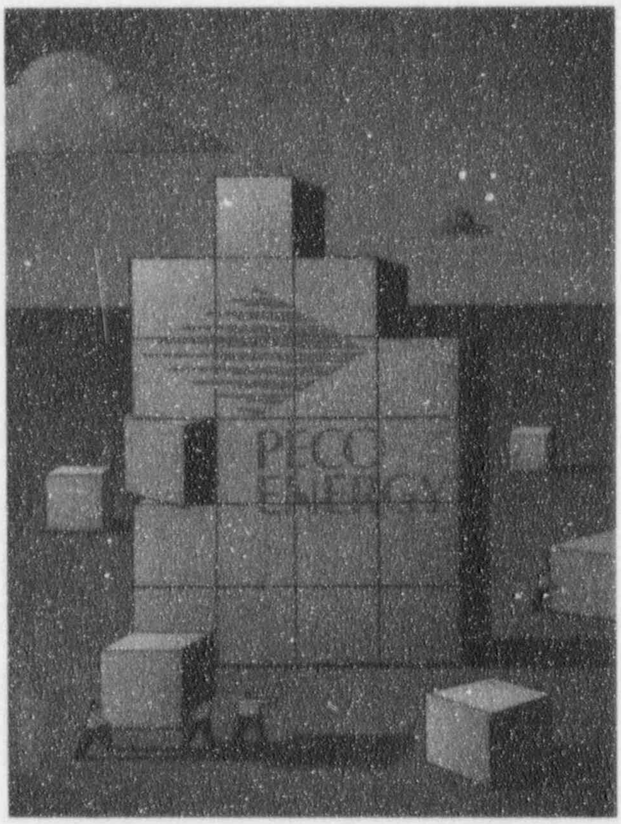
*Building a new Company to meet the challenges of a competitive market.*




*Annual Report 1993*

PECO ENERGY

## *COMPANY PROFILE*

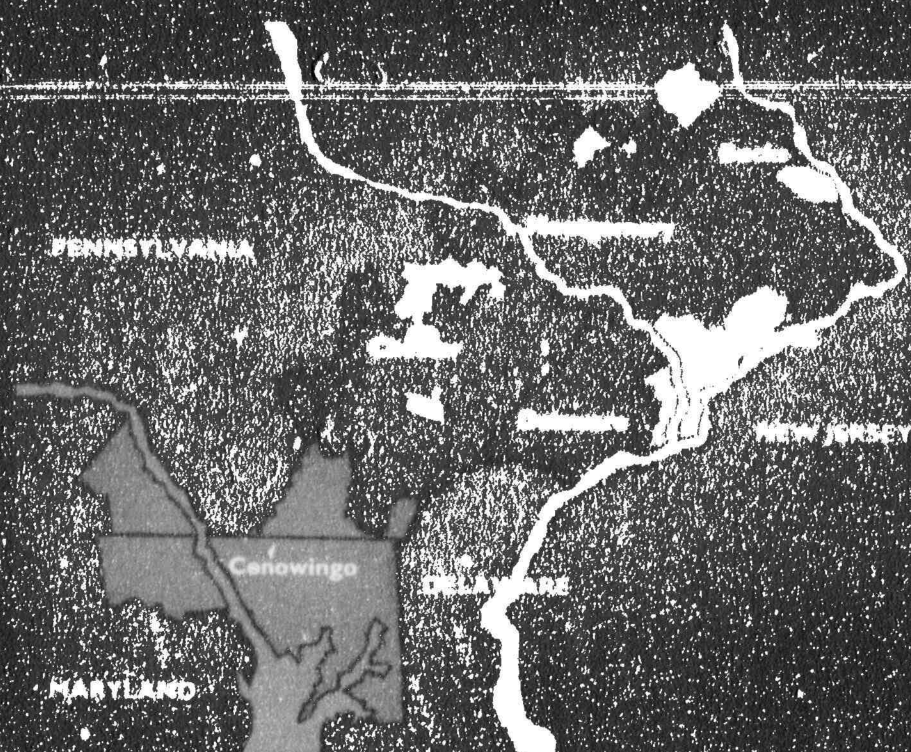
*PECO Energy Company is an operating utility which provides electric and gas service in southeastern Pennsylvania. Two subsidiaries own, and a third subsidiary operates, the Conowingo Hydroelectric Project, and one distribution subsidiary provides electric service in two counties in northeastern Maryland.*

*The total area served by the Company and subsidiaries covers 2,475 square miles. Electric service is supplied in an area of 2,340 square miles with a population of about 3,700,000, including 1,600,000 in the City of Philadelphia. Approximately 95 percent of the electric service area and 64 percent of kilowatthour sales are in the Philadelphia suburbs and in northeastern Maryland, and 5 percent of the service area and 36 percent of such sales are in the City of Philadelphia. Natural gas service is supplied to a population of about 1,900,000 in a 1,475-square-mile area of southeastern Pennsylvania adjacent to Philadelphia.*

*COVER: Effective January 1, 1994, Philadelphia Electric Company changed its name to PECO Energy Company. The new name more accurately reflects the Company's markets and services.*

**Company Service Territory Operating Divisions**

Electric and Gas Service — Electric Service only — Gas Service only



## *PECO Energy Company*

| *Financial Highlights* | *1993* | *1992* | *% Change* |
|---|---|---|---|
| Operating Revenues | **$3,988,129,000** | $3,962,469,000 | 0.6% |
| Operating Expenses, excluding Taxes | **$2,300,195,000** | $2,382,742,000 | (3.5)% |
| Taxes Charged to Operations | **$652,523,000** | $546,351,000 | 19.4% |
| Operating Income | **$1,035,411,000** | $1,033,376,000 | 0.2% |
| Other Income and Deductions | **$12,057,000** | $(49,065,000) | 124.6% |
| Earnings Applicable to Common Stock | **$541,590,000** | $418,210,000 | 29.5% |
| Earnings per Average Common Share | **$2.45** | $1.90 | 28.9% |
| Cash Dividends Paid per Common Share | **$1.43** | $1.325 | 7.9% |
| Average Shares of Common Stock Outstanding | **221,072,000** | 220,245,000 | 0.4% |
| Construction Expenditures | **$574,650,000** | $563,546,000 | 2.0% |
| Common Shareholders' Equity | **$4,263,418,000** | $4,022,169,000 | 6.0% |

## *CONTENTS*

### *To Our Shareholders:*

I'm pleased to report to you that 1993, the final year for the Company called Philadelphia Electric, was a successful one.

Earnings increased to $2.45 per share, up 29% over depressed 1992 earnings. The dividend rate was increased 9% and the overall financial condition of the Company continued to recover from the adverse 1990 Limerick Unit No. 2 Rate Order by the Pennsylvania Public Utility Commission.

Operations were also successful in 1993. Electric and gas energy sales set records and new peak loads were established. Our cost-containment program continued to produce benefits, especially the reduction of the cost of capital through our on-going debt and preferred stock refinancing and redemption program.

The Company's nuclear units produced a record amount of electricity by operating at a combined capacity factor of over 78%, which is above the national average. Our electric and gas customers benefitted once again from lower average bills during the year.

*Corbin A. McNeill, Jr.*

*President and*

*Chief Operating Officer*

### *Building A New Company*

With the approval of our shareholders, the Company's name was changed to PECO Energy Company on January 1, 1994. Despite the fact that the recent performance by the Company has been strong, your management has been aggressively building a new Company to prepare for the increased level of competition which is anticipated in the electric utility market. The name change is a small, but highly visible, part of that strategy and conveys a new image of a more modern Company that is preparing itself for the future. It also signifies that we do much more than merely sell electricity in Philadelphia.

As a part of our new image, this annual report is a deliberate departure from past ones, designed to hold production costs to a minimum and yet continue to convey essential information to our investors and other interested parties.

The need to build a new Company grew from the 1987 Peach Bottom shutdown when we recognized that the Company was ill prepared to face the future. The pace of change accelerated as a result of the 1990 dividend reduction, the passage of the 1992 National Energy Policy Act, which enhances competition in the electric generation market, and the realization that open competition in all markets could be on the horizon. Over the past six years, we have taken a number of major steps to improve the Company's future prospects such as:

- assembling a new senior management team with widely diversified experience, including executives from unregulated industries;
- introducing a Company-wide Quality Management program to assist our employees in improving individual and team performance;
- establishing nationally recognized programs for the selection and training of supervisors and for management development;
- initiating an effective cost-containment program;
- authorizing a number of projects which will extend the economic lives and improve the efficiency of our base-load steam and hydroelectric generating facilities; and
- using reengineering techniques to redesign and dramatically improve some of our basic work processes, starting with the way we serve our customers.

During 1993, as progress was made in all of these programs, two other significant events occurred. In June, eligible employees voted overwhelmingly against union representation. Remaining union-free enables the Company to retain the flexibility to address the changes required to compete more effectively, thus strengthening the Company and providing high employment security to the overwhelming majority of employees. In September, we announced plans to reorganize the Company into five strategic business units. The reorganization is expected to be fully implemented by January 1, 1995. The five units will be as follows:

- the *Consumer Energy Services Group* will distribute energy products and services to the Company's retail customers and will consist primarily of the existing seven geographic divisions, plus marketing, sales, engineering and support services;
- the *Gas Services Group* will be responsible for managing the Company's gas operations;
- the *Nuclear Generation Group* will be responsible for operating the Company's nuclear generating stations;
- the *Power Generation Group* will be responsible for operating the Company's fossil-fired and hydroelectric generating units; and
- *Bulk Power Enterprises* will market and sell energy products to wholesale customers inside and outside the Company's service territory.

The units have been structured according to their different regulatory and customer focuses to position them to take advantage of specific opportunities in their evolving energy markets.

### *Looking Ahead*

The immediate future is going to be challenging, and possibly chaotic, for the electric utility industry. By anticipating the need to change and with a commitment to customer satisfaction, operational excellence and superior shareholder value as the key components of our corporate strategy, I believe PECO Energy will be well positioned to address the challenges and opportunities of the increasingly competitive marketplace of the future.

We appreciate the support of our shareholders during these interesting times. I have great confidence in our strong management team and our talented and caring employees who have demonstrated continued commitment to enhancing customer satisfaction and shareholder value. Together, we are determined to fulfill your expectations for the new PECO Energy Company.

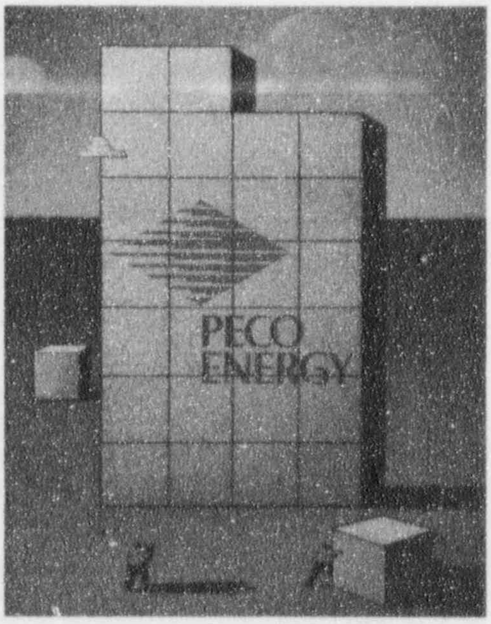
*Joseph F. Paquette, Jr.*
*Chairman of the Board*
*and Chief Executive Officer*

JF Paquette Jr

J. F. Paquette, Jr.
Chairman of the Board
and Chief Executive
Officer

February 1, 1994

## EARNINGS IMPROVE; DIVIDEND INCREASES




Common stock earnings improved to $2.45 per share in 1993, up from $1.90 in 1992. The earnings increase was primarily attributable to the settlement of the Peach Bottom litigation which depressed 1992 earnings, more favorable weather in 1993, the Company's on-going debt and preferred stock refinancing and redemption program and lower charges for uncollectible accounts. These improvements were partially offset by non-recurring federal income tax settlements in 1992 and the higher 1993 federal income tax rate.

In October, the Board of Directors increased the quarterly common stock dividend by 9% from $0.35 per share to $0.38 per share, or $1.52 per share on an annualized basis, beginning with the December 1993 payment. This is the third increase since the 1990 dividend reduction and reflects the Company's continued financial improvement.

## SALES CLIMB

Total electric kilowatthour sales increased 6% primarily due to warmer weather and increased sales to other utilities. Gas sold and transported increased 9% primarily due to higher interruptible sales and gas used at the Company's Cromby electric generating station which was converted in 1992 to burn either natural gas or oil. The number of electric and gas customers in all classes except large commercial and industrial increased.

*Philadelphia Electric is now PECO Energy Company. This new corporate identity reflects a new, more customer-focused organization.*

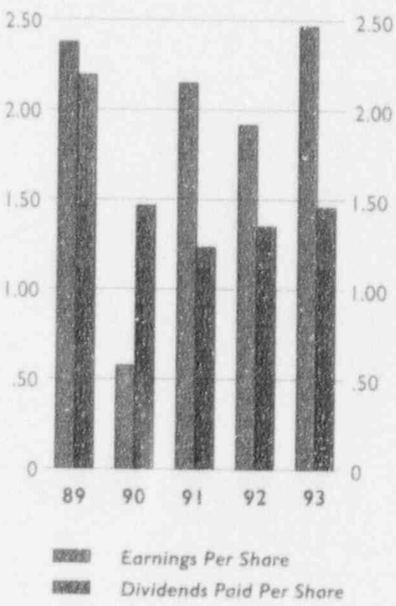
## FINANCING HIGHLIGHTS

The Company sold $2.1 billion of securities in 1993, the proceeds of which were used to refinance higher-cost debt and preferred stock, as summarized below:

| Month | Security | Millions of Dollars |
|---|---|---|
| February | Mortgage bonds due 2003 @ 6-5/8% | $ 250 |
| | Mortgage bonds due 2023 @ 7-3/4% | 100 |
| March | Preferred stock @ $7.48 | 50 |
| April | Tax-exempt bonds—floating rate | 154 |
| May | Mortgage bonds due 2003 @ 6-1/2% | 200 |
| | Mortgage bonds due 2023 @ 7-3/4% | 250 |
| June | Preferred stock @ $6.12 | 93 |
| August | Mortgage bonds due 1998 @ 5-3/8% | 225 |
| | Mortgage bonds due 2005 @ 6-3/8% | 75 |
| | Mortgage bonds due 2023 @ 7-1/8% | 200 |
| | Tax-exempt bonds—floating rate | 43 |
| September | Tax-exempt bonds—floating rate | 23 |
| October | Mortgage bonds due 2024 @ 7-1/4% | 225 |
| | Mortgage bonds due 2001 @ 5-5/8% | 250 |
| | Total | $2,138 |

### EARNINGS AND DIVIDENDS

*Dollars Per Share*




These refinancings, along with the redemption of $199 million of securities with internally generated funds and the restructuring of a $250 million nuclear fuel financing, result in annualized savings of approximately $55 million, or $0.15 per share in earnings.

## CAPITAL EXPENDITURES STABILIZE

Capital expenditures for 1993 were $575 million compared to $564 million in 1992. Major outlays were for expansion of the electric transmission and distribution sys-

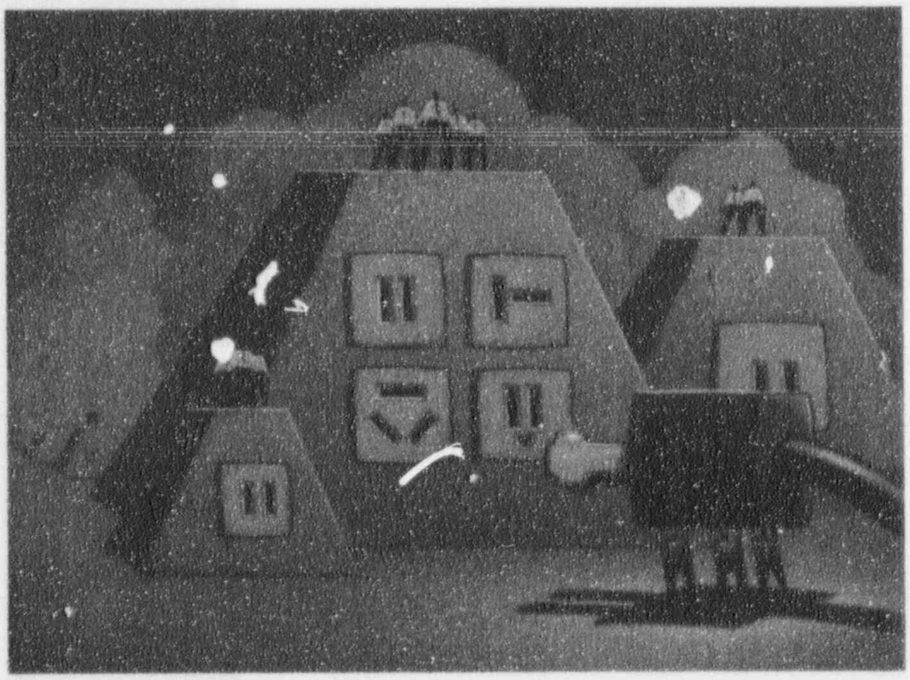
PECO ENERGY

tem and nuclear fuel. Budgeted capital outlays for 1994 of $575 million are all expected to be supplied by internally generated funds, as was the case in 1993.

*With the prospect of increased competition, PECO Energy will provide unique solutions to meet customers' specific needs.*

## RATE MATTERS

In September, the Pennsylvania Public Utility Commission (PUC) denied the Company's request for a 1.5% electric rate increase to recover currently the costs associated with the implementation of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Nevertheless, the PUC permitted the Company to defer these costs for future recovery subject to consideration in the Company's next base-rate case. The Company has appealed the PUC's decision to the Commonwealth Court. The Company's future earnings will be adversely affected if full recovery of these deferred costs is not permitted.

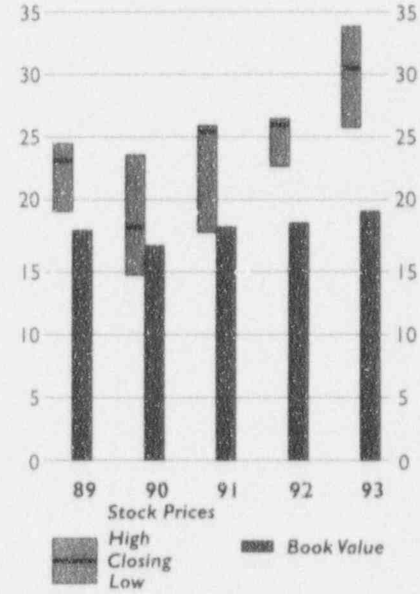


In December 1993, following a three-year investigation, the PUC approved a cost-recovery mechanism for Demand Side Management (DSM) programs that allows the current recovery of DSM program costs, recovery through base-rate cases of lost revenues and the ability to earn a performance incentive. As part of the order, the Company is required to file a DSM surcharge tariff and a DSM progress plan by March 1994. The Company is currently evaluating the appropriate programs to include in the plan.

For 64 years, the Company has supplied electric service to its Maryland subsidiary Conowingo Power Company (COPCO). The service is currently provided under a tariff approved by the Federal Energy Regulatory Commission. In 1993, the Maryland Public Service Commission (MdPSC) ordered an investigation to determine whether the current power supply from PECO Energy is COPCO's least-cost alternative. In the spirit of competitive bidding, the MdPSC has also invited other utilities to participate in this proceeding. The investigation is not expected to be completed until late 1994. The Company is developing strategies to protect both customer and shareholder interests in this matter.

**COMMON STOCK PRICE VS. BOOK VALUE**

*Dollars Per Share*




## *PJM SEPARATES FROM COMPANY*

Since its establishment in 1927 as the nation's first major power pool, the Pennsylvania-New Jersey-Maryland (PJM) Interconnection was administered by the Company using Company employees. PJM fully integrates the bulk-power generating and transmission operations of eleven electric utilities, including the Company, thereby enabling member companies to share resources and supply electricity more cost-effectively by using the lowest cost power available.

Effective July 1, 1993, PJM became responsible for handling its own administrative services. The 120 people who worked at PJM became employees of the newly formed PJM Interconnection Association. Severing administrative ties with the Company provides PJM with greater flexibility and better positions it to function in the emerging competitive environment.

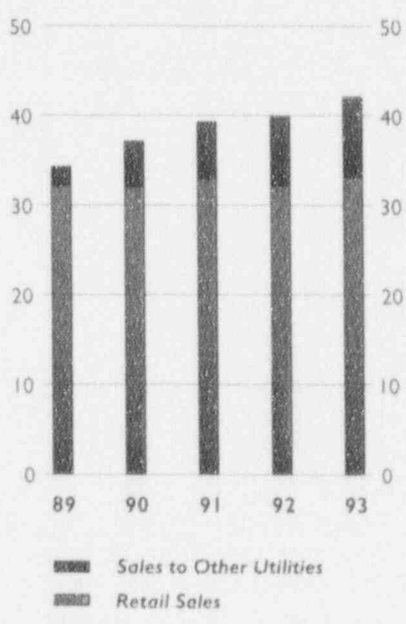
PECO ENERGY

## OPERATING HIGHLIGHTS

The Company's 1993 operational achievements reflect the Company's preparation for the challenging, competitive environment of the future.

- *Customer Operations* - Delinquent accounts deemed uncollectible and charged to expense decreased by $31 million due to the Company's aggressive campaign to reduce delinquent accounts.
- *Customer Connections* - More than 7,300 new residential units were connected in 1993. Electric space heating was installed in 28% of these units and gas heat in 55% for a total market penetration of 83% of new residential units.
- *Station Upgrades* - Work on the $54 million overhaul of Eddystone Unit No. 2 was completed, and work on a $32 million program to extend the life of the Conowingo Hydroelectric Station continued on schedule. The Company also began converting Eddystone Units No. 3 and No. 4 to use natural gas or oil.

**ELECTRIC SALES**
*Billion Kilowatthours*




- *Gas Operations* - The Company continued to promote the use of natural gas vehicles in its service territory. PECO Energy currently has 95 natural gas vehicles in its own fleet and plans to replace an additional 200 vehicles with natural gas vehicles within the next two years.
- *Nuclear* - The Company's nuclear units performed at a record capacity factor of 78%. By exceeding 70%, the Company earned a performance bonus of $10 million which is reflected in 1993 income. The bonus is achieved under the nuclear performance standard established by the PUC in 1990. The Company's nuclear generation produced an

estimated $550 million of fuel savings for its customers in 1993.

In March, Limerick Unit No. 2 completed a refueling outage in only 53 days, the most efficient in the Company's history. This compares to the previous best Limerick refueling outage of 75 days. Similarly, Peach Bottom Unit No. 3 completed a 58-day refueling outage in November which was significantly shorter than any previous Peach Bottom refueling outage since 1986.

All four Company-operated nuclear units (at Limerick and Peach Bottom) now are loaded with fuel designed for 24-month operating cycles between refuelings, rather than the previous 18-month cycle. This has improved capacity factors and upgraded licensing and testing programs.

The comprehensive reorganization of nuclear operations which began last year progressed significantly in 1993 and is to be completed in early 1995. The reorganization is expected to eliminate 613 positions through retirements and transfers and produce annual savings of approximately $31 million.

*At PECO Energy,*
*customer satisfaction*
*is the target*
*of each employee.*

During 1993, the Company negotiated an innovative agreement with the Long Island Power Authority (LIPA) which will produce significant benefits for the Company's shareholders and customers. Under the agreement, LIPA agreed to transfer slightly irradiated nuclear fuel from Shoreham Nuclear Power Station on Long Island, New York, to the Company for use at Limerick. LIPA will pay the Company $46 million to assume ownership of the fuel. The fuel transfer is expected to save PECO Energy

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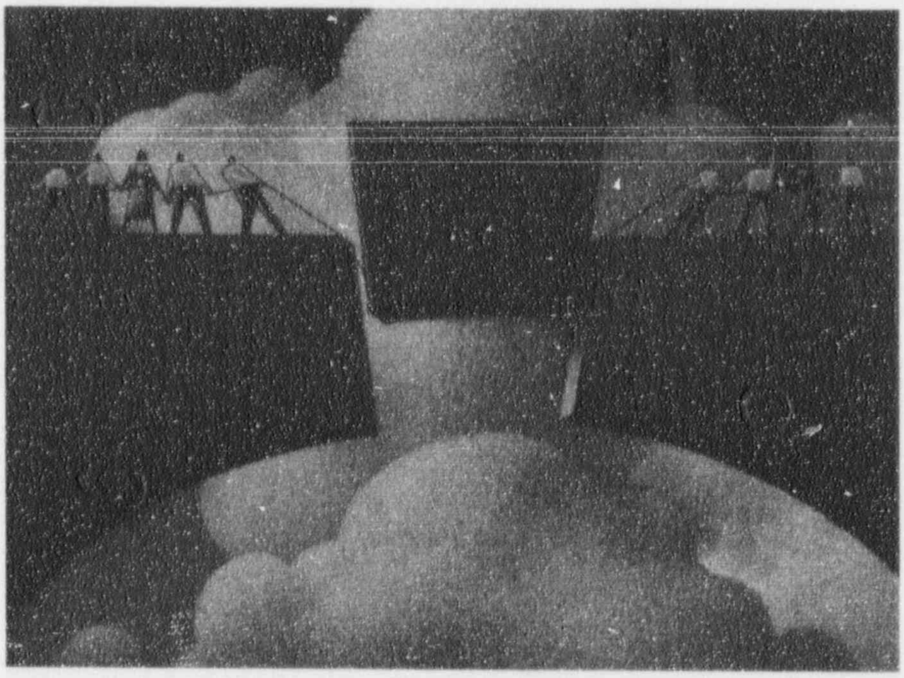
customers about $70 million in future years, because it will replace fuel that otherwise would have to be purchased. By year-end, the Company had received 18 of the expected 33 shipments.

## UNION ORGANIZATION ATTEMPT FAILS

An attempt by the International Brotherhood of Electrical Workers (IBEW) and the Independent Group Association (IGA) to represent the Company's production, transmission and distribution, maintenance, clerical and some professional employees was overwhelmingly voted down by employees. The National Labor Relations Board-ordered election took place in June with 3,530 employees (64% of the votes cast) voting "No Union." The IBEW and the IGA received 1,260 and 719 votes, respectively. The Company's management team campaigned strongly against union representation because it believes that a union-free work environment enables the Company to work more closely with its employees to better address the increasingly competitive nature of our industry and to enhance the future prospects of the Company.

## ECONOMIC DEVELOPMENT

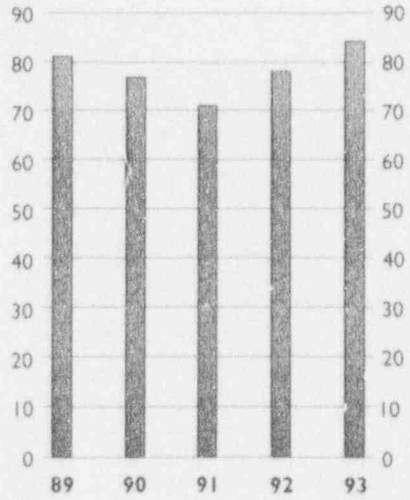
After many years of financial decline and negative publicity, Phila-



delphia, through the leadership of the city's new mayor and the president of city council, has effectively built a coalition for change. Philadelphia has balanced its budget, privatized many city services and received a widespread vote of confidence from Wall Street and the local business community. Philadelphia's image has rebounded not only locally, but nationally and internationally. In 1993, the Philadelphia region was ranked the third best place to live out of 343 metropolitan areas in North America, according to *Places Rated Almanac*. In addition, *Fortune Magazine* has rated Philadelphia as one of the ten best cities for skilled technical workers and the general quality of its labor force.

**GAS SALES & TRANSPORTED GAS**

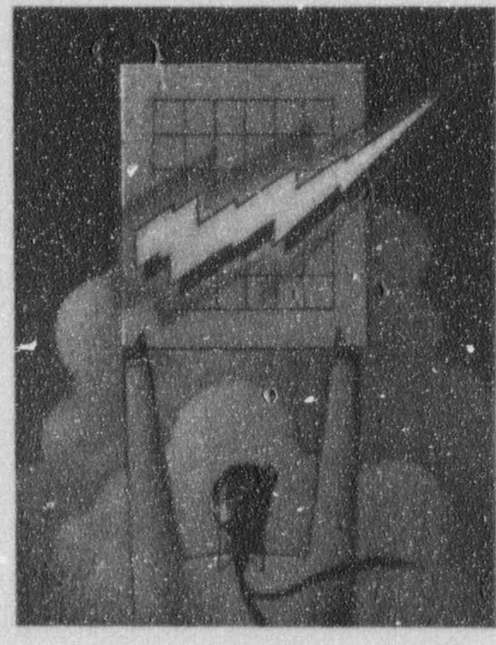
*Billion Cubic Feet*




Despite a sluggish national economy, there are some positive economic developments in the region. The recently completed Pennsylvania Convention Center in center city Philadelphia, the second largest convention facility in the Northeast, is expected to create approximately 6,000 permanent jobs by 1995. Infrastructure improvements to Philadelphia International Airport also bode well for the region's future business outlook. In 1993, the Company's targeted and aggressive marketing campaign attracted 19 companies and 4,000 jobs to the region.

