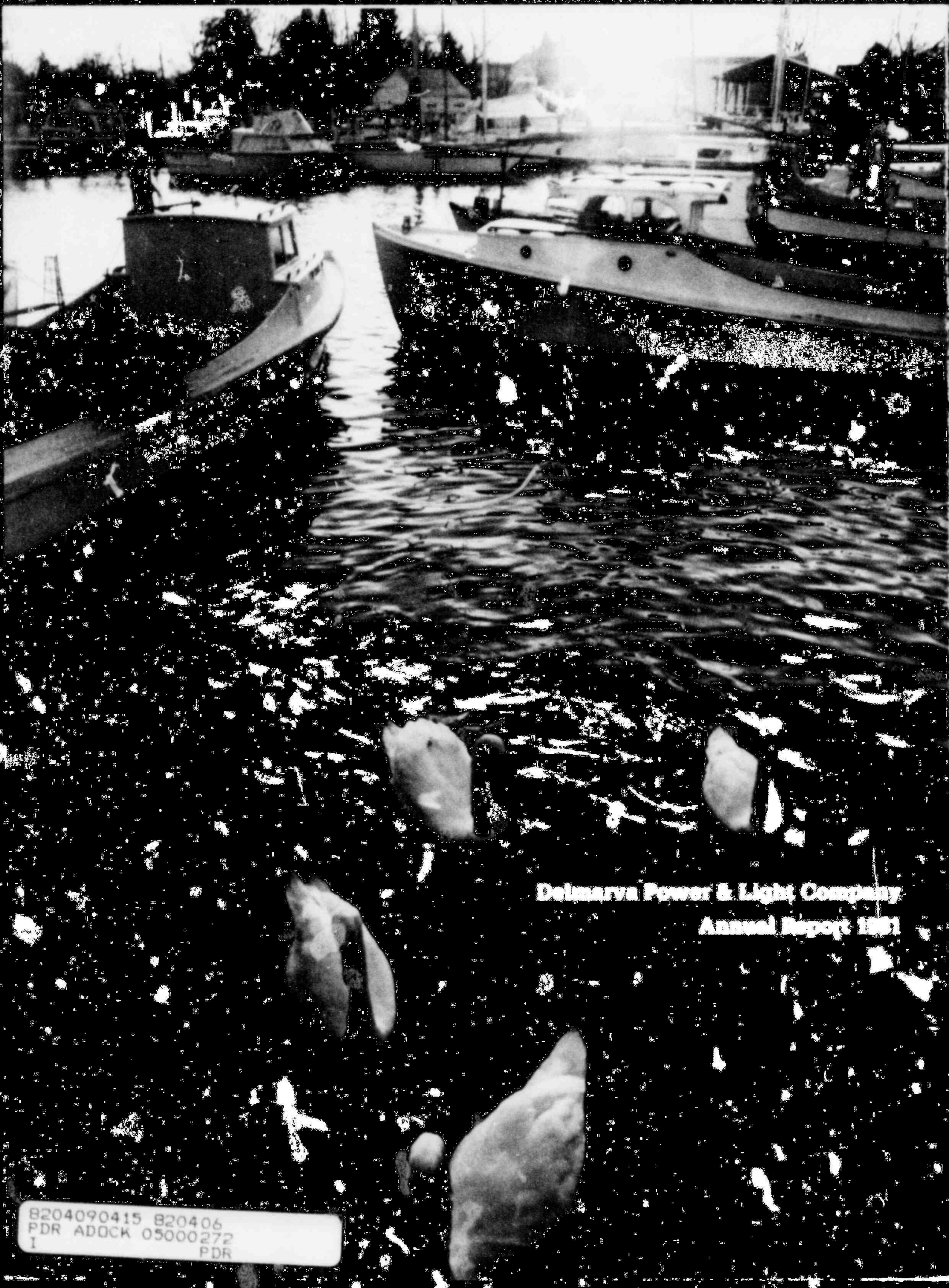


Delmarva Power & Light Company

Annual Report 1981

Items of Special Interest

Earnings per share increased 11.3% to $1.78

Dividends increased 6¢ to an indicated annual rate of $1.58

Internally generated funds increased 91% to $72.3 million

Salem 2 placed in commercial operation

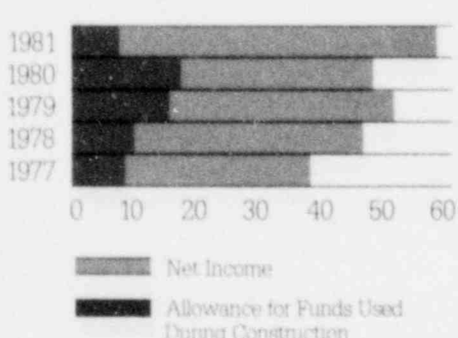
New banking law adopted in Delaware

Full PJM membership attained

Oil-fired generation reduced 37.5% since 1979

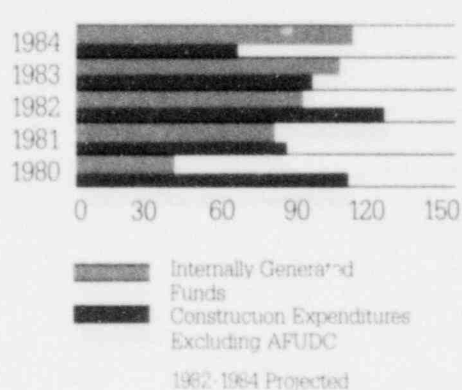
Net Income and AFUDC

(Millions of Dollars)



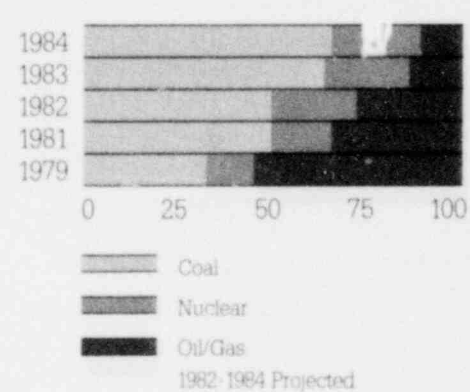
Construction Expenditures and Internally Generated Funds

(Millions of Dollars)



Generation Fuel Mix

(Percent)



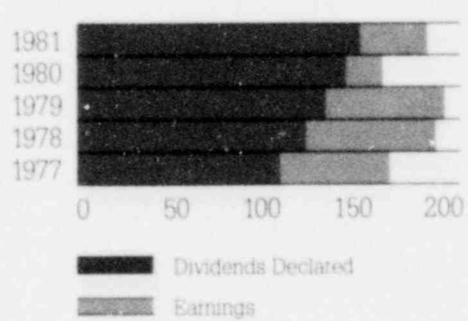
The Year in Review

Financial Highlights

	1981	1980	Percent Increase (Decrease)
Revenues	$ 608.5 million	$ 520.5 million	16.9
Net Income	$ 58.7 million	$ 49.0 million	19.9
Earnings Per Share	$ 1.78	$ 1.60	11.3
Dividends Declared	$ 1.535	$ 1.49	3.0
Common Stock Outstanding (Average Shares)	25,747,441	24,681,768	4.3
Common Stock Book Value	$ 15.66	$ 15.87	(1.3)
Construction Expenditures	$ 84.2 million	$ 110.7 million	(24.0)
Internally Generated Funds	$ 72.3 million	$ 37.9 million	90.8
Electric Sales	7.40 billion kwh	7.46 billion kwh	(0.9)
Electric Customers (Average)	280,769	274,934	2.1
Average Residential Usage	7,967 kwh	8,337 kwh	(4.4)
Gas Sales	16.52 million mcf	15.69 million mcf	5.3
Gas Customers (Average)	73,299	72,363	1.3
Average Residential Usage	89.4 mcf	92.3 mcf	(3.1)

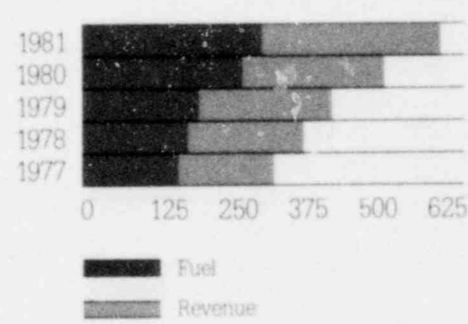
Earnings and Dividends Per Share

(Cents)



Operating and Fuel Revenues

(Millions of Dollars)



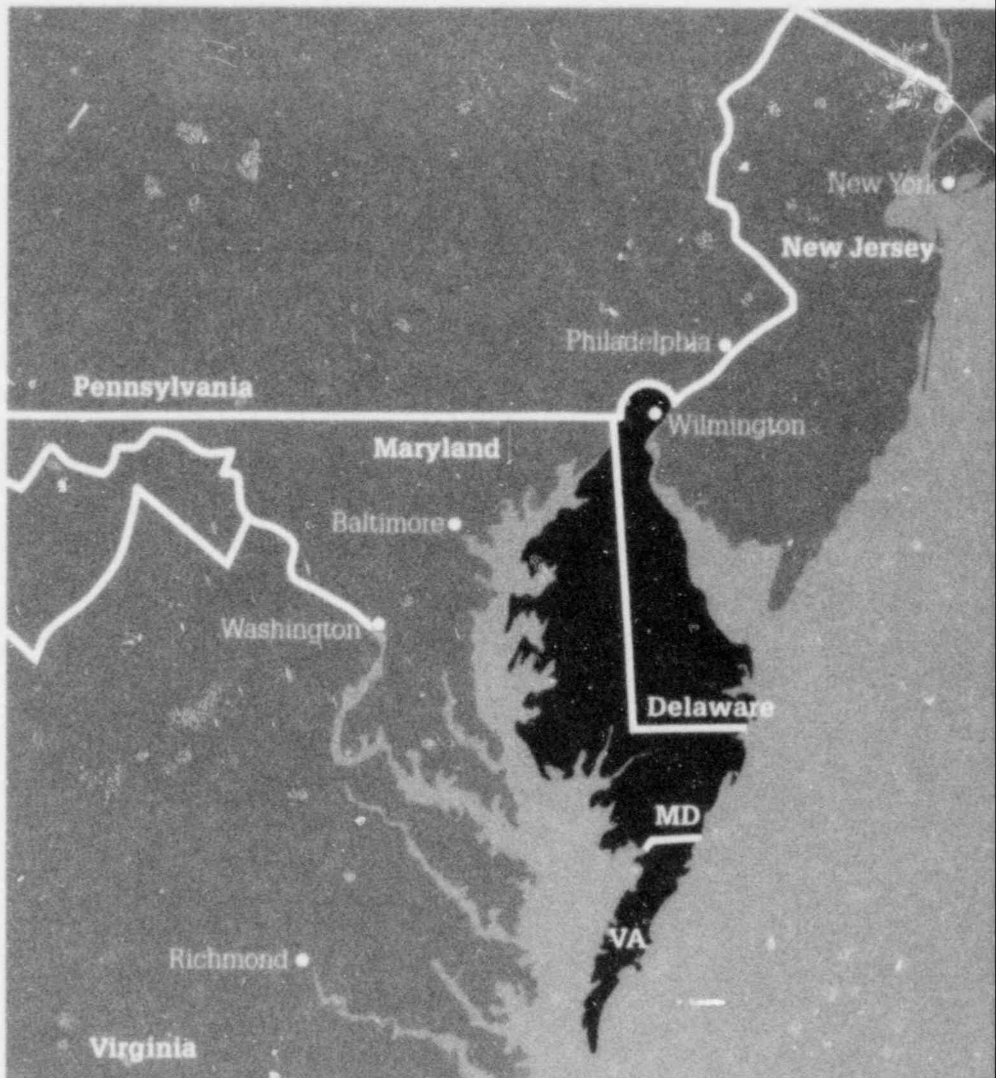
Our Service Territory

Delmarva Power provides energy that is safe, reliable, and economical for the people, businesses, and industries of the Delmarva Peninsula.

