, principally social security	**15,245**	14,830	13,442
Total	**$145,312**	$133,761	$106,676

9. Leases:

Certain leases, including the nuclear fuel contracts for Peach Bottom and Salem, meet the criteria of a capital lease as defined by Financial Accounting Standards, but are accounted for as operating leases in accordance with the rate making process. If these leases were capitalized they would not have a material effect on assets, liabilities or related expenses.

The minimum rental commitments under all noncancelable agreements aggregated $378,514,000 at December 31, 1981. The annual rental commitments are estimated to be $83,020,000 for 1982; $89,459,000 for 1983; $89,995,000 for 1984; $46,034,000 for 1985; and $9,155,000 for 1986.

Rental payments charged to operating expenses were as follows:

	1981	1980	1979
		(Thousands of Dollars)	
Nuclear Fuel	**$26,709**	$21,177	$21,747
Other	**24,782**	21,235	19,912
Total	**$51,491**	$42,412	$41,659

The Company's proportionate share of the contractual liabilities to purchase nuclear fuel under lease agreements for the Peach Bottom Station and Salem Station as of December 31, 1981 was $199,045,000. Independent fuel companies have been authorized to acquire and own up to a maximum of $425,000,000 of nuclear fuel at any one time and have contracted to sell the energy therefrom to the Company.

10. Retirement Plan Costs:

Retirement plan costs, which are funded as accrued, aggregated $31,700,000 in 1981, $28,575,000 in 1980, and $25,713,000 in 1979. Plan data as of the dates of the most recent actuarial reports is as follows:

	January 1	
	1981	1980
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits (based on 6.5% assumed rate of return):		
Vested	$326,786	$295,999
Nonvested	38,317	35,453
	$365,103	$331,452
Net assets available for benefits	$332,027	$277,223

11. Segment Information:

		Electric	Gas	Steam	Total
			(Thousands of Dollars)		
1981	Operating revenues	$2,002,063	$356,431	$74,931	$2,433,425
	Operating expenses, excluding depreciation	1,586,506	322,008	71,635	1,980,149
	Depreciation	117,270	11,294	1,719	130,283
	Total operating expenses	1,703,776	333,302	73,354	2,110,432
	Operating income	$ 298,287	$ 23,129	$ 1,577	$ 322,993
	Utility plant additions	$ 746,535	$ 40,432	$ 108	$ 787,075
December 31:	Allocable assets				
	Net utility plant (•)	5,372,240	314,652	27,194	5,714,086
	Materials and Supplies	101,956	29,986	251	132,193
		$5,474,196	$344,638	$27,445	5,846,279
	Nonallocable assets				457,916
Total assets					$6,304,195
1980	Operating revenues	$1,766,956	$290,743	$65,695	$2,123,394
	Operating expenses, excluding depreciation	1,414,038	258,063	62,380	1,734,481
	Depreciation	111,106	10,169	1,672	122,947
	Total operating expenses	1,525,144	268,232	64,052	1,857,428
	Operating income	$ 241,812	$ 22,511	$ 1,643	$ 265,966
	Utility plant additions	$ 540,628	$ 38,833	$ 341	$ 579,802
December 31:	Allocable assets:				
	Net utility plant (•)	4,867,879	283,414	28,748	5,180,041
	Materials and Supplies	102,193	18,582	311	121,086
		$4,970,072	$301,996	$29,059	5,301,127
	Nonallocable assets				401,422
Total assets					$5,702,549
1979	Operating revenues	$1,311,891	$221,135	$45,479	$1,578,505
	Operating expenses, excluding depreciation	975,414	194,416	42,268	1,212,098
	Depreciation	109,990	8,944	1,674	120,608
	Total operating expenses	1,085,404	203,360	43,942	1,332,706
	Operating income	$ 226,487	$ 17,775	$ 1,537	$ 245,799
	Utility plant additions	$ 401,674	$ 19,490	$ 451	$ 421,615
December 31:	Allocable assets:				
	Net utility plant (•)	4,449,522	261,719	30,141	4,741,382
	Materials and Supplies	91,685	18,017	299	110,001
		$4,541,207	$279,736	$30,440	4,851,383
	Nonallocable assets				389,877
Total assets					$5,241,260

(•) Includes construction work in progress and allocated common utility property.

12. Commitments and Contingencies:

The Company has incurred substantial commitments in connection with its construction program. Construction expenditures are estimated to be $881,000,000 for 1982 and $2,267,000,000 for 1983-1985. These estimates are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors. The nuclear plant facilities under construction require numerous permits and licenses, which the Company cannot be assured will be issued at completion of the facilities.