*The success of Quality Management depends upon teamwork.*

PECO ENERGY



*Despite*

*significant changes,*

*the Company remains*

*committed to increasing*

*shareholder value.*

FIGURE 1

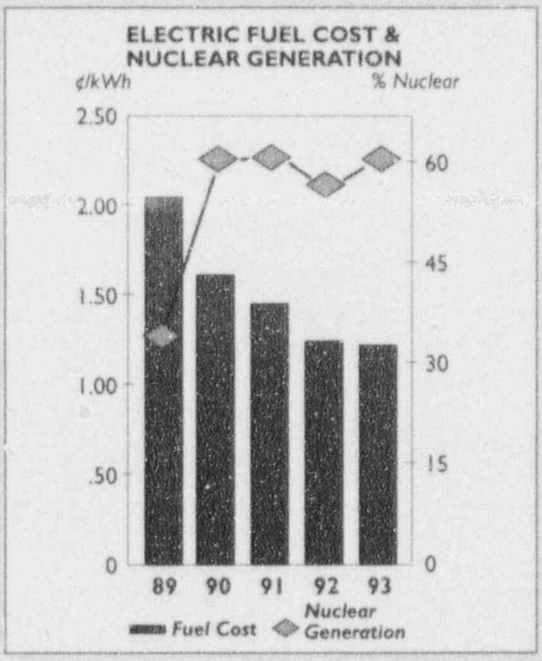



FIGURE 2

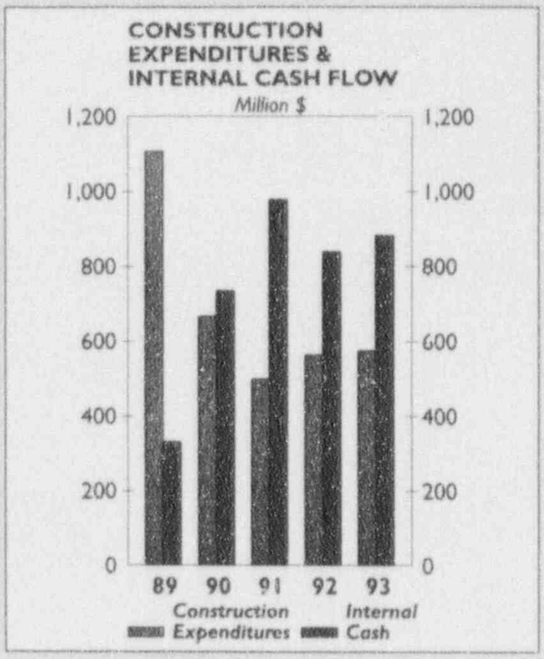
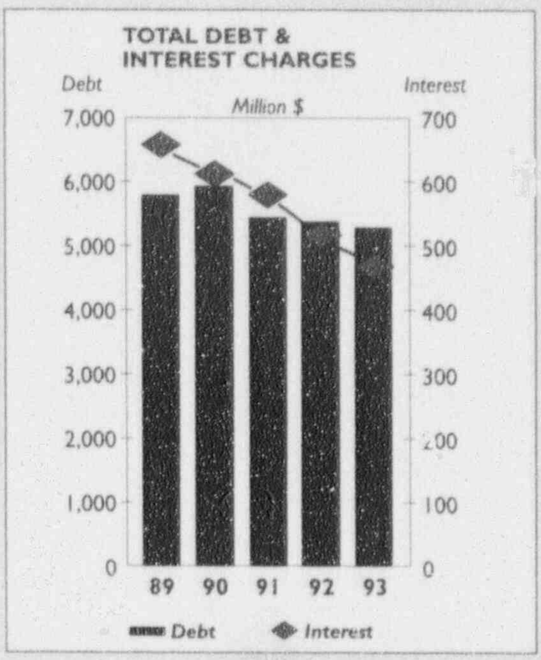



FIGURE 3



### *Financial Progress Continues*

During 1993, the Company continued to make progress in strengthening its fundamental financial position and increasing shareholder value.

Total revenues approached $4.0 billion in 1993 — up 0.6% from 1992 primarily due to favorable weather. Net income of $591 million was up 23%. Earnings per share in 1993 totaled $2.45, 29% above 1992 despite a slight increase in the number of shares outstanding. The annual dividend rate was increased by 9% to $1.52 per share, beginning with the December 1993 payment.

The charts on page 12 illustrate some of the financial achievements over the past five years. Electric fuel and energy interchange costs (Figure 1) have decreased 40% since 1989. The restart of Peach Bottom in 1989 and the start-up of Limerick Unit No. 2 in 1990 significantly increased the nuclear component of the Company's total electric power output, which now amounts to 60%. The resulting lower fuel costs are passed along to retail customers through the Energy Cost Adjustment; however, under the terms of the Limerick Unit No. 2 rate case settlement, beginning in April 1994, a portion of the Limerick energy savings will be retained by the Company to benefit earnings for common shareholders and partially offset the Limerick Unit No. 2 excess capacity penalty. See note 2 of Notes to Consolidated Financial Statements.

Total employment, including contractors, has decreased from 18,700 in 1988 to 11,800 at the end of 1993. Most of the reduction through 1990 represents the release of contract labor used to build Limerick Unit No. 2. The number of Company employees has decreased from 11,300 in 1988 to 9,400 in 1993 primarily due to an early retirement program which was completed in 1991. The total reduction of 6,900 positions lowered annual expenditures by over $410 million.

Construction expenditures (Figure 2) decreased dramatically with the completion of the nuclear construction program. Annual construction expenditures are now expected to be $500 to $600 million. Internal cash flow has also increased significantly and now exceeds construction needs, allowing the Company to reduce debt to further strengthen the balance sheet.

Total debt (Figure 3) has decreased from $5.9 billion in 1990 to $5.3 billion in 1993. Annual interest has been reduced from a peak of $656 million in 1989 to $469 million in 1993. This reduction of $187 million is due in part to debt reduction, but more directly to the Company's aggressive refinancing program. Since 1989, over $4.4 billion of long-term debt has been refinanced and the average interest cost of outstanding debt has been reduced from 10% to 7%. The annualized interest savings from 1993 refinancings amount to $55 million, or $0.15 on an earnings per share basis.

With the reduction in the level of debt, long-term debt as a percentage of total capital has significantly improved from the peak level of 1990, decreasing from 57.2% to 51.3% at year-end 1993.

Total shareholder return measures the combined return of stock price appreciation and accumulated dividends. Figure 4 shows that the total return for Company shareholders for the five-year period 1989 through 1993 has exceeded both the S&P 500 stock index and the Dow Jones Utility Average. Assuming an initial investment of $100 at year-end 1988 in each alternative, the $100 investment in Company stock more than doubled, amounting to $213 including accumulated dividends. This return was 25% more than the Dow Jones Utility Average at $170 and 8% higher than the S&P 500 stock index at $197.

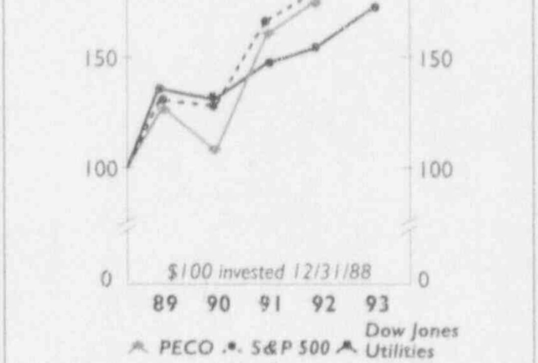



*FIGURE 4*

#### Earnings and Dividends

Earnings per common share in 1993 were $2.45 compared to $1.90 in 1992. The increase in earnings was primarily due to the settlement of the litigation in connection with the 1987 shutdown of the Peach Bottom Atomic Power Station (Peach Bottom), which reduced 1992 earnings by $0.27 per share; more favorable weather in 1993, which increased earnings by $0.26 per share; and the Company's on-going debt and preferred stock refinancing and redemption program, which increased earnings by $0.18 per share. These improvements were partially offset by non-recurring federal income tax settlements, which increased 1992 earnings by $0.10 per share, and the higher 1993 federal income tax rate, which decreased earnings by $0.04 per share.

As a result of its improved financial condition, the Company increased its annual common stock dividend by 9% to $1.52 per share, effective with the dividend paid in December 1993.

#### Operating Revenues

| | Electric Revenue Increase/(Decrease) | |
|---|---|---|
| *(Millions of Dollars)* | '93 vs '92 | '92 vs '91 |
| Sales | $ 100 | $ (103) |
| Tax Adjustment Revenues | (19) | 48 |
| Fuel Adjustment Revenue | (106) | (22) |
| Energy and Capacity Sales | 33 | 12 |
| | $ 8 | $ (65) |

*1993 vs 1992*

Electric revenues increased $8 million in 1993 compared to 1992 primarily as a result of favorable weather and higher sales to other utilities, partially offset by the pass-through of lower fuel costs to customers and lower revenues from large commercial and industrial customers.

Effective April 1, 1993, the Energy Cost Adjustment (ECA) was changed from a credit value of 3.764 mills per kilowatthour (kWh) to a credit value of 7.600 mills per kWh, which represents a decrease in annual revenue of $123 million.

Gas revenues increased $17 million in 1993 compared to 1992 primarily as a result of higher interruptible sales resulting from favorable market conditions and an increase in gas being used at the Company's electric generating stations.

*1992 vs 1991*

Electric revenues decreased $65 million in 1992 compared to 1991 primarily as a result of lower sales to residential customers and large commercial and industrial customers and the pass-through of lower fuel costs to customers. This was partially offset by increased sales to house-heating customers and small commercial and industrial customers. The unusually cool summer of 1992 was the major reason for decreased residential sales.

Gas revenues increased $9 million in 1992 compared to 1991 primarily as a result of higher sales to house-heating customers due to the cooler weather and an increase in house-heating customers.

#### Fuel and Energy Interchange Expense

*1993 vs 1992*

Fuel and energy interchange costs decreased $50 million in 1993 compared to 1992 primarily due to the Company's increased nuclear generation, which reduced higher-cost interchange purchases, and lower cost of fuel. Nuclear generation utilizes the Company's lowest cost fuel. These decreases were partially offset by increased output.

*1992 vs 1991*

Fuel and energy interchange costs decreased $70 million in 1992 compared to 1991 primarily due to lower fuel costs and to slightly lower output.

#### Other Operating and Maintenance Expenses

*1993 vs 1992*

Other operating and maintenance expenses decreased $44 million in 1993 compared to 1992 primarily due to lower charges for uncollectible accounts, lower administrative and general expenses primarily as a result of a reduction in the number of employees and the 1992 charge for the Nuclear Group Voluntary Early Retirement Program and Voluntary Separation Package. These decreases were partially offset by increases in other operating and maintenance charges related to the Company's generating units.

*1992 vs 1991*

Other operating and maintenance expenses increased $85 million in 1992 compared to 1991 primarily due to higher charges for uncollectible accounts, non-recurring maintenance expenditures incurred at the Company's nuclear generating facilities, the charge for the Nuclear Group Voluntary Early Retirement Program and Voluntary Separation Package, higher accruals for environmental liabilities and increases in other administrative and general expenses.

#### Depreciation Expense

Depreciation expense increased in both 1993 and 1992 compared to the prior year primarily due to additions to plant in service.

#### Allowance for Funds Used During Construction

*1993 vs 1992*

Allowance for Funds Used During Construction (AFUDC) increased in 1993 compared to 1992 primarily due to an increase in Construction Work in Progress, partially offset by a decrease in the 1993 AFUDC rate.

*1992 vs 1991*
AFUDC decreased in 1992 compared to 1991 primarily due to a decrease in the 1992 AFUDC rate.

#### Income Taxes

As discussed further in note 12 of Notes to Consolidated Financial Statements, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which was adopted in the first quarter of 1993. Adoption of SFAS No. 109 did not have a material effect upon the Company's results of operations as the Company expects to receive recovery for taxes when paid.
*1993 vs 1992*
Income taxes charged to operations and to other income increased in 1993 compared to 1992 due to the cost associated with the 1992 settlement of the Peach Bottom co-owners' litigation, higher pre-tax income, lower interest expense, the reduction in 1992 income taxes as a result of the settlement of the Company's 1984-1986 federal income tax returns and the change in the federal income tax rate from 34% to 35% in 1993. These increases were partially offset by a first-quarter 1993 adjustment of excess deferred federal income taxes. This adjustment resulted from a change in estimate to ratably decrease deferred federal income taxes in accordance with the tax-rate decrease mandated by the Tax Reform Act of 1986.
*1992 vs 1991*
Income taxes charged to operations and to other income decreased in 1992 compared to 1991 primarily due to lower pre-tax income and the cost associated with the settlement of the Peach Bottom co-owners' litigation.

#### Other Taxes

*1993 vs 1992*
Other taxes increased in 1993 compared to 1992 primarily due to a settlement of the 1990 Pennsylvania Capital Stock Tax and an adjustment of the 1991 Pennsylvania Capital Stock Tax in 1992, and an increase in the real estate tax base.
*1992 vs 1991*
Other taxes increased in 1992 compared to 1991 primarily due to the refunds in 1991 of prior years' real estate tax over-collections.

#### Interest Charges

*1993 vs 1992*
Interest charges decreased in 1993 compared to 1992 primarily due to the Company's on-going program to refinance and redeem higher-interest long-term debt.
*1992 vs 1991*
Interest charges decreased in 1992 compared to 1991 primarily due to the Company's on-going program to refinance and redeem higher-interest long-term debt and lower interest rates on bank borrowings.

#### Preferred Stock Dividends

Preferred stock dividends decreased in both 1993 and 1992 compared to the prior year primarily due to the reduced number of preferred shares outstanding and the refinancing of higher-cost preferred stock.

#### Liquidity and Capital Resources

The Company's capital requirements are primarily for capital expenditures for its construction program and for debt service. Capital resources available to meet these requirements and dividend payments are funded from cash provided by utility operations and, to the extent necessary, external financing.

The Company meets its short-term liquidity requirements primarily through bank lines of credit, which were $351.2 million at December 31, 1993, against which $119.4 million was outstanding, and through a $150 million commercial paper program. No amounts were outstanding at year-end under the commercial paper program. The Company believes these sources of short-term liquidity are adequate.

During 1993 and 1992, the Company met its capital requirements with cash generated through operations. Net cash provided by operating activities for 1993 was $1.3 billion. For 1994 through 1997, the Company expects that all of its capital needs will be provided through internally generated funds.

Construction program expenditures for 1993 were $575 million and are estimated to be $575 million in 1994 and $1.5 billion for 1995 to 1997. The estimated expenditures do not include any amounts for cooling towers at Salem Generating Station (Salem) that may be required for environmental reasons. The Company does not presently anticipate that construction of the Salem cooling towers will be required; however, if mandated, the estimated cost to the Company would be $230 to $300 million and may require external sources of financing. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted.

The current level of the Company's capital expenditures, as a result of the completion of its nuclear construction program, has improved the Company's financial condition. Also contributing to this improvement were the effects of the Company's cost-containment program, an aggressive bill-collection program and revenues from sales of capacity and energy to other utilities.

Influenced by favorable financial market conditions, the

Company has continued its aggressive refinancing and redemption program. During 1993, $2.1 billion of long-term debt and preferred stock were sold to replace debt and preferred stock carrying significantly higher rates of interest and dividends. Also during 1993, the Company utilized internally generated cash to repay $154 million of debt and to redeem $45 million of preferred stock. These transactions resulted in a reduction of approximately $49 million in annualized interest and $6 million in annualized preferred stock dividends. The ratios under the Company's mortgage indenture and Articles of Incorporation at December 31, 1993 were 4.20 and 2.47 times, respectively, compared with minimum issuance requirements of 2.00 and 1.50.

During 1993, Dividend Reinvestment and Stock Purchase Plan requirements were satisfied by the purchase of shares of common stock on the open market. Depending on the Company's specific requirements, the Company will decide whether to issue shares or purchase shares on the open market in the future.

The Company's capital structure as of December 31, 1993 was common equity, 42.6%; preferred stock, 6.1%; and long-term debt, 51.3%; compared to its capital structure as of December 31, 1992 of common equity, 40.3%; preferred stock, 6.6%; and long-term debt, 53.1%. The Company anticipates that its improved financial condition will allow it to further strengthen its balance sheet.

### *Outlook*

The Company's financial condition and its future operating results are dependent on a number of factors affecting the Company and the utility industry in general. These factors include the regulation and operation of nuclear generating facilities, increased competition, regulatory and accounting changes and compliance with environmental regulations.

### *General Business Outlook*

The Company's financial condition and future operating results are in part dependent on the continued successful operation of its nuclear generating facilities. The Company's nuclear generating facilities represent approximately 44% of its installed generating capacity. During 1993, the Company's nuclear plants operated at a 78% weighted average capacity factor and produced 60% of the Company's output. Substantial nuclear generation is the most cost-effective way for the Company to meet customer needs and any commitments for off-system sales. In addition, continued operation of the nuclear plants above 60% of capacity is necessary to avoid penalties under the ECA. Additionally, the terms of the 1991 settlement of the Limerick Unit No. 2 rate case afford the Company the opportunity, through sales to other utilities and the efficient operation of Limerick, to increase future earnings. See note 2 of Notes to Consolidated Financial Statements for a description of the ECA and the terms of the Limerick Unit No. 2 rate case settlement.

At December 31, 1993, the Company had agreements with other utilities to sell up to 799 megawatts (mW) of installed generating capacity and/or associated energy. All of these agreements are either for weekly purchases of energy only or expire during 1994. The Company expects to renew these agreements or negotiate new agreements and to sell over $100 million of capacity and/or energy through such agreements in 1994. The Company's future results of operations are dependent in part on its ability to successfully market its excess generating capacity and associated energy.

Annual and quarterly operating results can be affected by weather, which can have a significant positive or negative impact. For example, 1993 earnings compared to 1992 were favorably impacted by $0.26 per share due to the summer being one of the hottest in Company history. Conversely, the Company's earnings were negatively impacted by $0.35 per share in 1992 compared to 1991 due to one of the coolest summers ever experienced in the Company's service territory.

Inflation impacts the Company through increased operating costs and increased capital costs for utility plant. The Company expects that it would recover any increased operating costs, but in times of high inflation, the Company could be adversely impacted by the regulatory lag in reflecting these increased costs in rates. In addition, the replacement costs of the Company's utility plant are significantly higher than the historical costs reflected in the financial statements.

The Company expects its level of capital investment in utility plant to remain relatively stable since it has sufficient electric generating capacity to meet the anticipated needs of its service territory well into the next decade. Because of the Company's substantial investment in and reliance on its nuclear generating units, any changes in regulations by the Nuclear Regulatory Commission (NRC) requiring additional investments or resulting in increased operating costs of nuclear generating units could adversely affect the Company.

The Company's budgeted capital expenditures through 1997 include all costs of compliance with Phase I of the Clean Air Act of 1990 (Clean Air Act), including its share of the costs of scrubbers being installed at Conemaugh Generating Station. As a result of its prior investments in scrubbers for Eddystone and Cromby and its investment in nuclear generating capacity, the Company believes that compliance with the Clean Air Act will have less impact on the Company's electric rates than on the rates of other

Pennsylvania utilities which are more dependent on coal-fired generation.

An evaluation of Company sites for potential environmental clean-up liability is on-going, including approximately 20 sites where manufactured gas plant activities may have resulted in site contamination. Past activities at several sites have resulted in actual site contamination. The Company is presently engaged in performing detailed evaluations at certain of these sites to define the nature and extent of the contamination, to determine the necessity of remediation and to identify possible remediation alternatives. As of December 31, 1993 and 1992, the Company has accrued $17 and $13 million, respectively, of study and remediation costs that currently can be reasonably estimated. The Company cannot currently predict whether it will incur other significant liabilities for any additional remediation costs at these or additional sites identified by the Company, environmental agencies or others.

SFAS No. 112, "Employers' Accounting for Postemployment Benefits," must be adopted by the first quarter of 1994. The Company cannot currently determine the effect of this statement upon the results of operations.

The Company would ultimately seek to recover through the ratemaking process all capital costs and any increased operating costs, including those associated with NRC regulation of the Company's nuclear generating stations and environmental compliance and remediation, although such recovery is not assured.

#### *Regulatory Assets*

At December 31, 1993, the Company had deferred on its balance sheet certain regulatory assets for which current recovery has not yet been approved by the PUC. These regulatory assets include $91 million of operating and maintenance expenses, depreciation and accrued carrying charges on its investment in Limerick Unit No. 2 and 50% of Limerick common facilities, deferred pursuant to a Declaratory Order of the PUC; $45 million of costs not associated with construction activity related to the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pen[illegible]"; and $107 million recognized for the effect on [illegible]xes of the change in the statutory federal incor[illegible]rom 34% to 35% in 1993. See notes 2, 6 and [illegible]vely, of Notes to Consolidated Financial Sta[illegible].

These and other regulatory assets are deferred pursuant to PUC action. Any deferred costs that are not recovered through base rates would be charged against income immediately. The Company has announced its intention not to seek an electric retail base-rate increase in 1994.

#### *Competition*

The electric utility industry, in particular power generation to serve the needs of large users such as municipal customers and for off-system sales, has become increasingly competitive. Companies that are able to provide energy at a lower cost are likely to benefit from this competition. Competitors include co-generators and independent power producers. Nonutility generation has resulted, and in the future could result, in the loss of revenues from industrial customers. These factors will continue to challenge the Company to maintain current revenue levels.

The National Energy Policy Act of 1992 (Energy Act) encourages competition among utilities and nonutility generators by allowing access to utility transmission facilities for wholesale wheeling. The Energy Act directs the Federal Energy Regulatory Commission (FERC) to set prices for wheeling to allow utilities to recover all legitimate, verifiable and economic costs for providing wheeling services, including the cost of expanding their transmission facilities to accommodate required transmission access. Retail wheeling is prohibited under the Energy Act. Retail wheeling would, however, challenge the Company to assure that it continues to be the provider of service to its large commercial and industrial customers and that it positions itself to take advantage of opportunities to expand its customer base by marketing its reliable power sources.

The Company is currently involved in deliberations before the Maryland Public Service Commission (MdPSC) and FERC concerning the continued purchase by Conowingo Power Company (COPCO), a wholly owned subsidiary of the Company, of all of its power from the Company. COPCO's purchases from the Company represent less than 2% of the Company's annual revenues. Hearings on this matter are to commence in September 1994 and result from a MdPSC order that COPCO perform a study of its power supply alternatives, including competitive bidding. The Company has filed with the FERC a proposal to add an exit fee for the recovery from COPCO of the stranded investment costs, if the power supply needs of COPCO are obtained from a source other than the Company.

In September 1993, the Board of Directors of the Company approved a plan to reorganize the Company's operations to better enable it to meet the challenges of a competitive environment. The Company's operations will be divided into five strategic business units by January 1, 1995. The business units will be Consumer Energy Services Group, Bulk Power Enterprises, Power Generation Group, Nuclear Generation Group, and Gas Services Group. The plan calls for each business unit to eventually operate as an individual profit center, separate from the other business units.

In October, in response to its perception of business risk created by intensifying competition within the electric utility industry, the Standard & Poor's (S&P) rating agency tightened the financial ratio benchmarks it uses to rate electric utility company debt. This action has affected a significant portion of the investor-owned electric utility industry. Although the Company's current debt ratings have been affirmed by S&P, the Company's outlook, along with 47 other electric utilities, has been changed from "stable" to "negative." The Company and 21 other electric utilities have had their business positions categorized as "below average." S&P determined the Company's business position to be "below average" because it is considered to be a high-cost producer of electricity with a high dependency on its nuclear generation. Also, the perceived outlook for the economy of the Company's service territory and the Northeast in general contributed to this characterization.

Moody's Investors Service (Moody's) has also announced that the changing electric utility business environment could, over the next three to five years, lead to bond rating downgrades. Moody's also believes that business risk in the electric utility industry is rising due to deregulation and the resulting competition.

For a discussion of other contingencies, see notes 2 and 3 of Notes to Consolidated Financial Statements.

## Report of Independent Accountants

To the Shareholders and Board of Directors
PECO Energy Company:

We have audited the accompanying consolidated balance sheets of PECO Energy Company and Subsidiary Companies as of December 31, 1993 and 1992, and the related consolidated statements of income, cash flows, and changes in common shareholders' equity and preferred stock for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PECO Energy Company and Subsidiary Companies as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 4 of the consolidated financial statements, the Company changed its methods of accounting for non-pension postretirement employee benefits and income taxes in 1993.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
January 31, 1994

Coopers & Lybrand

## Consolidated Statements of Income

| (Thousands of Dollars) | For the Years Ended December 31, 1993 | 1992 | 1991 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Electric | $ 3,605,425 | $ 3,597,141 | $ 3,662,573 |
| Gas | 382,704 | 365,328 | 356,013 |
| Total Operating Revenues | 3,988,129 | 3,962,469 | 4,018,586 |
| **Operating Expenses** | | | |
| Fuel and Energy Interchange | 659,580 | 709,115 | 778,674 |
| Other Operating | 851,254 | 906,346 | 842,375 |
| Maintenance | 364,409 | 353,502 | 332,269 |
| Depreciation | 424,952 | 413,779 | 400,572 |
| Income Taxes | 354,391 | 264,483 | 308,945 |
| Other Taxes | 298,132 | 281,868 | 274,561 |
| Total Operating Expenses | 2,952,718 | 2,929,093 | 2,937,396 |
| Operating Income | 1,035,411 | 1,033,376 | 1,081,190 |
| **Other Income and Deductions** | | | |
| Allowance for Other Funds Used During Construction | 11,885 | 10,461 | 10,619 |
| Settlement of Peach Bottom Litigation | — | (103,078) | — |
| Income Taxes | (11,808) | 40,160 | (16,442) |
| Other, Net | 11,980 | 3,392 | 28,696 |
| Total Other Income and Deductions | 12,057 | (49,065) | 22,873 |
| Income Before Interest Charges | 1,047,468 | 984,311 | 1,104,063 |
| **Interest Charges** | | | |
| Long-Term Debt | 432,707 | 484,153 | 545,488 |
| Short-Term Debt | 36,002 | 31,419 | 36,360 |
| Total Interest Charges | 468,709 | 515,572 | 581,848 |
| Allowance for Borrowed Funds Used During Construction | (11,889) | (10,202) | (12,465) |
| Net Interest Charges | 456,820 | 505,370 | 569,383 |
| Net Income | 590,648 | 478,941 | 534,680 |
| Preferred Stock Dividends | 49,058 | 60,731 | 66,104 |
| Earnings Applicable to Common Stock | $ 541,590 | $ 418,210 | $ 468,576 |
| Average Shares of Common Stock Outstanding (Thousands) | 221,072 | 220,245 | 218,234 |
| Earnings Per Average Common Share (Dollars) | $ 2.45 | $ 1.90 | $ 2.15 |
| Dividends Per Common Share (Dollars) | $ 1.43 | $ 1.325 | $ 1.225 |

*See Notes to Consolidated Financial Statements.*

## Consolidated Balance Sheets

| **Assets** | December 31, | |
|---|---|---|
| *(Thousands of Dollars)* | *1993* | *1992* |
| ***Utility Plant, at Original Cost*** | | |
| Electric | $ 13,102,088 | $ 12,797,389 |
| Gas | 843,205 | 781,708 |
| Common | 203,747 | 162,061 |
| | 14,149,040 | 13,741,158 |
| Less Accumulated Provision for Depreciation | 3,946,805 | 3,587,317 |
| | 10,202,235 | 10,153,841 |
| Nuclear Fuel, Net | 179,529 | 188,609 |
| Construction Work in Progress | 381,247 | 348,792 |
| Leased Property, Net | 194,702 | 209,994 |
| ***Net Utility Plant*** | 10,957,713 | 10,901,236 |
| ***Current Assets*** | | |
| Cash and Temporary Cash Investments | 46,923 | 50,369 |
| Accounts Receivable, Net | | |
| Customers | 122,581 | 138,880 |
| Other | 47,768 | 62,571 |
| Inventories, at Average Cost | | |
| Fossil Fuel | 67,040 | 63,688 |
| Materials and Supplies | 142,132 | 156,706 |
| Deferred Income Taxes | 30,185 | 39,285 |
| Other | 58,205 | 38,466 |
| ***Total Current Assets*** | 514,834 | 549,965 |
| ***Deferred Debits and Other Assets*** | | |
| Recoverable Deferred Income Taxes | 2,297,368 | — |
| Deferred Limerick Costs | 433,605 | 455,161 |
| Deferred Non-Pension Postretirement Benefit Costs | 44,691 | — |
| Investments | 218,636 | 202,422 |
| Loss on Reacquired Debt | 343,004 | 273,120 |
| Other | 222,476 | 196,323 |
| ***Total Deferred Debits and Other Assets*** | 3,559,780 | 1,127,026 |
| ***Total*** | $ 15,032,327 | $ 12,578,227 |