To service a diverse area encompassing urban, rural, and recreational settings, Delmarva maintains an electric system with 2,355 megawatts of generation capacity, 1,300 miles of transmission lines, and 8,300 miles of distribution lines and a natural gas system with 1,000 miles of gas main.

Delmarva Power owns and operates four major fossil fuel power plants within the service territory and shares ownership of two coal plants and two nuclear plants outside the service territory.

Our 286,000 electric customers and 74,000 natural gas customers are served by 2,645 employees working in 25 customer service locations on the peninsula, division headquarters in Christiana, Delaware, and Salisbury, Maryland, and corporate headquarters in Wilmington, Delaware.



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About the Cover

Swans and oyster boats find safe harbor at sunset in St. Michaels, Maryland.

In 1981, Delmarva Power began serving customers directly in St. Michaels and Centreville, Maryland. They had previously been served by their municipal governments which bought electricity at wholesale rates from Delmarva Power.

To the people who live and work in those two towns, Delmarva Power extends the same commitment it gives to all our customers: energy for business and industry, energy for homes and communities as reliably and as economically as we can produce it.

To Our Stockholders

Financial progress was made in 1981. Earnings per share were $1.78 as compared to $1.60 for 1980, an 11.3% increase even though electric sales declined slightly. We view 1981 as a positive year and look forward to continued improvement.

The two major factors producing these results in 1981 were timely and significant rate action and continuing aggressive cost control of operating expenses. Rates filed in 1980 were effective in 1981 in all jurisdictions. In addition, all jurisdictions authorized new base rates to cover capital and operating expenses of the company's 82 megawatt share of the Salem 2 nuclear power plant when it became commercial on October 13, 1981. These actions plus reasonably prompt review of fuel and gas adjustment clauses made 1981 prices more nearly reflect 1981 costs.

The second factor was effective control of operating and maintenance costs through increased productivity and deferral of some maintenance and construction projects. We recognize that deferral is a short run action and the plans for 1982 and 1983 reflect the need to complete deferred projects.

The quality of the company's earnings improved substantially in 1981 because of higher internally generated funds. The improvement was accomplished through more timely collection of fuel costs, a cash return on power plants placed into service in late 1980 and 1981, and a modest construction program.

The start of the Salem 2 nuclear unit was another positive event in 1981 and represents one further step in the plan to reduce the amount of oil burned for generating electricity. The target is to reduce the amount of oil burned from 53% in 1979 to 12% in 1984.

It is encouraging that 1981 showed earnings growth even though electric sales declined, largely due to a reflection of sluggish national economic conditions as well as to continued and significant reduction in use by many residential customers. Gas sales did improve substantially with the increased sales mostly to non-firm customers.

We look to continued financial growth in the years ahead. Our optimism is tempered with the knowledge and experience that major economic and social forces may substantially affect earnings. We must make every effort to anticipate such forces and be flexible in responding to them.

From today's perspective, those major forces which will affect us include reduced usage of energy by many existing residential customers; continued environmental concerns and costs which may reduce management options; continued economic uncertainty due to the underlying structural changes occurring in the economy; and continued intrusion of government

Robert D. Weimer (left), Chairman of the Board of Directors and Nevius M. Curtis, President and Chief Executive Officer

and consumer groups into our business. We think it unlikely that there will be a major technological breakthrough in the generation of electricity in the foreseeable future nor do we foresee reduction of financial costs to the low levels of a decade ago. On the other hand, we see an increasing awareness in our service area of the need for economic development as the cornerstone for more jobs, a reduced governmental burden, and an expanding residential electric space heating market.

Within this framework, our strategic plan during the balance of the eighties is to make electric rates more competitive regionally and at the same time, improve the return on your investment. Our focus is three-pronged. First, raw material represents 43% of total cost. We will continue to convert from burning oil to coal. However, we shall retain some oil-fired capacity so that the company is not overly dependent on coal. While our generating units have a better-than-average operating record, we will work to further improve their reliability and efficiency.

Second, capital costs are 32% of total cost. Every effort will be made to utilize lowest cost financing, to minimize capital projects, and to utilize assets fully. Thus, additional major facilities will not be undertaken until it is reasonably assured that a full return will be earned on those capital dollars. We will continue aggressively to seek to price electricity and gas to reflect the then current cost of providing these products, to promote their sale in a way to improve utilization of facilities, and to support efforts to attract new industry and aid the expansion of existing industry within our service territory.

Third, operating, maintenance, and administrative expenses represent 25% of total cost. The strategic approach toward improvement in this area focuses on employee productivity and efficient use of facilities and equipment. This involves allocating additional resources to operational and safety training; upgrading data processing facilities to assist managers in better monitoring and controlling expenses; and providing a challenging and rewarding work environment for employees.

None of these strategies is really new. However, we restate them so that you can understand the basis of our optimism in believing the years ahead will show continued positive financial growth.

There has been much discussion about diversification for the utility industry. Delmarva has two subsidiaries: Delmarva Energy and Delmarva Industries. Although both of these efforts have value in terms of potentially-higher returns on capital, it is quite clear that for Delmarva the main effort will remain in the generation, production and distribution of electricity and in the distribution of gas. The intent of the subsidiaries is to improve earnings through diversification efforts, but for the foreseeable future, their contribution will be relatively minor.

In the final analysis, a very large measure of the success of your company is dependent upon the hard work of all those people who work at Delmarva to accomplish corporate goals. We wish to thank them for their efforts.

R D Weimer

Robert D. Weimer
Chairman of the Board

N M Curtis

Nevius M. Curtis
President and
Chief Executive Officer

February 5, 1982

Financial Review

Earnings per share increased 11.3% in 1981 to $1.78 primarily because of timely rate decisions and tight budget control. With this improved financial position, the board of directors increased dividends to an indicated annual rate of $1.58, continuing its policy of regular moderate dividend increases.

Sales and Revenues

Electric sales in 1981 were 7,395 million kilowatt-hours, a 0.9% decrease compared to 1980. Decreased electric sales reflect primarily conservation in response to price, use of alternative fuels by residential customers and a sluggish national economy. A slight increase in industrial, commercial, and residential space heating sales was more than offset by declines in the residential and resale areas. The 1981 electric peak of 1,575 megawatts was less than in 1980, although summer weather was considered normal.

Natural gas sales totaled 16,520 mcf, a 5.3% increase. A new all-time winter send out record was set on January 12, 1981. Residential space heating sales decreased by 1.9%. The overall sales increase was made possible because of additional gas supplies available for sales to industrial customers.

Rate Matters

The company pursued needed rate relief in all jurisdictions. The table below presents the status of this activity.

Applications filed with FERC in 1978 and 1980 are still pending, although settlements have been reached with eleven resale customers in the 1978 case and twelve resale customers in the 1980 case.

Rate redesigns filed with the Maryland Public Service Commission and the Virginia State Corporation Commission in 1980 are still before those agencies.

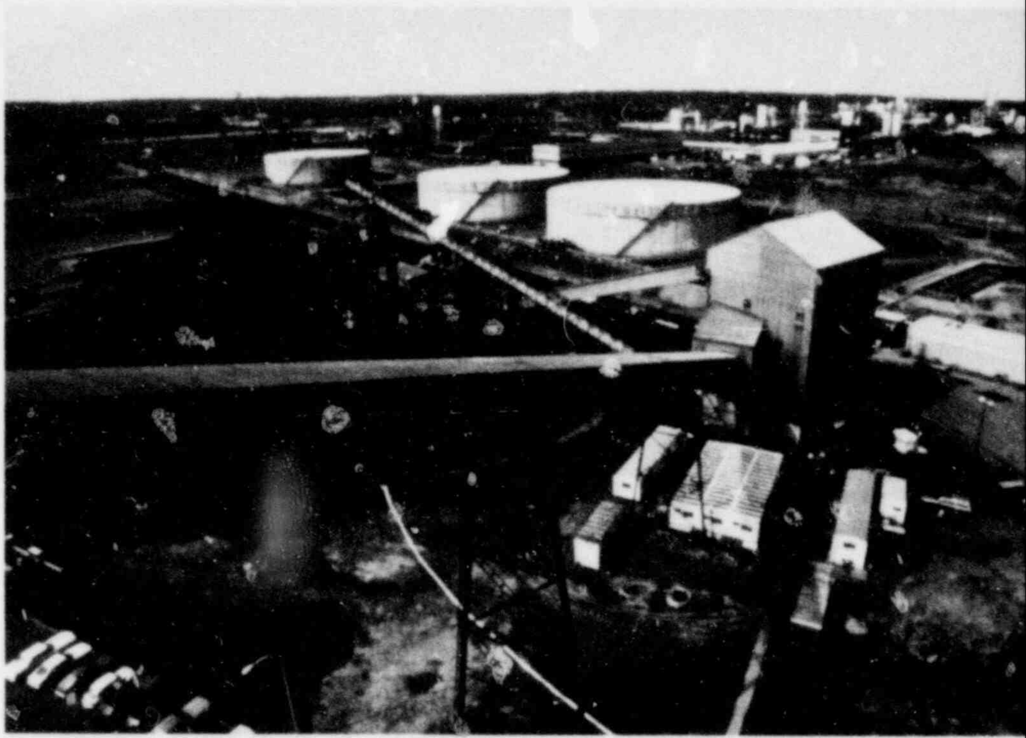
Status of 1981 Rate Cases

(Dollars in Millions)

	Requested		Granted	
Jurisdiction	Amount	Date	Amount	Date
Delaware				
Electric	$58.9	3/ 3/80	$46.0	2/ 1/81
Electric	49.9	5/ 8/81	37.6	12/15/81
Gas	5.3	5/ 8/81	3.6	12/15/81
Maryland				
Electric	18.5	6/19/81	10.2	1/19/82
Virginia				
Electric	3.4	4/30/80	2.7	3/20/81
Electric	0.4	7/21/81	0.4	10/13/81
FERC	0.8	5/29/81	0.8*	12/29/81

*Subject to refund

The coal handling facilities at the Edge Moor power plant will soon be operational again. The conversion from oil to coal of unit 4 is expected to be completed by fall, 1982 and unit 3, by spring, 1983.



Operating Expenses

Operation and maintenance expenses increased during 1981 by $12.9 million or 11.4%. Taxes, however, increased 76.9% to $65.8 million.

Construction Program

Construction expenditures for 1981 were $84.2 million, of which $30.7 million were used for major production projects to reduce the company's dependence on oil. With 1982 and 1983 construction budgets estimated at $126.6 million and $96.9 million respectively, continued improvement in financial results is expected.

Late in the year, the company announced a two-year postponement in the construction schedule of the 500 megawatt coal-fired Vienna 9 unit due to a projected decrease in load growth. The company now projects an average peak load growth of 2.0% to 3.0% annually for the 1980s. The plant is now scheduled for commercial operation in 1990.

The earnings and cash flow improvement during 1981 has lessened the company's reliance on capital markets by making more funds available from internal sources. This improvement in the level and quality of earnings has resulted from the start-up and subsequent rate increases for Indian River unit 4 and Salem unit 2. With rates in effect to reflect the operating and maintenance costs of these units, the burden of carrying charges for capital investment without rates to cover the investment is eliminated.

Financing and Capitalization

A sale of 2.2 million shares of common stock, originally scheduled for June, took place on November 17. The sale was postponed because of concern about the depressed price of company stock and uncertainty in the capital market. When the sale was held, the price of stock had increased 13.6% over the June value.

In July, $50 million of tax-exempt revenue bonds were sold to provide funds for pollution control facilities at Edge Moor and Indian River and for other construction projects. In August $12 million of short-term tax-exempt notes were sold at an average interest rate of 7¾% through a loan agreement with the Delaware Economic Development Authority.

Economic Recovery Tax Act of 1981

This new tax law offers Delmarva Power additional tax savings which may increase internally generated cash. Also, the law encourages the reinvestment of dividends by deferring income taxes on re-invested dividends up to $750 for individuals and $1,500 for joint returns.

Organization Changes

Nevius M. Curtis was promoted to president and chief executive officer on November 1, 1981. He had served as president and chief operating officer. Robert D. Weimer will continue to serve as chairman of the board on a full-time basis.