The Price-Anderson Act places a "Limit of Liability" of $560,000,000 on each licensed nuclear facility for public liability claims that could arise from a nuclear incident involving any licensed facility in the nation. 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 $160,000,000 and the remainder is provided by indemnity agreements with the Nuclear Regulatory Commission. In the event of a nuclear incident involving any licensed reactor in the United States, the Company could be assessed up to $8,500,000 per incident with a maximum amount of $17,000,000 in any one year.

The Company is insured for damage to its nuclear plant facilities at Peach Bottom and Salem. This insurance provides coverage for losses up to $450,000,000 and an additional $247,000,000 for losses in excess of $500,000,000. Under the terms of the various insurance agreements the Company could be assessed up to $28,000,000 for losses incurred at any of the plants insured by the insurance companies. The Company is a self-insurer, to the extent of its ownership interests, for any property loss in excess of the insurance coverage.

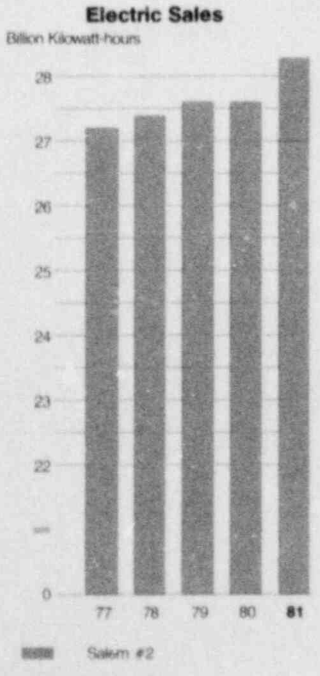
The Company, along with other nuclear facility operators, formed an industry mutual insurance company to provide replacement power cost insurance coverage up to a maximum of $179,400,000 for a single unit loss over a two-year period in the event of a major outage at a nuclear station. The premium for this coverage is subject to an assessment for adverse loss experience, and the coverage currently applies to Peach Bottom Units 2 and 3, and Salem Units 1 and 2. The Company's maximum share of any assessment is $13,805,000.

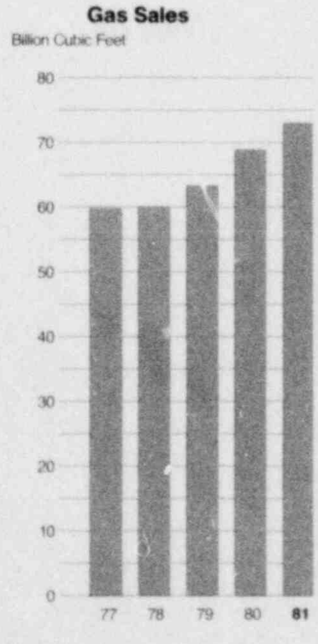
Actions have been filed in the U.S. District Court against the Company with respect to alleged discrimination in its employment or promotion practices. Counsel is of the opinion that the ultimate outcome of these actions would not have a material adverse effect on the financial position of the Company.

13. Quarterly Data (Unaudited):

The data shown below includes all adjustments (consisting of normal recurring accruals) which the Company considers necessary for a fair presentation of such amounts.

Quarter Ended	Operating Revenues		Net Income		Earnings Applicable to Common Stock		Average Shares Outstanding (Thousands)		Earnings Per Average Share (Dollars)	
	(Thousands of Dollars)									
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980	**1981**	1980
March 31	**$647,927**	$564,353	**$69,904**	$53,605	**$56,382**	$42,125	**92,706**	82,944	**$.61**	$.51
June 30	**543,612**	455,326	**58,475**	43,891	**45,017**	30,308	**98,383**	83,649	**.46**	.36
September 30	**620,697**	567,810	**79,198**	78,620	**65,763**	65,052	**99,227**	90,557	**.66**	.72
December 31	**621,189**	535,905	**69,988**	51,015	**56,599**	37,465	**107,749**	91,970	**.53**	.41





14. Supplementary Information to Disclose the Estimated Effects of Inflation for the Year Ended December 31, 1981 (Unaudited):

The following supplementary information is supplied to show the estimated effects of inflation because the Company is required to do so, according to the Statement of Financial Accounting Standards No. 33. The methods required to develop this information are approximate and complex, and may not necessarily reflect the true effects of inflation on the Company. Under existing regulatory law, the Company is permitted to recover actual operating and capital costs incurred to serve customers and a reasonable return on investment, and the Company believes it will be allowed to recover cost increases caused by inflation as such increases are actually incurred.

Effect of Inflation on Reported Income. In adjusting the Consolidated Statements of Income, as shown below, only depreciation expense is required to be adjusted for the effect of inflation. The "constant dollar" and "current cost" depreciation expenses were determined by applying the Company's depreciation rates to restated 1981 average depreciable plant in service. Fuel inventories have not been restated from their original cost because the operation of fuel adjustment clauses permits the automatic recovery of fuel costs.