*See Notes to Consolidated Financial Statements*

## Consolidated Balance Sheets

| Capitalization and Liabilities | December 31, | |
|---|---|---|
| *(Thousands of Dollars)* | *1993* | *1992* |
| **Capitalization** | | |
| Common Shareholders' Equity | | |
| Common Stock | $ 3,488,477 | $ 3,459,131 |
| Other Paid-In Capital | 1,214 | 1,214 |
| Retained Earnings | 773,727 | 561,824 |
| | 4,263,418 | 4,022,169 |
| Preferred and Preference Stock | | |
| Without Mandatory Redemption | 422,472 | 422,472 |
| With Mandatory Redemption | 186,500 | 231,130 |
| Long-Term Debt | 4,884,343 | 5,203,961 |
| Total Capitalization | 9,756,733 | 9,879,732 |
| **Current Liabilities** | | |
| Notes Payable, Bank | 119,350 | 110,500 |
| Long-Term Debt Due Within One Year | 252,263 | 98,998 |
| Capital Lease Obligations Due Within One Year | 60,500 | 58,998 |
| Accounts Payable | 242,239 | 241,462 |
| Taxes Accrued | 24,939 | 24,334 |
| Deferred Energy Costs | 48,691 | 72,999 |
| Interest Accrued | 97,540 | 115,923 |
| Dividends Payable | 18,345 | 19,459 |
| Other | 90,710 | 87,887 |
| Total Current Liabilities | 954,577 | 830,560 |
| **Deferred Credits and Other Liabilities** | | |
| Capital Lease Obligations | 134,202 | 150,996 |
| Deferred Income Taxes | 3,386,136 | 1,001,939 |
| Unamortized Investment Tax Credits | 386,162 | 302,508 |
| Pension Obligation for Early Retirement Plan | 135,286 | 141,675 |
| Non-Pension Postretirement Benefits Obligation | 51,781 | — |
| Other | 227,450 | 270,817 |
| Total Deferred Credits and Other Liabilities | 4,321,017 | 1,867,935 |
| Commitments and Contingencies (Notes 2 and 3) | | |
| Total | $ 15,032,327 | $ 12,578,227 |

*See Notes to Consolidated Financial Statements*

## Consolidated Statements of Cash Flows

| (Thousands of Dollars) | For the Years Ended December 31, | | |
|---|---|---|---|
| *Cash Flows From Operating Activities* | 1993 | 1992 | 1991 |
| Net Income | $ 590,648 | $ 478,941 | $ 534,680 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation and Amortization | 507,069 | 491,186 | 499,675 |
| Deferred Income Taxes | 139,846 | 81,943 | 77,836 |
| Unrecovered Phase-In Plan Revenue | — | 142,267 | 96,705 |
| Deferred Energy Costs | (24,308) | 52,959 | 16,593 |
| Sale of Accounts Receivable | — | — | 125,000 |
| Amortization of Leased Property | 58,400 | 54,600 | 59,400 |
| Changes in Working Capital: | | | |
| Accounts Receivable | 31,102 | 82,151 | (70,907) |
| Inventories | 11,222 | 1,395 | (26,926) |
| Accounts Payable | 777 | (47,403) | 36,326 |
| Other Current Assets and Liabilities | (34,694) | (136,627) | 54,633 |
| Other Items Affecting Operations | (18,287) | (28,569) | 20,073 |
| Net Cash Flows Provided by Operating Activities | 1,261,775 | 1,172,843 | 1,423,088 |
| *Cash Flows From Investing Activities* | | | |
| Investment in Plant | (568,076) | (571,829) | (473,448) |
| Increase in Other Investments | (16,214) | (32,769) | (43,827) |
| Net Cash Flows Used by Investing Activities | (584,290) | (604,598) | (517,275) |
| *Cash Flows From Financing Activities* | | | |
| Change in Short-Term Debt | 8,850 | 110,500 | (68,500) |
| Issuance of Common Stock | 29,346 | 12,465 | 66,453 |
| Issuance of Preferred Stock | 142,700 | 140,000 | — |
| Retirement of Preferred Stock | (187,330) | (224,462) | (15,330) |
| Issuance of Long-Term Debt | 1,994,765 | 1,369,540 | 278,000 |
| Retirement of Long-Term Debt | (2,148,963) | (1,504,877) | (692,867) |
| Loss on Reacquired Debt | (69,884) | (85,380) | (58,419) |
| Dividends on Preferred and Common Stock | (366,081) | (349,856) | (333,319) |
| Change in Dividends Payable | (1,114) | (16,607) | 8,575 |
| Expenses of Issuing Long-Term Debt and Preferred Stock | (24,820) | (11,660) | (68) |
| Capital Lease Payments | (58,400) | (54,600) | (59,400) |
| Net Cash Flows from Financing Activities | (680,931) | (614,937) | (874,875) |
| (Decrease) Increase in Cash and Cash Equivalents | (3,446) | (46,692) | 30,938 |
| Cash and Cash Equivalents at beginning of period | 50,369 | 97,061 | 66,123 |
| Cash and Cash Equivalents at end of period | $ 46,923 | $ 50,369 | $ 97,061 |

*See Notes to Consolidated Financial Statements*

## Consolidated Statements of Changes in Common Shareholders' Equity and Preferred Stock

| *(All Amounts in Thousands)* | Common Stock Shares | Common Stock Amount | Other Paid-In Capital | Retained Earnings | Preferred Stock Shares | Preferred Stock Amount |
|---|---|---|---|---|---|---|
| Balance, January 1, 1991 | 216,953 | $3,380,213 | $ 1,214 | $ 243,106 | 7,534 | $ 753,394 |
| Net Income | | | | 534,680 | | |
| Cash Dividends Declared | | | | | | |
| Preferred Stock | | | | | | |
| (at specified annual rates) | | | | (65,966) | | |
| Common Stock ($1.225 per share) | | | | (267,353) | | |
| Expenses of Capital Stock Activity | | | | (68) | | |
| Issuance of Stock | | | | | | |
| Dividend Reinvestment and | | | | | | |
| Stock Purchase Plan | 2,925 | 63,207 | | | | |
| Long-Term Incentive Plan | 152 | 3,246 | | | | |
| Redemptions | | | | | (153) | (15,330) |
| Balance, December 31, 1991 | 220,030 | 3,446,666 | 1,214 | 444,399 | 7,381 | 738,064 |
| Net Income | | | | 478,941 | | |
| Cash Dividends Declared | | | | | | |
| Preferred Stock | | | | | | |
| (at specified annual rates) | | | | (58,021) | | |
| Common Stock ($1.325 per share) | | | | (291,835) | | |
| Expenses of Capital Stock Activity | | | | (11,660) | | |
| Issuance of Stock | | | | | | |
| Long-Term Incentive Plan | 504 | 12,465 | | | | |
| Issuances | | | | | 1,400 | 140,000 |
| Redemptions | | | | | (2,245) | (224,462) |
| Balance, December 31, 1992 | 220,534 | 3,459,131 | 1,214 | 561,824 | 6,536 | 653,602 |
| Net Income | | | | 590,648 | | |
| Cash Dividends Declared | | | | | | |
| Preferred Stock | | | | | | |
| (at specified annual rates) | | | | (49,919) | | |
| Common Stock | | | | | | |
| ($1.43 per share) | | | | (316,162) | | |
| Expenses of Capital Stock Activity | | | | (5,625) | | |
| Issuance of Stock | | | | | | |
| Long-Term Incentive Plan | 982 | 29,346 | | (7,039) | | |
| Issuances | | | | | 1,427 | 142,700 |
| Redemptions | | | | | (1,873) | (187,330) |
| Balance, December 31, 1993 | 221,516 | $3,488,477 | $ 1,214 | $ 773,727 | 6,090 | $ 608,972 |

*See Notes to Consolidated Financial Statements*

*1. Significant Accounting Policies*

*General*

The consolidated financial statements of PECO Energy Company (Company), formerly known as Philadelphia Electric Company, include the accounts of its utility subsidiary companies, all of which are wholly owned. Non-utility subsidiaries are not material and are accounted for on the equity method. Accounting policies are in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Pennsylvania Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC).

*Revenues*

Customers' meters are read and bills are prepared on a cycle basis. At the end of each month, the Company accrues an estimate for the unbilled amount of energy delivered to customers.

Pursuant to a phase-in plan approved by the PUC in its electric base-rate order dated April 19, 1990, the Company recorded revenue equal to the full amount of the rate increase approved, based on kilowatthours rendered to customers. On April 5, 1991, that plan was amended by the PUC as part of the settlement of all appeals arising from the Limerick Generating Station (Limerick) Unit No. 2 rate proceeding to permit recovery of the remaining unrecovered revenue by December 31, 1992 (see note 2). As of December 31, 1993 and 1992, the Company had no unrecovered phase-in plan revenue.

*Fuel and Energy Cost Adjustment Clauses*

The Company's classes of service are subject to fuel adjustment clauses designed to recover or refund the differences between actual costs of fuel, energy interchange, and purchased power and gas, and the amounts of such costs included in base rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective adjustments to rates. Generally, such rates are adjusted every twelve months. In addition to reconciling fuel costs and revenues, the Company's Energy Cost Adjustment (ECA), established by the PUC, incorporates a nuclear performance standard which allows for financial bonuses or penalties depending upon whether the Company's system nuclear capacity factor exceeds or falls below a specified range (see note 2).

*Nuclear Fuel*

Nuclear fuel is capitalized and charged to fuel expense on the unit of production method. Estimated costs of nuclear fuel disposal are charged to fuel expense as the related fuel is consumed. The Company's share of nuclear fuel at Peach Bottom Atomic Power Station (Peach Bottom) and Salem Generating Station (Salem) is accounted for as a capital lease. Nuclear fuel at Limerick is owned.

*Depreciation and Decommissioning*

The annual provision for depreciation is provided over the estimated service lives of plant on the straight-line method. Annual depreciation provisions for financial reporting purposes, expressed as a percent of average depreciable utility plant in service, were approximately 2.75% in 1993 and 1992 and 2.74% in 1991.

The Company's share of the estimated costs for decommissioning nuclear generating stations currently is being charged to operations over the expected service life of the related plant. The amounts recovered from customers are deposited in escrow and trust accounts and invested for funding of future costs, and credited to accumulated depreciation (see note 3).

*Income Taxes*

In 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting of income taxes. In addition, the effects of the Alternative Minimum Tax (AMT) are normalized. Investment Tax Credit (ITC) is deferred and amortized to income over the estimated useful lives of the related utility plant. ITC related to plant in service, not included in rate base, is accounted for on the flow-through method.

*Allowance for Funds Used During Construction (AFUDC)*

AFUDC is the cost, during the period of construction, of debt and equity funds used to finance construction projects. AFUDC is recorded as a charge to Construction Work in Progress, and the credits are to Interest Charges for the pre-tax cost of borrowed funds and to Other Income and Deductions for the remainder as the allowance for other funds. The rates used for capitalizing AFUDC, which averaged 9.39% in 1993, 10.61% in 1992 and 10.88% in 1991, are computed under a method prescribed by the regulatory authorities. AFUDC is not included in regular taxable income and the depreciation of capitalized AFUDC is not tax deductible.

*Nuclear Outage Costs*

Incremental nuclear maintenance and refueling outage costs are accrued over the unit operating cycle. For each unit, an accrual for incremental nuclear maintenance and refueling outage expense is estimated based upon the latest planned outage schedule and estimated costs for the outage. Differences between the accrued and actual

SFAS No. 106 through the ratemaking process. While non-pension postretirement benefits costs traditionally have been allowed for ratemaking on a pay-as-you-go basis, recovery of the deferred costs through the ratemaking process is not assured.

*Limerick Unit No. 2 Declaratory Order*
Pursuant to a Declaratory Order of the PUC, the Company deferred the operating and maintenance expenses, depreciation and accrued carrying charges on its capital investment in Limerick Unit No. 2 and 50% of Limerick common facilities during the period from January 8, 1990, the commercial operation date of Limerick Unit No. 2, until April 20, 1990, the effective date of the Limerick Unit No. 2 rate order. At December 31, 1993 and 1992, such costs included in Deferred Limerick Costs totalled $91 million. Recovery of such costs deferred pursuant to the Declaratory Order will be addressed by the PUC in a subsequent electric base-rate case, although such recovery is not assured. Any amounts not recovered would be charged against income.

*Energy Cost Adjustment*
The Company is subject to a PUC-established electric ECA which, in addition to reconciling fuel costs and revenues, incorporates a nuclear performance standard which allows for financial bonuses or penalties depending on whether the Company's system nuclear capacity factor exceeds or falls below a specified range. The bonuses or penalties are based upon average system replacement energy costs. If the capacity factor is within the range of 60-70%, there is no bonus or penalty. If the capacity factor exceeds the specified range, progressive incremental bonuses are earned and, if the capacity factor falls below the specified range, progressive incremental penalties are incurred.

For the years ended December 31, 1993, 1992 and 1991, the Company's nuclear capacity factors were 78%, 71% and 75%, respectively. This entitled the Company to bonuses reflected in 1993, 1992 and 1991 income of $10, $1 and $5 million, respectively.

*3. Commitments and Contingencies*
*Construction Expenditures*
Construction expenditures are estimated to be $575 million for 1994 and $1.5 billion for 1995-1997. For 1994-1997, the Company expects that all of its capital needs will be provided through internally generated funds. These construction expenditure estimates are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors. Certain facilities under construction and to be constructed may require permits and licenses which the Company has no assurance will be granted.

The Company's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. The Company expects that any capital expenditures to construct facilities for compliance with environmental laws and the operating costs of such facilities would be recoverable through the ratemaking process, although such recovery is not assured.

*Nuclear Insurance*
The Price-Anderson Act, as amended (Price-Anderson Act), sets the limit of liability of approximately $9.4 billion for claims that could arise from an incident involving any licensed nuclear facility in the nation. The limit is subject to increase to reflect the effects of inflation and changes in the number of licensed reactors. All utilities with nuclear generating units, including the Company, have obtained coverage for these potential claims through a combination of private insurances of $200 million and mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to $76 million per reactor per incident, payable at $10 million per reactor per incident per year. This assessment is subject to inflation, state premium taxes and an additional surcharge of 5% if the total amount of claims and legal costs exceeds the basic assessment.

If the damages from an incident at a licensed nuclear facility exceed $9.4 billion, the President of the United States is to submit to Congress a plan for providing additional compensation to the injured parties. Congress could impose further revenue-raising measures on the nuclear industry to pay claims. The Price-Anderson Act and the extensive regulation of nuclear safety by the Nuclear Regulatory Commission (NRC) do not preempt claims under state law for personal, property or punitive damages related to radiation hazards.

The Company maintains property insurance, including decontamination expense coverage and premature decommissioning coverage, for loss or damage to its nuclear facilities. Although it is not possible to determine the total amount of the loss that may result from an occurrence at these facilities the Company maintains its $2.75 billion proportionate share for each station. Under the terms of the various insurance agreements, the Company could be assessed up to $35 million for losses incurred at any plant insured by the insurance companies. The Company is self-insured to the extent that any losses may exceed the amount of insurance maintained. Any such losses, if not recovered through the ratemaking process, could have a material adverse effect on the Company's financial condition.

The Company is a member of an industry mutual insurance company which provides replacement power cost insurance in the event of a major outage at a nuclear expense for the outage are recorded when such differences are known.

*Capitalized Software Costs*
Software projects which exceed $5 million are capitalized. At December 31, 1993 and 1992, capitalized software costs totalled $56 million and $40 million (net of $3 million and $1 million accumulated amortization), respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed 10 years.

*Gains and Losses on Reacquired Debt*
Gains and losses on reacquired debt are deferred and amortized to interest expense over the period approved for ratemaking purposes.

*SFAS No. 112*
SFAS No. 112, "Employers' Accounting for Postemployment Benefits," must be adopted by the first quarter of 1994. The Company cannot currently determine the effect of this statement upon the results of operations.

*Reclassifications*
Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income.

*2. Rate Matters*
*Limerick Unit No. 2 Electric Rate Order*
As part of the April 19, 1990 PUC order, the PUC approved recovery of $285 million of deferred Limerick costs representing carrying charges and depreciation associated with 50% of Limerick common facilities. These costs are included in base rates and are being recovered over the life of Limerick. The PUC also approved recovery of $137 million of Limerick Unit No. 1 costs which had previously been deferred pursuant to a Declaratory Order dated September 28, 1984. These costs are being recovered over a ten-year period without a return on investment.

On April 5, 1991, the PUC approved the settlement of all appeals arising from the Limerick Unit No. 2 rate order. Under the terms of the settlement, the Company is allowed to retain for shareholders any proceeds above the average energy cost for sales of up to 399 megawatts (mW) of capacity and/or associated energy, since the PUC had ruled that the Company had 399 mW of near-term excess capacity in the Limerick Unit No. 2 rate order. Beginning on April 1, 1994, the settlement provides for the Company to share in the benefits which result from the operation of both Limerick Unit No. 1 and Unit No. 2 through the retention of 16.5% of the energy savings. Through 1994, the Company's potential benefit from the sale of up to 399 mW of capacity and/or associated energy and the retained Limerick energy savings is limited to $106 million per year, with any excess accruing to customers. Beginning in 1995, in addition to retaining the first $106 million, the Company will share in any excess above $106 million with the Company's share of the excess being 10% in 1995, 20% in 1996 and 30% in 1997 and thereafter. During 1993, 1992 and 1991, the Company recorded as revenue net of fuel costs $38, $34 and $25 million, respectively, as a result of the sale of the 399 mW of capacity and/or associated energy.

As a part of the settlement, the Company agreed not to file an electric base-rate increase before April 1, 1994, except as allowed by the PUC or for emergency or single-issue rate filings to recover costs associated with new legislation or regulations.

*Single-Issue Electric Base-Rate Increase Filed*
On September 11, 1992, the Company filed with the PUC a request for a 1.5% electric base-rate increase designed to recover the increased costs associated with the implementation of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." See notes 4 and 6.

On March 25, 1993, the PUC issued a policy statement for implementation of SFAS No. 106 which states that the PUC "intends to move all jurisdictional utilities to SFAS No. 106 accrual accounting for ratemaking purposes within approximately five years and to allow the recovery in base rates of all deferred amounts in approximately 20 years to the extent that costs are prudently incurred and examined in a base-rate proceeding prior to rate recognition."

On September 2, 1993, the PUC issued an order denying the Company current recovery of these costs, stating that the settlement of all appeals arising from the PUC's 1990 Limerick Unit No. 2 order precluded the Company from seeking an increase in electric base rates for these costs before April 1, 1994. The September 2, 1993 order authorized the Company to defer the additional SFAS No. 106 expense as a regulatory asset in accordance with the PUC policy statement. On September 30, 1993, the Company filed with the Commonwealth Court of Pennsylvania a petition for review of the PUC's final order.

Recovery through rates of the Company's SFAS No. 106 transition obligation of $505 million and amounts deferred pursuant to the PUC's September 2, 1993 Order will be permitted only if included in a general base-rate case within approximately five years and deemed prudently incurred. The Company's future earnings will be adversely affected to the extent that the Company is not ultimately permitted to recover the additional non-pension postretirement benefits costs resulting from the adoption of station. The premium for this coverage is subject to an assessment for adverse loss experience. The Company's maximum share of any assessment is $17 million per year.

*Nuclear Decommissioning and Spent Fuel Storage*

In conjunction with the PUC's April 19, 1990 electric base-rate order, the PUC recognized a revised decommissioning cost estimate based upon total cost. The Company's share of this revised cost is $643 million expressed in 1990 dollars, which the Company believes would be substantially unchanged at December 31, 1993.

Under a contract with the U.S. Department of Energy (DOE), the DOE is obligated ultimately to take possession of all spent nuclear fuel generated by the Company's nuclear units for long-term storage by no later than 1998. The contract currently requires that a spent fuel disposal fee of one mill ($.001) per net kilowatthour generated be paid to the DOE. The fee may be adjusted prospectively in order to ensure full cost recovery.

The DOE has stated that it will not be able to open a permanent, high-level nuclear waste storage facility until 2010, at the earliest. The DOE stated that the delay was a result of its seeking new data about the suitability of the proposed storage facility site at Yucca Mountain, Nevada, opposition to this location for the repository and the DOE's revision of its civilian nuclear waste program. The DOE stated that it would seek legislation from Congress for the construction of a temporary storage facility which would accept spent nuclear fuel from utilities in 1998 or soon thereafter. Although progress is being made at Yucca Mountain and several communities have expressed interest in providing a temporary storage site, the Company cannot predict when the temporary and permanent federal storage facilities will become available.

Peach Bottom and Limerick have on-site storage facilities with the capacity to store spent fuel discharged from the units through the late 1990's and, by further modifying spent fuel storage facilities, capacity could be provided until approximately 2010. Salem has spent fuel storage capacity through 1998 for Unit No. 1 and 2002 for Unit No. 2. Public Service Electric and Gas (PSE&G) is planning expansion of the fuel storage capacity of Salem.

The National Energy Policy Act of 1992 (Energy Act) provides, among other things, that utilities with nuclear reactors must pay for the decommissioning and decontamination of the DOE nuclear fuel enrichment facilities. The total costs are estimated to be $150 million per year for 15 years, of which the Company's share was estimated at December 31, 1992 to be $6 million per year, subsequently revised to $5 million in September 1993. The Energy Act provides that these costs are to be recoverable in the same manner as other fuel costs. The Company has recorded the liability and a related regulatory asset, which at December 31, 1993 and 1992 was $69 and $96 million, respectively.

The Company is currently recovering in rates costs for nuclear decommissioning and decontamination and spent fuel storage. The Company believes that the ultimate costs of decommissioning and decontamination, spent fuel disposal and any assessment under the Energy Act will continue to be recoverable through rates, although such recovery is not assured.

*Environmental Issues*

Under federal and state environmental laws, the Company is generally liable for the costs of remediating environmental contamination of property now or formerly owned by the Company and of property contaminated by hazardous waste generated by the Company. The Company owns or leases a substantial number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under the environmental laws. The Company is currently involved in a number of proceedings relating to sites where hazardous waste has been deposited and may be subject to additional proceedings in the future. An evaluation of Company sites for potential environmental clean-up liability is on-going, including approximately 20 sites where manufactured gas plant activities may have resulted in site contamination. Past activities at several sites have resulted in actual site contamination. The Company is presently engaged in performing detailed evaluations at certain of these sites to define the nature and extent of the contamination, to determine the necessity of remediation and to identify possible remediation alternatives. As of December 31, 1993 and 1992, the Company had accrued $17 and $13 million, respectively, for various investigation and remediation costs that currently can be reasonably estimated. The Company cannot currently predict whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Company, environmental agencies or others, or whether any such costs will be recoverable through rates or from third parties.

*Other Litigation*

On April 11, 1991, 33 former employees of the Company filed an amended class action suit against the Company in the United States District Court for the Eastern District of Pennsylvania (Eastern District Court) on behalf of approximately 141 persons who retired from the Company between January and April 1990. The lawsuit, filed under the Employee Retirement Income Security Act (ERISA), alleges that the Company fraudulently and/or negligently misrepresented or concealed facts concerning the Company's 1990 Early Retirement Plan and thus induced the plaintiffs to retire or not to defer retirement immediately before the initiation of the Early Retirement Plan, thereby depriving the plaintiffs of substantial pension and salary benefits. On June 6, 1991, the plaintiffs filed amended complaints adding additional plaintiffs. The lawsuit names the Company, the Company's Service Annuity Plan (SAP) and two Company officers as defendants. The plaintiffs seek approximately $20 million in damages representing, among other things, increased pension benefits and nine months' salary pursuant to the terms of the Early Retirement Plan, as well as punitive damages. The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's financial condition.

On May 2, 1991, 37 former employees of the Company filed an amended class action suit against the Company, the SAP and three former Company officers in the Eastern District Court, on behalf of 147 former employees who retired from the Company from January through June 1987. The lawsuit was filed under ERISA and concerns the August 1, 1987 amendment to the SAP. The plaintiffs claim that the Company concealed or misrepresented the fact that the amendment to the SAP was planned to increase retirement benefits and, as a consequence, they retired prior to the amendment to the SAP and were deprived of significant retirement benefits. The complaint does not specify any dollar amount of damages. The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's financial condition.

On May 25, 1993, the Company received a letter from attorneys on behalf of a shareholder demanding that the Company's Board of Directors commence legal action against certain Company officers and directors with respect to the Company's credit and collections practices. The basis of the demand is the findings and conclusions contained in the Credit and Collection section of the May 1991 PUC Management Audit Report prepared by Ernst & Young. At its June 28, 1993 meeting, the Board of Directors appointed a special committee of directors to consider whether such legal action is in the best interest of the Company and its shareholders.

On July 26, 1993, attorneys on behalf of two shareholders reinstituted a shareholder derivative action against several of the Company's present and former officers alleging mismanagement, waste of corporate assets and breach of fiduciary duty in connection with the Company's credit and collections practices. This action is also based on the findings and conclusions contained in the Credit and Collections section of the May 1991 PUC Management Audit Report prepared by Ernst & Young. The plaintiffs seek, among other things, an unspecified amount of damages and the awarding to the plaintiffs of the costs and disbursements of the action, including attorneys' fees. Any monetary damages which may be recovered, net of expenses, would be paid to the Company because the lawsuit is brought derivatively by shareholders on behalf of the Company.

The Company is involved in various other litigation matters, the ultimate outcomes of which, while uncertain, are not expected to have a material adverse effect on the Company's financial condition; however, they could have a material effect on quarterly operating results when resolved in a future period.

### 4. Changes in Accounting

Effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of the expected costs of the benefits during the years employees render service, but not later than the date eligible for retirement using the prescribed accrual method. For 1992 and prior, the Company recognized these costs on a pay-as-you-go basis. The Company is currently recovering in base rates the pay-as-you-go costs. Adoption of SFAS No. 106 resulted in a transition obligation of $505 million, which is being amortized on a straight-line basis over 20 years. Adoption of SFAS No. 106 had no impact on the Company's results of operations as the Company is deferring these increased costs (see note 6).

Effective January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting for income taxes utilizing the cumulative method of adoption. As a result, the Company recognized a charge of $3 million or $0.02 per share during 1993. The Company has also recorded an additional accumulated deferred income tax liability along with a corresponding recoverable deferred income tax asset of $2.3 billion at December 31, 1993 (see note 12).

### 5. Retirement Benefits

The Company and its subsidiaries have non-contributory trusteed retirement plans applicable to all regular employees. The benefits are based primarily upon employees' years of service and average earnings prior to retirement. The Company's funding policy is to contribute, at a minimum, amounts sufficient to meet ERISA requirements. Approximately 71%, 78% and 79% of pension costs were charged to operations in 1993, 1992 and 1991, respectively, and the remainder, associated with construction labor, to the cost of new utility plant.

Pension costs for 1993, 1992 and 1991 included the following components:

| (Thousands of Dollars) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Service cost — benefits earned during the period | $ 33,673 | $ 30,191 | $ 23,692 |
| Interest cost on projected benefit obligations | 134,658 | 129,000 | 121,826 |
| Actual return on plan assets | (226,240) | (122,869) | (345,677) |
| Amortization of transition asset | (4,538) | (4,539) | (4,539) |
| Amortization and deferral | 87,733 | (5,741) | 227,038 |
| Net pension cost | $ 25,286 | $ 26,042 | $ 22,340 |

The changes in net periodic pension costs in 1993, 1992 and 1991 were as follows:

| (Thousands of Dollars) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Change in number, characteristics and salary levels of participants and net actuarial gain | $ (756) | $ (840) | $ 3,402 |
| Change in plan provisions | — | — | 1,978 |
| Change in actuarial assumptions | — | 4,542 | 4,754 |
| Net change | $ (756) | $ 3,702 | $10,134 |

Plan assets consist principally of common stock, U.S. government obligations and other fixed income instruments. In determining pension costs, the assumed long-term rate of return on assets was 9.50% for 1993, 1992 and 1991.

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 7% at December 31, 1993 and 7.75% at December 31, 1992 and 1991. The average rate of increase in future compensation levels ranged from 4% to 6% at December 31, 1993 and ranged from 4.5% to 6.5% at December 31, 1992 and 1991.

Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. The funded status of the plan at December 31, 1993 and 1992 is summarized as follows:

| (Thousands of Dollars) | 1993 | 1992 |
|---|---|---|
| Actuarial present value of accumulated plan benefit obligations: | | |
| Vested benefit obligations | $(1,482,868) | $(1,315,292) |
| Accumulated benefit obligation | (1,600,768) | (1,410,777) |
| Projected benefit obligation for services rendered to date | $(1,972,332) | $(1,740,013) |
| Plan assets at fair value | 1,844,281 | 1,709,802 |
| Funded status | (128,051) | (30,211) |
| Unrecognized transition asset | (53,865) | (58,402) |
| Unrecognized prior service costs | 95,728 | 101,955 |
| Unrecognized net gain | (77,245) | (183,820) |
| Pension liability | $ (163,433) | $ (170,478) |

*6. Non-Pension Postretirement Benefits*

The Company provides certain health care and life insurance benefits for retired employees. Company employees will become eligible for these benefits if they retire from the Company with ten years of service. These benefits and similar benefits for active employees are provided by an insurance company whose premiums are based upon the benefits paid during the year. In the past, the Company has recognized the cost of providing these benefits by charging the annual insurance premiums to expense.

The transition obligation resulting from the adoption of SFAS No. 106 was $505 million at January 1, 1993, which represents the previously unrecognized accumulated non-pension postretirement benefit obligation. The transition obligation is being amortized on a straight-line basis over an allowed 20-year period. The annual accrual for non-pension postretirement benefits costs (including amortization of the transition obligation) is $83 million. The Company's comparable pay-as-you-go costs for these benefits, which are currently being recovered in base rates, were $31 million in 1993. On September 11, 1992, the Company filed with the PUC a request for a 1.5% electric base-rate increase designed to recover the costs associated with the implementation of SFAS No. 106 (see note 2).