John R. Cooper and William G. Simeral were elected directors at the annual meeting held April 28, 1981, to replace Irénée du Pont and Earl C. Jackson, Jr., who have retired.

Electric Operations

Progress was made during 1981 to further control costs, to reduce dependence on foreign oil, and to develop electric heating markets.

PJM

In June, Delmarva Power became a full member of the Pennsylvania-New Jersey-Maryland Interconnection (PJM), the oldest power pool in the United States.

The full membership allows the company and its customers greater benefit from its operations. This advantage is expected to save up to $2 million annually in addition to the benefits of lower cost and reliability previously realized as an associate member.

Delmarva is also realizing additional savings by buying coal-fired power from a neighboring power grid. These purchases saved approximately $6.7 million in 1981 in avoided fuel costs, which directly reduced customers bills.

Reducing Dependence on Oil

Following a two-year delay in the federal licensing process as a result of the Three Mile Island nuclear incident, Salem nuclear unit 2 was declared in commercial operation on October 13. Customers received the immediate benefit of decreased fuel costs which more than offset increases in base rates associated with the capital and operating costs of the plant. This resulted in a net decrease in customer bills. The start of Salem unit 2 marked the completion of a key step in Delmarva Power's plan to reduce the use of expensive, foreign oil as a major generating fuel.

In 1979, 53% of the electricity Delmarva Power generated came from oil, making the company and its customers vulnerable to world oil prices.

By 1984, oil-fired generation is expected to be reduced to 12% through the operation of Salem nuclear unit 2 and Indian River coal unit 4, which began commercial operation in late 1980, and the conversion to coal of two oil-fired units underway at Edge Moor.

The first-year performance of the Indian River unit 4 exceeded industry standards considered acceptable for a new coal unit in spite of typical problems associated with start-up.

The conversion of Edge Moor unit 4 is expected to be completed by late 1982 and unit 3, by spring 1983. Two long-term contracts for 1% sulfur coal have been signed in preparation for the conversion, and deliveries will begin in early 1982. When coal conversion is completed, Delmarva Power's fuel mix in 1984 will be 66% coal, 12% oil, and 22% nuclear.

Control room operators monitor the performance of Indian River units 3 and 4.

Agreements

Smooth transitions marked the purchase of the Centreville, Maryland electric light, heat, and power system on June 1, 1981, and the lease of the St. Michaels, Maryland, electric system on October 15, 1981. These agreements brought 5,178 new retail customers to Delmarva Power and streamlined operations in that part of the service territory. The Centreville and St. Michaels customers had been served previously by their municipal governments which had purchased electricity from Delmarva Power at wholesale rates for resale to them.

Productivity

A major effort in the operations area has been a program to provide managers with tools to improve their ability to recognize changes needed in work force, work methods, and equipment. By analyzing and adjusting work methods and procedures, the company can take advantage of opportunities in a changing business climate.

Growth of Electric Space Heating Market

More than 14% of new residential construction used electric heat in 1981, with the heat pump accounting for 45%. Electric heating systems were chosen for all major new office buildings in Wilmington. Market growth for 1982 is projected at 75% for electric heat, 49% of that for heat pumps.

To continue the promotion of heat source and design efficiency planning on the Delmarva Peninsula, Delmarva's marketing department has developed the Super E+ Program. It sets rigorous energy cost-saving standards for new homes. The energy standards were developed by the company working with realtors, builders, and architects.

Continuity of Service

With the design and purchase of a 25 MVA mobile distribution substation transformer, the company is improving its ability to maintain an acceptable level of service reliability while controlling capital costs.

The versatile, trailer-mounted transformer, to be placed in service in 1982, will eliminate the need for back-up transformers at many substations, thereby avoiding the need for capital investment for spare units. The unit can be transported and installed at any needed location in the service territory in twelve hours or less and will be centrally located near Delmar, Delaware. The unit also will allow greater flexibility in planning and implementing necessary major maintenance at substations.

Reductions in the capital budget of about $5 million over the next ten years already have been realized, and more can be expected. The transformer will cost approximately $750,000.

Getty Expansion

A major project to provide additional capability to serve the Getty oil refinery complex from Delaware City Power Plant and Reybold Substation is underway by Substation Design and Substation Construction and Maintenance groups. With the addition of a 50 MVA transformer and associated switch gear, Delmarva will be able to support a 30 MVA load increase when the Getty plant completes a major expansion in early 1983.

Gas Operations

Increased availability of natural gas— through reduced usage by existing customers and increased supply through the pipeline in 1981— triggered a return to relative normalcy in the gas business. The Delaware Public Service Commission approved the company's request to again add residential and small commercial natural gas customers using 1000 mcf or less annually on existing transmission and distribution systems. More than 900 gas residential space heating customers were added in 1981.

Moderate growth by firm industrial customers is expected to continue, requiring no major investment to the system while gaining maximum use of it.

The increased availability of natural gas enabled the company to continue burning some of it at the Edge Moor power station, primarily in units 3 and 4, to displace 627,000 barrels of oil. Fuel savings of approximately $5.2 million were passed on to gas and electric customers through the gas production cost adjustment and the electric fuel adjustment charge.

As the federal deregulation of natural gas prices continues, supplies are expected to remain stable or to improve slightly with a conservation response from customers. Delmarva Power reduced a May 1981 gas price increase request after the U.S. Supreme Court voided a Louisiana natural gas tax, resulting in a refund from our supplier, Transco, Inc., and because Transco's rates to Delmarva were lower than anticipated. However, a substantial price increase from Transco is expected in 1982 as deregulation progresses.

Colder than normal temperatures in January created a supply emergency for Philadelphia Gas Works and Delmarva Power was able to provide the equivalent of 80,181 mcf from January through March.

Gas distribution crews work together to repair a broken main. They are Joe Dorsey on the Ditch Witch, Bob Wacio (from right), Harry Wessell and Philip Rendine.

Linda Burris, customer information specialist, uses the customer information system to help a customer.

Customer Activities

Delmarva Power employees work hard to provide the safest, most reliable service at the lowest reasonable cost. They also go beyond the basic service business to help customers recognize the value of electricity and natural gas so they can use them wisely.

Where the company has the special capabilities to do so, it will promote the best use of its products and contribute to the solution of energy problems.

Helping Customers Handle Change

Summer of 1981 marked the first year of operation under mandatory time-of-use rates for more than 482 Delaware general service customers. The acceptance level is high for those who are able to shift load from on-peak to off-peak hours.

Delmarva Power marketing engineers and representatives have provided direct input to the engineering decisions of industries and businesses on the Delmarva Peninsula, resulting in the smooth accomplishment of a major rate restructuring.

Residential customer reaction to higher energy prices has brought a healthy response to Delmarva Power's Home Energy Saver Program. More than 4,100 audits, in accordance with the federal Residential Conservation Service requirements, were completed in 1981.

Comments offered by customers whose homes received energy audits demonstrate that the Home Energy Saver Program is one of the most positive contacts Delmarva Power has with its customers.

Special Efforts

Because Delmarva Power recognizes that cold weather offers potential danger to people and property and that disconnections and reconnections are inefficient business practices, the company makes special efforts to provide assistance for those customers who have difficulty paying their bills. Company representatives meet as needed with representatives of various state and social agencies serving the counties in our service territory to provide information about Delmarva's special programs such as the cold weather policy, third-party notification, installment payment plan, budget billing, and automatic bank payment plan.

District, division, and corporate personnel strive to maintain a dialogue with the social service agencies who provide service for the disadvantaged.

This face-to-face communication has benefited the company and its customers who may need help.

Employee Relations

Delmarva's recognition of employees as its most valuable asset is the cornerstone of a comprehensive training, development, education, and safety program. Programs that support the achievement of corporate goals and help individuals experience professional growth are offered to employees in all levels and departments.

Training and Development

The Customer Service Orientation Program is an example of a general training course that yields solid benefits for employees, the company, and customers. It is a twelve-week program in which customer information specialists—those employees who respond to customer inquiries—receive an overview of Delmarva and its corporate goals, a background in the important issues facing the company and the industry, and training and experience in job situations. This program includes presentations from 22 departments.

Safety

Safety programs have been ongoing for many years at Delmarva Power. However, a special 1981 corporate-wide safety incentive program aimed at reducing all personal injuries and fleet accidents and recognizing good performance by employees was implemented in 1981.

Additionally in 1981, more than 1,200 employees received training in cardio-pulmonary resuscitation and first aid. Such training has been on-going and will continue in 1982.

Progress has been made in measuring safety performance. Greater interest and participation by employees in the area of safety has been noted.

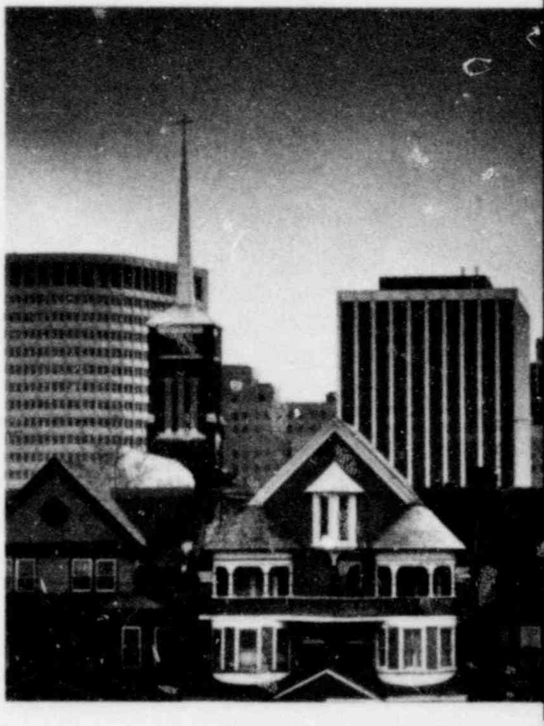
The increasing complexity of all aspects of the business makes the commitment of Delmarva Power's management in providing employees with the appropriate tools, knowledge, and safety procedures essential to the company's success. Corporate goals can be met by well-trained and motivated people working efficiently and safely.

TRASOP

Through the TRASOP federal tax program, 42.8 shares of Delmarva Power common stock were placed in a trust account for each of 2,383 eligible employees. Under federal law, a company is allowed to reduce its taxes by 1% of its investment in a year if the amount of savings is passed on to employees in common stock.

Also the TRASOP program allows the company to match employee contribution with stock up to a specified amount. More than 90% of eligible Delmarva Power employees signed up to participate in this program in 1982.

John Bridgess works to provide reliable electric service to the customers of St. Michaels, Maryland



The skyline of Wilmington will be changing with new office buildings under construction and others planned. A catalyst was a new Delaware law which provides incentives for financial operations centers to locate in the state.

Toward the Future

Delmarva Power supports well-planned development activities by agencies and councils in its service territory. While the national overall economic conditions remain sluggish, there are indications of some positive developments in the Delmarva Peninsula business community.

Economic Development

The passing of the Financial Center Development Act by the Delaware legislature has provided a strong incentive for the movement of financial operation centers into the state. Ten banks, including CitiBank, Chase Manhattan, The First National Bank of Maryland, and Morgan Guaranty and two investment companies have announced plans to come to Delaware. This is expected to create jobs for at least 1,100 people initially.

In Wilmington, a redevelopment project encompassing the area from the Brandywine River to the Christina River is underway. The Brandywine Gateway will consist of shops, restaurants, condominiums, a new home office complex for the Hercules Corporation and the new Wilmington Trust Company building. Plans for the Christina Gateway include office condominiums for the expected growth of banking and insurance companies and the renovation of the historic Wilmington train station which regularly serves the Northeast Corridor. The American Life Insurance Company has announced plans to build in the Christina Gateway.

The Department of Economic Development in the State of Delaware has been reorganized under a cabinet-level secretary who reports directly to the state's governor. The department's purpose is to bring industry to the state and promote growth. New Castle County has also formed an economic development corporation.