If the Company had to replace its entire utility plant at this time, the costs to do so would greatly exceed the original costs incurred when the facilities were built because of the cumulative effect of inflation. These plant replacement costs, net of accumulated depreciation, are estimated at $10,225,000,000 as restated for "constant dollars" and $10,851,000,000 as restated for "current costs." Under the "constant dollar" method, the Company is required to restate the original costs in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. The "current cost" method uses Handy-Whitman Indices of Public Utility Construction Costs. Results from the two methods differ because construction costs have increased more rapidly than consumer prices in general. However, during 1981, 1980 and 1979, general inflation increased more rapidly than specific prices. Under the "current cost" method, the effect ($856,000,000) of general inflation in 1981 on net utility plant exceeded the increase ($670,000,000) in specific prices by $186,000,000 and by $205,000,000 and $85,000,000, for 1980 and 1979 expressed in average 1981 dollars. In the Company's opinion, the "current cost" method is more appropriate for estimating the effect of inflation on utility plant.

Consolidated Statements of Income Adjusted for Inflation for the Year Ended December 31, 1981 (Thousands of Dollars)

		As Adjusted For	
	As Reported	Constant Dollars (Average 1981 Dollars)	Current Costs (Average 1981 Dollars)
Operating Revenues	$2,433,425	$2,433,425	$2,433,425
Depreciation	130,283	293,000	331,000
Other Operating Expenses	1,980,149	1,980,149	1,980,149
Operating Income	322,993	160,276	122,276
Other Income	130,634	130,634	130,634
Income Before Interest Charges and Preferred Stock Dividends	453,627	290,910	252,910
Interest Charges and Preferred Stock Dividends	229,866	229,866	229,866
Earnings Applicable to Common Stock•	$ 223,761	$ 61,044	$ 23,044
Earnings Per Average Share••	$2.25	$0.61	$0.23

•Earnings applicable to Common Stock for 1980 and 1979, restated in average 1981 dollars, amounted to $54,887 and $46,633, respectively, for Constant Dollars and losses of $2,313 and $8,368, respectively, for Current Costs.

••Earnings per average share for 1980 and 1979, based on the restated earnings were $0.63 and $0.58, respectively, for Constant Dollars and losses of $0.03 and $0.10, respectively, for Current Costs.

Effects of Inflation on Shareholders' Equity. The effect of inflation on the Company's actual original cost of net utility plant amounted to $456,000,000 for 1981, ($626,090,000 for 1980, and $699,000,000 for 1979 expressed in average 1981 dollars). These inflationary effects were not recovered because rates are based on depreciation of original cost plant. If the Company were required to charge these amounts against income in 1981, 1980 and 1979, earnings applicable to common stock would have become losses of $232,239,000, and $433,455,000, and $511,628,000, respectively. The effect of inflation (8.9% for 1981, 12.4% for 1980 and 13.3% for 1979) on the value of the Company's debt and preferred stock approximated $308,000,000 for 1981, $426,000,000 for 1980, and $480,000,000 for 1979 (1980 and 1979 expressed in average 1981 dollars) and would partially offset the effect of inflation on utility plant.

If the Company had earned at the rate of inflation (8.9%) on its common shareholders' equity in 1981, earnings would have been approximately $165,000,000 compared with reported earnings of $223,761,000. Thus, reported earnings applicable to common stock in 1981 were about $60,000,000 above the level necessary to offset the impact of inflation on shareholders' equity.

Adjustment of Selected Five Year Financial Information. In order to reflect the impact of general inflation on selected financial information for each of the years 1977 through 1981, the following table shows actual data compared with data adjusted to 1981 dollars.

Five Year Summary of Selected Financial Information Showing Adjustments to Reflect Inflation

		1981	1980	1979	1978	1977
Development of Adjustment Factors	Consumer Price Index					
	Average During Year	**272.4**	246.8	217.4	195.4	181.5
	Year End	**281.5**	258.4	229.9	202.9	186.1
	Consumer Price Index Multiplier					
	A = Average (272.4 ÷ Index)	**1.00**	1.10	1.25	1.39	1.50
	B = Year End (281.5 ÷ Index)	**1.00**	1.09	1.22	1.39	1.51
Actual and Adjusted Financial Information	Dividends Per Common Share					
	Actual Paid	**$1.90**	$1.80	$1.80	$1.80	$1.76
	Adjusted (Actual x A)	**$1.90**	$1.98	$2.25	$2.50	$2.64
	Market Price Per Common Share					
	Actual year End	**$13.63**	$12.50	$13.75	$15.50	$19.63
	Adjusted (Actual x B)	**$13.63**	$13.63	$16.78	$21.55	$29.64
	Operating Revenues (thousands of dollars)					
	Actual	**$2,433,425**	$2,123,394	$1,578,505	$1,456,758	$1,394,762
	Adjusted (Actual x A)	**$2,433,425**	$2,335,733	$1,973,131	$2,024,894	$2,092,143
	Common Shareholders' Equity (thousands of dollars)					
	Actual Year End	**$1,963,527**	$1,733,614	$1,580,004	$1,475,276	$1,437,202
	Adjusted (Actual x B)	**$1,963,527**	$1,889,639	$1,927,605	$2,050,634	$2,170,175