The transition obligation was determined by application of the terms of medical, dental and life insurance plans, including the effects of established maximums on covered costs, together with relevant actuarial assumptions and health care cost trend rates, which are projected to range from 12% in 1993 to 5% in 2002. The effect of a 1% annual increase in these assumed cost trend rates would increase the accumulated postretirement benefit obligation by $50 million and the annual service and interest costs by $8 million.

Total costs for all plans amounted to $83, $17 and $15 million in 1993, 1992 and 1991, respectively, for 6,000 retirees during 1993, 1992 and 1991 and for 9,723 active employees during 1993. The cost was higher in 1993 than in 1992 primarily due to the adoption of SFAS No. 106.

The net periodic benefits costs for 1993 included the following components:

| | (Thousands of Dollars) |
|---|---|
| Service cost - benefits earned during the period | $15,615 |
| Interest cost on projected benefit obligations | 41,708 |
| Amortization of the transition obligation | 25,251 |
| Actual return on plan assets | — |
| Amortization and deferral | — |
| Net periodic postretirement benefits costs | $82,574 |

The funded status of the plan at December 31, 1993 is summarized as follows:

| | (Thousands of Dollars) |
|---|---|
| Accumulated postretirement benefit obligation: | |
| Retirees | $476,059 |
| Fully eligible active plan participants | 39,367 |
| Other active plan participants | 79,808 |
| Total | 595,234 |
| Plan assets at fair value | — |
| Accumulated postretirement benefit obligation in excess of plan assets | 595,234 |
| Unrecognized transition obligation | (479,778) |
| Unrecognized net gain | (63,675) |
| Accrued postretirement benefits cost recognized on the balance sheet | $ 51,781 |

Measurement of the accumulated postretirement benefits obligation was based on a 7.25% assumed discount rate.

*7. Accounts Receivable*

Accounts receivable at December 31, 1993 and 1992 included unbilled operating revenues of $115 and $111 million, respectively. Accounts receivable at December 31, 1993 and 1992 were net of an allowance for uncollectible accounts of $15 and $18 million, respectively.

The Company is party to an agreement with a financial institution whereby it can sell on a daily basis and with limited recourse an undivided interest in up to $325 million of designated accounts receivable until January 24, 1996. At December 31, 1993 and 1992, the Company had sold a $325 million interest in accounts receivable under this agreement. The Company retains the servicing responsibility for these receivables.

By terms of this agreement, under certain circumstances, a portion of deferred Limerick costs may be included in the pool of eligible receivables. At December 31, 1993, $43 million of deferred Limerick costs were included in the pool of eligible receivables.

*8. Common Stock*

At December 31, 1993 and 1992, common stock without par value consisted of 500,000,000 shares authorized and 221,516,299 and 220,534,048 shares outstanding, respectively. At December 31, 1993, there were 4,800,000 shares reserved for issuance under stock purchase plans.

The Company maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees of the Company. The types of long-term incentive awards which may be granted under the LTIP are non-qualified options to purchase shares of the Company's common stock, dividend equivalents and shares of restricted common stock. Pursuant to the LTIP, 1,961,882 shares of stock were authorized for issuance upon exercise of options at December 31, 1993.

The following table summarizes option activity during 1993, 1992 and 1991:

| | 1993 | 1992 | 1991 |
|---|---|---|---|
| Balance at January 1 | 2,445,833 | 1,656,244 | 1,126,675 |
| Options granted | 533,800 | 1,380,000 | 1,018,500 |
| Options exercised | (981,551) | (504,411) | (151,996) |
| Options cancelled | (36,200) | (86,000) | (336,935) |
| Balance at December 31 | 1,961,882 | 2,445,833 | 1,656,244 |
| Exercisable at December 31 | 1,4[illegible]82 | 1,162,833 | 800,744 |

Options were exercised at average option prices of $22.66 per share, $24.73 per share and $21.35 per share in 1993, 1992 and 1991, respectively. The average exercise prices of shares under option were $25.12 per share, $23.18 per share and $20.34 per share at December 31, 1993, 1992 and 1991, respectively.

*9. Preferred and Preference Stock*

At December 31, 1993 and 1992, Series Preference Stock consisted of 100,000,000 shares authorized, of which no shares were outstanding. At December 31, 1993 and 1992, cumulative Prefe-red Stock, no par value, consisted of 15,000,000 shares authorized.

| | Current Redemption Price (a) | Shares Outstanding 1993 | Shares Outstanding 1992 | Amount (Thousands of Dollars) 1993 | Amount (Thousands of Dollars) 1992 |
|---|---|---|---|---|---|
| *Series (without mand atory redemption)* | | | | | |
| $10.75 | — | — | 500,000 | — | $ 50,000 |
| $7.85 | 101.00 | 500,000 | 500,000 | $ 50,000 | 50,000 |
| $7.80 | 101.00 | 750,000 | 750,000 | 75,000 | 75,000 |
| $7.75 | 101.00 | 200,000 | 200,000 | 20,000 | 20,000 |
| $4.68 | 104.00 | 150,000 | 150,000 | 15,000 | 15,000 |
| $4.40 | 112.50 | 274,720 | 274,720 | 27,472 | 27,472 |
| $4.30 | 102.00 | 150,000 | 150,000 | 15,000 | 15,000 |
| $3.80 | 106.00 | 300,000 | 300,000 | 30,000 | 30,000 |
| $7.96(b) | (c) | 1,400,000 | 1,400,000 | 140,000 | 140,000 |
| $7.48 | (d) | 500,000 | — | 50,000 | — |
| | | 4,224,720 | 4,224,720 | 422,472 | 422,472 |
| *Series (with mandatory redemption)* (e) | | | | | |
| $9.875 | 102.50 | 390,000 | 650,000 | 39,000 | 65,000 |
| $9.52 | — | — | 200,000 | — | 20,000 |
| $9.50 1986 Series | — | — | 675,000 | — | 67,500 |
| $8.75 1978 Series | — | — | 200,300 | — | 20,030 |
| $7.325 | 101.46 | 300,000 | 330,000 | 30,000 | 33,000 |
| $7.00 | 101.00 | 248,000 | 256,000 | 24,800 | 25,600 |
| $6.12 | (f) | 927,000 | — | 92,700 | — |
| | | 1,865,000 | 2,311,300 | 186,500 | 231,130 |
| Total Preferred Stock | | 6,089,720 | 6,536,020 | $608,972 | $653,602 |

(a) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.
(b) Ownership of this series of preferred stock is evidenced by depositary receipts, each representing one-fourth of a share of preferred stock.
(c) None of the shares of this series are subject to redemption prior to October 1, 1997.
(d) None of the shares of this series are subject to redemption prior to April 1, 2003.
(e) Sinking fund requirements ($100 per share) in the period 1994-1996 are $16,800,000 annually and $3,800,000 annually in the period 1997-1998.
(f) None of the shares of this series are subject to redemption prior to August 1, 1999.

*10. Long-Term Debt*

*(Thousands of Dollars)*

| | Series | Due | At December 31, 1993 | 1992 |
|---|---|---|---|---|
| First and Refunding Mortgage Bonds (a) | 6 1/2% | 1993 | — | $ 60,000 |
| | 4 1/2% - 13.05% | 1994 | $ 170,000 | 170,000 |
| | 9% | 1995 | — | 31,200 |
| | 8 1/4% | 1996 | — | 80,000 |
| | 6 1/8% | 1997 | 75,000 | 75,000 |
| | 5 3/8% - 10% | 1998 | 225,000 | 250,000 |
| | 5 5/8% - 11% | 1999-2003 | 1,635,069 | 1,255,200 |
| | 6% - 10 1/4% | 2004-2008 | 131,875 | 384,437 |
| | (b) | 2009-2013 | 154,200 | — |
| | 8 7/8% - 11% | 2014-2018 | 129,900 | 479,900 |
| | 6 5/8% - 10 1/2% | 2019-2024 | 1,776,561 | 1,207,130 |
| Total First and Refunding Mortgage Bonds | | | 4,297,605 | 4,012,867 |
| Notes Payable — Banks | (c) | 1993-1996 | 167,000 | 372,000 |
| Revolving Credit and Term Loan Agreements | (d) | 1995-1997 | 425,000 | 525,000 |
| Pollution Control Notes | (e) | 1997-2025 | 65,565 | 173,700 |
| Debentures | 10.05% - 11% | 1993-2011 | 62,000 | 87,000 |
| Medium-Term Notes | (f) | 1994-2005 | 150,000 | 150,000 |
| Sinking Fund Debentures — PECO Energy Power Company, a Subsidiary | 4 1/2% | 1995 | 10,550 | 11,350 |
| Unamortized Debt Discount and Premium, Net | | | (41,114) | (28,958) |
| Total Long-Term Debt | | | 5,136,606 | 5,302,959 |
| Due Within One Year (g) | | | 252,263 | 98,998 |
| Long-Term Debt included in Capitalization (h) | | | $ 4,884,343 | $ 5,203,961 |

**(a)** Utility Plant is subject to the lien of the Company's mortgage.

**(b)** Floating rates, which were an average annual interest rate of 2.40% at December 31, 1993.

**(c)** The Company has entered into interest rate swap agreements to fix the effective interest rates on certain of these notes. At December 31, 1993 and 1992, the Company had two and three interest rate swap agreements outstanding with commercial banks, for a total notional principal amount of $167 and $242 million, respectively. These agreements are subject to performance by the commercial banks, which are counterparties to the interest rate swaps. However, the Company does not anticipate nonperformance by the counterparties. The annual interest rate for these notes, giving effect to the interest rate swaps, was 10.61% at December 31, 1993.

**(d)** The Company has a $525 million revolving credit and term loan agreement with a group of banks. The revolving credit arrangement converts into a term loan on October 3, 1994. The borrowings are due in six semi-annual installments with the first payment due six months after the conversion into the term loan. Interest on outstanding borrowings is based on specific formulas selected by the Company involving yields on several types of debt instruments. There is an annual commitment fee of 0.15% on the unused amount. The average annual interest rate for this revolving credit agreement was 3.64% at December 31, 1993. The Company also has a $150 million revolving credit and term loan agreement with a group of banks. The revolving credit agreement converts into a term loan in July 1995 and the commitment terminates in 1997. There is an annual commitment fee of 0.2% on the unused amount. At December 31, 1993 and 1992, no amount was outstanding under this agreement.

**(e)** Floating rates, which were an average annual interest rate of 2.24% at December 31, 1993.

**(f)** Medium-term notes collateralized by mortgage bonds. The average annual interest rate was 7.61% at December 31, 1993.

**(g)** Long-term debt maturities, including mandatory sinking fund requirements, in the period 1995-1998 are as follows: 1995-$201,213,000; 1996-$393,463,000; 1997-$266,463,000; 1998-$241,463,000.

**(h)** The annualized interest on long-term debt at December 31, 1993, was $368 million, of which $326 million was associated with mortgage bonds and $42 million was associated with other long-term debt.

*11. Short-Term Debt*

| *(Thousands of Dollars)* | 1993 | 1992 | 1991 |
|---|---|---|---|
| Average Borrowings | $ 113,193 | $ 50,161 | $ 13,493 |
| Average Interest Rates, Computed on Daily Basis | 3.35% | 3.72% | 6.17% |
| Maximum Borrowings Outstanding | $ 368,400 | $ 255,500 | $ 81,000 |
| Average Interest Rates at December 31 | 3.45% | 3.72% | — |

At December 31, 1993, the Company had formal and informal lines of credit with banks aggregating $351 million against which $119 million of short-term debt was outstanding. The Company does not have formal compensating balance arrangements with these banks. The Company has a $150 million commercial paper program and at December 31, 1993, there was no commercial paper outstanding.

*12. Income Taxes*

| *(Thousands of Dollars)* | 1993 | 1992 | 1991 |
|---|---|---|---|
| *Included in Operating Income:* | | | |
| Federal | | | |
| Current | $ 117,535 | $ 131,054 | $ 120,646 |
| Deferred | 113,054 | 66,281 | 67,914 |
| Investment Tax Credit, Net | 43,344 | (3,495) | 58,078 |
| State | | | |
| Current | 70,740 | 78,546 | 71,516 |
| Deferred | 9,718 | (7,903) | (9,209) |
| | 354,391 | 264,483 | 308,945 |
| *Included in Other Income and Deductions:* | | | |
| Federal | | | |
| Current | (3,650) | (45,295) | (1,957) |
| Deferred | 15,926 | 20,237 | 16,483 |
| State | | | |
| Current | (1,615) | (18,430) | (732) |
| Deferred | 1,147 | 3,328 | 2,648 |
| | 11,808 | (40,160) | 16,442 |
| *Total* | $ 366,199 | $ 224,323 | $ 325,387 |

In accordance with SFAS No. 109, the Company has also recorded an additional accumulated net deferred income tax liability and pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," a corresponding recoverable deferred income tax asset of $2.3 billion at December 31, 1993, representing primarily the cumulative amount of federal and state income taxes associated with the elimination of the net-of-tax AFUDC accounting methodology.

The $2.[illegible] billion accumulated net deferred income tax liabili[illegible]s the tax effect of anticipated revenues and reverses as the related temporary differences reverse over the life of the related depreciable assets concurrent with the recovery of their cost in rates.

Also included in the accumulated deferred income tax liability are other accumulated deferred income taxes, principally associated with liberalized tax depreciation, established in accordance with the ratemaking policies of the PUC based on flow-through accounting.

ITC and other general business credits reduced federal income taxes currently payable by $60, $41 and $71 million in 1993, 1992 and 1991, respectively. Under the Tax Reform Act of 1986, ITC was repealed effective January 1, 1986 with the exception of transition property. The Company believes that Limerick Unit No. 2 qualifies as transition property eligible for ITC.

Approximately $36 million of additional business credits generated from 1988 through 1992 have not been utilized due to limitations based on taxable income. These credits, which expire between 2003 and 2007, may be used to reduce federal income taxes in future years.

The Internal Revenue Service (IRS) has completed its examinations of the Company's federal income tax returns through 1986. The 1987 federal income tax return has not been audited and the 1988 through 1990 federal income tax returns are currently under examination.

For the years 1987 through 1990, the Company's current tax liability was determined under the AMT method resulting in a cumulative tax credit of $176 million which can be utilized in future years when regular tax liability exceeds AMT liability.

The tax effect of temporary differences which give rise to the Company's net deferred tax liability as of December 31, 1993 are as follows:

| *(Millions of Dollars)*<br>*Nature of Temporary Difference:* | *Liability or (Asset)* |
|---|---|
| Utility Plant | |
| Accelerated Depreciation | $ 1,270 |
| Deferred Investment Tax Credits | 346 |
| AMT Credits | (176) |
| Other Plant Related Temporary Differences | 1,335 |
| Taxes Recoverable Through Future Rates, Net | 980 |
| Deferred Debt Refinancing Costs | 142 |
| Other, Net | (155) |
| Deferred Income Taxes per the Balance Sheet | $ 3,742 |

The net deferred tax liability shown above is comprised of $4.182 billion of deferred tax liabilities partly offset by $440 million of deferred tax assets.

The Omnibus Budget Reconciliation Act of 1993 changed the federal income tax rate for corporations to 35% from 34%, effective January 1, 1993. This change resulted in an $8 million increase in Income Taxes in the Consolidated Statement of Income for the year ended December 31, 1993. This change also resulted in a $107 million increase in the Deferred Income Taxes liability on the December 31, 1993 Consolidated Balance Sheet, because the Company expects to receive recovery of all taxes when paid.

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

| (Thousands of Dollars) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Depreciation and Amortization | $ 78,324 | $ 93,469 | $ 89,760 |
| Deferred Energy Costs | 19,013 | (18,033) | (19,916) |
| Early Retirement Plan | — | 1,865 | 16,024 |
| Incremental Nuclear Maintenance and Refueling Outage Costs | (827) | (1,627) | (5,629) |
| Uncollectible Accounts | 625 | (2,629) | (7,750) |
| Reacquired Debt | 28,959 | 39,123 | 18,688 |
| Unrecovered Revenue | (806) | (56,050) | (43,983) |
| Alternative Minimum Tax | — | — | 6,331 |
| Limerick Plant Disallowances and Phase-In Plan | 17,073 | 15,118 | 16,634 |
| Other | (2,516) | 10,707 | 7,677 |
| *Total* | $ 139,845 | $ 81,943 | $ 77,836 |

The total income tax provisions differed from amounts computed by applying the federal statutory tax rate to income and adjusted income before income taxes as shown below:

| (Thousands of Dollars) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Net Income | $ 590,648 | $ 478,941 | $ 534,680 |
| Total Income Tax Provisions | 366,199 | 224,323 | 325,387 |
| Income Before Income Taxes | 956,847 | 703,264 | 860,067 |
| Deduct: Allowance for Funds Used During Construction | 23,774 | 20,663 | 23,084 |
| *Adjusted Income Before Income Taxes* | $ 933,073 | $ 682,601 | $ 836,983 |
| Income Taxes on Above at Federal Statutory Rate of 35% in 1993 and 34% in 1992 and 1991 | $ 326,576 | $ 232,084 | $ 284,574 |
| Increase (Decrease) due to: | | | |
| Depreciation Timing Differences Not Normalized | 9,721 | 10,427 | 15,258 |
| Limerick Plant Disallowances and Phase-In Plan | 5,094 | 2,159 | 3,490 |
| Unbilled Revenues Not Normalized | — | (5,766) | 5,620 |
| State Income Taxes, Net of Federal Income Tax Benefits | 51,994 | 36,657 | 42,387 |
| Amortization of Investment Tax Credits | (13,470) | (24,624) | (17,030) |
| Prior Period Income Taxes | (3,942) | (20,655) | (13,227) |
| Other, Net | (9,774) | (5,959) | 4,315 |
| *Total Income Tax Provisions* | $ 366,199 | $ 224,323 | $ 325,387 |
| Provisions for Income Taxes as a Percent of: | | | |
| Income Before Income Taxes | 38.3% | 31.9% | 37.8% |
| Adjusted Income Before Income Taxes | 39.2% | 32.9% | 38.9% |

*13. Taxes, Other Than Income - Operating*

| (Thousands of Dollars) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Gross Receipts | $ 155,407 | $ 158,314 | $ 158,719 |
| Capital Stock | 38,990 | 28,013 | 34,924 |
| Real Estate | 71,445 | 63,593 | 43,023 |
| Payroll | 31,490 | 29,410 | 31,439 |
| Other | 800 | 2,538 | 6,456 |
| *Total* | $ 298,132 | $ 281,868 | $ 274,561 |

*14. Leases*

Leased property included in Utility Plant at December 31, was as follows:

| (Thousands of Dollars) | 1993 | 1992 |
|---|---|---|
| Nuclear Fuel | $ 448,203 | $ 471,276 |
| Electric Plant | 2,169 | 2,234 |
| Gross Leased Property | 450,372 | 473,510 |
| Accumulated Amortization | (255,670) | (263,516) |
| Net Leased Property | $ 194,702 | $ 209,994 |

The nuclear fuel obligation is amortized as the fuel is consumed. Amortization of leased property totalled $58, $55 and $59 million for the years ended December 31, 1993, 1992 and 1991, respectively. Other operating expenses included interest on capital lease obligations of $8, $7 and $10 million in 1993, 1992 and 1991, respectively. Minimum future lease payments as of December 31, 1993 were:

| Year Ending December 31, (Thousands of Dollars) | Capital Leases | Operating Leases | Total |
|---|---|---|---|
| 1994 | $ 70,413 | $ 97,982 | $ 168,395 |
| 1995 | 65,988 | 96,821 | 162,809 |
| 1996 | 59,273 | 60,501 | 119,774 |
| 1997 | 18,220 | 59,538 | 77,758 |
| 1998 | 92 | 55,861 | 55,953 |
| Remaining Years | 1,181 | 616,834 | 618,015 |
| Total Minimum Future Lease Payments | $ 215,167 | $ 987,537 | $ 1,202,704 |
| Imputed Interest (rates ranging from 6.5% to 17.0%) | (20,465) | | |
| Present Value of Net Minimum Future Lease Payments | $ 194,702 | | |

Rental expense under operating leases totalled $99, $94 and $89 million in 1993, 1992 and 1991, respectively.

*15. Jointly Owned Electric Utility Plant*

The Company's ownership interests in jointly owned electric utility plant at December 31, 1993 were as follows:

| | Production Plants | | | | Transmission and Other Plant |
|---|---|---|---|---|---|
| | Peach Bottom | Salem | Keystone | Conemaugh | |
| Operator | PECO Energy Company | Public Service Electric and Gas Company | Pennsylvania Electric Company | Pennsylvania Electric Company | Various Companies |
| Participating Interest | 42.49% | 42.59% | 20.99% | 20.72% | 21% to 43% |
| Company's share of | | | (Thousands of Dollars) | | |
| Utility Plant | $ 708,532 | $ 1,174,379 | $ 86,742 | $ 91,299 | $ 87,809 |
| Accumulated Depreciation | 253,057 | 370,825 | 42,735 | 43,443 | 26,795 |
| Construction Work in Progress | 21,764 | 40,562 | 10,850 | 54,252 | 991 |

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

On April 2, 1992, the United States District Court for the District of New Jersey approved a settlement of the lawsuits filed against the Company by the other co-owners of Peach Bottom concerning the 1987 shutdown of Peach Bottom ordered by the NRC. As part of the settlement, the Company paid $131 million to the other co-owners on October 1, 1992 and the

Company recognized a charge against income ($76 million, net of taxes) in the first quarter of 1992.

In 1990, the Company received net proceeds of $28 million ($16 million, net of taxes) in settlement of a shareholders' derivative suit in connection with the 1987 Peach Bottom shutdown. Recognition of the $28 million had been deferred pending the resolution of the co-owners' litigation. As a result of the settlement of the co-owners' litigation, the $28 million was recognized as other income in the first quarter of 1992 and reported as an offset against the amount of the above-mentioned charge relating to the settlement of the co-owners' litigation.

*16. Segment Information*

| *(Thousands of Dollars)* | *1993* | *1992* | *1991* |
|---|---|---|---|
| ***Electric Operations*** | | | |
| Operating Revenues | $ 3,605,425 | $ 3,597,141 | $ 3,662,573 |
| Operating Expenses, excluding Depreciation | 2,228,507 | 2,236,907 | 2,253,159 |
| Depreciation | 400,851 | 390,846 | 379,607 |
| Operating Income | $ 976,067 | $ 969,388 | $ 1,029,807 |
| Utility Plant Additions | $ 458,125 | $ 461,407 | $ 422,780 |
| ***Gas Operations*** | | | |
| Operating Revenues | $ 382,704 | $ 365,328 | $ 356,013 |
| Operating Expenses, excluding Depreciation | 299,259 | 278,407 | 283,665 |
| Depreciation | 24,101 | 22,933 | 20,965 |
| Operating Income | $ 59,344 | $ 63,988 | $ 51,383 |
| Utility Plant Additions | $ 72,481 | $ 74,858 | $ 55,098 |
| Identifiable Assets* | | | |
| Electric | $ 10,395,488 | $ 10,393,449 | $ 10,213,296 |
| Gas | 727,690 | 658,825 | 590,151 |
| Nonallocable Assets | 3,909,149 | 1,525,953 | 1,720,013 |
| ***Total Assets*** | $ 15,032,327 | $ 12,578,227 | $ 12,523,460 |

*Includes Utility Plant less accumulated depreciation, inventories and allocated common utility property.

*17. Cash and Cash Equivalents*

For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The following disclosures supplement the accompanying Statements of Cash Flows:

| *(Thousands of Dollars)* | *1993* | *1992* | *1991* |
|---|---|---|---|
| Cash Paid During the Year: | | | |
| Interest (net of amount capitalized) | $ 474,735 | $ 515,696 | $ 551,944 |
| Income taxes (net of refunds) | 182,751 | 224,352 | 193,340 |
| Noncash Investing and Financing: | | | |
| Capital lease obligations incurred | 42,484 | 40,757 | 41,905 |

### 18. Investments

| (Thousands of Dollars) | December 31, 1993 | 1992 |
|---|---|---|
| Trusts and Escrow Deposits for Decommissioning Nuclear Plants | $ 149,932 | $ 125,703 |
| Real Estate Developments and Other Ventures | 46,741 | 48,273 |
| Nonutility Property | 21,262 | 23,141 |
| Gas Exploration and Development Joint Ventures | 625 | 5,026 |
| Other Deposits | 76 | 279 |
| Total | $ 218,636 | $ 202,422 |

### 19. Financial Instruments

SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," requires additional disclosure about the fair value of financial instruments, including liabilities, for which it is practicable to estimate fair value.

Fair values are estimated based on quoted market prices for the same or similar issues. The carrying amounts and fair values of the Company's financial instruments as of December 31, 1993 and 1992 were as follows:

| | 1993 | | 1992 | |
|---|---|---|---|---|
| (Thousands of Dollars) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and Temporary Cash Investments | $ 46,923 | $ 46,923 | $ 50,369 | $ 50,369 |
| Long-Term Debt (including amounts due within one year) | 5,136,606 | 5,375,427 | 5,302,959 | 5,546,896 |
| Trusts and Escrow Accounts for Decommissioning Nuclear Plants | 149,932 | 160,141 | 125,703 | 131,138 |

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and customer accounts receivable. The Company places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Depository Insurance Corporation limit. Concentrations of credit risk with respect to customer accounts receivable are limited due to the Company's large number of customers and their dispersion across many industries.

### 20. Nuclear Fuel Agreement with Long Island Power Authority (LIPA)

On March 1, 1993, the Company entered into an agreement with LIPA and other parties, subsequently revised on September 14, 1993, to receive $46 million as compensation for accepting slightly irradiated nuclear fuel from Shoreham Nuclear Power Station. The Company is to receive the $46 million in installments as the shipments of nuclear fuel are accepted. The first of the thirty-three shipments arrived at Limerick on September 28, 1993. As of December 31, 1993, the Company had received 18 shipments of the nuclear fuel.

The payments from LIPA, in excess of related costs, are being recognized in income. The Company recognized $20 million as other income in the Consolidated Statement of Income for the year ended December 31, 1993, and deferred $6 million of payments received on the December 31, 1993 Consolidated Balance Sheet, pursuant to this agreement. The Company estimates that the acquisition of the fuel will result in benefits to the Company's customers of $70 million over the next 12 to 15 years due to reduced fuel-purchase requirements.

*21. Quarterly Data (Unaudited)*

The data shown below include all adjustments which the Company considers necessary for a fair presentation of such amounts:

| (Thousands of Dollars) | Operating Revenues | | Operating Income | | Net Income | |
|---|---|---|---|---|---|---|
| Quarter Ended | 1993 | 1992 | 1993 | 1992 | 1993 | 1992 |
| March 31 | $1,071,492 | $1,079,890 | $281,734 | $274,580 | $162,356 | $ 88,401 |
| June 30 | 901,703 | 903,245 | 223,196 | 222,426 | 107,691 | 94,325 |
| September 30 | 1,073,134 | 996,138 | 290,937 | 268,699 | 181,683 | 142,338 |
| December 31 | 941,800 | 983,196 | 239,544 | 267,671 | 138,918 | 153,877 |

| (Thousands of Dollars) | Earnings Applicable to Common Stock | | Average Shares Outstanding | | Earnings Per Average Share | |
|---|---|---|---|---|---|---|
| Quarter Ended | 1993 | 1992 | 1993 | 1992 | 1993 | 1992 |
| March 31 | $149,305 | $ 72,013 | 220,609 | 220,068 | $0.68 | $0.33 |
| June 30 | 94,540 | 78,207 | 220,856 | 220,170 | 0.43 | 0.35 |
| September 30 | 169,727 | 128,754 | 221,318 | 220,327 | 0.77 | 0.59 |
| December 31 | 128,018 | 139,236 | 221,493 | 220,411 | 0.58 | 0.63 |

1992 first quarter results include a net charge of $103 million ($60 million, net of taxes), or $0.27 per share, as a result of the settlement of the litigation concerning the 1987 shutdown of Peach Bottom (see note 15).

1992 fourth quarter results include a net benefit of $24 million, or $0.11 per share, as a result of the settlement of the Company's 1984-1986 federal income tax returns.