In Maryland, the Chesapeake Country Economic Development Corporation has been formed to provide economic development impetus for the nine counties of Maryland's Eastern Shore and three counties of Southern Maryland.

Investment at a record rate continued in condominium, second home, and motel markets. The Southern Division added some 2,500 new residential customers in 1981, most of them in the Ocean City area. Of these new customers, 83% chose electric heat.

Delmarva Industries, Inc.

The Delmarva Power Board of Directors approved in October the formation of Delmarva Industries, Inc. a subsidiary corporation which will evaluate appropriate business opportunities.

Financial Section

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Management's Discussion and Analysis

Results of Operations

Earnings per share of common stock were $1.78 in 1981 as compared to $1.60 in 1980 and $1.91 in 1979. The return on average common equity in 1981 increased to 11.2% from 10.0% in 1980, which is still below the rate of return authorized by the company's regulatory authorities.

The reasons for the 1981 earnings rise can be attributable primarily to (1) higher base rates being in effect to cover the capital and operating expenses of the Indian River unit 4 and Salem unit 2 plants placed in service in October 1980 and September 1981, respectively, and (2) continuing aggressive cost control of operating expenses. Rate increases which became effective in late 1981 and early 1982 should provide additional revenues needed to continue the earnings growth in 1982.

Electric revenues net of fuel costs increased $71.7 million in 1981 and $17.1 million in 1980. The principal factor affecting these net revenues was rate relief in all jurisdictions (see Status of Rate Cases, page 4). Sales have slightly decreased in 1981 and 1980 by 0.9% and 0.4%, respectively, due to customer conservation, price elasticity and a recessionary economy. Future electric sales will continue to be affected by the overall economic situation and level of business activity in the company's service territory, as well as by weather conditions, use of alternate fuels for heating and customer conservation efforts. Electric sales have been forecasted to increase approximately 3% annually through 1986.

Gas sales volumes increased 5.3% in 1981 compared to a 12.4% increase in 1980. The increase in sales is due to greater usage by the industrial firm and interruptible customers resulting from improved availability of gas from the company's pipeline supplier. Partially offsetting the increases is lower residential-space heating usage resulting principally from conservation. Future sales will be affected by the availability of gas and the scheduled deregulation of gas prices, in addition to the ongoing impact of such factors as weather conditions, gas conversions and conservation efforts by our customers.

Other operation, maintenance and depreciation expenses have increased since 1979 primarily as a result of higher payroll and related costs, general inflation and increased production expenses associated with the commercial operation of two major generating facilities, Indian River unit 4 and Salem unit 2 which were placed in service in October 1980 and September 1981, respectively. Increases in operating taxes are largely due to higher property taxes resulting from the addition of new plant and increased property tax rates, as well as higher state and local gross receipts and franchise taxes on increased revenues.

Impact of Inflation

Inflation continues to have an adverse impact on the company because rates are generally set on a historical basis. The company is addressing inflation in the ratemaking process by utilizing a forecast "test year" and attrition allowances in its rate filings, so that rates will reflect costs anticipated for the period that they are in effect. For a further discussion of the effects of inflation on the company, see Note 12 of the Financial Statements.

Management's Discussion and Analysis (Continued)

Liquidity and Capital Resources

For the period 1979-1981, the company had total capital requirements of $402.9 million, including $307.0 million for construction (excluding AFUDC). During the same period $163.6 million was generated internally which represents 41% of the capital requirements and 53% of the construction requirements. Capital requirements for the period 1982-1984 are estimated to be $422.7 million, including $290.4 million for construction (excluding AFUDC). Assuming timely and adequate rate relief and continued improvements in the level and quality of earnings, the company presently anticipates that, for the period 1982-1984, internally generated funds will be $303.8 million which equals 72% of the total capital requirements and 105% of its construction requirements. The remaining capital requirements will be financed through the issuance of first mortgage bonds, common stock from dividend reinvestment and deposits from pollution control obligations issued in 1981.

The company continually reviews its capital requirements, conditions in the financial markets and its capitalization goals to determine the amounts, timing and types of external financings. At December 31, 1981, the company's capitalization goals were 48-50% long-term debt, 10-12% preferred stock and 38-40% common equity.

The construction program and related expenditures may vary from the estimates set forth above as a result of, among other factors, higher than anticipated inflation, regulation and legislation, rates of load growth, licensing and construction delays, results of rate proceedings, as well as the cost and availability of capital.

Working capital decreased by $48.6 million in 1981, and increased $5.3 million in 1980 and $47.3 million in 1979. See page 19, Statement of Sources of Funds for Construction Expenditures for the components of and the changes in working capital. The company issues commercial paper supported by adequate bank lines of credit to meet seasonal fluctuations in working capital requirements as well as the interim financing necessary for construction projects. Additional working capital requirements will result from the payment of the Summit tax liability (See Note 2 of Financial Statements). Despite the increase in interest rates in 1981, the company has maintained its Bond and Preferred Stock ratings of "A" by both major rating agencies. In addition, the company's Commercial Paper rating was maintained at A-1/P-1.

Selected Financial Data

(Dollars in Thousands)

	For the Years Ended December 31	1981	1980	1979	1978	1977
Operating	Operating Revenues	$ 608,504	$ 520,470	$ 424 699	$ 378,702	$ 337,818
	Operating Income	107,325	80,716	74,859	71,563	62,027
	Net Income	58,711	48,957	53,376	47,448	39,328
Earnings and Dividends	Earnings Per Share	1.78	1.60	1.91	1.85	1.65
	Dividends Declared on Common Stock	1.53½	1.49	1.40½	1.30½	1.22
	Average Shares Outstanding (000)	25,747	24,682	23,215	21,582	19,403
	Total Assets	1,445,694	1,380,922	1,249,606	1,120,305	1,033,378
	Construction Expenditures[1]	84,206	110,739	112,061	130,272	130,371
	Internal Generation of Funds	72,346	37,866	53,435	41,900	33,384
Capitalization	Long Term Debt[2]	596,219	569,724	536,779	478,955	428,905
	Preferred Stock without mandatory redemption	105,000	105,000	105,000	105,000	105,000
	Preferred Stock with mandatory redemption	50,000	50,000	20,000	20,000	—
	Common	437,080	395,546	385,616	343,257	326,439
	Total	$ 1,188,299	$ 1,120,270	$ 1,047,395	$ 947,212	$ 860,344
Capitalization Ratios	Long Term Debt	50%	51%	51%	51%	50%
	Preferred Stock without mandatory redemption	9%	9%	10%	11%	12%
	Preferred Stock with mandatory redemption	4%	5%	2%	2%	—
	Common Equity	37%	35%	37%	36%	38%
	Total	100%	100%	100%	100%	100%
Electric/Gas Sales	Electric Sales (Kwh 000)	7,395,324	7,460,380	7,491,800	7,248,249	6,906,090
	Gas Sales (Mcf 000)	16,520	15,693	13,962	13,172	12,099

[1] Excludes Allowance for Funds Used During Construction
[2] Includes long-term debt due within one year

Report of Management on the Financial Statements

Report of Management

The consolidated financial statements of Delmarva Power & Light Company have been prepared by Company personnel in conformity with generally accepted accounting principles, based upon currently available facts and circumstances and management's best estimates and judgements of the expected effects of events and transactions. It is the responsibility of management to assure the integrity and objectivity of such financial statements and to assure that these statements fairly report the financial position of the Company and the results of its operations.

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

These financial statements have been examined by Coopers & Lybrand, independent certified public accountants. Their examination was conducted in accordance with generally accepted auditing standards which include a review of internal accounting controls to determine the nature, timing and extent of auditing procedures, as well as such other procedures they deem necessary to produce reasonable assurance as to the fairness of the Company's financial statements and to enable them to express an opinion thereon.

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

Nevius M. Curtis
President and
Chief Executive Officer

Howard E. Cosgrove
Vice President and
Chief Financial Officer

Report of Independent Certified Public Accountants and Quarterly Common Stock Dividends and Price Ranges

To the Board of Directors and Stockholders Wilmington, Delaware

We have examined the consolidated balance sheets and statements of capitalization of Delmarva Power & Light Company and subsidiary companies as of December 31, 1981 and 1980, and the related consolidated statements of income, changes in common stockholders' equity and sources of funds for construction expenditures 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 financial statements referred to above present fairly the consolidated financial position of Delmarva Power & Light Company and subsidiary companies at December 31, 1981 and 1980, and the consolidated results of their operations and sources of funds for construction expenditures 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.

COOPERS & LYBRAND
1300 Three Girard Plaza
Philadelphia, Pennsylvania
February 5, 1982

Common Stock

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

The company had 69,980 holders of common stock as of December 31, 1981.

The company's Certificate of Incorporation and the Mortgage and Deed of Trust securing the company's outstanding bonds contain restrictions on the payment of dividends on common stock which would become applicable if its capital and retained earnings fall below certain specified levels or if preferred stock dividends become in arrears.

The retained earnings available for dividends on common stock as of Dec[illegible]1, 1981 were approximately $60,000,000 under the most restrictive of these prov[illegible]

	1981			1980		
	Dividend Declared	Price High	Price Low	Dividend Declared	Price High	Price Low
First Quarter	$.38	12¾	11⅛	$.37	12⅝	10¼
Second Quarter	.38	12⅝	10½	.37	14⅛	10⅝
Third Quarter	.38	12⅜	11	.37	14⅛	12⅛
Fourth Quarter	.395	12¾	11⅛	.38	12⅞	10⅞

Consolidated Statements of Income

	(Dollars in Thousands) For the Years Ended December 31	1981	1980	1979
Operating Revenues	Electric	$ 504,119	$ 443,927	$ 363,666
	Gas	83,070	59,040	49,322
	Steam	21,315	17,503	11,711
		608,504	520,470	424,699
Operating Expenses	Operation:			
	Fuel for electric generation	284,646	236,139	199,797
	Net interchange and purchased power	(97,950)	(24,178)	(35,701)
	Purchased gas	56,662	42,252	28,078
	Deferral of energy costs	18,679	(3,173)	(12,250)
	Other operation	89,172	79,569	66,623
	Maintenance	37,316	33,986	28,475
	Depreciation	46,833	37,955	33,866
	Taxes on income	39,903	14,483	23,304
	Taxes other than income	25,918	22,721	17,648
		501,179	439,754	349,840
Operating Income		107,325	80,716	74,859
Other Income	Allowance for other funds used during construction	4,090	12,540	12,576
	Other, net	1,250	569	94
		5,340	13,109	12,670
Income Before Interest Charges		112,665	93,825	87,529
Interest Charges	Long-term debt	51,622	46,997	36,399
	Short-term debt and other	5,355	3,862	2,166
	Allowance for borrowed funds used during construction	(3,023)	(5,991)	(4,412)
		53,954	44,868	34,153
Earnings	Net Income	58,711	48,957	53,376
	Dividends on Preferred Stock	12,818	9,427	9,050
	Earnings Applicable to Common Stock	$ 45,893	$ 39,530	$ 44,326
Common Stock	Average shares outstanding (thousands)	25,747	24,682	23,215
	Earnings per average share	$ 1.78	$ 1.60	$ 1.91
	Dividends declared per share	$ 1.53½	$ 1.49	$ 1.40½

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Sources of Funds for Construction Expenditures

(Dollars in Thousands)