Accountants' Report

To the Shareholders and Board of Directors
Philadelphia Electric Company

We have examined the consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1981 and 1980, and the related consolidated statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1981. 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, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Girard Plaza
Philadelphia, Pennsylvania
February 2, 1982

Coopers & Lybrand

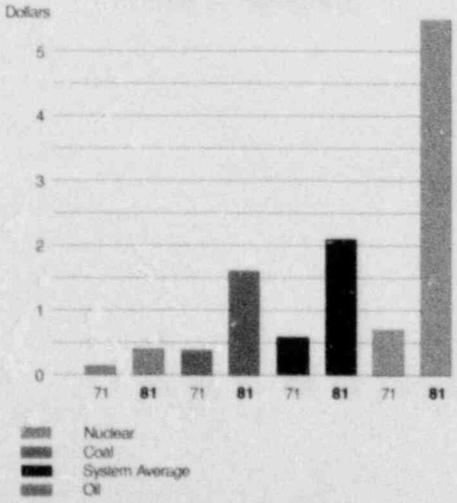
Financial Statistics

Summary of Earnings (Millions of Dollars)

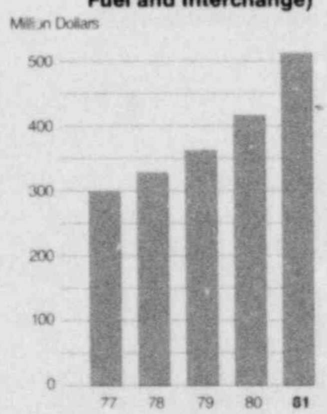
	1981	1980	1979	1978	1977	1976	1971
Operating Revenues (for details see pages 23 and 32)	**$2,433.4**	$2,123.4	$1,578.5	$1,456.8	$1,394.8	$1,224.1	$608.1
Operating Expenses							
Fuel and Energy Interchange	**1,187.6**	1,090.5	661.7	573.9	575.3	480.7	189.8
Labor	**256.8**	232.1	209.3	195.0	179.2	161.9	108.8
Other Materials, Supplies and Services	**260.9**	184.5	155.4	135.0	121.4	88.9	45.2
Total Operation and Maintenance	**1,705.3**	1,507.1	1,026.4	903.9	875.9	731.5	343.8
Depreciation	**130.3**	122.9	120.6	116.5	107.8	98.0	55.9
Taxes	**274.8**	227.4	185.7	194.7	188.9	183.2	80.8
Total Operating Expenses	**2,110.4**	1,857.4	1,332.7	1,215.1	1,172.6	1,012.7	480.5
Operating Income	**323.0**	266.0	245.8	241.7	222.2	211.4	127.6
Other Income							
Allowance for Other Funds Used During Construction	**65.0**	50.5	46.0	37.6	36.2	30.1	14.4
Income Tax Credits, net	**63.2**	49.0	33.9	26.3	25.3	24.2	(1.7)
Other, net	**2.5**	3.4	1.7	4.6	3.5	2.6	3.2
Total Other Income	**130.7**	102.9	81.6	68.5	65.0	56.9	15.9
Income Before Interest Charges	**453.7**	368.9	327.4	310.2	287.2	268.3	143.5
Interest Charges							
Long-Term Debt	**266.7**	225.0	193.0	176.3	161.0	147.6	60.9
Short-Term Debt	**33.2**	13.9	7.3	2.5	2.6	3.6	6.3
Allowance for Borrowed Funds Used During Construction	**(123.8)**	(97.1)	(67.4)	(53.4)	(49.8)	(47.5)	(17.3)
Net Interest Charges	**176.1**	141.8	132.9	125.4	113.8	103.7	49.9
Net Income	**277.6**	227.1	194.5	184.8	173.4	164.6	93.6
Preferred Stock Dividends	**53.8**	52.2	44.8	43.5	40.7	39.0	15.3
Earnings Applicable to Common Stock	**223.8**	174.9	149.7	141.3	132.7	125.6	78.3
Dividends on Common Stock	**189.5**	157.4	145.0	135.7	124.9	107.7	60.7
Earnings Retained	**$ 34.3**	$ 17.5	$ 4.7	$ 5.6	$ 7.8	$ 17.9	$ 17.6
Earnings per Average Share (Dollars)	**$ 2.25**	$ 2.00	$ 1.86	$ 1.87	$ 1.87	$ 1.91	$ 2.10
Dividends per Common Share (Dollars)	**$ 1.90**	$ 1.80	$ 1.80	$ 1.80	$ 1.76	$ 1.64	$ 1.64
Common Stock Equity (Per Share)	**$ 18.10**	$ 18.72	$ 19.06	$ 19.28	$ 19.26	$ 19.13	$19.54
Average Shares of Common Stock Outstanding (Millions)	**99.6**	87.3	80.5	75.4	70.8	65.6	37.3