## Financial Statistics

**Summary of Earnings and Financial Condition** (Millions of Dollars)

| *For the Year Ended* | *1993* | *1992* | *1991* | *1990* | *1989* | *1988* |
|---|---|---|---|---|---|---|
| Operating Revenues | **$ 3,988.1** | $ 3,962.5 | $ 4,018.6 | $ 3,786.7 | $ 3,473.8 | $ 3,246.3 |
| Operating Income | **1,035.4** | 1,033.4 | 1,081.2 | 767.7 | 809.3 | 742.6 |
| Income from Continuing Operations | **590.6** | 478.9 | 534.7 | 105.8 | 590.5 | 566.0 |
| Net Income | **590.6** | 478.9 | 534.7 | 214.2 | 590.5 | 566.0 |
| Earnings Applicable to Common Stock | **541.6** | 418.2 | 468.6 | 123.9 | 493.9 | 468.8 |
| Earnings Per Average Common Share From Continuing Operations (Dollars) | **2.45** | 1.90 | 2.15 | 0.07 | 2.36 | 2.33 |
| Earnings Per Average Common Share (Dollars) | **2.45** | 1.90 | 2.15 | 0.58 | 2.36 | 2.33 |
| Dividends Per Common Share (Dollars) | **1.43** | 1.325 | 1.225 | 1.45 | 2.20 | 2.20 |
| Common Stock Equity (Per Share) | **19.25** | 18.24 | 17.69 | 16.71 | 17.67 | 17.39 |
| Average Shares of Common Stock Outstanding (Millions) | **221.1** | 220.2 | 218.2 | 214.4 | 208.9 | 201.5 |
| *At December 31* | | | | | | |
| Net Utility Plant, at Original Cost | **$10,763.0** | $10,691.2 | $10,598.4 | $10,591.3 | $10,720.8 | $10,048.5 |
| Leased Property, Net | **194.7** | 210.0 | 223.8 | 241.3 | 273.5 | 287.5 |
| Total Current Assets | **514.8** | 550.0 | 783.2 | 745.0 | 655.0 | 502.5 |
| Total Deferred Debits and Other Assets | **3,559.8** | 1,127.0 | 918.1 | 938.6 | 972.8 | 953.9 |
| Total Assets | **$15,032.3** | $12,578.2 | $12,523.5 | $12,516.2 | $12,622.1 | $11,792.4 |
| Common Shareholders' Equity | **$ 4,263.4** | $ 4,022.2 | $ 3,892.3 | $ 3,624.5 | $ 3,744.8 | $ 3,592.6 |
| Preferred and Preference Stock Without Mandatory Redemption | **422.5** | 422.5 | 422.5 | 422.5 | 622.4 | 622.4 |
| With Mandatory Redemption | **186.5** | 231.1 | 315.6 | 330.9 | 351.1 | 368.1 |
| Long-Term Debt | **4,884.3** | 5,203.9 | 5,415.6 | 5,830.8 | 5,762.7 | 5,219.5 |
| Total Capitalization | **9,756.7** | 9,879.7 | 10,046.0 | 10,208.7 | 10,481.0 | 9,802.6 |
| Total Current Liabilities | **954.6** | 830.6 | 823.4 | 783.8 | 790.5 | 662.4 |
| Total Deferred Credits and Other Liabilities | **4,321.0** | 1,867.9 | 1,654.1 | 1,523.7 | 1,350.6 | 1,327.4 |
| Total Capitalization and Liabilities | **$15,032.3** | $12,578.2 | $12,523.5 | $12,516.2 | $12,622.1 | $11,792.4 |

## Operating Statistics

*Electric Operations*

| | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 |
|---|---|---|---|---|---|---|
| *Output (Millions of Kilowatthours)* | | | | | | |
| Fossil | 10,352 | 8,082 | 7,376 | 7,913 | 10,470 | 10,225 |
| Nuclear | 27,026 | 24,428 | 25,735 | 23,715 | 12,890 | 12,328 |
| Hydro | 1,699 | 1,803 | 1,388 | 2,266 | 1,743 | 1,307 |
| Pumped Storage Output | 1,478 | 1,597 | 1,653 | 1,437 | 1,354 | 1,515 |
| Pumped Storage Input | (2,192) | (2,217) | (2,355) | (2,059) | (1,937) | (2,163) |
| Purchase and Interchange | 6,447 | 8,675 | 8,603 | 5,787 | 11,192 | 11,802 |
| Internal Combustion | 56 | 29 | 79 | 152 | 348 | 285 |
| Other | — | — | — | 180 | 1,063 | — |
| *Total Electric Output* | 44,866 | 42,397 | 42,479 | 39,391 | 37,123 | 35,299 |
| *Sales (Millions of Kilowatthours)* | | | | | | |
| Residential | 10,657 | 9,894 | 10,311 | 9,815 | 9,974 | 10,058 |
| Small Commercial and Industrial | 5,773 | 5,367 | 5,284 | 5,066 | 4,921 | 4,666 |
| Large Commercial and Industrial | 15,935 | 15,770 | 16,177 | 16,554 | 16,749 | 16,516 |
| Other | 771 | 962 | 1,029 | 1,010 | 1,031 | 999 |
| Service Territory | 33,136 | 31,993 | 32,801 | 32,445 | 32,675 | 32,239 |
| Interchange Sales | 457 | 1,231 | 1,612 | 2,751 | 2,027 | 435 |
| Sales to Other Utilities | 8,670 | 6,699 | 5,445 | 1,865 | — | — |
| *Total Electric Output* | 42,263 | 39,923 | 39,858 | 37,061 | 34,702 | 32,674 |
| *Number of Customers, December 31* | | | | | | |
| Residential | 1,341,873 | 1,333,926 | 1,324,795 | 1,320,126 | 1,309,717 | 1,296,784 |
| Small Commercial and Industrial | 142,363 | 141,253 | 140,901 | 140,305 | 138,244 | 135,274 |
| Large Commercial and Industrial | 3,742 | 3,972 | 4,162 | 4,344 | 4,449 | 4,520 |
| Other | 888 | 857 | 840 | 817 | 775 | 779 |
| *Total Electric Customers* | 1,488,866 | 1,480,008 | 1,470,698 | 1,465,592 | 1,453,185 | 1,437,357 |
| *Operating Revenues (Millions of Dollars)* | | | | | | |
| Residential | $ 1,354.1 | $ 1,304.5 | $ 1,342.3 | $ 1,229.8 | $ 1,157.0 | $ 1,127.8 |
| Small Commercial and Industrial | 678.9 | 669.8 | 641.0 | 595.2 | 537.1 | 489.4 |
| Large Commercial and Industrial | 1,164.0 | 1,223.2 | 1,278.9 | 1,247.1 | 1,182.0 | 1,089.3 |
| Other | 161.2 | 168.0 | 170.4 | 166.9 | 143.9 | 143.8 |
| Service Territory | 3,358.2 | 3,365.5 | 3,432.6 | 3,239.0 | 3,020.0 | 2,850.3 |
| Interchange Sales | 14.3 | 32.1 | 42.8 | 81.5 | 68.2 | 17.6 |
| Sales to Other Utilities | 232.9 | 199.5 | 187.2 | 81.1 | — | — |
| *Total Electric Revenues* | $ 3,605.4 | $ 3,597.1 | $ 3,662.6 | $ 3,401.6 | $ 3,088.2 | $ 2,867.9 |
| *Operating Expenses (Millions of Dollars)* | | | | | | |
| Operating Expenses, excluding Depreciation | $ 2,228.5 | $ 2,236.9 | $ 2,253.2 | $ 2,325.2 | $ 2,077.4 | $ 1,931.3 |
| Depreciation | 400.8 | 390.8 | 379.6 | 337.7 | 257.4 | 245.5 |
| *Total Operating Expenses* | $ 2,629.3 | $ 2,627.7 | $ 2,632.8 | $ 2,662.9 | $ 2,334.8 | $ 2,176.8 |
| *Electric Operating Income* | $ 976.1 | $ 969.4 | $ 1,029.8 | $ 738.7 | $ 753.4 | $ 691.1 |
| Average Use per Residential Customer *(kilowatthours)* | | | | | | |
| Without Electric Heating | 6,727 | 6,259 | 6,707 | 6,376 | 6,488 | 6,667 |
| With Electric Heating | 17,096 | 16,298 | 16,201 | 16,038 | 17,250 | 17,738 |
| Total | 7,970 | 7,443 | 7,801 | 7,464 | 7,655 | 7,807 |
| Electrical Peak Load, Demand *(thousands of kilowatts)* | 7,100 | 6,617 | 7,096 | 6,755 | 6,467 | 6,826 |
| Net Electric Generating Capacity — Year-End Summer Rating *(thousands of kilowatts)* | 8,877 | 8,836 | 8,766 | 8,766 | 7,759 | 7,762 |
| Cost of Fuel per Million Btu | $ 0.90 | $ 0.82 | $ 0.92 | $ 1.13 | $ 1.37 | $ 1.19 |
| Btu per Net Kilowatthour Generated | 10,675 | 10,657 | 10,849 | 10,844 | 10,894 | 10,881 |

# Operating Statistics

### Gas Operations

| | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 |
|---|---|---|---|---|---|---|
| ***Sales (Millions of Cubic Feet)*** | | | | | | |
| Residential | 1,637 | 1,819 | 1,746 | 1,778 | 1,951 | 1,933 |
| House Heating | 30,687 | 29,750 | 26,423 | 25,303 | 28,301 | 28,112 |
| Commercial and Industrial | 22,943 | 21,497 | 20,492 | 23,228 | 30,038 | 39,073 |
| Other | 5,656 | 2,146 | 534 | 1,567 | 2,344 | 2,228 |
| *Total Gas Sales* | 60,923 | 55,212 | 49,195 | 51,876 | 62,634 | 71,346 |
| Gas Transported for Customers | 22,946 | 22,060 | 21,414 | 24,413 | 18,033 | 9,272 |
| *Total Gas Sales & Transported* | 83,869 | 77,272 | 70,609 | 76,289 | 80,667 | 80,618 |
| ***Number of Customers, December 31*** | | | | | | |
| Residential | 59,573 | 59,859 | 62,444 | 63,267 | 65,544 | 66,599 |
| House Heating | 277,500 | 269,577 | 260,473 | 254,564 | 246,273 | 239,022 |
| Commercial and Industrial | 31,573 | 30,956 | 30,204 | 29,456 | 28,369 | 27,119 |
| *Total Gas Customers* | 368,646 | 360,392 | 353,121 | 347,287 | 340,186 | 332,740 |
| ***Operating Revenues (Millions of Dollars)*** | | | | | | |
| Residential | $ 15.0 | $ 16.4 | $ 17.0 | $ 18.1 | $ 18.0 | $ 17.0 |
| House Heating | 205.5 | 201.9 | 192.4 | 200.8 | 195.8 | 180.6 |
| Commercial and Industrial | 124.2 | 121.1 | 123.6 | 144.7 | 152.5 | 165.1 |
| Other | 15.2 | 2.8 | 2.2 | 5.6 | 7.3 | 6.6 |
| Subtotal | $ 359.9 | $ 342.2 | $ 335.2 | $ 369.2 | $ 373.6 | $ 369.3 |
| Other Revenues (including Transported for Customers) | 22.8 | 23.1 | 20.8 | 15.8 | 12.1 | 9.1 |
| *Total Gas Revenues* | $ 382.7 | $ 365.3 | $ 356.0 | $ 385.0 | $ 385.7 | $ 378.4 |
| ***Operating Expenses (Millions of Dollars)*** | | | | | | |
| Operating Expenses, excluding Depreciation | $ 299.3 | $ 278.4 | $ 283.7 | $ 336.2 | $ 310.2 | $ 308.3 |
| Depreciation | 24.1 | 22.9 | 21.0 | 19.8 | 19.6 | 18.6 |
| *Total Operating Expenses* | $ 323.4 | $ 301.3 | $ 304.7 | $ 356.0 | $ 329.8 | $ 326.9 |
| ***Gas Operating Income (Millions of Dollars)*** | $ 59.3 | $ 64.0 | $ 51.3 | $ 29.0 | $ 55.9 | $ 51.5 |

### Securities Statistics

Ratings on PECO Energy Company's Securities

| | Mortgage Bonds | | Debentures | | Preferred Stock | |
|---|---|---|---|---|---|---|
| Agency | Rating | Date Established | Rating | Date Established | Rating | Date Established |
| Duff and Phelps, Inc. | BBB+ | 4/92 | BBB | 4/92 | BBB- | 8/91 |
| Fitch Investors Service, Inc. | A- | 9/92 | BBB+ | 9/92 | BBB+ | 9/92 |
| Moody's Investors Service | Baa1 | 4/92 | Baa2 | 4/92 | baa2 | 4/92 |
| Standard & Poor's Corporation | BBB+ | 4/92 | BBB | 4/92 | BBB | 4/92 |

*NYSE-Composite Common Stock Prices, Earnings and Dividends By Quarter (Per Share)*

| | 1993 | | | | 1992 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| High Price | $32-7/8 | $33-1/2 | $31-1/8 | $30-3/8 | $26-3/4 | $26-3/4 | $26-5/8 | $26 |
| Low Price | $27-3/8 | $30-3/8 | $27-3/4 | $25-1/2 | $25 | $25 | $23-5/8 | $22-5/8 |
| Close | $30-1/4 | $32-3/4 | $30-5/8 | $30 | $26-1/8 | $26-3/8 | $26-3/8 | $24-5/8 |
| Earnings | 58¢ | 77¢ | 43¢ | 68¢ | 63¢ | 59¢ | 35¢ | 33¢ |
| Dividends | 38¢ | 35¢ | 35¢ | 35¢ | 35¢ | 32.5¢ | 32.5¢ | 32.5¢ |

## Officers

*Joseph F. Paquette, Jr.* (59)
Chairman and Chief Executive Officer

*Corbin A. McNeill, Jr.* (54)
President and Chief Operating Officer

*William L. Bardeen* (55)
Senior Vice President, Finance and Chief Financial Officer

*James W. Durham* (56)
Senior Vice President and General Counsel

*William J. Kaschub* (51)
Senior Vice President, Human Resources

*Gwendolyn S. King* (53)
Senior Vice President, Corporate and Public Affairs

*Dickinson M. Smith* (60)
Senior Vice President, Nuclear

*David R. Helwig* (42)
Vice President, Limerick Generating Station

*Thomas P. Hill, Jr.* (45)
Vice President and Controller

*Kenneth G. Lawrence* (46)
Vice President, Gas Operations

*John M. Madara, Jr.* (50)
Vice President, Production

*Albert G. Mikalauskas* (57)
Vice President, Customer and Marketing Services

*Gerald R. Rainey* (44)
Vice President, Peach Bottom Atomic Power Station

*Morton W. Rimerman* (64)
Vice President, Finance and Treasurer

*William H. Smith, III* (45)
Vice President, Planning and Performance

*Albert J. Solecki* (53)
Vice President, Support Services

*Alvin J. Weigand* (55)
Vice President, Transmission and Distribution Services

*Lucy S. Binder* (56)
Secretary

*J. Barry Mitchell* (46)
Assistant Treasurer and Director of Financial Operations

*James F. Hohenstein* (50)
Assistant Treasurer

*M. Dorothy Lyons* (52)
Assistant Secretary

*Todd D. Cutler* (33)
Assistant Secretary

*Management Changes:*

Donald B. Miller resigned as Vice President, Peach Bottom Atomic Power Station, effective November 24, 1993.

Gerald R. Rainey was elected Vice President, Peach Bottom Atomic Power Station, effective November 24, 1993.

## Board of Directors

*Susan W. Catherwood* (50)
Chairman, Trustee Board,
The University of Pennsylvania
Health System

*M. Walter D'Alessio* (60)
President and Chief Executive Officer,
Latimer & Buck, Inc. (Mortgage
banking and real estate
development)

*Richard G. Gilmore** (66)
Former Senior Vice President,
Finance and Chief Financial
Officer of the Company

*Richard H. Glanton, Esquire* (47)
Partner of the law firm Reed Smith
Shaw & McClay

*James A. Hagen** (61)
Chairman, President and Chief
Executive Officer, Conrail, Inc.

*Nelson G. Harris* (67)
Chairman of the Executive Committee,
Tasty Baking Company

*Robert D. Harrison* (70)
Management and marketing
consultant

*Joseph C. Ladd* (67)
Former Chairman,
The Fidelity Mutual Life
Insurance Company

*Edithe J. Levit, M.D.* (67)
President Emeritus and Life Member
of the Board, National Board
of Medical Examiners

*Admiral Kinnaird R. McKee** (64)
Director Emeritus, U.S. Navy
Nuclear Propulsion

*Joseph J. McLaughlin** (65)
Former President and Chief Executive
Officer, Beneficial Mutual Savings Bank

*Corbin A. McNeill, Jr.* (54)
President and Chief Operating Officer
of the Company

*John M. Palms, PhD.* (58)
President, University of
South Carolina

*Joseph F. Paquette, Jr.** (59)
Chairman and Chief Executive
Officer of the Company

*Ronald Rubin** (62)
General Partner, Richard I. Rubin & Co.
(Real estate development
and management)

*Member of Executive Committee

# Shareholder Information

**Stock Exchange Listings**
Most Company securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange. The debentures of PECO Energy Power Company are listed on the Philadelphia Stock Exchange.

**Dividends**
The Company has paid dividends on its common stock continually since 1902. The Board of Directors normally considers common stock dividends for payment in March, June, September and December. The Company estimates that the $1.43 per share dividend paid to common shareholders in 1993 is fully taxable as dividend income for federal income tax purposes.

Shareholders may use their dividends to purchase additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan (Plan). The Company pays all brokerage and service fees for Plan purchases. All shareholders have the opportunity to invest additional funds in common stock of the Company, whether or not they have their dividends reinvested, with all purchasing fees paid by the Company.

In 1993, over 49% of the Company's common shareholders were participants in the Plan. Information concerning the Plan may be obtained from: First Chicago Trust Company of New York, PECO Energy Company Plan, P.O. Box 2598, Jersey City, NJ 07303-2598.

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

Inquiries relating to shareholder accounting records, stock transfer and change of address should be directed to: First Chicago Trust Company of New York, P.O. Box 2500, Jersey City, NJ 07303-2500.

**Toll-Free Telephone Line**
Toll-free telephone lines are available to the Company's shareholders for inquiries concerning their stock ownership. Calls should be made to 1-800-626-8729.

**Annual Meeting**
The Annual Meeting of the Shareholders of the Company will be held on April 13, 1994. The record date for voting at the shareholders' meeting is February 23, 1994. Notice of the meeting, proxy statement and proxy will be mailed under separate cover. Prompt return of the proxies will be appreciated.

**Form 10-K**
Form 10-K, the annual report filed with the Securities and Exchange Commission, is available without charge to shareholders upon written request to PECO Energy Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attention: Financial Division, S21-1.

**Shareholders**
The Company had 219,644 shareholders of record of common stock as of December 31, 1993.

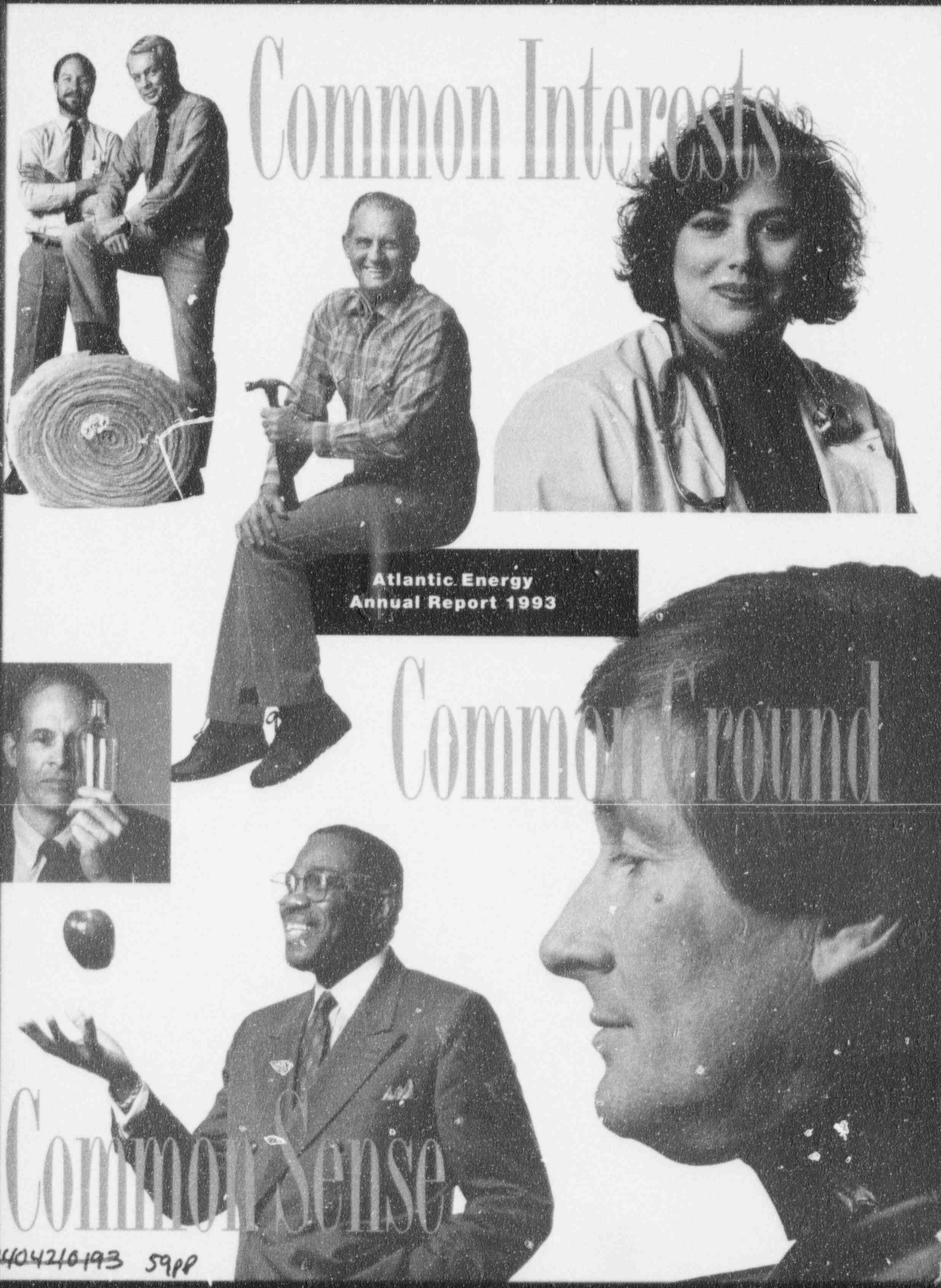
**Transfer Agents And Registrars**
PECO Energy Company—
Preferred and Common Stocks
Registrar & Transfer Agent:
First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500

PECO Energy Company—
First and Refunding Mortgage Bonds Trustee:
First Fidelity Bank, National Association
Corporate Trust Operations
Broad & Walnut Sts., Philadelphia, PA 19109
New York Agent:
Morgan Guaranty Trust Co. of NY
Corporate Trust Department
30 W. Broadway, NY, NY 10007

PECO Energy Company—Debentures
PECO Energy Power Company
(a subsidiary)—Debentures
Trustee:
CoreStates Bank, N.A.
Corporate Trust Department
P.O. Box 7907
Philadelphia, PA 19101-7907
New York Agent:
Marine Midland Bank
Corporate Trust Department
140 Broadway
Operations Level A, NY, NY 10015

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

PECO Energy Company
2301 Market Street
PO Box 8699
Philadelphia, PA 19101


Common Interests
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Common Sense
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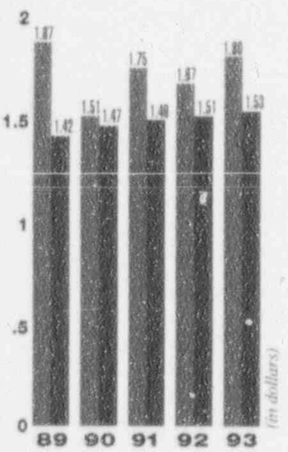
# CONTENTS



ABOUT THE COVER **For Atlantic Electric, our utility, success is measured through customers' eyes. That's why their satisfaction is our highest priority. But customer satisfaction means more than just providing electricity. It means sharing common interests, building relationships on common ground and using common sense to balance the needs of business and the environment.**

# FINANCIAL HIGHLIGHTS

| | 1993 | % Change 1993-1992 | 1992 | % Change 1992-1991 | 1991 | % Change 1991-1990 |
|---|---|---|---|---|---|---|
| Earnings Per Common Share | **$ 1.80** | 7.8 | $ 1.67 | (4.6) | $ 1.75 | 15.9 |
| Dividends Paid Per Common Share | **$ 1.53** | 1.3 | $ 1.51 | 1.3 | $ 1.49 | 2.1 |
| Book Value Per Common Share | **$ 15.62** | 3.0 | $ 15.17 | 2.2 | $ 14.84 | 3.3 |
| Number of Common Shares Outstanding – Year-end (000): | | | | | | |
| Average | **52,888** | 2.5 | 51,592 | 5.3 | 49,008 | 7.5 |
| Actual | **53,507** | 2.5 | 52,199 | 3.6 | 50,896 | 10.8 |
| Return on Average Common Equity | **11.71%** | 5.1 | 11.14% | (7.9) | 12.10% | 14.5 |
| Electric Operating Revenues (000) | **$ 865,675** | 6.0 | $ 816,825 | 1.0 | $ 808,374 | 9.1 |
| Operating Expenses (000) | **$ 706,091** | 3.9 | $ 679,657 | 2.4 | $ 663,518 | 7.7 |
| Net Income (000) | **$ 95,297** | 10.5 | $ 86,210 | 0.7 | $ 85,635 | 24.3 |
| Utility Cash Construction Expenditures (000) | **$ 132,111** | 5.7 | $ 130,709 | (24.2) | $ 172,425 | 3.4 |
| Total Assets (000) | **$2,487,508** | 12.1 | $2,219,338 | 3.2 | $2,151,416 | 7.2 |
| Sales of Electricity to Ultimate Customers (KWH) (000) | **8,066,412** | 5.4 | 7,655,138 | (3.5) | 7,935,600 | 2.3 |
| Price Paid Per Kilowatt-hour (Ultimate Customers) | **10.3[illegible]6¢** | 0.6 | 10.257¢ | 4.5 | 9.812¢ | 5.6 |
| Total Ultimate Electric Customer Accounts (Year-end) | **463,073** | 1.0 | 458,549 | 1.2 | 453,100 | 0.8 |
| Number of Shareholders–Common Stock (Year-end) | **47,832** | 2.8 | 46,524 | 6.2 | 43,802 | 3.6 |
| Number of Atlantic Electric Employees (Year-end) | **1,835** | (9.3) | 2,023 | (0.4) | 2,032 | (1.1) |

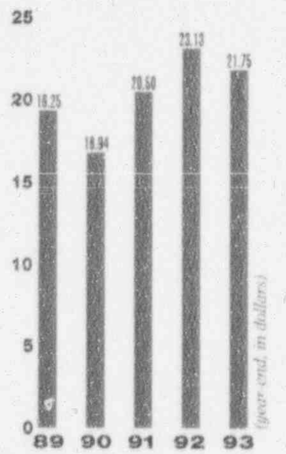



**Atlantic Energy Earnings and Dividends Paid Per Share of Common Stock**

EARNINGS

DIVIDENDS

*Earnings per share of Common Stock is net income divided by the average number of common shares outstanding. Dividends paid per share is the sum of the quarterly dividend payments made in January, April, July and October.*




**Atlantic Energy Market Price Per Share of Common Stock**

*This is the closing price of Atlantic Energy's Common Stock on the last trading date of each year, as reported by the New York Stock Exchange Composite Transactions listing.*

*Atlantic Energy, Inc. is the parent holding company for Atlantic City Electric Company (Atlantic Electric) and four non-utility subsidiaries. Atlantic Energy has paid dividends for 76 consecutive years and has increased cash dividends paid for 41 consecutive years. More than 75% of Atlantic Energy's shares are owned by individuals.*

*Atlantic Electric, a regulated utility, is the core business and makes up 95% of total assets. Atlantic Electric serves over 460,000 customers in a 2,700 square-mile area in southern New Jersey. In the next few years, a new state prison in Bridgeton, along with a new convention center and related development in Atlantic City, are expected to bring growth to the service area.*

To our shareholders:

Transforming a utility from a monopoly to a market competitor requires hard work and tough decisions. During the last year, your Company took the steps necessary to make it happen.

For starters, we reorganized the utility. Now, two business units and three support units focus clearly on the job at hand: delivering **quality services** at **competitive prices**. Our efforts to reorganize were not without sacrifice. The new structure could no longer support certain positions. We had to reduce our staff. For the future, we'll continue to review the people and skills needed to carry out our mission.

To that end, we are pleased to welcome Michael J. Chesser. He came on board early this year as Atlantic Electric's Executive Vice President. Mike will be responsible for the utility's two business units. He brings with him valuable experience in making the change from a regulated business into a competitive operation.

Another step toward changing our business comes from **cutting costs**. We reduced operating costs at our power plants by about 16%. Taking advantage of lower interest rates, we refinanced over half of our long term debt, saving us $5 million a year in annual interest charges. We renegotiated one cogeneration power purchase contract signed in 1987. That puts its prices more in line with current rates. It also allows a clean, efficient unit to generate more energy. We are working to revise our arrangements with two other cogenerators to achieve additional savings. In total, these efforts will save between $15 million and $20 million during the early years of the contracts.

[illegible]

To be truly successful, cutting operating costs is never enough. As we looked at our forecast, we had to **reduce** our planned capital **spending**. Over the next five years, we'll spend about $500 million, about $100 million less than our original plans. Over half of the money will be spent to strengthen the power delivery system and to comply with Clean Air Act Amendments. We review all of our plans to be sure that the right project is done at the right time for the right price.