	For the Years Ended December 31	1981	1980	1979
Sources of Funds	Provided from operations:			
	Net income	$ 58,711	$ 48,957	$ 53,376
	Less—Preferred dividends declared	12,818	9,427	9,050
	—Common dividends declared	39,857	36,805	33,124
	Earnings reinvested during the year	6,036	2,725	11,202
	Items not requiring (providing) funds:			
	Depreciation	46,833	37,955	33,866
	Amortization of nuclear fuel	3,187	1,549	596
	Allowance for funds used during construction	(7,113)	(18,531)	(16,988)
	Investment tax credit adjustments, net	17,198	1,795	10,155
	Deferred income taxes, net	6,205	12,373	14,604
	Funds provided from operations	72,346	37,866	53,435
	External financing:			
	Long-term debt:			
	First mortgage bonds	50,000	45,000	18,200
	Term loan	(23,450)	—	50,000
	Common stock	35,521	7,730	31,436
	Preferred stock	—	30,000	—
	Change in short-term debt	(28,475)	11,525	16,950
	Redemption of long-term debt	—	(12,000)	(10,000)
	Externally financed funds	33,596	82,255	106,586
	Other sources (uses):			
	Decrease (increase) in working capital*	48,604	(5,266)	(47,290)
	Net (increase) in pollution control funds held by trustee	(35,422)	(3,463)	(1,794)
	Credit arising from sale of contracts	(36,088)	99	(634)
	Other, net	1,170	(752)	1,758
	Other (uses)	(21,736)	(9,382)	(47,960)
Construction Expenditures	(excluding allowance for funds used during construction)	$ 84,206	$ 110,739	$ 112,061
Decrease (increase) in working capital*	Accounts receivable	$ (15,064)	$ (9,064)	$ (5,685)
	Deferred fuel costs, net	18,781	(3,173)	(13,266)
	Inventories	11,482	(20,603)	(19,356)
	Accounts payable	(7,896)	19,634	2,724
	Taxes accrued	34,386	5,347	(17,858)
	Interest accrued	15,082	3,322	(137)
	Other, net	(8,167)	(729)	6,288
	Total	$ 48,604	$ (5,266)	$ (47,290)

*Other than short-term debt, long-term debt due within one year and current deferred income taxes relating to deferred fuel costs.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in Thousands)

ASSETS	As of December 31	1981	1980
Utility Plant—at original cost	Electric	$ 1,364,113	$ 1,252,330
	Gas	66,031	63,720
	Steam	24,008	23,880
	Common	46,194	46,302
		1,500,346	1,386,232
	Less: Accumulated depreciation	362,270	322,340
	Net utility plant in service	1,138,076	1,063,892
	Construction work in progress	64,915	107,467
	Nuclear fuel, at amortized cost	15,252	14,303
		1,218,243	1,185,662
Nonutility Property and Other Investments	Net nonutility property—at cost	3,324	3,058
	Pollution control funds held by trustee	42,111	6,689
	Other	25	371
		45,460	10,118
Current Assets	Cash	15,474	12,763
	Accounts Receivable:		
	Customers	43,001	40,278
	Other	20,449	8,108
	Deferred fuel costs, net	(4,632)	14,149
	Inventories, at average cost:		
	Fuel (coal, oil and gas)	50,164	65,449
	Materials and supplies	20,973	17,170
	Prepayments	3,683	3,629
		149,112	161,546
Deferred Charges and Other Assets	Refundable taxes and interest	25,877	—
	Deferred income taxes relating to the credit arising from sale of contracts	—	18,123
	Unamortized debt expense	5,415	4,050
	Other	1,587	1,423
		32,879	23,596
	Total	$ 1,445,694	$ 1,380,922

See accompanying Notes to Consolidated Financial Statements.

(Dollars in Thousands)

LIABILITIES	As of December 31	1981	1980
Capitalization (see Statements of Capitalization)	Common stock	$ 94,191	$ 84,142
	Additional paid-in capital	203,534	178,085
	Retained earnings	139,355	133,319
	Total common stockholders' equity	437,080	395,546
	Preferred stock—without mandatory redemption	105,000	105,000
	Preferred stock—with mandatory redemption	50,000	50,000
	Long-term debt	596,219	569,724
		1,188,299	1,120,270
Current Liabilities	Short-term debt	—	28,475
	Accounts payable	27,723	35,619
	Taxes:		
	Accrued	40,159	5,773
	Deferred	(10,203)	6,955
	Interest accrued	29,570	14,488
	Dividends declared	11,024	9,474
	Other	4,454	3,600
		102,727	104,384
Deferred Credits	Credit arising from sale of contracts	40,760	76,848
	Accumulated deferred income taxes, net	49,799	34,242
	Accumulated deferred investment tax credits	53,920	36,722
	Other	10,189	8,456
		154,668	156,268
Other	Commitments (Note 7) and Contingencies (Note 9)		
	Total	$ 1,445,694	$ 1,380,922

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Capitalization

(Dollars in Thousands)

	As of December 31		1981		1980	
Common Stockholders' Equity	Common stock, par value $3.375 per share authorized 35,000,000 shares, outstanding 27,908,345 and 24,931,006 shares		$ 94,191		$ 84,142	
	Additional paid-in capital		20[illegible],534		178,085	
	Retained earnings		139,355		133,319	
	Total Common Stockholders' Equity		437,080	37%	395,546	35%
Cumulative Preferred Stock	Par value $25 per share, 3,000,000 shares autho[illegible]d, none outstanding					
	Par value $100 per share, 1,800,000 shares authorized					
Without Mandatory Redemption:		Outstanding				
	4.00% Series	40,000 shares	4,000		4,000	
	3.70% Series	50,000 shares	5,000		5,000	
	4.28% Series	50,000 shares	5,000		5,000	
	4.56% Series	50,000 shares	5,000		5,000	
	4.20% Series	50,000 shares	5,000		5,000	
	5.00% Series	80,000 shares	8,000		8,000	
	7.84% Series	100,000 shares	10,000		10,000	
	8.96% Series	130,000 shares	13,000		13,000	
	7.52% Series	150,000 shares	15,000		15,000	
	7.88% Series	200,000 shares	20,000		20,000	
	8.00% Series	150,000 shares	15,000		15,000	
			105,000	9%	105,000	9%
With Mandatory Redemption:*	9.00% Series	200,000 shares	20,000		20,000	
	12.56% Series	300,000 shares	30,000		30,000	
			50,000	4%	50,000	5%
Long-Term Debt	First Mortgage and Collateral Trust Bonds:					
	9⅜% Series—issued 1/14/75 due 1/1/83		30,000		30,000	
	3⅛% Series—issued 5/11/54 due 5/1/84		10,000		10,000	
	9½% Series—issued 7/16/81 due 8/1/84		10,000		—	
	3½% Series—issued 12/20/55 due 12/1/85		10,000		10,000	
	3⅞% Series—issued 6/17/58 due 6/1/88		25,000		25,000	
	4⅝% Series—issued 9/22/64 due 10/1/94		25,000		25,000	
	6⅜% Series—issued 9/13/67 due 9/1/97		25,000		25,000	
	7 % Series—issued 10/28/68 due 11/1/98		25,000		25,000	
	8¼% Series—issued 1/12/70 due 1/1/00		30,000		30,000	
	8⅜% Series—issued 11/30/70 due 12/1/00		30,000		30,000	
	11¾% Series—issued 7/16/81 due 8/1/01		8,100		—	
	7⅝% Series—issued 11/30/71 due 12/1/01		35,000		35,000	
	7½% Series—issued 8/ 3/72 due 8/1/02		30,000		30,000	
	8 % Series—issued 6/27/73 due 7/1/03		25,000		25,000	
	10 % Series—issued 6/13/74 due 6/1/04		33,950		33,950	
	6.6% Series—issued 7/ 1/79 due 7/1/04		18,200		18,200	
	10¼% Series—issued 4/17/80 due 4/1/05		15,000		15,000	
	11 % Series—issued 7/ 2/75 due 7/1/05		29,100		29,100	
	9⅝% Series—issued 6/22/78 due 7/1/08		50,000		50,000	
	11¾% Series—issued 7/ 2/80 due 7/1/10		30,000		30,000	
	12 % Series—issued 7/16/81 due 8/1/11		31,900		—	
			526,250		476,250	
Pollution Control Notes:	Series 1973, 5.9% effective rate, due 1983-1998		8,000		8,000	
	Series 1976, 7.3% effective rate, due 1992-2006		34,500		34,500	
			42,500		42,500	
	Term Loan, due 1987, interest at prime rate		26,550		50,000	
	Unamortized premium and discount, net		919		974	
	Total Long-Term Debt		596,219	50%	569,724	51%
	Total Capitalization		$ 1,188,299	100%	$ 1,120,270	100%

*Redemption prices at December 31, 1981 are $110 (9% Series) and $113 (12.56% Series).
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Common Stockholders' Equity

(Dollars in Thousands)

For the Three Years Ended December 31, 1981	Common Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance as of January 1, 1979	21,750,139	$ 73,407	$ 150,458	$ 119,392	$ 343,257
Net income				53,376	53,376
Cash dividends declared:					
Common stock				(33,124)	(33,124)
Preferred stock				(9,050)	(9,050)
Issuance of common stock:					
Public offering	2,000,000	6,750	18,500		25,250
TRASOP	74,557	252	757		1,009
Dividend Reinvestment Plan	476,062	1,606	4,531		6,137
Capital stock expense:					
Common			(1,174)		(1,174)
Preferred			(65)		(65)
Balance as of December 31, 1979	24,300,758	82,015	173,007	130,594	385,616
Net income				48,957	48,957
Cash dividends declared:					
Common stock				(36,805)	(36,805)
Preferred stock				(9,427)	(9,427)
Issuance of common stock:					
Dividend Reinvestment Plan	630,248	2,127	5,603		7,730
Capital stock expense:					
Common			(127)		(127)
Preferred			(398)		(398)
Balance as of December 31, 1980	24,931,006	84,142	178,085	133,319	395,546
Net income				58,711	58,711
Cash dividends declared:					
Common stock				(39,857)	(39,857)
Preferred stock				(12,818)	(12,818)
Issuance of common stock:					
Public offering	2,200,000	7,425	20,350		27,775
TRASOP	101,947	344	882		1,226
Dividend Reinvestment Plan	675,392	2,280	5,460		7,740
Capital stock expense:					
Common			(1,220)		(1,220)
Preferred			(23)		(23)
Balance as of December 31, 1981	27,908,345	$ 94,191	$ 203,534	$ 139,355	$ 437,080

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Financial Statements

The consolidated financial statements include the accounts of the company and its totally-held subsidiaries, Delmarva Energy Company and Delmarva Industries Inc. (formed in 1981). Accounting policies are in accordance with those prescribed by the regulatory commissions having jurisdiction with respect to accounting matters.

Certain minor reclassifications have been made to amounts reported in 1980 and 1979 to conform to the presentations used in 1981.

Revenues

Revenues are recorded at the time billings are rendered to customers on a monthly cycle basis and include rate increases permitted to be billed subject to refund pending final approval. At the end of each month, there is an amount of unbilled electric and gas service which has been rendered from the last meter reading to the month-end.

Fuel Costs

Fuel costs (electric and gas) are deferred and charged to operations on the basis of fuel costs included in customer billings under the company's tariffs, which are subject to periodic regulatory review and approval.

The company's share of nuclear fuel costs relating to jointly-owned nuclear generating stations (including estimated costs of storing spent fuel) is charged to fuel expense on a unit of production basis.

Depreciation and Maintenance

The annual provision for depreciation is computed on the straight-line basis using composite rates by classes of depreciable property. Provision for decommissioning costs relating to jointly-owned nuclear generating units is made to the extent of the net cost of removal allowed for rate purposes (approximately 20% of the plant cost). The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.5% for 1981, 3.2% for 1980 and 3.3% for 1979.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. A replacement of a unit of property is accounted for as an addition to and a retirement from utility plant. The original cost of the property retired is charged to accumulated depreciation together with the net cost of removal. For income tax purposes, the cost of removing retired property is deducted as an expense.

Income Taxes

Deferred income taxes result from timing differences in the recognition of certain expenses for tax and financial accounting purposes. The principal items accounting for deferred income taxes are: (1) use of accelerated depreciation methods for income tax purposes, (2) unbilled fuel and gas purchased costs deducted currently for income tax purposes, and (3) other timing differences involving spent nuclear fuel storage costs and the capitalization of certain taxes and overhead costs.