See page 21 for Management's Discussion and Analysis of Financial Condition and Results of Operations.

Comparison of Electric Fuel Costs Per Million BTU



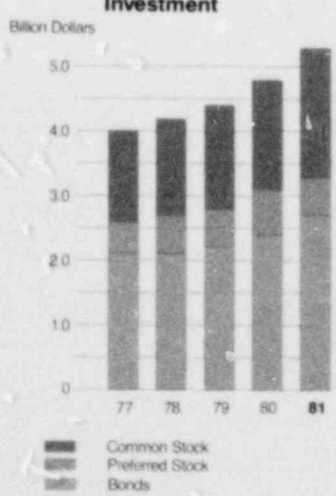
Operation and Maintenance Expenses (Less Fuel and Interchange)



Summary of Financial Condition
December 31 (Millions of Dollars)

		1981	1980	1979	1978	1977	1976	1971
Assets	Utility Plant, at original cost	**$7,044.7**	$6,415.7	$5,885.5	$5,502.5	$5,121.1	$4,747.2	$2,851.0
	Less: Accumulated Depreciation	**1,330.6**	1,235.7	1,144.1	1,053.3	955.3	860.3	585.7
	Net Utility Plant	**5,714.1**	5,180.0	4,741.4	4,449.2	4,165.8	3,886.9	2,265.3
	Nonutility Property and Other Investments	**77.8**	58.7	47.4	30.0	27.4	13.2	6.0
	Current Assets							
	Cash and Temporary Cash Investments	**30.7**	6.7	10.6	38.6	30.8	23.8	25.2
	Accounts Receivable	**342.4**	300.3	230.9	223.5	134.0	168.0	63.0
	Materials and Supplies	**132.2**	121.1	110.0	93.3	102.3	88.3	34.2
	Deferred Fuel Expense	**(31.3)**	11.0	83.5	4.2	23.0	19.9	—
	Other	**6.8**	6.2	4.6	4.3	3.8	2.6	2.0
	Deferred Debits	**31.5**	18.5	12.9	7.5	10.9	14.7	6.6
Total		**$6,304.2**	$5,702.5	$5,241.3	$4,850.6	$4,548.0	$4,217.4	$2,402.3
Liabilities	Common Stock	**$1,572.4**	$1,377.4	$1,239.6	$1,139.7	$1,106.7	$1,002.8	$ 528.2
	Other Paid-In Capital	**3.9**	2.6	2.2	2.0	1.8	1.7	1.2
	Retained Earnings	**387.2**	353.6	338.2	333.6	328.7	321.2	254.7
	Common Shareholders' Equity	**1,963.5**	1,733.6	1,580.0	1,475.3	1,437.2	1,325.7	784.1
	Preferred Stock:							
	Series Without Mandatory Redemption Requirements	**372.5**	372.5	372.5	372.5	372.5	372.5	222.5
	Series With Mandatory Redemption Requirements	**266.9**	274.3	206.8	210.9	161.7	162.6	40.0
	Long-Term Debt	**2,745.7**	2,371.9	2,241.9	2,173.2	2,078.3	1,936.4	1,161.8
	Total Capitalization	**5,348.6**	4,752.3	4,401.2	4,231.9	4,049.7	3,797.2	2,208.4
	Current Liabilities							
	Short-Term Debt	**54.2**	52.6	85.2	16.2	14.9	7.2	49.3
	Current Maturities of Long-Term Debt	**36.1**	130.8	127.8	52.9	28.7	36.9	17.1
	Accounts Payable and Dividends Declared	**188.9**	187.6	133.5	120.3	92.4	83.9	40.7
	Taxes Accrued and Deferred	**51.4**	77.8	65.1	44.5	36.7	30.7	22.3
	Interest Accrued	**82.3**	64.9	58.1	51.0	48.6	43.2	17.5
	Other	**18.1**	17.4	13.9	7.9	4.1	4.6	15.2
	Deferred Credits	**524.6**	419.1	356.5	325.9	272.9	213.7	31.8
Total		**$6,304.2**	$5,702.5	$5,241.3	$4,850.6	$4,548.0	$4,217.4	$2,402.3