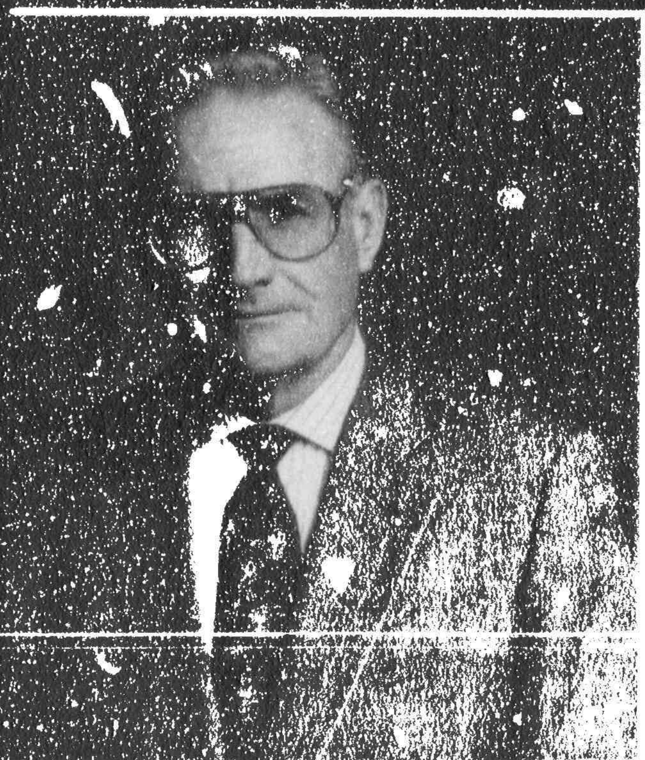
Steps like these and a **strong summer** make for good financial results. In 1993, **earnings per share were $1.[illegible]** compared to $1.67 in 1992. Both years' results included one-time items. For 1993, charges for reorganizing reduced earnings by about 10 cents. For 1992, several items including the Peach Bottom settlement, increased earnings by 26 cents. Our nonutility businesses made their largest contribution in 1993. They added about seven cents to earnings.

Earnings reflected **kilowatt-hour sales of 8.1 billion** this year. Hot summer weather helped. It brought more tourists to the area and boosted the local economy. We added over 4,100 new customers to our utility system. In addition, peak demand broke a record this year at 1,962 megawatts, a 2.7% increase over the record set in 1991.

In June, we **increased the dividend** to 38½ cents per share, making cash dividends paid $1.53 in 1993. Total return was flat this year, as our stock price slipped toward year end along with many other utilities. As we see it, the financial markets were responding to the prospects of rising interest rates and increased competition for utilities. In addition, two major rating agencies lowered our bond rating to an "A-." We weren't alone. One agency lowered its rating outlook on one-third of the nation's electric utilities.

But the real issue is in what lies ahead and what we do about it. We believe our strength will come from being market driven. We will balance our customers needs for **competitive prices** with our shareholders needs for **investment value**. And we'll do it by breaking the traditional mold.

It starts with our approach to regulation. Not long ago, we asked our regulators to allow our casino customers to take service under existing commercial rates, rather than their current higher rates. If all of the casinos elect this option, it will reduce revenues by $5 million a year. But, it helps a major New Jersey industry lower its costs and stay competitive.



E. D. Huggard
Chairman of the Board

Recently, we filed for an increase in energy clause revenues. Our request includes a reduction or "economic initiative" to keep our rates in line with the market. Be assured that our decisions are weighed carefully with our continued commitment to provide a fair return for shareholders.

Breaking the mold continues with our role in the service area. Atlantic Electric will provide heating and cooling to Atlantic City's new convention center, which should be completed by 1996. And, other plans for Atlantic City include a shopping and entertainment complex, new hotels and expansions for existing casinos. If all projects are developed as planned, they represent over $1 billion of new investment. To our west, some industrial customers expanded their businesses this year. We believe that's a sign that our state's economy is picking up. Plans for this area also include a new state prison, which means about 1,500 new jobs. **We're doing all we can** to make these projects come to life.

Our success is linked to that vital, growing service area. By creating **lasting partnerships with our customers**, we will be an important part of that growth. In the pages that follow, you'll learn what customers think about how well we're doing. Our strength is in our people. We're all working harder than ever on your behalf to remain a competitive, profitable growing company.

For the Board of Directors,

February 8, 1994

J. L. Jacobs

E. D. Huggard

**J. L. Jacobs**
**President and Chief Executive Officer**

**E. D. Huggard**
**Chairman of the Board**

The BEACH Patrol team (see Award Winning Performance)

# NEWS OF 1993

### Award Winning Performance

*The New Jersey Business and Industry Association's Award for Excellence was presented to Atlantic Electric in recognition of its products and services as well as the work the company does to improve the quality of life in southern New Jersey.*

*The Edison Electric Institute (EEI) recognized Atlantic Electric with its 1993 Common Goals award for its work in partnership with the Bayside Prison. Atlantic Electric provides supplies and tools for inmates to build nest boxes for a variety of threatened birds. EEI cited Atlantic Electric's concern for the environment and its community involvement as reasons for the award.*

*For the third consecutive year, an Atlantic Electric employee involvement team has won the Team Excellence Award for its region given by the Association for Quality and Participation. The BEACH Patrol team, made up of employees from human resource services, will go on to compete for the national title. The team identified improvements and significant cost savings to the company's prescription plan. Team members pictured above are: (back row, l to r) Eileen Cappellucci, Relly Favinger, Cindy Hirsh (leader), Liz Pullan, Jill Perna, JoAnn Fitzgerald, Mary Parrish, Liz Thomas, Jo-Ann Hurley and Riesa Levine (facilitator); (front row, l to r) Andy Dias, Harry Phillips, Bob Pavlovski and Ron Migliore.*

*Previous Atlantic Electric winners were: the ACT team from customer service who streamlined and redesigned hazardous condition reporting; and the Morale Boosters team from Deepwater Generating Station who greatly improved safety at the station.*

### Money Does Grow on Trees

*A group of Atlantic Electric employees found a way to save money and benefit the environment: a tree replacement program. Under this program, "compatible" or lower-growing shade trees are used to replace problem trees that grow up into power lines, causing outages and injuries. Compatible trees retain their shape and appearance without being trimmed, representing a substantial cost savings over the life of the tree. As an added benefit, the compatible trees are grown at Atlantic Electric's Millville Holly Orchard.*

### Nuclear News

*The combined capacity factor of Atlantic Electric's five jointly-owned nuclear units was 70.8% in 1993. This figure is well within the range of acceptable performance as defined by New Jersey's nuclear performance standard. As a result, Atlantic Electric is not subject to any penalties for 1993.*

### The Financial Page

*Throughout the year, Atlantic Electric issued and sold $240 million of medium term notes (MTNs). The MTNs have varying maturity dates between 5 and 15 years. They have a weighted average interest rate of 6.7%. In addition, Atlantic Electric issued and sold three series of First Mortgage Bonds for a total of $225 million principal amount. The new series had interest rates of 6⅞% (20 years), 7% (35 years), and 7% (30 years). Proceeds from the MTNs and First Mortgage Bonds were used primarily to refund higher coupon debt. This refinancing brings a savings of roughly $5 million in interest expense annually.*

*The Dividend Reinvestment and Stock Purchase Plan had another banner year in 1993. Shareholders invested over $30 million in new shares of Common Stock through their participation in the plan.*

### Home Based Business

*In April, Atlantic Electric began a pilot program to allow employees to work from home. The program provides extended hours for customers' calls and greater coverage for heavy calling periods. Computer terminals and phone lines set up in employees' homes work just like the ones in the office, giving customers the full range of services. Data collected from the pilot project will be used to evaluate expanding the program. Preliminary benefits of the program include better coverage during periods of heavy call volume and during major storms.*

### New Peak Established

*On July 10, 1993, Atlantic Electric hit a new level of peak demand of 1,962 megawatts (MWs). This record surpasses the 1991 record of 1,911 MWs by 2.7%. (The mild summer of 1992 didn't break any records.) Reserve margin (additional available capacity) at the time of the peak was 11.2%.*

### Teamwork Triumphs

*Special effort was required to meet the challenge of peak demand this summer. Workers at Atlantic Electric's B.L. England Generating Station battled eel grass, a fine hair-like seaweed that clogged intake screens and reduced water pressure at the plant. To keep the water flowing, all hands took turns at cleaning the two-story tall screens. Working around the clock for six weeks, they removed four 55-gallon drums of seaweed every half hour. Through their extraordinary effort, employees kept the plant running and the power on.*

Atlantic Electric's Mission

# We are southern New Jersey's energy company, committed to customer satisfaction in providing high quality services at competitive prices. We provide safe and reliable energy with environmental sensitivity and increasing value to our owners.

Common interests, common sense and common ground—these phrases describe the essential ingredients for forming lasting partnerships with our customers and the community. These partnerships are critical to our long term success as a competitive, profitable and growing company.

Common interests bring us together with our customers, allowing us to find better ways to give high quality service at competitive prices. Common sense gives us the balance and insight needed to provide safe and reliable energy with environmental sensitivity. And by sharing our resources of time, effort and expertise, we establish a basis for mutual understanding—a common ground—with our community.

Our utility, Atlantic Electric, is our primary business. Its mission is focused on the most important part of the utility business—customers. In the sections that follow, customers explain how Atlantic Electric carries out its mission to their satisfaction.

# Common Interests

Tim Logsdon (left), plant engineer
Bob Mooney, industrial engineer
Schuller International, Inc.

*You learn a lot from listening to your customers. You find out what your* **common interests** *are—interests like improving business profits, competing successfully and increasing safety. When you know what you share, you know what customers expect of you. Our job is meeting and exceeding those expectations by providing* **quality service at competitive prices**. *Here's how some of our customers think we've done.*

*Schuller International, an insulation manufacturer, was looking for ways to cut energy costs, increase energy efficiency and improve some of its processes—all of which can* **boost a business' bottom line**. *"Atlantic Electric worked with us to get a comprehensive energy audit done. They helped us find a consultant who would go through all areas of our business, looking for ways we could* **save money and be more efficient**,*" said Bob Mooney, industrial engineer. "The consultant's suggestions were great. None of them cost money to implement. But they did require our operators to manually shut things down or switch things over," he added.*

*"We wanted to take the improvements one step further.* **Atlantic Electric really helped** *us determine which processes could be automated. They put us in touch with all the right vendors and equipment we needed to make the improvements," Mooney said.*

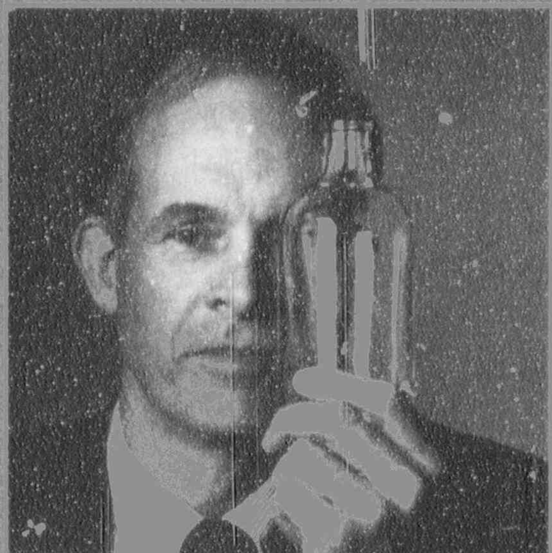
*Tim Logsdon, plant engineer, summed it all up. "In this economy, businesses and utilities have to work together. Atlantic Electric lived up to that* **team spirit**. *They helped us uncover not only the small change, but the big dollar savings as well. When you're under pressure to keep your costs in line, every little bit helps."*

*Utilities are learning what manufacturing has known for a long time: the competition is tough. In a region where the competition is tougher than most, it's important for all sides to work together.*

*Jim Slough, director of purchasing for Wheaton Glass Products finds that Atlantic Electric is moving in a*

**refreshing new direction**. *"They sponsored an important three-way meeting involving the utility company, local industry and state regulators. The meeting included very* **frank discussions** *from all sides and was an* **important step in solving issues** *that affect everyone," Slough said. "No other* **utility** *I've dealt with has* **displayed the courage** *to bring controversial issues out into the open so they can be mutually solved," he added.*

*"Atlantic Electric knows that energy is one of manufacturing's largest costs and they're willing to work with us. Their experts helped Wheaton identify large areas of energy waste and installed sub-metering to help us monitor usage in those areas. That information will enable us to fix problem areas," Slough indicated.*



Jim Slough, director of purchasing
Wheaton Glass Products

*"Every industry in New Jersey faces international competitors. If any of us aren't efficient, we won't survive against foreign companies. Atlantic Electric recognizes this tough business environment. They see that jobs can be maintained or increased if industry uses energy efficiently and keeps its costs down. I wish the other utilities that serve Wheaton were equally as progressive," he emphasized.*

*Slough ended by saying, "More projects are underway for the coming year that will* **continue the close relationship** *between our two companies. Atlantic Electric's* **progressive approach** *enjoys my complete support."*

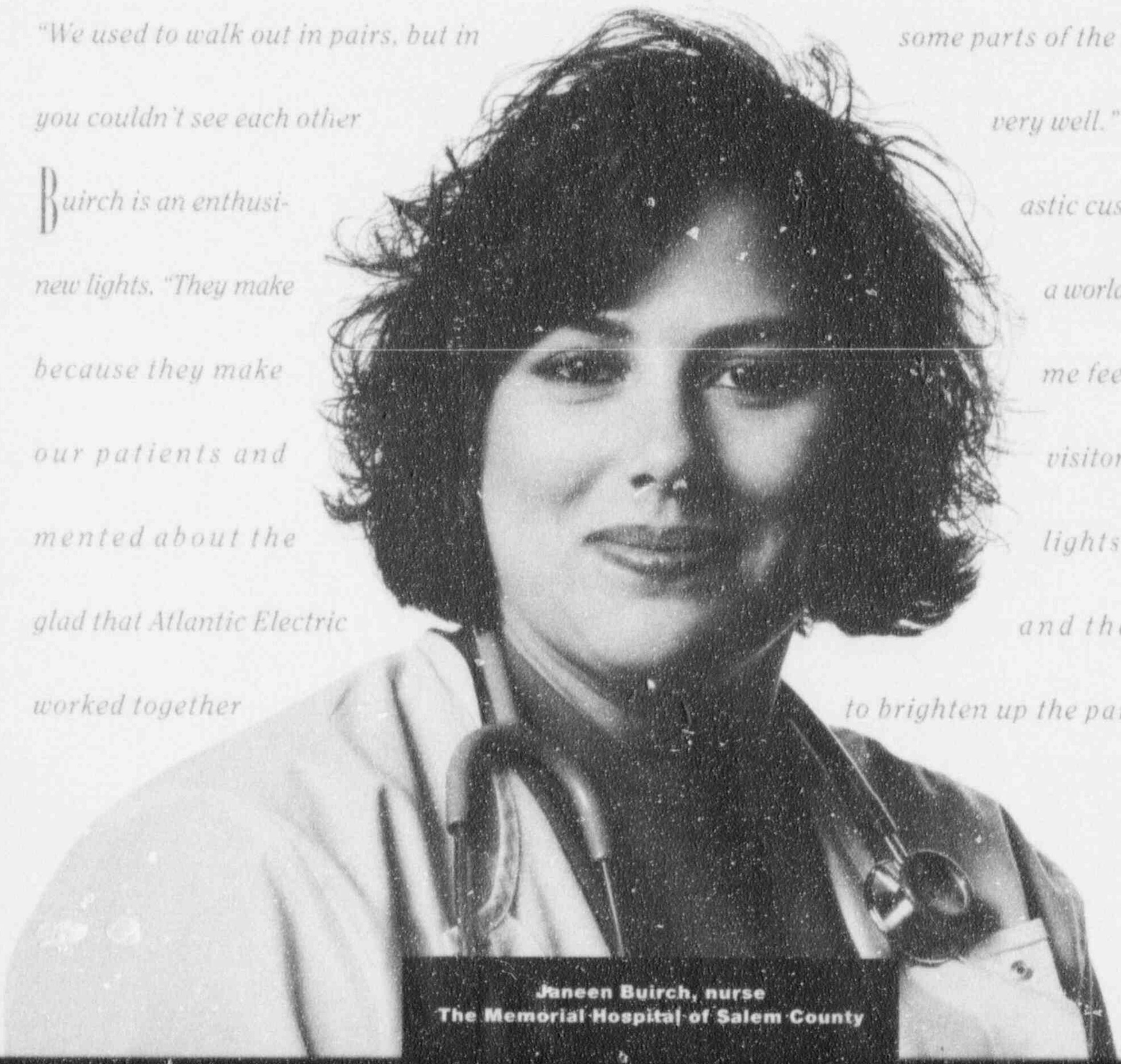
*Improving* **safety** *is also* **an interest we share** *with customers. So is* **staying on a budget**. *For a recent project with the Memorial Hospital of Salem County, we were able to help them achieve both.*

*"We needed to replace the old lighting in our parking lots. But we were on a tight budget to get it done," said Les Wilson, vice president of plant operations. "We got some costly estimates and asked Atlantic Electric for help. Through their Night Guard leased lighting program, we were able to get* **efficient, uniform lights** *that really* **improve visibility**."

*"Our biggest problem was finding an affordable pole design that matched what we already had in some areas. With a lot of hard work, Atlantic Electric found us a great alternative. Now, all of the old lights have been replaced and we're getting* **more light** *out there* **for less money**," *he added.*

*Safety was the hospital's prime concern, especially for night shift employees. "Before the new lights, we'd wait for security or other employees to go out to our cars," explained nurse Janeen Buirch. "We used to walk out in pairs, but in some parts of the parking lot, you couldn't see each other very well."*

*Buirch is an enthusiastic customer of the new lights. "They make a world of difference because they make me feel safe. Even our patients and visitors have commented about the lights. I'm really glad that Atlantic Electric and the hospital worked together to brighten up the parking lot."*



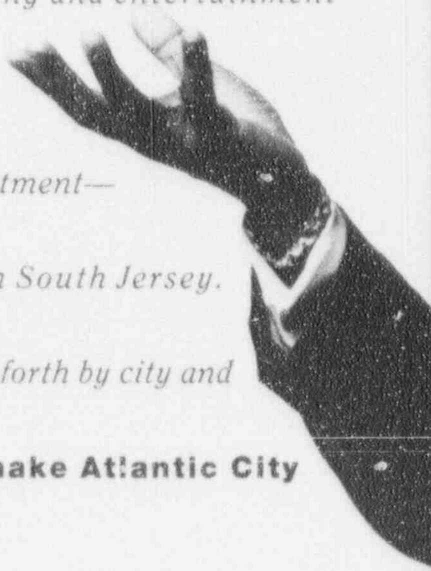
**Janeen Buirch, nurse**
**The Memorial Hospital of Salem County**

# Common Ground

*In our 107 years in business, we have been a source of light, heat, products and services. We're an employer, a supplier and a buyer. Most important of all,* **we're a neighbor**. *As we look to the future, our success will come from being an integral part of the community. It requires us to build a basis for* **mutual understanding—common ground**—*on which we all can stand.*

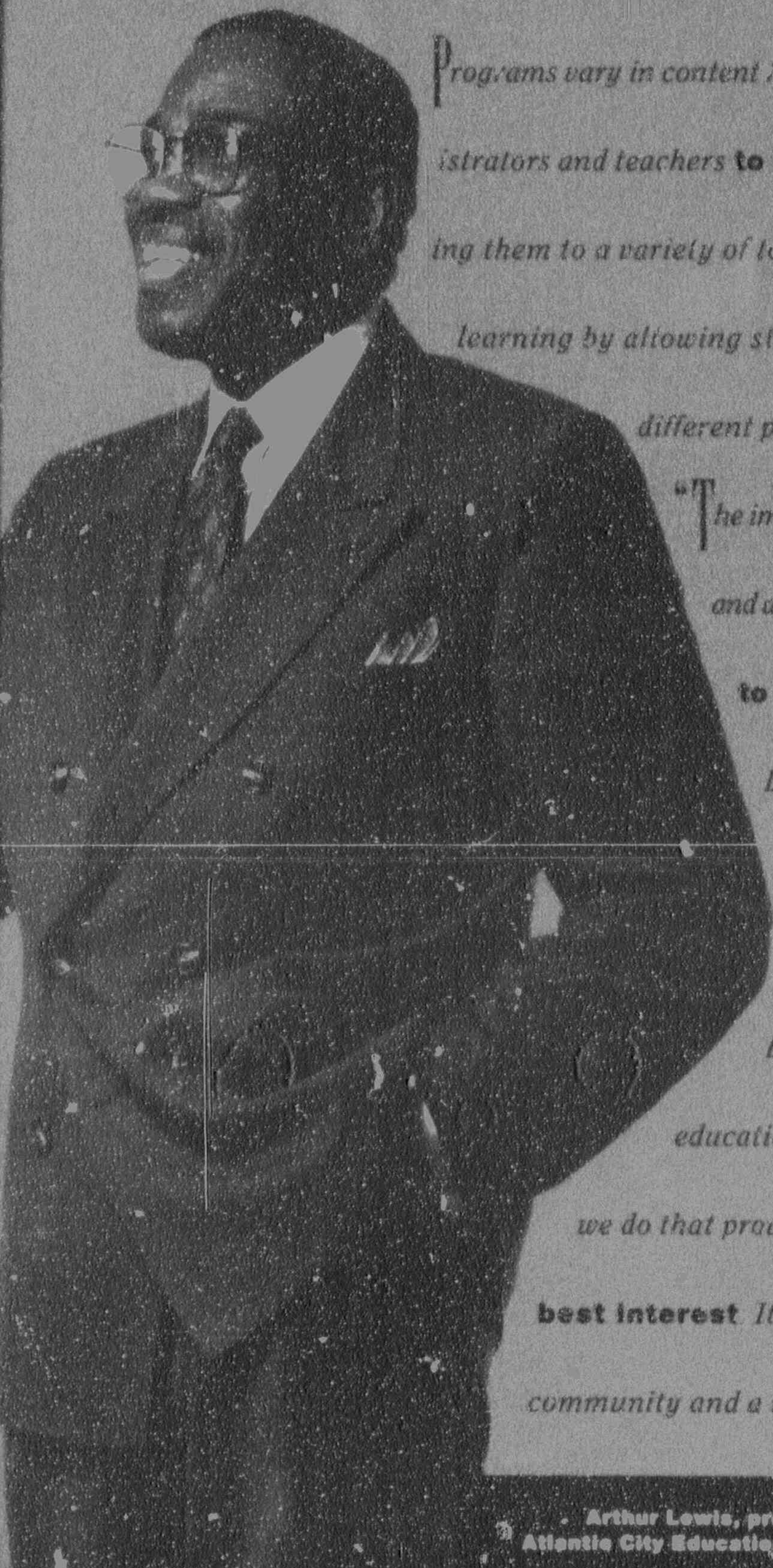
*We do that by being involved and accessible. Nowhere in our area have we renewed that commitment more firmly than in Atlantic City. Earlier this year, we re-established an office in the city to be more closely in touch with an important part of our business at a critical time in its development.*

*Over the next few years, plans for* **growth in Atlantic City** *include the addition of a new convention center, new and expanded hotels and a shopping and entertainment complex to rival ones in Baltimore and New York. That amounts to over $1 billion in planned investment—the largest economic development venture in South Jersey. What's more, it is the* **first cohesive effort** *put forth by city and state government, business and industry* **to make Atlantic City a first-class destination**.



*Atlantic Electric is at the forefront of these developments. On the business side, we will be providing heating and cooling to the new convention center. On the human side, our people are lending their time and expertise to many community organizations, helping them* **grow and prosper along with the city**. *One such organization that Atlantic Electric has teamed up with is the*

**Atlantic City Education Foundation**, *led by Arthur Lewis, foundation president and corporate vice president of the Sands Hotel and Casino. He explained that "from the very beginning, Atlantic Electric supported the foundation with financial and human resources. Their involvement helps us offer a variety of programs tailored to the* **individual needs of students and teachers**."



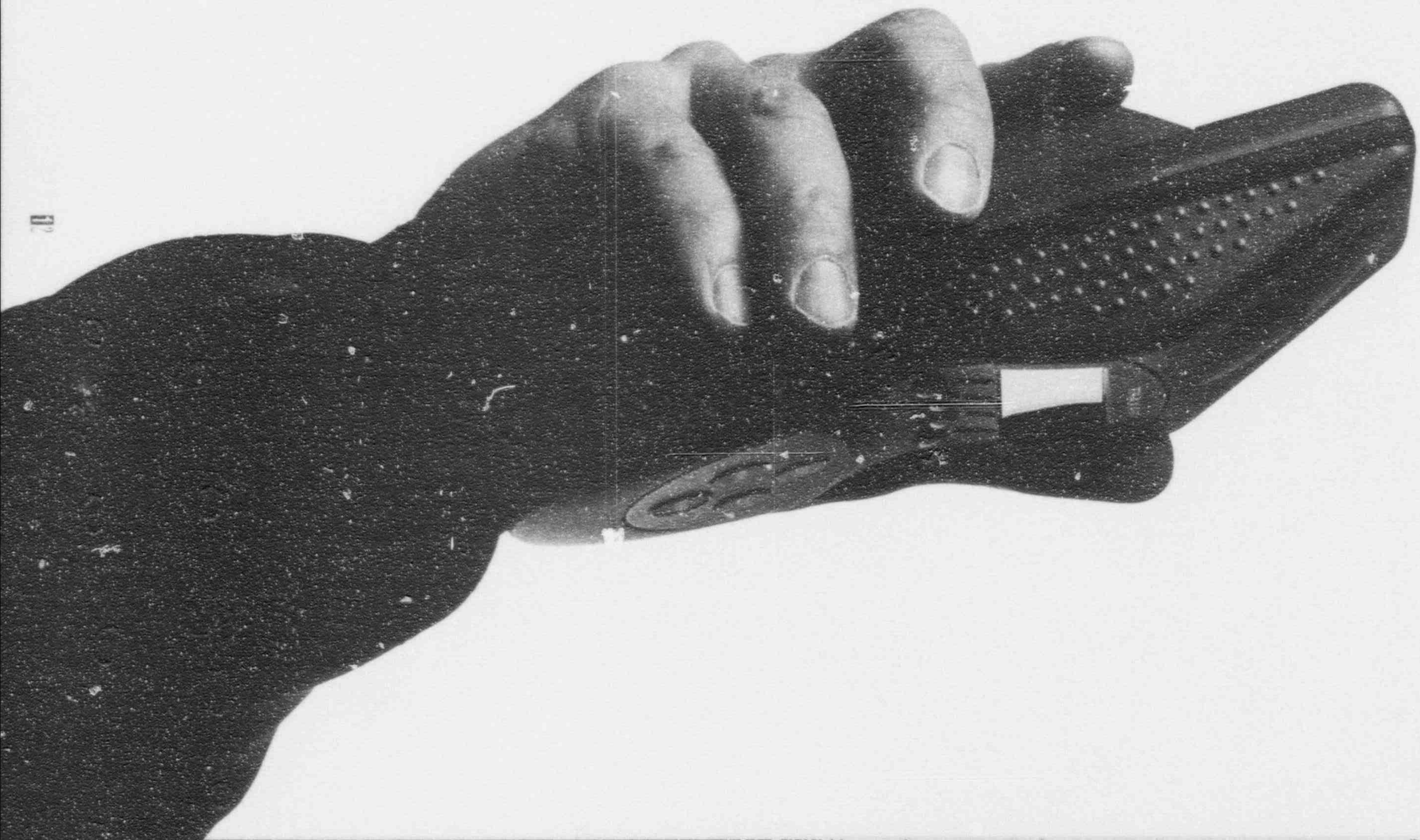
*Programs vary in content from providing management courses for administrators and teachers* **to broadening students' interests** *by exposing them to a variety of topics. Other programs encourage growth and learning by allowing students to sample college courses or observe different professions.*

*"The important thing to remember is that these programs and all of the others we support have one goal in mind—* **to help teachers teach and students learn**," *Lewis remarked. "If we can accomplish that, we've all got something to be proud of."*

*"I'm impressed with the leadership Atlantic Electric has shown to the foundation and the educational community," said Lewis. "They believe as we do that providing* **quality education is in everyone's best interest**. *It builds a better trained workforce, a stronger community and a more vital economy."*

**Arthur Lewis, president**
**Atlantic City Education Foundation**

# Common Sense



Providing safe, reliable electricity with environmental sensitivity is a balancing act. It requires sound and prudent judgement—**common sense**—to meet both business and environmental needs. Technology gives us the tools. Common sense enables us to use those tools wisely for customers' benefit.

New technology in **solar energy filled the bill** for the Marine Mammal Stranding Center in Brigantine, New Jersey. This facility is committed to the health and welfare of sea life in our area. Atlantic Electric is committed to researching the possibilities of solar energy and we needed a few test sites. Bringing the two together was a perfect fit.