Investment tax credits utilized to reduce federal income taxes are deferred and generally amortized over the useful lives of the related utility plant. An additional investment tax credit of 1½% (1% in 1980 and 1979) related to the Tax Credit Employees Stock Ownership Plan (a "TRASOP" plan) does not affect net income and is recorded as a liability until the contribution is made to the TRASOP Plan.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is a noncash item and is defined in the regulatory system of accounts as "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds so used." AFUDC is segregated into two components: (1) the interest on debt component ("allowance for borrowed funds used during construction"), which is net of taxes and classified as a credit to interest charges, and (2) the common stock equity and preferred dividend component ("allowance for other funds used during construction"), which is classified as an item of other income. AFUDC is considered a cost of utility plant with a concurrent credit to income. It is excluded from taxable income for tax purposes. The rate used in determining AFUDC, which includes semi-annual compounding, was 8.7% in 1981, 8.0% in 1980 and 7.7% in 1979.

2. Taxes on Income

Income tax expense for 1981, 1980 and 1979 is as follows:

(Dollars in Thousands)

	1981	1980	1979
Operations:			
Federal:			
Current	$ 10,234	$ (1,351)	$ (4,457)
Deferred	5,301	10,439	12,674
State:			
Current	4,936	441	1,859
Deferred	1,048	1,934	1,930
Investment tax credit adjustments, net	18,384	3,021	11,298
Other income:			
Current	1,654	693	346
Deferred	(144)	—	—
Total	$ 41,413	$ 15,177	$ 23,650

Investment tax credits utilized to reduce federal income taxes payable amounted to $20,917,000 in 1981, $5,516,000 in 1980 and $14,000,000 in 1979. The amounts for 1981 (including a carryforward from 1980) and 1979 include TRASOP credits of $3,281,000, and $1,060,000, respectively.

The following is a reconciliation of the difference between income tax expense and the amount computed by multiplying income before tax by the federal statutory rate:

(Dollars in Thousands)

	1981 Amount	1981 Rate	1980 Amount	1980 Rate	1979 Amount	1979 Rate
Statutory income tax expense	$ 46,057	46%	$ 29,502	46%	$ 35,432	46%
Reduction in taxes resulting from:						
Exclusion of AFUDC for income tax purposes	(3,272)	(3)	(8,524)	(13)	(7,815)	(10)
Excess of tax depreciation over book depreciation not normalized	(1,349)	(1)	(3,324)	(5)	(2,931)	(4)
Investment tax credits amortized to income	(2,533)	(3)	(2,495)	(4)	(2,646)	(3)
State income taxes, net of federal tax benefit	3,365	3	1,295	2	2,064	3
Other, net	(855)	(1)	(1,277)	(2)	(454)	(1)
Income tax expense	$ 41,413	41%	$ 15,177	24%	$ 23,650	31%

The components of deferred income taxes relate to the following tax effects of timing differences between book and tax income:

(Dollars in Thousands)

	1981	1980	1979
Depreciation	$ 14,951	$ 10,097	$ 6,907
Deferred fuel costs	(9,352)	1,656	6,081
Capitalized overhead costs	992	1,176	1,103
Nuclear fuel storage costs	(1,332)	(997)	(1,007)
Pennsylvania gross receipts tax	—	—	1,284
Other, net	946	441	236
Total	$ 6,205	$ 12,373	$ 14,604

In connection with an audit of Delmarva's tax returns for the years 1974 through 1976, the Internal Revenue Service issued, in 1981, a revised notice of deficiency assessing the company $32.3 million in additional taxes and $15.5 million in applicable interest. The assessment and interest results predominantly from the taxability, on an ordinary income basis, of the net proceeds from the sale of contracts for a nuclear steam supply system in 1975. The impact of additional state income taxes and interest resulting from the IRS audit would be $5.6 and $4.0 million, respectively. Management is appealing the ordinary income treatment of the net proceeds, and in the opinion of management and outside tax counsel, it appears probable that this issue will ultimately be resolved as taxable on a capital gains basis. Accordingly, the company has accrued federal taxes on a capital gains basis and state taxes aggregating $26.7 million and related interest of $14.1 million (See Note 8). Since 1975, the company has treated the sale of these contracts as non taxable contributions of capital, and accordingly reduced the tax basis of the depreciable property in 1976 by approximately $77 million. Taxation of the net proceeds would result in a reversal of the basis reduction, a reduction of taxable income for 1976 through 1980 and a refund of taxes originally paid during that period. Accordingly, refundable federal and state taxes and interest income of $16.3 and $4.4 million, respectively, resulting from the overpayments have been recorded, and deferred taxes of approximately $18.0 million related to the basis adjustment were reversed (See Note 8). The remaining issues in the revised notice of deficiency would not have a material effect on the company's financial position or results of operations.

3. Taxes Other Than Income

(Dollars in Thousands)

	1981	1980	1979
Delaware utility	$ 11,437	$ 9,873	$ 8,090
Pennsylvania gross receipts tax	—	—	(2,445)*
Property	5,811	5,550	5,860
Other gross receipts	3,444	3,068	2,560
Payroll	3,216	2,598	2,332
Franchise and other	2,010	1,632	1,251
Total	$ 25,918	$ 22,721	$ 17,648

*The company had accrued, but not paid, the Pennsylvania gross receipts tax on energy generated within the state but sold outside for the years 1977-1979. In December 1979, the tax was repealed beginning in 1980 and accordingly, the company reversed prior years' accruals in the fourth quarter of 1979. The effect of the reversal increased earnings applicable to common stock for the twelve months ended December 31, 1979 by $1,161,000 (5¢ per share).

4. Pension Plan

The company has a trusteed noncontributory pension plan covering all regular employees. Pension contributions for 1981, 1980 and 1979 were $4,371,000, $6,421,000 and $6,839,000 including $717,000, $1,253,000 and $1,236,000 charged to construction, respectively. The contributions provide for normal cost and amortization of prior service costs over periods of ten to twenty-five years. Net income for 1981 and 1980 was increased by approximately $938,000 (4¢ per share) and $603,000 (2¢ per share), respectively, principally as a result of changed actuarial assumptions.

The actuarial present value of accumulated plan benefits, determined as of January 1, 1981 using an assumed rate of return of 8%, was $51,175,000 for vested benefits and $8,915,000 for accrued nonvested benefits. The net assets, at market value, available for plan benefits were $121,957,000. The actuarial present value of accumulated plan benefits, determined as of January 1, 1980 using an assumed rate of return of 7.0%, was $50,749,000 for vested benefits and $7,919,000 for accrued nonvested benefits. The net assets, at market value, available for 1980 plan benefits were $96,741,000. As a result of current plan experience, the assumed rate of return was increased from 7% to 8% for the January 1, 1981 valuation.

5. Capitalization

Common Stock

At December 31, 1981 there were 3,455,863 shares of common stock reserved for issuance under the Dividend Reinvestment Plan and the TRASOP.

Retained Earnings

The current first mortgage bond indenture restricts the amount of consolidated retained earnings available for cash dividend payments on common stock to $35,000,000 plus accumulations after June 30, 1978, which available amount at December 31, 1981 was approximately $60,000,000.

Preferred Stock

The annual preferred dividend requirements on all outstanding preferred stock at December 31, 1981 are $12,818,000. If preferred dividends are in arrears the company may not declare common stock dividends or acquire its common stock.

Without Mandatory Redemption

These series may be redeemed at the option of the company at any time, in whole or in part, at the various redemption prices fixed for each series (ranging from $103 to $107 at December 31, 1981).

With Mandatory Redemption

(1) The 9% series, issued in 1978, has a sinking fund requirement, commencing in December, 1984, to redeem 8,000 shares annually at $100 per share plus accrued and unpaid dividends. At the option of the company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium. (2) The 12.56% series, issued in 1980, has a sinking fund requirement, commencing in December, 1986, to redeem 9,000 shares annually at $100 per share plus accrued and unpaid dividends. At the option of the company, an additional 9,000 shares may be redeemed on any sinking fund date, without premium. (3) Under certain conditions, these series may also be redeemed at the option of the company. (4) Aggregate mandatory sinking fund redemptions during the next five years are $800,000 in both 1984 and 1985 and $1,700,000 in 1986.

Capital Stock Expenses

Capital stock expenses relating to the issuance of common and preferred stock have been reflected as a reduction of additional paid-in capital.

Long-Term Debt

(1) On July 16, 1981, the company issued, in total, $50,000,000 of First Mortgage and Collateral Trust Bonds to collateralize pollution control revenue bonds issued by the Delaware Economic Development Authority. The issue consisted of $31,900,000 12% Series Bonds due August 1, 2011, $8,100,000 11¾% Series Bonds due August 1, 2001 and $10,000,000 9½% Series Bonds due August 1, 1984. The proceeds of the issue were deposited in a construction fund held by a Trustee and are disbursed to reimburse the

company for the cost of constructing certain pollution control facilities. (2) Sinking fund provisions with respect to substantially all issues of the First Mortgage and Collateral Trust Bonds require that there be deposited annually with the Trustee cash equal to one percent (1%) of the greatest aggregate principal amount at any one time outstanding. There shall be credited against such cash requirements (a) an amount not exceeding sixty percent (60%) of the bondable value of property additions which the company then elects to make the basis of this credit, and (b) the aggregate principal amount of bonds which might then be made the basis of the authentication and delivery of bonds and which the company then elects to make the basis of this credit. For the years 1979-1981, the company elected to certify property additions to satisfy its sinking fund requirements equal to 1% of each series as permitted by the indenture. (3) Substantially all utility plant of the company now or hereafter owned is subject to the lien of the related Mortgage and Deed of Trust. (4) Pursuant to a bank loan agreement, which was Amended and Restated on November 1, 1981, the company has a $50,000,000 revolving credit commitment through December 31, 1984, convertible into a term loan due December 31, 1987. Any loan may be prepaid at any time without penalty and would bear interest at the prime rate through December 31, 1983 and 105% of prime rate thereafter, and a commitment fee of ⅜% on any unused portion of the revolving credit. From time to time, the company issues commercial paper to repay borrowings under the revolving credit commitment. In 1981, the company sold $12 million of short-term tax-exempt revenue notes at an average rate of 7¾%. In recognition of the long-term financing commitment, these borrowings and $14.5 million of commercial paper have been classified as long-term debt. (5) Maturities of long-term debt during the next five years are 1982—none; 1983—$30,100,000; 1984—$20,100,000; 1985—$10,100,000; and 1986—$100,000. (6) The annual interest requirements on all borrowings classified as long-term debt, at December 31, 1981 are $49,927,000.

Unamortized Debt Discount, Premium and Expense

These amounts are amortized on a straight-line basis over the lives of the long-term debt issues to which they pertain.

6. Short-Term Debt and Lines of Credit

As of December 31, 1981, the company had unused bank lines of credit of $75,750,000 and is required to pay commitment fees or maintain compensating balances ranging from 7-10% for these lines. Such lines of credit are periodically reviewed by the company, at which time they may be renewed or cancelled.

7. Commitments

The company estimates that approximately $126,500,000, excluding AFUDC, will be expended for construction purposes in 1982, in connection with which substantial commitments have been incurred. The company also has commitments under long-term fuel supply contracts.

Minimum commitments as of December 31, 1981 under all non-cancellable lease agreements are as follows:

1982	$ 6,290,000
1983	6,125,000
1984	5,823,000
1985	5,690,000
1986	949,000
Remainder	5,686,000
Total	$ 30,563,000

The total minimum rental commitments are applicable to the following types of property: company's share of Peach Bottom nuclear fuel, $17,820,000; railroad coal cars, $2,427,000; distribution facilities, $5,739,000; other, principally computer equipment, $4,577,000. Rentals charged to operating expenses aggregated $9,986,000 in 1981, $9,463,000 in 1980 and $9,120,000 in 1979 including $5,282,000, $5,357,000 and $5,646,000 for nuclear fuel respectively.

The aforementioned leases are principally operating leases. Leases that meet the criteria of capital leases are not accounted for as such in the ratemaking process and, if capitalized, would not have a significant effect on assets, liabilities or expenses.

In 1973, the company entered into an agreement providing for the availability of fuel storage and pipeline facilities through 1999. Under the agreement, the company must make specified minimum payments monthly, which totaled $2,591,000 in 1981. The amount of required payments is $2,595,000 in 1982, $2,241,000 in 1983, $2,040,000 in 1984, $1,795,000 in 1985, $2,138,000 in 1986 and $16,872,000 between 1987 and 1999.