Capital Investment



Operating Statistics

ELECTRIC OPERATIONS	1981	1980	1979	1978	1977	1976	1971
Output (millions of kilowatt-hours)							
Steam	**9,931**	11,234	11,279	13,160	11,468	13,385	19,849
Nuclear	**7,464**	7,333	7,104	7,769	4,596	4,937	206
Hydraulic	**1,397**	1,240	2,155	1,700	1,997	2,065	1,738
Pumped Storage Output	**1,101**	1,050	1,270	1,109	1,223	1,062	1,639
Pumped Storage Input	**(1,624)**	(1,526)	(1,847)	(1,606)	(1,761)	(1,506)	(2,302)
Purchase and Net Interchange	**11,173**	9,973	9,180	6,651	9,759	7,666	2,889
Internal Combustion	**283**	442	454	704	847	792	940
Other	**528**	—	—	—	716	36	86
Total Electric Output	**30,253**	29,746	29,595	29,487	28,845	28,437	25,045
Sales (millions of kilowatt-hours)							
Residential	**8,014**	8,341	7,968	7,875	8,110	7,585	6,649
Small Commercial and Industrial	**3,115**	3,065	2,928	2,888	2,825	2,755	2,428
Large Commercial and Industrial	**14,916**	15,056	15,428	15,302	14,912	14,662	13,296
All Other	**2,223**	1,159	1,277	1,329	1,350	1,271	1,085
Total Electric Sales	**28,268**	27,621	27,601	27,394	27,197	26,273	23,458
Number of Customers, December 31							
Residential	**1,200,238**	1,190,312	1,173,514	1,158,853	1,148,171	1,137,544	1,079,585
Small Commercial and Industrial	**117,016**	116,808	115,724	115,945	115,883	115,422	119,203
Large Commercial and Industrial	**5,790**	5,820	5,798	5,780	5,772	5,747	5,517
All Other	**746**	736	1,919	2,413	2,381	2,345	2,130
Total Electric Customers	**1,323,790**	1,313,676	1,296,955	1,282,991	1,272,207	1,261,058	1,206,435
Operating Revenues (millions of dollars)							
Residential	**$ 643.7**	$ 607.8	$ 461.0	$ 430.8	$ 427.6	$ 373.2	$ 198.3
Small Commercial and Industrial	**285.9**	249.8	189.0	176.5	168.4	149.3	78.6
Large Commercial and Industrial	**917.1**	813.9	587.4	544.0	513.4	442.9	198.2
All Other	**155.4**	95.4	74.5	73.1	68.3	59.4	31.6
Total Electric Revenues	**$2,002.1**	$1,766.9	$1,311.9	$1,224.4	$1,177.7	$1,024.8	$ 506.7
Operating Expenses (millions of dollars)							
Operating expenses excluding depreciation	**$1,586.5**	$1,414.0	$ 975.4	$ 896.3	$ 881.2	$ 750.2	$ 344.2
Depreciation	**117.3**	111.1	110.0	106.3	97.9	88.0	50.4
Total Operating Expenses	**$1,703.8**	$1,525.1	$1,085.4	$1,002.6	$ 979.1	$ 838.2	$ 394.6
Electric Operating Income (millions of dollars)	**$ [illegible]**	$ 241.8	$ 226.5	$ 221.8	$ 198.6	$ 186.6	$ 112.1
Net Electric Utility Plant (millions of dollars)	**$5,[illegible]**	$4,867.9	$4,449.5	$4,167.1	$3,883.9	$3,604.5	$2,017.9
Average Use per Residential Customer (kilowatt-hours)							
Without Electric Heating	**6,022**	6,411	6,227	6,290	6,584	6,298	5,968
With Electric Heating	**18,054**	19,482	20,760	21,884	23,593	22,154	24,837
Total	**6,699**	7,058	6,829	6,833	7,097	6,710	6,187
Electric Peak Load, Demand (thous. kw)	**5,731**	6,095	5,641	5,667	5,888	5,346	5,313
Net Electric Generating Capacity—Year End Summer rating (thous. kw)	**8,006**	7,698	7,727	7,727	8,198	7,742	6,366
Cost of Fuel per Million Btu	**$2.10**	$1.90	$1.55	$1.29	$1.40	$1.24	$0.59
Btu per Net Kilowatt-hour Generated	**10,930**	10,787	10,810	10,773	10,882	10,529	10,782