"One day I looked outside the window of the Center and noticed a woman studying our

Bob Schoelkopf, director
Marine Mammal Stranding Center

*building," explained Bob Schoelkopf, director of the center. "We get visitors quite often so I walked outside to talk with her. She explained that she was from Atlantic Electric and was checking to see what kind of sun exposure our building had. When she said we might be a* **good candidate for a solar energy site**, *I was thrilled. We're in contact with Atlantic Electric pretty often, both for business reasons and because many of their employees have been volunteers over the years. So I wasn't surprised that they chose our facility. They know how I feel about the environment and that I'm a supporter of alternate energy," he added.*

*"The solar panels were installed this summer. They've worked out well. We've* **saved about 25% in our electric bills**. *That money goes directly into caring for the animals. This year, we have near record numbers of animals to care for, so the savings really help."*

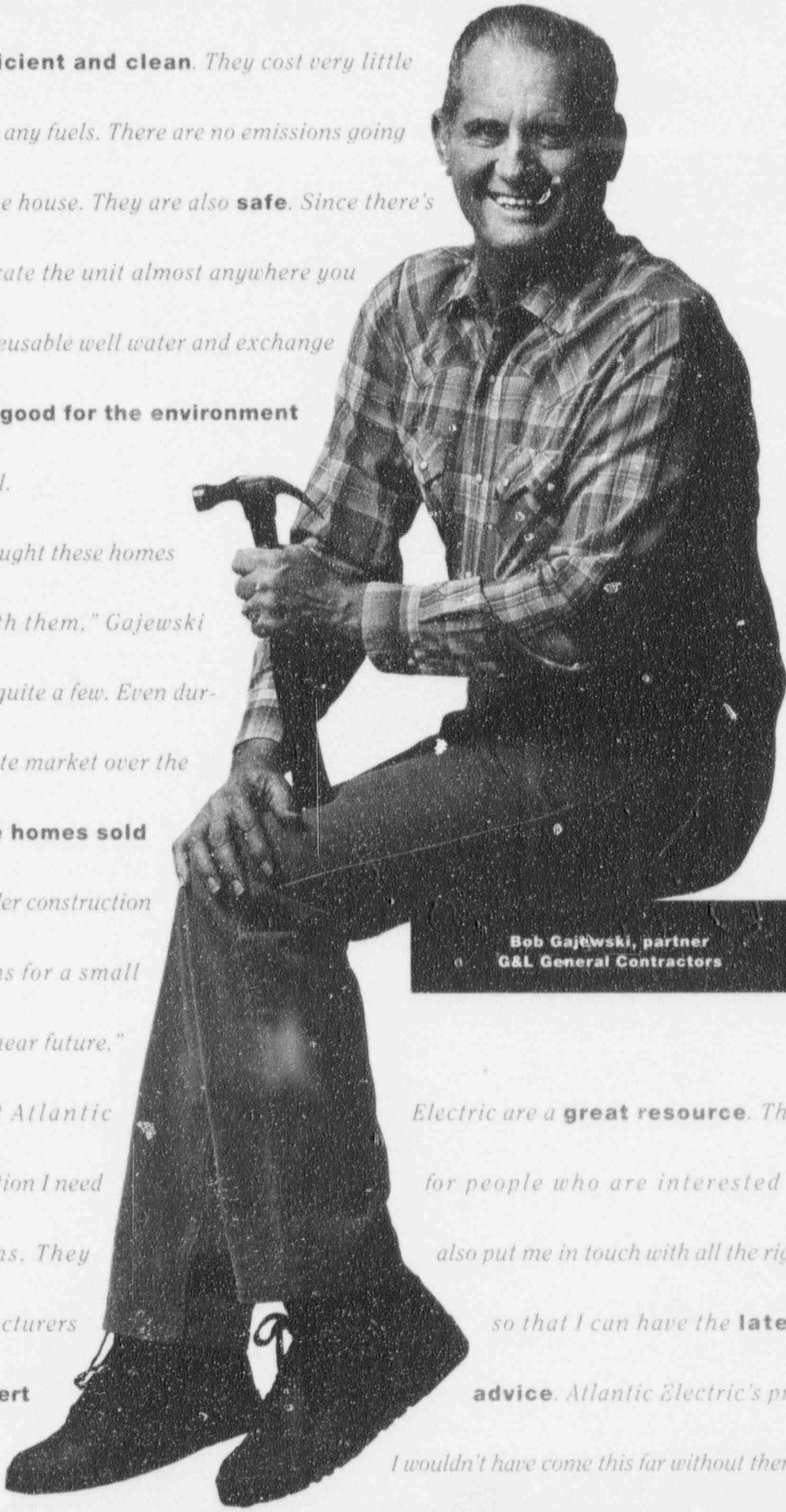
*"In my dealings with the company, I've always found that the people were very down-to-earth," Schoelkopf remarked. "A project like this confirms my feeling that those same* **caring people** *are not only up-to-date with the latest technology but are also the ones* **making sound business decisions**."

*Business and the environment can work together another way: by promoting improvements in heating and cooling technology.* **Geothermal energy systems** *offer state-of-the-art energy efficiency. So, it makes sense to match these systems with a* **B.E.S.T.** *(Built for Energy Saving Tomorrows)* **Home**. *The result is a super-efficient home that* **saves energy and money**. *One customer who's sold on the idea is builder Bob Cajewski.*

*"When I heard about Atlantic Electric's programs for builders, I signed up right away. I get a kick out of building a house that's the* **most efficient** *thing* **on the market**. *In my opinion, you can't get a better home than one that's a combination of a B.E.S.T. Home and a geothermal system."*

"These homes are **efficient and clean**. *They cost very little to run and don't burn any fuels. There are no emissions going into the air or into the house. They are also* **safe**. *Since there's no flame, you can locate the unit almost anywhere you like. And, they take reusable well water and exchange only its heat. They're* **good for the environment** *all around,"* he added.

"*The people who've bought these homes are really happy with them,"* Gajewski remarked. *"I've sold quite a few. Even during the slow real estate market over the last few years,* **these homes sold well**. *I have a few under construction now and I have plans for a small development in the near future."*



Bob Gajewski, partner
G&L General Contractors

"*The employees at Atlantic Electric are a* **great resource**. *They give me any information I need for people who are interested in geothermal systems. They also put me in touch with all the right vendors and manufacturers so that I can have the* **latest equipment** *and* **expert advice**. *Atlantic Electric's programs are first rate. I wouldn't have come this far without them."*

# UNCOMMON EFFORTS

[illegible]

These ideas are only as good as the people who carry them out. The stories on the previous pages would not have been possible without the uncommon efforts of the employees pictured below. Our continued success is made possible by all of our dedicated employees who, by their daily contact with customers and the community, are building partnerships.

(L to R) First row: Steve Jones, Kam Pastakia, Loretta Harris, George Dohner. Second row: Fran Johnson, Bill Bates, Bill Sykes, Marty Inman, Pat MacFarland-Goetz. Third row: Janet Sampson, Laura Hickman, Bill Hulenick, John Conlow, Jeff Stepler, Eileen Unger. Fourth row: Tom Herzog, Greg Peterson, Neal Sampson, Ed Ragazzi

# Financial Information

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IMAGE EVALUATION
TEST TARGET (MT-3)

150mm

6"

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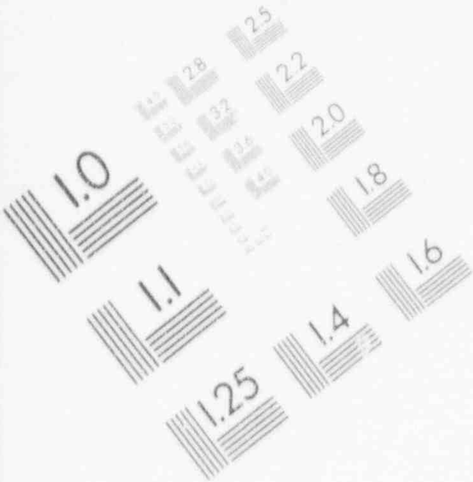
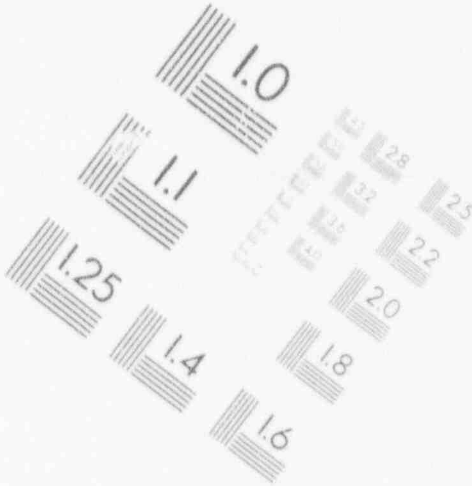
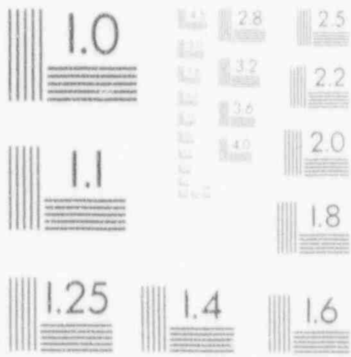
770 BASKET ROAD
P.O. BOX 338
WEBSTER, NEW YORK 14580
(716) 265-1600

# 2

## IMAGE EVALUATION TEST TARGET (MT-3)





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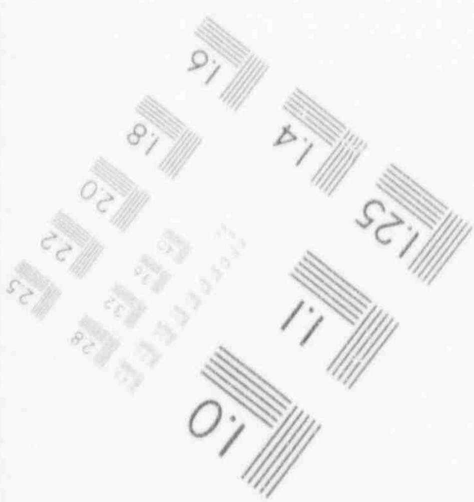

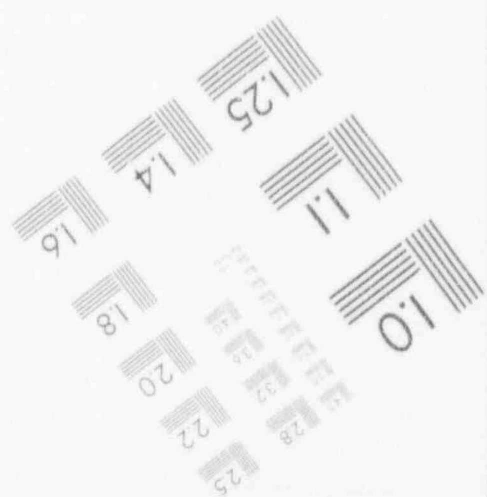

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# Financial Information

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# Financial Information

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# REPORT OF MANAGEMENT

The management of Atlantic Energy, Inc. and its subsidiaries (the Company) is responsible for the preparation of the financial statements presented in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management made informed judgments and estimates, as necessary, relating to events and transactions reported. Management is also responsible for the preparation of other financial information included elsewhere in this Annual Report.

Management has established a system of internal accounting and financial controls and procedures designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In any system of financial reporting controls, there are inherent limitations. Management continually examines the effectiveness and efficiency of this system, and actions are taken when opportunities for improvement are identified. Management believes that, as of December 31, 1993, the system of internal accounting and financial controls over financial reporting is effective. Management also recognizes its responsibility for fostering a strong ethical climate in which the Company's affairs are conducted according to the highest standards of corporate conduct. This responsibility is characterized and reflected in the Company's code of ethics and business conduct policy.

The financial statements have been audited by Deloitte & Touche, Certified Public Accountants. Deloitte & Touche provides an objective, independent audit as to management's discharge of its responsibilities insofar as they relate to the fairness of the financial statements. Their audits are based on procedures believed by them to provide reasonable assurance that the financial statements are free of material misstatement.

The Company's internal auditing function conducts audits and appraisals of the Company's operations. It evaluates the system of internal accounting, financial and operational controls and compliance with established procedures. Both Deloitte & Touche and the internal auditors periodically make recommendations concerning the Company's internal control structure to management and the Audit Committee of the Board of Directors. Management responds to such recommendations as appropriate in the circumstances. None of the recommendations made for the year ended December 31, 1993 represented significant deficiencies in the design or operation of the Company's internal control structure.

J. L. Jacobs
President and Chief Executive Officer

J. G. Salomone
Vice President and Treasurer

January 31, 1994

# REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is comprised solely of independent directors. The members of the Committee are: Jos. Michael Galvin, Jr., Gerald A. Hale, Matthew Holden, Jr., Kathleen MacDonnell and Harold J. Raveché. The Committee held three meetings during 1993.

The Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommended to the Board of Directors, subject to shareholder ratification, the selection of the Company's independent auditors, Deloitte & Touche. The Committee discussed with the Company's internal auditors and Deloitte & Touche the overall scope of and specific plans for their respective activities concerning the Company. The Committee also discussed the Company's consolidated financial statements with Deloitte & Touche. The Committee meets regularly with the internal auditors and Deloitte & Touche, without management present, to discuss the results of their activities, the adequacy of the Company's system of accounting, financial and operational controls and the overall quality of the Company's financial reporting. The meetings are designed to facilitate any private communication with the Committee desired by the internal auditors or Deloitte & Touche. No significant actions by the Committee were required during the year ended December 31, 1993 as a result of any private communications conducted.

Matthew Holden, Jr.

Matthew Holden, Jr.
Chairman, Audit Committee

January 31, 1994

# INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

Certified Public Accountants
Two Hilton Court
Parsippany, New Jersey 07054

To the Shareholders and the Board of Directors
of Atlantic Energy, Inc.:

We have audited the accompanying consolidated balance sheets of Atlantic Energy, Inc. and subsidiaries as of December 31, 1993 and 1992 and the related consolidated statements of income, changes in common shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Energy, Inc. and its subsidiaries at December 31, 1993 and 1992 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 109. As discussed in Note 4 to the consolidated financial statements, in 1993 the Company changed its method of accounting for the costs of postretirement benefits other than pensions to conform with Statement of Financial Accounting Standards No. 106.

Deloitte & Touche

January 31, 1994

# CONSOLIDATED STATEMENT OF INCOME



(Thousands of Dollars)

| For the Years Ended December 31, | 1993 | 1992 | 1991 |
|---|---|---|---|
| **Operating Revenues–Electric** | **$865,675** | $816,825 | $808,374 |
| **Operating Expenses:** | | | |
| Energy | **159,438** | 161,134 | 182,972 |
| Purchased Capacity | **110,781** | 103,173 | 79,314 |
| Operations | **162,151** | 148,917 | 146,548 |
| Maintenance | **45,360** | 49,837 | 51,960 |
| Depreciation and Amortization | **67,950** | 69,371 | 66,023 |
| State Excise Taxes | **104,280** | 97,969 | 88,932 |
| Federal Income Taxes | **45,277** | 37,143 | 36,244 |
| Other Taxes | **10,854** | 12,113 | 11,525 |
| Total Operating Expenses | **706,091** | 679,657 | 663,518 |
| **Operating Income** | **159,584** | 137,168 | 144,856 |
| **Other Income:** | | | |
| Allowance for Equity Funds Used During Construction | **2,368** | 2,212 | 1,814 |
| Litigation Settlement, net of tax of: 1993–$(1,321); 1992–$4,982 | **(2,564)** | 9,671 | — |
| Other–Net | **12,884** | 9,519 | 7,043 |
| Total Other Income | **12,688** | 21,402 | 8,857 |
| **Income Before Interest Charges** | **172,272** | 158,570 | 153,713 |
| **Interest Charges:** | | | |
| Interest on Long Term Debt | **59,385** | 53,284 | 51,601 |
| Interest on Short Term Debt | **1,421** | 1,579 | 1,946 |
| Other Interest Expense | **212** | 1,099 | 1,179 |
| Total Interest Charges | **61,018** | 55,962 | 54,726 |
| Allowance for Borrowed Funds Used During Construction | **(1,448)** | (1,414) | (3,059) |
| Net Interest Charges | **59,570** | 54,548 | 51,667 |
| **Less Preferred Stock Dividend Requirements of Subsidiary** | **17,405** | 17,812 | 16,411 |
| Net Income | **$ 95,297** | $ 86,210 | $ 85,635 |
| **Average Number of Shares of Common Stock Outstanding (in thousands)** | **52,888** | 51,592 | 49,008 |
| **Per Common Share:** | | | |
| Earnings | **$ 1.80** | $ 1.67 | $ 1.7[illegible] |
| Dividends Declared | **$ 1.535** | $ 1.515 | $ 1.495 |
| Dividends Paid | **$ 1.53** | $ 1.51 | $ 1.49 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Atlantic Energy, Inc. and Subsidiaries

*(Thousands of Dollars)*

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **1993** | 1992 | 1991 |
| **Cash Flows Of Operating Activities:** | | | |
| Net Income | **$ 95,297** | $ 86,210 | $ 85,635 |
| Deferred Purchased Power Costs | **(6,050)** | 13,410 | (12,938) |
| Deferred Energy Costs | **(15,269)** | (6,143) | 13,180 |
| Preferred Stock Dividend Requirements of Subsidiary | **17,405** | 17,812 | 16,411 |
| Depreciation and Amortization | **67,950** | 69,371 | 66,023 |
| Allowance for Funds Used During Construction | **(3,816)** | (3,626) | (4,873) |
| Nuclear Decommissioning Reserve | **6,424** | 6,424 | 3,010 |
| Deferred Income Taxes–Net | **20,901** | 23,386 | 13,413 |
| Prepaid State Excise Taxes | **(35,982)** | 540 | (98) |
| Net Decrease (Increase) in Other Working Capital | **32,364** | 7,685 | (2,723) |
| Other–Net | **(1,074)** | 2,852 | 7,498 |
| **Net Cash Provided by Operating Activities** | **178,150** | 217,921 | 184,538 |
| **Cash Flows Of Investing Activities:** | | | |
| Utility Cash Construction Expenditures | **(138,111)** | (130,700) | (172,425) |
| Leased Property | **(9,946)** | (9,565) | (8,793) |
| Nuclear Decommissioning Trust Fund Deposits | **(6,424)** | (6,424) | (13,777) |
| Other–Net | **(9,832)** | (8,524) | (8,557) |
| **Net Cash Used by Investing Activities** | **(164,313)** | (155,213) | (203,552) |
| **Cash Flows Of Financing Activities:** | | | |
| Proceeds from Long Term Debt | **464,633** | 74,655 | 38,779 |
| Retirement and Maturity of Long Term Debt | **(370,541)** | (40,599) | (50,170) |
| Decrease in Short Term Debt | **(14,600)** | (6,000) | (23,350) |
| Proceeds from Capital Lease Obligations | **9,946** | 9,565 | 8,793 |
| Proceeds from Common Stock Issued | **16,208** | 16,110 | 72,698 |
| Proceeds from Preferred Stock Issued | **—** | — | 69,720 |
| Dividends Declared on Preferred Stock | **(17,405)** | (17,812) | (16,411) |
| Dividends Declared on Common Stock | **(67,259)** | (65,644) | (62,769) |
| Other–Net | **(6,831)** | (5,403) | (9,170) |
| **Net Cash Provided (Used) by Financing Activities** | **14,151** | (35,128) | 28,120 |
| **Net Increase in Cash and Temporary Investments** | **27,988** | 27,580 | 9,106 |
| **Cash and Temporary Investments, beginning of year** | **45,647** | 18,067 | 8,961 |
| **Cash and Temporary Investments, end of year** | **$ 73,635** | $ 45,647 | $ 18,067 |
| **Supplemental Schedule of Payments:** | | | |
| Interest | **$ 52,765** | $ 55,275 | $ 57,221 |
| Income taxes | **$ 19,565** | $ 24,312 | $ 23,721 |
| **Noncash Financing Activities:** | | | |
| Common Stock issued from dividends declared under dividend reinvestment plan | **$ 14,088** | $ 12,692 | $ 11,304 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED BALANCE SHEET

*Atlantic Energy, Inc. and Subsidiaries*

| *(Thousands of Dollars)* | December 31, 1993 | 1992 |
|---|---|---|
| **Assets** | | |
| **Electric Utility Plant:** | | |
| In Service: | | |
| Production | **$1,054,217** | $1,042,567 |
| Transmission | **338,584** | 312,374 |
| Distribution | **627,649** | 583,890 |
| General | **173,206** | 155,679 |
| Total In Service | **2,193,656** | 2,094,510 |
| Less Accumulated Depreciation | **668,832** | 607,198 |
| Net | **1,524,824** | 1,487,312 |
| Construction Work in Progress | **156,590** | 130,248 |
| Land Held for Future Use | **6,901** | 5,045 |
| Leased Property–Net | **45,268** | 49,304 |
| Electric Utility Plant–Net | **1,733,583** | 1,671,909 |
| **Nonutility Property and Investments:** | | |
| Investment in Leveraged Leases | **77,268** | 76,465 |
| Nuclear Decommissioning Trust Fund | **43,163** | 34,617 |
| Nonutility Property and Equipment–Net | **14,535** | 15,561 |
| Other Investments and Funds | **18,102** | 11,132 |
| Total Nonutility Property and Investments | **153,068** | 137,775 |
| **Current Assets:** | | |
| Cash and Temporary Investments | **73,635** | 45,647 |
| Accounts Receivable: | | |
| Utility Service | **51,502** | 47,928 |
| Miscellaneous | **11,420** | 12,533 |
| Allowance for Doubtful Accounts | **(3,000)** | (3,000) |
| Unbilled Revenues | **39,309** | 39,281 |
| Fuel (at average cost) | **14,635** | 20,874 |
| Materials and Supplies (at average cost) | **28,230** | 25,763 |
| Working Funds | **14,315** | 15,433 |
| Prepaid State Excise Taxes | **8,386** | 6,110 |
| Other Prepayments | **7,410** | 4,137 |
| Deferred Energy Costs | **7,180** | — |
| Deferred Income Taxes | **3,283** | 6,218 |
| Total Current Assets | **256,305** | 220,924 |
| **Deferred Debits:** | | |
| Unrecovered Purchased Power Costs | **130,458** | 124,408 |
| Recoverable Future Federal Income Taxes | **85,855** | — |
| Unrecovered State Excise Taxes | **33,706** | — |
| Unamortized Debt Costs | **39,306** | 20,693 |
| Property Abandonment Costs–Net | **10,325** | 10,297 |
| Other Regulatory Assets | **31,380** | 23,655 |
| Other | **13,522** | 9,677 |
| Total Deferred Debits | **344,552** | 188,730 |
| **Total Assets** | **$2,487,508** | $2,219,338 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED BALANCE SHEET



(Thousands of Dollars)

| | December 31, 1993 | 1992 |
|---|---|---|
| **Liabilities and Capitalization** | | |
| **Capitalization:** | | |
| **Common Shareholders' Equity:** | | |
| Common Stock, no par value; 75,000,000 shares authorized; issued and outstanding: 1993 – 53,506,786; 1992 – 52,198,624 | **$ 579,443** | $ 549,147 |
| Retained Earnings | **256,549** | 242,768 |
| Total Common Shareholders' Equity | **835,992** | 791,915 |
| Preferred Stock of Atlantic City Electric Company: | | |
| Not Subject to Mandatory Redemption | **40,000** | 40,000 |
| Subject to Mandatory Redemption | **173,750** | 190,250 |
| Long Term Debt | **766,101** | 631,580 |
| Total Capitalization (excluding current portion) | **1,815,843** | 1,653,745 |
| **Current Liabilities:** | | |
| Preferred Stock Redemption Requirement | **12,250** | 1,050 |
| Long Term Debt due within one year | **—** | 19,356 |
| Capital Lease Obligations due within one year | **861** | 79 |
| Short Term Debt | **—** | 14,600 |
| Accounts Payable | **63,847** | 52,028 |
| Taxes Accrued | **16,020** | 7,697 |
| Interest Accrued | **22,149** | 14,706 |
| Dividends Declared | **24,910** | 24,275 |
| Customer Deposits | **2,890** | 2,955 |
| Deferred Energy Costs | **—** | 8,089 |
| Other | **21,875** | 16,794 |
| Total Current Liabilities | **164,802** | 162,348 |
| **Deferred Credits and Other Liabilities:** | | |
| Deferred Income Taxes | **383,347** | 276,492 |
| Deferred Investment Tax Credits | **54,180** | 56,715 |
| Capital Lease Obligations | **44,407** | 48,505 |
| Other | **24,929** | 21,533 |
| Total Deferred Credits and Other Liabilities | **506,863** | 403,245 |
| **Commitments and Contingencies (Note 10)** | | |
| **Total Liabilities and Capitalization** | **$2,487,508** | $2,219,338 |

# CONSOLIDATED STATEMENT OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

Atlantic Energy, Inc. and Subsidiaries

| (Thousands of Dollars) | Shares | Common Stock | Retained Earnings |
|---|---|---|---|
| Balance, December 31, 1990 | 45,951,976 | $ 436,343 | $ 223,749 |
| Common Stock issued: | | | |
| Public offering | 4,000,000 | 66,970 | |
| Other | 944,098 | 17,032 | |
| Net income | | | 85,635 |
| Capital stock expense of subsidiary | | | (417) |
| Common stock dividends | | | (74,073) |
| Balance, December 31, 1991 | 50,896,074 | 520,345 | 234,894 |
| Common Stock issued | 1,302,550 | 28,802 | |
| Net income | | | 86,210 |
| Common stock dividends | | | (78,336) |
| Balance, December 31, 1992 | 52,198,624 | 549,147 | 242,768 |
| Common Stock issued | 1,308,162 | 30,296 | |
| Net income | | | 95,297 |
| Capital stock expense of subsidiary | | | (169) |
| Common stock dividends | | | (81,347) |
| **Balance, December 31, 1993** | **53,506,786** | **$579,443** | **$256,549** |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Common Stock issued in 1993, 1992 and 1991 was through the Dividend Reinvestment and Stock Purchase Plan (DPP) and Atlantic City Electric Company (ACE) employee benefit plans. In 1991, Common Stock was also issued through a public offering. In July 1993, an additional 2,000,000 shares of Common Stock were registered for issuance under the DRP. At December 31, 1993, 1,423,468 and 135,992 shares were reserved fo  issuance under the DRP and ACE employee benefit plans, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

### Organization

Atlantic Energy, Inc. (the Company or parent) is the parent of a consolidated group consisting of the following wholly-owned subsidiaries: Atlantic City Electric Company (ACE), Atlantic Energy Technology, Inc. (AET), Atlantic Generation, Inc. (AGI), Atlantic Southern Properties, Inc. (ASP) and ATE Investment, Inc. (ATE). ACE is a public utility primarily engaged in the generation, transmission, distribution and sale of electric energy. Rates for service are regulated by the New Jersey Board of Regulatory Commissioners (BRC). ACE's service territory encompasses approximately 2,700 square miles within the southern one-third of New Jersey. The majority of ACE's customers are residential and commercial. ACE, with its wholly-owned subsidiary that operates certain generating facilities, is the primary company within the consolidated group. AET invests in companies with energy-related products and technologies and has a wholly-owned subsidiary that owns patented technology for geothermal heating and cooling systems. AGI and its wholly-owned subsidiaries are engaged in the development of cogeneration power projects which are located in New Jersey and New York through several partnership arrangements. ASP owns, develops and manages a commercial office and warehouse facility located in southern New Jersey. ATE provides fund management and financing to affiliates and manages its portfolio of investments in leveraged leases for equipment used in the airline and shipping industries.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. ACE, AET and AGI consolidate their respective subsidiaries. AGI accounts for another investment using the equity method by recognizing its proportionate share of the results of operations of that investment. The results of operations of the nonutility companies are not significant and are classified under Other Income in the Consolidated Statement of Income.

### Regulation

The accounting policies and rates of ACE are subject to the regulations of the BRC and in certain respects to the Federal Energy Regulatory Commission (FERC). All significant accounting policies and practices used in the determination of rates are also used for financial reporting purposes.

### Electric Operating Revenues

Revenues are recognized when electric energy services are rendered, and include estimates for amounts unbilled at the end of the period for energy used subsequent to the la billing cycle.

### Nuclear Fuel

Fuel costs associated with ACE's participation in jointly-owned nuclear generating stations, including spent nuclear fuel disposal costs, are charged to Energy expense based on the units of thermal energy produced.

### Electric Utility Plant

Property is stated at original cost. Generally, the plant is subject to a first mortgage lien. The cost of property additions, including replacement of units of property and betterments, is capitalized. Included in certain property additions is an Allowance for Funds Used During Construction (AFDC), which is defined in the applicable regulatory system of accounts as the cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFDC has been calculated using a semi-annually compounded rate of 8.95%, as approved by the BRC, for the years presented through July 31, 1993. Effective August 1, 1993, ACE reduced the AFDC rate to 8.25%, as approved by the BRC on an interim basis.

### Depreciation

ACE provides for straight-line depreciation based on the estimated remaining life of transmission and distribution property, remaining life of the related nuclear plant operating license for nuclear property, and estimated average service life for all other depreciable property. The overall composite e of depreciation was approximately 3.3% in 1993, 3.5% in 1992 and 3.7% in 1991. Accumulated depreciation is charged with the cost of depreciable property retired together with removal costs less salvage and other recoveries. Depreciable property of the nonutility companies is not significant.