8. Sale of Contracts for Nuclear Plant

The proceeds received by the company for the sale in 1975 of the contracts for a nuclear steam supply system and related fuel, net of related plant expenditures which are considered of no future value to the company, are classified as a deferred credit in the balance sheet. In 1981, the credit was reduced by income taxes of $26.7 million, related interest of $14.1 million and deferred taxes of $18 million, net of refundable taxes of $16.3 million and related interest of $4.4 million (see Note 2). In addition, the credit was increased by approximately $6.0 million representing the net tax benefits of the state taxes and net interest payable. The company has obtained regulatory approval for this accounting treatment. The recording of the above transactions did not affect net income.

It is the intention of the company, subject to regulatory approval, to reduce the cost of subsequent replacement plant capacity by the amount of the net credit, or alternatively amortize the balance to income.

The company has determined that certain additional expenditures for environmental and engineering studies totalling $9.4 million, incurred in connection with the nuclear steam supply system project, are of no future value. Accordingly, in 1981, the company charged these costs, net of related income taxes, to the deferred credit.

9. Contingencies

See Note 2 for possible payment of taxes.

The company is a defendant in two anti-trust suits filed in 1977 in the U.S. District Court for Delaware by four Delaware municipal electric wholesale customers who seek declaratory, injunctive and treble damage relief under the Sherman and Clayton Acts. These actions are in their earliest stages and, until plaintiffs have articulated a theory of damages for their allegations, it is not possible to quantify the company's exposure to liability, if any, or to comment on the validity, as a matter of law, of the damage claims. The company believes the suits to be without merit and legal counsel believes the company has material substantive defenses available to it.

Based upon settlements with resale customers, revenues recorded pursuant to interim rate increases effective December 1, 1978 and December 1, 1980 are approximately $5.1 million and $3.6 million, respectively. These increases are subject to refund pending FERC approval, and the company believes that substantially all such revenues will be realized.

The company is involved in certain other legal and administrative proceedings before various courts and governmental agencies concerning rates, environmental issues, taxes, nuclear and other licensing, fuel contracts and other matters. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the financial position or results of operations of the company.

The company is a member of Nuclear Electric Insurance Limited (NEIL) which provides insurance coverage against the extra expense incurred in obtaining replacement power during prolonged accidental outages of nuclear power units. After the deductible period of 26 weeks, weekly indemnity of up to $2.3 million is provided for 52 weeks and $1.1 million for an additional 52 weeks, for each insured unit. Insured members are contingently liable for payment of a retrospective premium adjustment of up to five times the annual premium if losses exceed accumulated funds available to NEIL. The company's maximum share of retrospective premium adjustments currently approximates $2.4 million.

The Price-Anderson Act places a limit of liability of $560 million on each nuclear generating facility for public liability claims that arise from a nuclear incident. Public liability insurance on the nuclear generating units in which the company has an ownership participation is currently provided by a combination of private insurance and indemnity agreements with an agency of the federal government. Under the indemnity agreements, the company, to the extent of its ownership participation, could be assessed $5 million per incident for each nuclear operating unit, subject to a maximum of $10 million per licensed reactor in any one year. The company is currently a joint owner of 4 reactors and its maximum assessment would be $1.5 million per incident and $3.0 million in any one year.

For property damage to the Peach Bottom nuclear plant facilities, the company and its co-owners have private insurance up to $450 million. The company and the Salem nuclear facility co-owners are members of Nuclear Mutual Limited (NML), which provides insurance coverages up to $450 million for property damage to nuclear plant facilities. In the event of losses at any plant covered by NML, the company would be subject to a maximum assessment of fourteen times its annual premium. Such maximum assessment would currently approximate $3.7 million. In addition, each of the facilities are insured for $247 million by Nuclear Electric Insurance Limited (NEIL II) for losses in excess of $500 million. In the event of losses at any plant covered by NEIL II, the company would be subject to a maximum assessment of seven and a half times the annual premiums. Such maximum assessment would currently approximate $.5 million for both plants. The company is a self-insurer, to the extent of its ownership interest, for any property loss in excess of the aforementioned amounts.

The company has entered into a five-year contract, effective October 1, 1980, with Atlantic City Electric Company to sell one-eighth of the electricity generated by Indian River unit 4. The major provisions of the contract allow for the company to receive, irrespective of the availability of electric generation, one-eighth of all operation and maintenance expenses incurred and a fixed return on the plant investment. Approval of this agreement was received from the FERC and the Delaware Public Service Commission (DPSC) in 1980. In connection with the decision of the DPSC, it was determined that profits from the contract up to the company's projection of $8.6 million be passed on to the customers, any losses be absorbed by the stockholders and profits above $8.6 million be passed to the stockholders. Because the decision could result in an adverse rate impact over the term of the agreement, the company has requested a rehearing of the decision.

10. Jointly-Owned Plant

Information with respect to the company's share of jointly owned plant, including nuclear fuel for the Salem plant, as of December 31, 1981 is as follows:

(Dollars in Thousands)

	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Nuclear:				
Peach Bottom	7.51%	$ 65,957	$ 16,300	$ 4,318
Salem	7.41%	153,873	20,324	14,200
Coal-Fired:				
Keystone	3.70%	8,265	3,246	224
Conemaugh	3.72%	12,538	3,900	128
Total		$ 240,633	$ 43,770	$ 18,870

The company provides its own financing during the construction period for its share of jointly-owned plant. In addition, the company is a joint guarantor of loans ($1,193,000 proportionate share) advanced for operating of the coal mines that supply the Keystone plant. The company's share of operating and maintenance expenses of the jointly-owned plant is included in the corresponding expenses in the statements of income.

11. Segment Information

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

(Dollars in Thousands)	1981	1980	1979
Operating Revenues:			
Electric	$ 504,119	$ 443,927	$ 363,666
Gas	83,070	59,040	49,322
Steam	21,315	17,503	11,711
Total	$ 608,504	$ 520,470	$ 424,699
Operating Income:			
Electric	$ 100,836	$ 74,461	$ 69,503
Gas	5,294	5,155	4,425
Steam	1,195	1,100	931
Total	$ 107,325	$ 80,716	$ 74,859
Utility Plant:[1][2]			
Electric	$ 1,166,376	$ 1,132,992	$ 1,045,133
Gas	45,608	45,711	44,087
Steam	6,259	6,959	7,264
	1,218,243	1,185,662	1,096,484
Other Identifiable Assets:			
Electric	120,914	93,060	71,958
Gas	13,160	10,005	3,927
Steam	420	343	332
	134,494	103,408	76,217
Assets Not Allocated	92,957	91,852	76,905
Total Assets	$ 1,445,694	$ 1,380,922	$ 1,249,606
Depreciation Expense:			
Electric	$ 43,238	$ 34,321	$ 30,672
Gas	2,703	2,775	2 441
Steam	892	859	753
Total	$ 46,833	$ 37,955	$ 33,866
Construction Expenditures:[3]			
Electric	$ 81,651	$ 107,063	$ 108,938
Gas	2,531	3,500	2,629
Steam	24	176	494
Total	$ 84,206	$ 110,739	$ 112,061

[1] Includes construction work in progress and allocation of common utility property.
[2] Stated net of the respective accumulated provisions for depreciation.
[3] Excludes allowance for funds used during construction.

Operating income by segments is reported in accordance with generally accepted accounting and ratemaking practices within the utility industry and, accordingly, includes each segment's proportionate share of taxes on income and general corporate expenses.

12. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The following supplementary financial information, as prescribed by the Financial Accounting Standards Board in Statement No. 33, is supplied for the purpose of providing information about the effects of changing prices on the company's operations. The information should be viewed as an estimate of the approximate effect of inflation rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the change in specific prices of plant from the date the plant was acquired to the present and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general. The current cost of utility plant represents the estimated cost of replacing existing plant assets and was determined by indexing existing plant by the Handy-Whitman Index of Public Utility Construction Costs.

Supplementary Financial Data Adjusted for the Effects of Changing Prices
(Dollars in Thousands)

For the Year Ended December 31	Historical Cost	Constant Dollar (Average 1981 Dollars)	Current Cost (Average 1981 Dollars)
Operating Revenues	$ 608,504	$ 608,504	$ 608,504
Operating Expenses:			
Operation and Maintenance	388,525	388,525	388,525
Depreciation	46,833	85,214	90,517
Taxes	65,821	65,821	65,821
Other Income—Net	(5,340)	(5,340)	(5,340)
Interest Charges	53,954	53,954	53,954
	549,793	588,174	593,477
Net Income[1]	$ 58,711	$ 20,330	$ 15,027
Earnings per common share (after preferred dividend requirements)[2]	$ 1.76	$ .29	$ .09
Increase in current cost of utility plant held during the year[3]			$ 181,749
Reduction to net recoverable cost		$ (65,512)	(54,168)
Effect of increase in general price level			(187,790)
Excess of increase in general price level over increase in current costs after reduction to net recoverable cost			(60,209)
Purchasing power gain on net amounts owed		55,514	55,514
Net		$ (9,998)	$ (64,904)

[1] Including the reduction to net recoverable cost, the loss on a constant dollar and current cost basis for 1981 would have been $45,182 and $39,141, respectively.
[2] Excluding reduction to net recoverable cost.
[3] At December 31, 1981, current cost of net utility plant was $2,277,874 while historical cost was $1,221,567.

As required by Statement No. 33, the current provisions for depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the company's depreciation rates to the indexed plant amounts, even though depreciation is limited to recovery of historical costs as further discussed below. Other operating expenses were either not required to be adjusted or were not adjusted due to rate-making considerations.

The company, by holding monetary assets such as cash and receivables, loses purchasing power during periods of inflation because these items can purchase less at a future date. Conversely, by holding monetary liabilities, primarily long-term debt, payments in the future will be made with dollars having less purchasing power. For the years 1979-1981, the company's monetary liabilities exceeded monetary assets which resulted in a purchasing power gain on net amounts owed during the year.

The rate regulatory process limits the company to the recovery of the historical cost of plant. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable cost. Based on past practices, however, the company believes it will be allowed to earn on the increased cost of its facilities when replacement actually occurs.

Since the gain from the decline in purchasing power is attributable to long-term debt which has been used to finance utility plant, the reduction of utility plant to net recoverable amount is netted against the purchasing power gain on net amounts owed during the year.

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices

(In Thousands[1] of Average 1981 Dollars)

For the Years Ended December 31	1981	1980	1979	1978	1977
Operating revenues					
Historical cost dollars	$ 608,504	$ 520,470	$ 424,699	$ 378,702	$ 337,818
Constant dollars	608,504	574,457	532,144	527,935	507,006
Net income					
Constant dollars	20,330	17,683	36,468		
Current costs	15,027	9,230	25,092		
Earnings per common share					
Constant dollars	.29	.29	1.08		
Current costs	.09	(.05)	.59		
Net assets at year end[2]					
Historical cost dollars	542,080	500,546	490,616		
Constant dollars and current costs	524,556	527,665	581,313		
Excess of increase in general price level over increase in current costs[3]	(60,209)	(103,282)	(123,170)		
Purchasing power gain on net amounts owed	55,514	73,540	79,384		
Cash dividends declared per common share					
Historical cost dollars	$ 1.53½	$ 1.49	$ 1.40½	$ 1.30½	$ 1.22
Constant dollars	1.53½	1.64½	1.76	1.82	1.83
Market price per common share at year-end					
Historical cost dollars	12.63	11.75	12.63	13.25	14.38
Constant dollars	12.22	12.39	14.96	17.79	21.05
Average Consumer Price Index (1967 = 100)	272.4	246.8	217.4	195.4	181.5

[1]Except per share amounts.
[2]At net recoverable cost.
[3]After reduction to net recoverable cost.

13. Quarterly Financial Information (Unaudited)

The quarterly data presented below reflect all adjustments necessary in the opinion of the company for a fair presentation of the interim results. Quarterly data normally vary seasonably with temperature variations, differences between summer and w[illegible]er rates, the timing of rate increases and the scheduled downtime and maintenance of electric generating units.