GAS OPERATIONS		1981	1980	1979	1978	1977	1976	1971
	Sales (millions of cubic feet)							
	Residential	**2,446**	2,461	2,327	2,316	2,394	2,342	2,441
	House Heating	**24,675**	23,671	23,593	24,974	26,335	24,540	25,165
	Commercial and Industrial	**45,670**	42,890	37,452	32,784	31,017	33,390	40,624
	All Other	**127**	92	93	9[illegible]	86	89	102
Total Gas Sales		**72,918**	69,114	63,465	60,168	59,832	60,361	68,332
	Number of Customers, December 31							
	Residential	**78,426**	81,346	85,315	87,715	88,775	89,459	95,478
	House Heating	**193,038**	182,246	168,905	163,469	162,978	162,993	154,902
	Commercial and Industrial	**21,578**	20,197	19,065	19,207	19,422	19,669	19,778
Total Gas Customers		**293,042**	283,789	273,285	270,391	271,175	272,121	270,158
	Operating Revenues (millions of dollars)							
	Residential	**$ 15.4**	$ 14.0	$ 10.7	$ 9.9	$ 9.6	$ 8.7	$ 6.2
	House Heating	**128.5**	108.5	91.2	86.6	84.1	73.3	45.8
	Commercial and Industrial	**209.7**	166.7	118.4	92.2	80.4	76.1	34.8
	All Other	**0.5**	0.3	0.2	0.2	0.2	0.2	0.1
	Subtotal	**$354.1**	$289.5	$220.5	$188.9	$174.3	$158.3	$ 86.9
	Other Revenues	**2.3**	1.2	0.6	0.6	0.5	0.6	0.4
Total Gas Revenues		**$356.4**	$290.7	$221.1	$189.5	$174.8	$158.9	$ 87.3
	Operating Expenses (millions of dollars)							
	Operating expenses excluding depreciation	**$322.0**	$258.0	$194.4	$163.0	$145.7	$128.1	$ 67.1
	Depreciation	**11.3**	10.2	8.9	8.6	8.2	8.4	4.5
	Total Operating Expenses	**$333.3**	$268.2	$203.3	$171.6	$153.9	$136.5	$ 71.6
Gas Operating Income	(millions of dollars)	**$ 23.1**	$ 22.5	$ 17.8	$ 17.9	$ 20.9	$ 22.4	$ 15.7
Net Gas Utility Plant	(millions of dollars)	**$314.7**	$283.4	$261.7	$250.5	$248.1	$247.5	$220.2
STEAM OPERATIONS								
	Sales (millions of pounds)	**5,484**	6,044	6,581	7,336	7,165	7,735	8,223
	Number of Customers, December 31	**593**	618	638	660	670	679	733
	Operating Revenues (millions of dollars)	**$ 74.9**	$ 65.8	$ 45.5	$ 42.9	$ 42.3	$ 40.4	$ 14.1
	Operating Expenses (millions of dollars)							
	Operating expenses excluding depreciation	**$ 71.6**	$ 62.4	$ 42.3	$ 39.3	$ 38.0	$ 36.5	$ 13.3
	Depreciation	**1.7**	1.7	1.7	1.6	1.6	1.5	1.0
	Total Operating Expenses	**$ 73.3**	$ 64.1	$ 44.0	$ 40.9	$ 39.6	$ 38.0	$ 14.3
Steam Operating Income	(millions of dollars)	**$ 1.6**	$ 1.7	$ 1.5	$ 2.0	$ 2.7	$ 2.4	$ (0.2)
Net Steam Utility Plant	(millions of dollars)	**$ 27.2**	$ 28.7	$ 30.2	$ 31.6	$ 33.8	$ 34.9	$ 27.2

Shareholder Information

Stock Exchange Listings. Most PECo Securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange. Philadelphia Electric Power Company Debentures are listed on the Philadelphia Stock Exchange.

Dividends. The Company has paid dividends on its common stock continually since 1902. The Board of Directors normally considers common stock dividends for payment in March, June, September and December.

The Company estimates that 56% of the $1.90 per share dividend paid to common shareholders in 1981 represents a return of capital which is not taxable as dividend income for Federal income tax purposes.

Dividend Reinvestment and Stock Purchase Plan. Shareholders may use their dividends to purchase additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan. Philadelphia Electric pays all brokerage and service fees.

All common and preferred shareholders have the opportunity to invest additional funds in common stock of the Company, whether or not they have their dividends reinvested — also with all fees borne by the Company.

The Plan has been amended to enable eligible individual participants in the Plan to elect to defer Federal income tax on up to $1,500 of reinvested dividends per year as provided by the Economic Recovery Tax Act of 1981.