Quarter Ended	Operating Revenue	Operating Income	Net Income	Earnings Applicable to Common Stock	Average Shares Outstanding	Earnings per Average Share
	(Dollars in Thousands)					
1981						
March 31	$ 160,919	$ 27,061	$ 14,266	$ 11,062	25,078	$ .44
June 30	137,445	24,547	12,098	8,893	25,247	.35
September 30	164,359	31,464	19,772	16,568	25,514	.65
December 31	145,781	24,253	12,575	9,370	27,150	.34
	$ 608,504	$ 107,325	$ 58,711	$ 45,893	25,747	$ 1.78
1980						
March 31	$ 134,909	$ 21,248	$ 14,634	$ 12,372	24,460	$ .51
June 30	113,729	16,432	10,004	7,741	24,605	.31
September 30	138,290	22,686	16,391	14,129	24,748	.57
December 31	133,542	20,350	7,928	5,288	24,914	.21
	$ 520,470	$ 80,716	$ 48,957	$ 39,530	24,682	$ 1.60

Consolidated Statistics

10 Years of Review		1981	1980	1979	1978
Electric Revenues (thousands):	Residential	$ 164,919	$ 144,637	$ 115,381	$ 105,237
	Commercial	123,099	112,166	91,798	82,796
	Industrial	129,601	116,401	98,023	83,972
	Other utilities, etc.	73,602	63,698	53,782	40,840
	Miscellaneous revenues	12,898	7,025	4,682	5,261
	Total electric revenues	$ 504,119	$ 443,927	$ 363,666	$ 318,106
Electric Sales (1,000 kilowatt-hours):	Residential	1,996,647	2,046,546	1,968,452	1,979,624
	Commercial	1,660,147	1,648,776	1,598,299	1,568,600
	Industrial	2,454,685	2,429,842	2,624,438	2,418,527
	Other utilities, etc.	1,283,845	1,335,216	1,300,611	1,281,498
	Total electric sales	7,395,324	7,460,380	7,491,800	7,248,249
Electric Customers (end of period):	Residential	255,646	246,887	242,745	237,925
	Commercial	29,450	28,162	27,998	28,421
	Industrial	788	821	874	858
	Other utilities, etc.	434	440	478	480
	Total electric customers	286,318	276,310	272,095	267,684
Gas Revenues (thousands):	Residential	$ 34,123	$ 26,525	$ 25,719	$ 28,370
	Commercial	14,344	10,342	8,954	10,154
	Industrial	22,259	12,404	9,884	10,191
	Interruptible	11,711	9,293	4,440	716
	Other utilities, etc.	61	46	55	93
	Miscellaneous revenues	572	430	270	116
	Total gas revenues	$ 83,070	$ 59,040	$ 49,322	$ 49,640
Gas Sales (million cubic feet):	Residential	6,193	6,321	6,423	6,941
	Commercial	2,704	2,683	2,415	2,593
	Industrial	4,809	3,937	3,388	3,290
	Interruptible	2,802	2,738	1,720	319
	Other utilities, etc.	12	14	16	29
	Total gas sales	16,520	15,693	13,962	13,172
Gas Customers (end of period):	Residential	69,865	69,024	67,823	67,550
	Commercial	3,967	3,846	3,712	3,773
	Industrial	167	155	131	163
	Interruptible	16	16	16	21
	Other utilities, etc.	1	1	1	1
	Total gas customers	74,016	73,042	71,683	71,508
Refinery Service	Electricity delivered (1,000 kilowatt-hours)	343,063	328,420	262,159	270,006
	Steam delivered (1,000 pounds)	7,673,420	7,570,944	6,378,705	6,016,095

1977	1976	1975	1974	1973	1972	1971	Average Annual Compound % Rate of Growth
$ 97,691	$ 80,416	$ 77,069	$ 68,730	$ 51,799	$ 43,878	$ 36,198	16.37
74,641	60,111	58,169	51,192	37,888	31,810	25,468	17.06
76,801	64,458	64,141	66,381	41,284	35,962	28,903	16.19
38,974	34,896	35,606	32,976	21,518	16,833	12,964	18.96
3,4[illegible]1	2,398	4,370	9,194	5,287	2,857	1,209	26.71
$ 291,568	$ 242,279	$ 239,355	$ 228,473	$ 157,776	$ 131,340	$ 104,742	17.01
1,924,723	1,787,663	1,672,180	1,597,472	1,629,641	1,463,821	1,380,763	3.76
1,495,796	1,412,259	1,359,673	1,303,053	1,360,216	1,227,230	1,099,897	4.20
2,277,630	2,260,661	2,142,151	2,461,303	2,512,877	2,412,239	2,252,219	0.86
1,207,941	1,199,155	1,218,785	1,230,528	1,252,977	1,137,272	1,014,972	2.38
6,906,090	6,659,738	6,392,789	6,592,356	6,755,711	6,240,562	5,747,851	2.55
233,106	230,579	221,780	215,516	208,073	200,595	193,282	2.84
29,648	28,345	27,345	27,132	26,708	25,856	25,139	1.60
921	1,002	923	891	867	869	810	(0.27)
561	550	545	501	506	496	460	(0.58)
264,236	260,476	250,593	244,040	236,154	227,816	219,691	2.68
$ 21,829	$ 18,826	$ 15,365	$ 14,298	$ 13,018	$ 12,944	$ 11,948	11.06
7,133	6,062	4,676	4,201	3,715	3,532	3,126	16.46
6,950	5,984	4,343	3,726	3,505	3,265	2,998	22.20
169	1,301	1,211	1,532	1,363	1,035	1,153	26.09
49	44	33	26	30	25	16	14.32
103	31	45	96	22	18	39	30.81
$ 36,233	$ 32,248	$ 25,673	$ 23,879	$ 21,653	$ 20,819	$ 19,280	15.73
6,751	6,956	6,540	6,863	7,134	7,737	7,583	(2.00)
2,439	2,586	2,429	2,526	2,614	2,696	2,534	0.65
2,811	3,264	2,849	3,215	3,653	3,875	3,797	2.39
81	953	1,073	2,257	2,346	2,134	2,708	0.34
17	20	18	16	23	20	13	(0.80)
12,099	13,779	12,909	14,877	15,770	16,462	16,635	(0.07)
67,400	68,978	69,418	69,525	69,833	69,891	69,604	0.04
3,738	4,154	4,189	4,356	4,418	4,407	4,426	(1.09)
163	198	198	195	197	195	204	(1.98)
21	21	21	21	21	21	21	(2.68)
1	1	1	1	1	1	1	—
71,323	73,352	73,827	74,098	74,470	74,515	74,256	(0.03)
289,049	318,389	297,282	350,021	341,700	295,236	272,649	2.32
4,888,366	5,301,421	5,517,000	5,921,000	5,926,000	7,261,000	7,564,000	0.14

Trustees	First Mortgage and Collateral Trust Bonds, Chemical Bank, New York, New York. Pollution Control Revenue Bonds, Girard Bank Delaware (formerly Farmers Bank of the State of Delaware), Wilmington, Delaware, Bank of Delaware, Wilmington, Delaware, and Wilmington Trust Company, Wilmington, Delaware.
Transfer Agents	Preferred Stock—Wilmington Trust Company, Wilmington, Delaware. Common Stock—Wilmington Trust Company, Wilmington, Delaware, and Manufacturers Hanover Trust Company, New York, New York.
Registrars	Preferred Stock—Delaware Trust Company, Wilmington, Delaware. Common Stock—Delaware Trust Company, Wilmington, Delaware, and Manufacturers Hanover Trust Company, New York, New York.
Stock Symbol	Common Stock, DEW—listed on the New York and Philadelphia Stock Exchanges.
Regulatory Commissions	Federal Energy Regulatory Commission, 825 North Capitol Street, N.E., Washington, D.C. 20426
	Delaware Public Service Commission, 1560 S. du Pont Highway, Dover, Delaware 19901
	Maryland Public Service Commission, American Building, 231 East Baltimore Street, Baltimore, Maryland 21202
	Virginia State Corporate Commission, P.O. Box 1197, Richmond, Virginia 23209
Corporate Address	Delmarva Power, 800 King Street, P.O. Box 231, Wilmington, Delaware 19899. Telephone (302) 429-3011
Annual Meeting	Will be held on April 27 at 12:30 p.m., in the Grand Opera House, 818 Market Street Mall, Wilmington, Delaware
	To supplement information in this Annual Report, a Financial and Statistical Review (1971-1981) and the Form 10-K are available upon request. Please write to Stockholder Relations, Delmarva Power, 800 King Street, P.O. Box 231, Wilmington, Delaware 19899

Officers

Robert D. Weimer
Chairman of the Board

Nevius M. Curtis
President and
Chief Executive Officer

H. Ray Landon
Senior Vice President

William G. Price
Senior Vice President

Frank A. Cook
Vice President

Howard E. Cosgrove
Vice President and
Chief Financial Officer

Harland M. Wakefield, Jr.
Vice President

Donald E. Cain
Division Vice President,
Northern Division

Wayne A. Lyons
Division Vice President,
Southern Division

James A. Clark, Jr.
Vice President,
Energy Supply

Alfred C. Thawley, Jr.
Secretary and Treasurer

Charles Marchyshyn
Comptroller

Executive Committee
Robert D. Weimer, Chairman;
Werner C. Brown; Oscar L. Carey;
Nevius M. Curtis; James M. Tunnell, Jr.

Audit Committee
James M. Tunnell, Jr., Chairman;
Werner C. Brown; Oscar L. Carey

Nominating Committee
Dr. E. Arthur Trabant, Chairman;
Sally V. Hawkins; Robert D. Weimer

Compensation Committee
Werner C. Brown, Chairman;
Oscar L. Carey; Nevius M. Curtis;
William G. Simeral

Board of Directors

Werner C. Brown
Director and Retired Chairman of the Board of Hercules, Incorporated (chemical manufacturer) Wilmington, Delaware

Mrs. Henry P. Cannon, II
Director of H. P. Cannon & Son, Inc. (food processing firm) Bridgeville, Delaware

Oscar L. Carey
President and Director of Larmar Corporation (general real estate and home builders) Salisbury, Maryland

John R. Cooper
Manager of Environmental Affairs and Occupational Health, Petrochemicals Department of E. I. du Pont de Nemours & Company (chemical manufacturer) Wilmington, Delaware

Nevius M. Curtis
President and Chief Executive Officer of the Company

Sally V. Hawkins
Director and President of Delaware Broadcasting Company and General Manager of Station WILM (radio broadcasting), Wilmington, Delaware

William G. Price
Senior Vice President of the Company

William G. Simeral
Director and Senior Vice President and a member of the Executive Committee of E. I. du Pont de Nemours & Company (chemical manufacturer) Wilmington, Delaware

Dr. E. Arthur Trabant
President of the University of Delaware Newark, Delaware

James M. Tunnell, Jr.
Professor of Law, Delaware Law School Wilmington, Delaware

Robert D. Weimer
Chairman of the Board of the Company











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

Please send me additional information about the Dividend Reinvestment Plan.

Name

Address

City State Zip Code

Dividend Reinvestment and Common Share Purchase Plan

The company's Dividend Reinvestment Plan qualifies for the new tax incentives under the Economic Recovery Tax Act of 1981.

The new Act provides for the deferral of federal income taxes on a portion of dividends paid after January 1, 1982 by public utilities and reinvested in their common stock through a qualified dividend reinvestment plan. The maximum deferral for all dividends reinvested is $750 per year for individuals and $1,500 per year for a married couple filing a joint return.

The Plan provides for cash dividends to be reinvested and/or cash to be invested monthly in amounts from $25 up to $5,000 per quarter to purchase additional shares of Common Stock without paying any brokerage or service charges.

You may want to consider the benefits of joining the Plan, if you are not already participating. Just complete and mail the attached form to the Company and we will send you a Prospectus containing the details of the Plan.