Nearly 22% of the common shareholders are participants. In 1981, they invested more than $34 million through the Plan, including cash payments. Information concerning this Plan may be obtained from M. W. Rimerman, Treasurer, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

Comments Welcomed. The Company always is pleased to answer questions and provide information. Please address your comments to Mrs. L. S. Binder, Secretary, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

Inquiries relating to shareholder accounting records, stock transfer and change of address should be directed to Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attn: Stock Transfer Section. (215) 841-5795

Annual Meeting. The Annual Meeting of the Shareholders of the Company will be held on April 14, 1982, at 10:30 A.M. at the Franklin Plaza Hotel, 17th & Race Streets, Philadelphia, PA.

Common stock shareholders of record at the close of business on March 5, 1982 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.

Form 10-K. Form 10-K, the annual report filed with the Securities and Exchange Commission, is available to shareholders upon written request to Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attn: Financial Division.

Shareholders. The Company has 266,613 shareholders of record of common stock, a 20% increase in 5 years.

Transfer Agents and Registrars.

PHILADELPHIA ELECTRIC COMPANY — Preferred and Common Stocks

Registrars:	Girard Bank, One Girard Plaza, Philadelphia, PA 19101
	Morgan Guaranty Trust Co. of NY, 30 West Broadway, New York, NY 10015
Transfer Agents:	Philadelphia Electric Company, 2301 Market Street, Philadelphia, PA 19101
	Morgan Guaranty Trust Co. of NY, 30 West Broadway, New York, NY 10015

PHILADELPHIA ELECTRIC COMPANY — First and Refunding Mortgage Bonds

Trustee:	The Fidelity Bank, Broad and Walnut Streets, Philadelphia, PA 19109
New York Agent:	Morgan Guaranty Trust Co. of NY, 23 Wall Street, New York, NY 10015

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

Trustee:	The Philadelphia National Bank, Broad and Chestnut Streets, Philadelphia, PA 19101
New York Agent:	Irving Trust Company, One Wall Street, New York, NY 10015

General Office. 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101. (215) 841-4000

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

	1981				1980			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	$14¼	$14⅜	$13⅝	$14	$13¾	$15⅛	$15¾	$14⅞
Low Price	$12½	$12¼	$11⅞	$11⅛	$11⅜	$12⅞	$12¼	$11⅞
Earnings	53¢	66¢	46¢	61¢	41¢	72¢	36¢	51¢
Dividends	50¢	50¢	45¢	45¢	45¢	45¢	45¢	45¢

Directors

* John H. Austin, Jr.
Executive Vice President
and Chief Operating Officer
of the Company

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

* James L. Everett
President and Chief Executive Officer
of the Company

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

* Robert F. Gilkeson
Chairman of the Board
of the Company

Richard G. Gilmore
Executive Vice President and Treasurer
Girard Bank

* William W. Hagerty
President, Drexel University

* Robert D. Harrison
Vice Chairman
John Wanamaker, Philadelphia, Inc.
(Merchandising)

Paul R. Kaiser
Chairman Emeritus
Tasty Baking Company
(Diversified Manufacturing)

Joseph C. Ladd
President and Chief Executive Officer
Fidelity Mutual Life Insurance Company

Edithe J. Levit, M.D.
President and Director
National Board of Medical Examiners

* Joseph J. McLaughlin
President, Beneficial Mutual
Savings Bank

* Member of Executive Committee

Officers

Robert F. Gilkeson
Chairman of the Board

James L. Everett
President and
Chief Executive Officer

John H. Austin, Jr.
Executive Vice President and
Chief Operating Officer

Vincent S. Boyer
Senior Vice President
Nuclear Power

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

Clifford Brenner
Vice President
Corporate Communications

Thomas W. Coppock
Vice President
Electric Transmission
and Distribution

Shields L. Daltroff
Vice President
Electric Production

Charles L. Fritz
Vice President
Personnel and Industrial Relations

Raymond F. Holman
Vice President
General Administration

John S. Kemper
Vice President
Engineering and Research

William B. Morlok
Vice President
Commercial Operations

Philip G. Mulligan
Vice President
Gas Operations

Clair V. Myers
Vice President
Purchasing and General Services

Joseph F. Paquette, Jr.
Vice President
Finance and Accounting

Lucy S. Binder
Secretary

Morton W. Rimerman
Treasurer

James D. Lynch
Assistant Secretary

J. Robert Causton
Assistant Treasurer

George G. Eppright
Assistant Treasurer

William M. Lennox
Assistant Treasurer

Joseph W. Ruff
Assistant Treasurer

Management Changes. On November 23, 1981, Thomas W. Coppock was elected Vice President of Electric Transmission and Distribution, succeeding William L. Maruchi, who retires effective March 1, 1982.

On January 25, 1982, Raymond F. Holman was elected Vice President of General Administration, succeeding Wayne C. Astley, who retires effective April 1, 1982.

Philadelphia Electric Company
2301 Market Street
PO Box 8699
Philadelphia PA 19101

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