**Nuclear Decommissioning Trust**

ACE has a trust to fund the future costs of decommissioning each of the five nuclear units in which it has an ownership interest. The current annual funding amount, as authorized by the BRC, totals $6.4 million and is provided for in rates charged to customers. The funding amount is based on estimates of the future cost of decommissioning each of the units, dates that decommissioning activities are expected to occur and return to be earned by the assets of the fund. The BRC has established that the total estimated cost to decommission ACE's share in nuclear units is $65.5 million in 1987 dollars. The BRC has further established that decommissioning activities are expected to begin in 2006 and continue through 2032. Actual costs and timing of decommissioning activities may vary from the current estimates. ACE will seek to adjust these estimates and the level of rates collected from customers in future BRC proceedings to reflect changes in decommissioning cost estimates and the expected levels of inflation and interest to be earned by the assets in the trust. As of December 31, 1993, the trust had a market value of $46.4 million. Of the $43.2 million in the trust, $31.9 million has been qualified for Federal income tax purposes. ACE had an associated accumulated liability for decommissioning costs of $42.2 million at December 31, 1993.

**Deferred Energy Costs**

As approved by the BRC, ACE has Levelized Energy Clauses (LECs) through which energy and energy-related costs (energy) are charged to customers. LEC rates are based on projected energy costs and prior period underrecoveries or overrecoveries of energy costs. Energy costs are recovered through levelized rates over the period of projection, which is generally a 12-month period. In any period, the actual amount of LEC revenues recovered from customers will be greater or less than the actual amount of energy costs incurred in that period. Energy expense is adjusted to match the associated LEC revenues. Any underrecovery (an asset representing energy costs incurred that are to be collected from customers) or overrecovery (a liability representing previously collected energy costs to be returned to customers) of costs is deferred on the Consolidated Balance Sheet as Deferred Energy Costs. These deferrals are recognized in the Consolidated Statement of Income as Energy expense during the period in which they are subsequently included in the LECs.

**Income Taxes**

Effective January 1,1993, deferred Federal and state income taxes are provided on all significant temporary differences between book bases and tax bases of assets and liabilities, transactions that enter taxable income in an earlier or later year than for book income and tax carryforwards. Prior to 1993, deferred Federal and state income taxes were provided on all significant current transactions for which the timing of recognition differs for book and tax purposes. Investment tax credits, which are used to reduce current Federal income taxes, are deferred on the Consolidated Balance Sheet and recognized in book income over the life of the related property. The Company and its subsidiaries file a consolidated Federal income tax return. Income taxes are allocated to each of the companies within the consolidated group based on the separate return method.

**Unrecovered Purchased Power Costs**

ACE has an arrangement for 125 megawatts (MWs) of capacity and related energy from Pennsylvania Power and Light Company (PP&L) which commenced in 1983 and continues through September 30, 2000. Levelized base rates were approved by the BRC to recover certain estimated costs to be incurred over the term of the arrangement. Through September 30, 1991, estimated costs exceeded levelized revenues, and these excess costs were deferred on the Consolidated Balance Sheet as Unrecovered Purchased Power Costs. The BRC granted a return on these unrecovered amounts. Subsequent to September 30, 1991, levelized revenues are greater than the estimated costs, permitting the previously deferred costs to be charged to Purchased Capacity expense on the Consolidated Statement of Income over the remaining term of the arrangement. Differences between actual costs incurred and the estimated costs being recovered are subject to the usual base rate consideration. Also included within Unrecovered Purchased Power Costs are amounts paid by ACE associated with contract renegotiations with independent power producers, for which ACE expects recovery through rates (see Notes 3 and 10).

### Property Abandonment Costs

Certain costs of property of ACE, for which the purpose of the property was subsequently terminated or cancelled, continue to be recorded as assets. This is because these costs have been permitted by the BRC to be recovered in rates over more than one year, or because future recovery in rates is probable. At December 31, 1993, costs that are being recovered in rates with no return on the unamortized amount invested are as follows:

| *Investment* | *Net Present Value (000)* | *Unamortized Cost (000)* | *Remaining Recovery Period (years)* |
|---|---|---|---|
| Offshore Nuclear Generating Units | $ 774 | $1,119 | 6 |
| Nuclear Generating Unit | 2,745 | 3,578 | 4 |
| Unrecovered Nuclear Fuel Advances | 1,646 | 2,518 | 8 |
| Proposed Plant Site | 1,114 | 1,333 | 3 |

The excess of the costs of the assets listed in the above table over their discounted present values was recognized as a loss at the date of abandonment. The discount, which is not significant, is being restored to income by accretion over the amortization period of the abandoned costs allowed for ratemaking. Costs being recovered are amortized to expense over the recovery period. Other abandoned property for which future recovery is probable amounted to $4.0 million at December 31, 1993.

### Regulatory Assets

Costs incurred by ACE that have been permitted by the BRC to be deferred for recovery in rates in more than one year, or for which future recovery is probable, have been recorded as regulatory assets. Regulatory assets are amortized to expense over the period of recovery. Unamortized costs currently being recovered in rates at December 31, 1993 are: Unrecovered State Excise Taxes of $33.7 million (remaining recovery period is nine years); decommissioning and decontaminating Federally-owned nuclear units of $8.4 million (remaining recovery period is 15 years) and asbestos removal of $9.9 million (recovery period is over the life of the related generating station). Recovery of regulatory assets for Unrecovered Purchased Power Costs (Note 1), Recoverable Future Federal Income Taxes (Note 2) and Postretirement Benefits other than Pensions (Note 4) are separately discussed in the Notes to Consolidated Financial Statements where indicated. Other regulatory assets for which future recovery is probable amounted to $5.1 million at December 31, 1993.

### Financial Instruments

A number of items within Current Assets and Current Liabilities on the Consolidated Balance Sheet are considered to be financial instruments because they are cash or are to be settled in cash. Due to their short term nature, the carrying values of these items approximate their fair market values. Accounts Receivable–Utility Service and Unbilled Revenues are subject to concentration of credit risk because they pertain to utility service conducted within a confined geographic region. Investments in leveraged leases are subject to concentration of credit risk because they are exclusive to a small number of parties within two industries. The Company has recourse to the affected assets under lease. These leased assets are of general use within the respective industries.

### Other

Debt premium, discount and expenses of ACE are amortized over the life of the related debt. Costs associated with debt reacquired by refundings are amortized over the life of the newly issued debt as permitted by the BRC in accordance with FERC guidelines. Temporary investments considered as cash equivalents for Consolidated Statement of Cash Flows purposes represent purchases of highly liquid debt instruments maturing in three months or less.

Certain prior year amounts have been reclassified to conform to the current year reporting of these items.

## NOTE 2 INCOME TAXES

| (000) | 1993 | 1992 | 1991 |
|---|---|---|---|
| | *For the Years Ended December 31,* | | |
| The components of Federal income tax expense are as follows: | | | |
| Current | **$25,349** | $22,441 | $24,202 |
| Deferred | **20,247** | 23,154 | 13,043 |
| Investment Tax Credits Recognized on Leveraged Leases | **(12)** | (233) | (500) |
| Total Federal Income Tax Expense | **45,584** | 45,362 | 36,745 |
| Less Amounts Included in Other Income | **307** | 8,219 | 501 |
| Federal Income Taxes Included in Operating Expenses | **$45,277** | $37,143 | $36,244 |
| A reconciliation of the expected Federal income taxes compared to the reported Federal income tax expense computed by applying the statutory rate follows: | | | |
| Statutory Federal Income Tax Rate | **35%** | 34% | 34% |
| Income Tax Computed at the Statutory Rate | **$55,400** | $50,791 | $47,189 |
| Plant Basis Differences | **(5,171)** | 2,022 | (4,477) |
| Amortization of Investment Tax Credits | **(2,546)** | (2,767) | (3,038) |
| Deferred Tax Adjustments | **(2,071)** | (3,757) | (2,641) |
| Other–Net | **(28)** | (927) | (288) |
| Total Federal Income Tax Expense | **$45,584** | $45,362 | $36,745 |
| Effective Federal Income Tax Rate | **29%** | 30% | 26% |
| State income tax expense is not significant. | | | |

Items comprising deferred tax amounts are as follows at December 31, 1993 and 1992:

| | 1993 | 1992 |
|---|---|---|
| Deferred Tax Liabilities: | | |
| Plant Basis Differences | **$295,445** | $177,124 |
| Leveraged Leases | **53,461** | 47,722 |
| Unrecovered Purchased Power Costs | **38,792** | 42,694 |
| State Excise Taxes | **11,797** | (813) |
| Other | **21,057** | 12,290 |
| Total Deferred Tax Liabilities | **420,552** | 279,017 |
| Deferred Tax Assets: | | |
| Deferred Investment Tax Credits | **29,247** | — |
| Other | **11,741** | 8,743 |
| Total Deferred Tax Assets | **40,988** | 8,743 |
| Total Deferred Taxes–Net | **$379,564** | $270,274 |

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 entitled "Accounting for Income Taxes." Statement No. 109 changes the recording methodology relating to deferred income taxes to an asset and liability approach. The principal impacts to the Company relate to recording, on a current basis, the effect of changes in enacted income tax rates on the amount of income taxes recorded and the recording of deferred tax liabilities not previously recorded by ACE. Upon adoption of Statement No. 109, ACE recorded an increase in deferred Federal income tax liabilities of approximately $85 million after giving effect for revenue requirements. Due to the tax rate increase discussed below, net deferred Federal income tax liabilities of ACE increased by $13.8 million in 1993. The deferred tax costs associated with these additional liabilities are recorded on the Consolidated Balance Sheet as Recoverable Future Federal Income Taxes in recognition of the probable amount of revenue to be collected from ratepayers for these additional taxes to be paid in later years. The adoption of Statement No. 109 by the nonutility subsidiaries of the Company did not have a material effect on the consolidated financial statements.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. The most significant aspect of this law affecting the Company was an increase in the corporate Federal income tax rate to 35% from 34%, effective retroactively to January 1, 1993. The effect of this tax rate increase on the 1993 consolidated Federal income tax expense was not material.

At December 31, 1993, valuation allowances exist against deferred tax assets primarily for cumulative net operating losses (NOLs) for state income tax purposes. The effects of the valuation allowances and state NOLs are not material to consolidated results of operation and financial position.

The Company is subject to Federal Alternative Minimum Tax (AMT), which is attributable to nonutility operations. At December 31,1993, there is an estimated cumulative AMT credit of $18 million. The AMT credit is available for an indefinite carryforward period against future Federal income tax payable, to the extent that the regular Federal income tax payable exceeds future AMT payable.

## NOTE 3 RATE MATTERS OF ACE

### Energy Clause Proceedings

**Changes in Levelized Energy Clause Rates 1991–1993**

| Date Filed | Amount Requested (millions) | Amount Granted (millions) | Date Effective |
|---|---|---|---|
| 3/91 | $30.6 | $21.3 | 6/91 |
| 2/92 | (6.6) | (8.5) | 10/92 |
| 3/93 | 14.2 | 10.9 | 10/93 |

ACE's Levelized Energy Clauses (LECs) are subject to annual review by the BRC.

In March 1991, ACE filed a petition requesting LEC revisions to reflect an increase of $30.6 million for the period June 1, 1991 through May 31, 1992. On June 11, 1991, the BRC ordered a net increase in annual LEC revenues of $21.3 million, effective on that date. In its order, the BRC denied ACE's request for retention of a portion of fuel and energy savings associated with a power purchase arrangement with PECO Energy Company (formerly Philadelphia Electric Company–PECO). The BRC also continued to defer consideration of previously deferred costs associated with outages at the Salem Nuclear Generating Station in 1983.

In January 1992, ACE filed a request with the BRC for rehearing and reconsideration of the issues above. On February 10, 1992, ACE withdrew its request for rehearing with respect to recovery of interest payments and retention of fuel and energy savings. In late May 1992, ACE and the Staff of the BRC (Staff) entered into a stipulation to settle the Salem deferred costs. By the terms of the stipulation, ACE would begin recovery, over a three-year period, of $10.4 million of Salem deferred costs. On September 2, 1992, the BRC adopted the stipulation between ACE and Staff and authorized ACE to begin recovery of the Salem deferred costs concurrent with the BRC's approval and implementation of ACE's then pending February 28, 1992 LEC petition.

On February 28, 1992, ACE filed with the BRC a petition relating to its LEC rates for the period June 1, 1992 through May 31, 1993, requesting no change in its current rates. On April 30, 1992, ACE filed revisions to its petition that would result in a decrease of $6.6 million, reflecting an allocation to customers of 25% of the net settlement reached in March 1992 in the lawsuit against PECO (See Note 10), and an update for the projected overrecovery of prior LEC costs and associated interest. The parties entered into a stipulation dated August 14, 1992 regarding the February 28, 1992 petition and April 30, 1992 revisions thereto. In October 1992, the BRC issued its written order adopting the stipulation which resulted in a reduction in annual LEC revenues of $8.5 million that was implemented October 20, 1992, including the recovery over a three-year period of the $10.4 million Salem deferred costs. The amount allocated to customers from the PECO settlement was subject to later review by the BRC in ACE's 1993 LEC proceeding.

On March 31, 1993, ACE filed a petition with the BRC requesting a $14.2 million increase in LEC revenues for the period June 1, 1993 through May 31, 1994. Included in the request were (1) an estimated payment of $569 thousand expected to be made in October 1993 for ACE's assessment of the Department of Energy (DOE) decommissioning and decontamination fund as required by the Energy Policy Act of 1992 and (2) a $48 thousand penalty for 1992 nuclear operations as required by the

Nuclear Performance Standard (NPS). The filing also reflected the 25% ($3.8 million) allocation to ratepayers in 1992 of the settlement with PECO.

On August 27, 1993, the parties to ACE's 1993 LEC petition entered into a stipulation of settlement which resulted in a $10.9 million increase in annual LEC revenues. Provisions of the stipulation included (1) an additional 25% ($3.8 million) of the Peach Bottom settlement together with accrued interest at a rate of 6.5% to be returned to customers during the 1994–1995 LEC period; (2) recovery of $400 thousand for the assessment for the DOE decommissioning and decontamination fund, with any difference between the recovered amount and the actual assessment being included in the deferred fuel balance and recovered during the next LEC period; (3) full LEC recovery of all future assessments for the DOE decommissioning and decontamination fund and (4) recognition of the $48 thousand penalty for 1992 nuclear operations as required by the NPS. The stipulation was approved by the BRC on September 29, 1993. The LEC tariffs resulting from this stipulation of settlement were ordered effective for service rendered on and after October 1, 1993. The additional 25% allocation of the Peach Bottom settlement has been provided for in the 1993 financial statements.

At the BRC's open public meeting on July 7, 1993, the BRC initiated a generic proceeding to address the recovery of the capacity costs associated with purchases of power from nonutility generation projects. This issue relates to Rate Counsel's contention that present BRC policy provides for a "double recovery" of cogeneration capacity costs. On August 17, 1993, Rate Counsel identified ACE as one of the electric utilities for which they considered the double recovery of capacity costs to be at issue. Various motions by both parties have been filed and are awaiting BRC decision. ACE cannot predict the outcome of this matter at this time.

On February 8,1994, ACE filed a petition with the BRC requesting an increase in LEC revenues of $63 million for the period June 1, 1994 through May 31, 1995. The increase is primarily due to the added costs to be incurred from two additional independent power producers (IPPs) scheduled to begin commercial operation in February 1994 and January 1995 from which ACE has contracted to purchase capacity and energy. The total projected costs for fuel and capacity for the LEC period are $147 million. ACE has reduced the requested amount by $84 million as a result of the following: the utilization of $56 million of current base rate revenue associated with a utility power purchase contract due to expire in May 1994 and an initiative by ACE of $28 million to keep its rates competitive. Included in ACE's request is the recovery over five years of $20 million paid by ACE in December 1993 in connection with contract renegotiations with an IPP. ACE has requested that the BRC approve the proposed LEC rates to be effective for service rendered on or after June 1, 1994.

### Base Rate Case Proceedings

**Changes in Base Rates 1991–1993**

| *Date Filed* | *Amount Requested (millions)* | *Amount Granted (millions)* | *Date Effective* | *Overall Rate of Return Granted %* | *Authorized Return on Common Equity %* | *Test Year Ending* |
|---|---|---|---|---|---|---|
| 9/90 | $113.0 | $50.0 | 7/91 | 10.52 | 12.50 | 5/91 |
| 8/91 | 25.8 | 12.9 | 10/92 | — | — | — |

In September 1990, ACE filed a petition with the BRC requesting an increase in annual base rate revenues of $113 million. ACE also requested that a $41.6 million provisional base rate increase, granted by the BRC effective June 1990, be confirmed and placed permanently in base rates. ACE also requested recovery of the first year costs of the PECO power purchase agreement not covered by the provisional increase, plus full recovery of the costs for the remaining three years of the agreement. In its filing, ACE requested an allowed overall rate of return of 11.13% and an authorized return on common equity of 13.7%. At that time, ACE had an allowed overall return of 11.42% and an authorized return on common equity of 14.1%.

On June 24, 1991, the Administrative Law Judge (ALJ) issued an initial decision accepting a stipulation between ACE and the parties in the base rate proceeding. The stipulation provided, among other things, for an increase in annual base rate revenues of $50 million based upon a test year ending May 31, 1991, an allowed overall rate of return of 10.52% and an authorized return on common equity of 12.5%. In addition, the parties agreed to confirm and make permanent in base rates the $41.6 million provisional increase.

On July 3, 1991, the BRC adopted the initial decision of the ALJ and the stipulation of the parties and authorized an increase in annual base rate revenues of $50 million. During the course of the proceeding, the ALJ ruled that a Phase II proceeding was appropriate for the determination of the regulatory treatment of consolidated Federal income tax benefits derived from affiliated nonutility entities. The stipulation also provided that ACE would not be prevented from requesting regulatory treatment in a Phase II proceeding of any obligations arising from changes in state law with respect to gross receipts and franchise taxes (state excise taxes) that were enacted on June 30, 1991.

On August 30, 1991, ACE filed its Phase II request with the BRC for an increase in annual base rate revenues of $25.8 million to recover the increased costs relating to the changes in the state excise tax law. The petition also addressed the regulatory treatment of consolidated Federal income tax benefits derived from affiliated nonutility entities. In May 1992, the ALJ issued an initial decision in the proceeding. The ALJ recommended, among other things, that a consolidated Federal income tax benefit adjustment be made to reduce ACE's rate base, that Rate Counsel's calculation of cash working capital be adopted and that ACE be provided a ten-year recovery of the additional state excise tax payments with interest on the unamortized balance calculated using the average prime rate.

In October 1992, the BRC issued its written order in ACE's Phase II base rate proceeding, accepting the recommendations of the ALJ with certain modifications. By its order, the BRC authorized a net increase in annual base rate revenues of $12.9 million effective October 20, 1992. The change in base rates included the recovery of $95.6 million in additional state excise tax payments over a ten-year period with interest imputed on the unamortized balance at the rate of 7.5%. This amounted to an increase in annual base rate revenues of approximately $13.5 million. The BRC also granted an increase in annual base rate revenues of $1.6 million to reflect the cash working capital impacts of the acceleration of state excise tax payments to the state. With respect to consolidated Federal income tax benefits, the BRC ordered that a rate base adjustment be made in the amount of $15.4 million. This represents one-half of the total tax benefits for 1990 and the total tax benefits for 1991 realized by affiliated nonutility entities in filing consolidated Federal income tax returns. This rate base adjustment resulted in a reduction in annual base rate revenues of $2.2 million. On December 23, 1992, Rate Counsel filed a Notice of Appeal with the Superior Court of New Jersey, Appellate Division relating to the BRC's order allowing ACE to increase its base rates with respect to changes in state excise tax. In its filing Rate Counsel asserted that the BRC's order was unreasonable, not supported by evidence and results in unjust rates. Briefs have been filed by ACE and Rate Counsel, and a decision is anticipated by the end of the second quarter of 1994. ACE cannot predict the outcome of this matter at this time.

### Other Rate Proceedings

On November 30, 1993, ACE filed a petition requesting modifications to the Hotel Casino Tariff, which would allow those customers to be served by existing commercial rate schedules. The schedules provide lower rates than the specific rates currently charged to hotel/casino customers. If all hotel/casino customers elect this option, it will result in a revenue reduction to ACE of up to $5 million a year. The BRC is expected to act on this matter during the first quarter of 1994. ACE cannot predict the outcome of this matter.

## NOTE 4 RETIREMENT BENEFITS

### Pension

ACE has a noncontributory defined benefit pension plan covering substantially all of its employees and those of its wholly-owned subsidiary. Benefits are based on an employee's years of service and average final pay. The plan's policy is to fund pension costs within the guidelines of the minimum required by the Employee Retirement Income Security Act and the maximum allowable as a tax deduction. Each company is allocated its participative share of plan costs and contributions.

Net periodic pension costs for 1993, 1992 and 1991 included the following components:

| (000) | **1993** | *1992* | *1991* |
|---|---|---|---|
| Service cost—benefits earned during the period | **$ 7,196** | $ 7,310 | $ 6,662 |
| Interest cost on projected benefit obligation | **16,016** | 17,301 | 16,517 |
| Actual return on plan assets | **(23,200)** | (13,283) | (22,188) |
| Amortization of deferred gain (loss) | **5,637** | (3,623) | 7,211 |
| Other-net | **(141)** | (172) | (172) |
| Net periodic pension costs | **$ 5,508** | $ 7,533 | $ 8,030 |

Approximately $5.2 million, $4.8 million and $5.1 million of these costs were charged to operating expense in 1993, 1992 and 1991, respectively, and the remaining costs, which are associated with construction labor, were charged to the cost of new utility plant.

A reconciliation of the funded status of the plan as of December 31, 1993 and 1992 is as follows:

| (000) | 1993 | 1992 |
|---|---|---|
| Fair value of plan assets | $213,600 | $218,800 |
| Projected benefit obligation | 207,246 | 213,459 |
| Plan assets in excess of projected benefit obligation | 6,354 | 5,341 |
| Unrecognized net transition asset | (1,894) | (2,066) |
| Unrecognized prior service cost | 329 | — |
| Unrecognized net gain | (638) | (2,784) |
| Prepaid pension cost | $ 4,151 | $ 491 |
| Accumulated benefit obligation: | | |
| Vested benefits | $165,872 | $160,507 |
| Nonvested benefits | 1,216 | 646 |
| Total | $167,088 | $161,153 |

At December 31, 1993, approximately 62% of plan assets were invested in equity securities, 21% in fixed income securities and 17% in other investments.

The assumed rates used in determining the actuarial present value of the projected benefit obligation at year-end were as follows:

| | 1993 | 1992 |
|---|---|---|
| Weighted average discount | 7.5% | 8.00% |
| Anticipated increase in compensation | 3.5% | 4.50% |

The assumed long term rate of return on plan assets was 8.5% for 1993 and 8.00% for 1992 and 1991.

### Other Postretirement Benefits

ACE and its subsidiary provide certain health care and life insurance benefits for retired employees and their eligible dependents. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the companies. Benefits are provided through insurance companies and other plan providers whose premiums and related plan costs are based on the benefits paid during the year. ACE has a tax-qualified trust to fund these benefits. Each company is allocated its participative share of plan costs and contributions.

Effective January 1, 1993, ACE adopted Statement of Financial Accounting Standards No. 106 entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement requires employers to record an obligation for unfunded accumulated other postretirement benefits earned to date and to record on the accrual basis the net periodic benefits cost earned each year. Prior to 1993, the companies recorded only the annual cost of benefits, based on the amount of funding provided. As permitted by the Statement, the companies elected to recognize the unfunded accumulated obligation existing at January 1, 1993 (transition obligation) of $77.9 million as a component of net periodic benefits cost on a straight-line basis over 20 years.

The cost of other postretirement benefits was $13.1 million, $6.0 million and $4.9 million in 1993, 1992 and 1991, respectively. These costs were allocated as follows:

| (millions) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Operating expense | $3.3 | $3.8 | $3.0 |
| New utility plant–associated with construction labor | 1.7 | 2.2 | 1.9 |
| Regulatory asset | 8.1 | — | — |

The regulatory asset in 1993 represents the effects of the new accounting standard in excess of the amount of cost recognized under the previous method and currently allowable in rates. This excess cost is deferred as authorized by an accounting order of the BRC.

The net periodic other postretirement benefits cost for 1993 calculated under the new accounting standard comprises the following components:

| (000) | |
|---|---|
| Service cost–benefits attributed to service during the period | $ 3,045 |
| Interest cost on accumulated postretirement benefits obligation | 7,133 |
| Actual return on plan assets | (255) |
| Amortization of unrecognized transition obligation | 3,893 |
| Other–net | (711) |
| Net periodic other postretirement benefits cost | $13,105 |

A reconciliation of the funded status of the plan and the obligation for other postretirement benefits recognized in the Consolidated Balance Sheet as of December 31, 1993 is as follows:

| (000) | |
|---|---|
| Accumulated benefits obligation: | |
| Retirees | $ 32,720 |
| Fully eligible active plan participants | 21,267 |
| Other active plan participants | 49,125 |
| Total accumulated benefits obligation | 103,112 |
| Less fair value of plan assets | 14,400 |
| Accumulated benefits obligation in excess of plan assets | 88,712 |
| Unrecognized net loss | (6,639) |
| Unamortized unrecognized transition obligation | (73,968) |
| Accrued other postretirement benefits cost obligation | $ 8,105 |

At December 31, 1993, approximately 82% of plan assets were invested in fixed income securities and 18% in other investments.

The assumed health care costs trend rate for 1993 is 11%, and is assumed to evenly decline to an ultimate constant rate of 5% in the year 2000 and thereafter. If the assumed health care costs trend rate was increased by 1% in each future year, the aggregate service and interest costs of the 1993 net periodic benefits cost would increase by $1.6 million, and the accumulated postretirement benefits obligation at December 31, 1993 would increase by $14.5 million. The weighted average discount rate assumed in determining the accumulated benefits obligation was 7.5%. The assumed long term return rate on plan assets was 7%.

## NOTE 5 JOINTLY OWNED GENERATING STATIONS

ACE owns jointly with other utilities several electric production facilities. ACE is responsible for its pro-rata share of the costs of construction, operation and maintenance of each facility.

The amounts shown represent ACE's share of each plant at, or for the year ending, December 31, including AFDC as appropriate.

| | *Keystone* | *Conemaugh* | *Peach Bottom* | *Salem* | *Hope Creek* |
|---|---|---|---|---|---|
| Energy Source | Coal | Coal | Nuclear | Nuclear | Nuclear |
| Company's Share (%/MWs) | 2.47/42.3 | 3.83/65.4 | 7.51/157.0 | 7.41/164.0 | 5.00/52.0 |
| Electric Plant in Service (000): | | | | | |
| **1993** | **$ 10,746** | **$ 18,055** | **$ 123,428** | **$ 203,858** | **$237,496** |
| 1992 | 10,422 | 16,718 | 121,494 | 195,201 | 235,738 |
| Accumulated Depreciation (000): | | | | | |
| **1993** | **$ 3,231** | **$ 5,971** | **$ 51,871** | **$ 78,383** | **$ 46,933** |
| 1992 | 3,068 | 5,861 | 48,958 | 71,511 | 40,492 |
| Construction Work in Progress (000): | | | | | |
| **1993** | **$ 758** | **$ 9,956** | **$ 7,983** | **$ 10,799** | **$ 1,022** |
| 1992 | 249 | 4,718 | 5,283 | 7,213 | 2,268 |
| Operation and Maintenance Expenses (including fuel) (000): | | | | | |
| **1993** | **$ 5,323** | **$ 6,855** | **$ 31,479** | **$ 27,021** | **$ 9,764** |
| 1992 | 4,976 | 7,194 | 29,618 | 25,461 | 9,541 |
| 1991 | 5,398 | 10,061 | 28,651 | 23,720 | 9,640 |
| Working Funds (000): | | | | | |
| **1993** | **$ 44** | **$ 69** | **$ 4,772** | **$ 5,249** | **$ 2,061** |
| 1992 | 44 | 69 | 5,148 | 5,780 | 2,506 |
| Generation (MWH): | | | | | |
| **1993** | **293,876** | **416,263** | **1,043,485** | **840,043** | **440,118** |
| 1992 | 294,222 | 457,771 | 958,740 | 737,356 | 351,672 |
| 1991 | 285,506 | 463,113 | 758,637 | 1,068,307 | 368,900 |

ACE provides financing during the construction period for its share of the jointly-owned plants and includes its share of direct operations and maintenance expenses in the Consolidated Statement of Income. Additionally, ACE provides an amount of working funds to the operators of the stations to fund operational needs.

## NOTE 6 NONUTILITY COMPANIES

The Company (AEI) is the parent holding company of the consolidated group. Its primary activities are the management of investments in the subsidiary companies, issuance of common equity and performance of administrative functions on behalf of the consolidated group. Principal assets of each of the subsidiary companies are: AET—capital investment of approximately $3.0 million in a geothermal heating and cooling technology subsidiary; AGI—capital investments of approximately $24.5 million in cogeneration development projects and partnerships; ASP—commercial real estate site with a net book value of $13.2 million and ATE—leveraged lease investments of approximately $77.3 million.

Other financial information regarding the subsidiary companies and parent-only operations of the Company is as follows:

| *Company* | *Net Asset* | | *Results of Operations* | | |
|---|---|---|---|---|---|
| *(000)* | **1993** | *1992* | **1993** | *1992* | *1991* |
| AET | **$ 2,069** | $(5,763) | **$ 524** | $(4,793) | $ (970) |
| AGI | **18,746** | 2,122 | **4,459** | 1,366 | (4,015) |
| ASP | **5,131** | 5,478 | **(347)** | (263) | (415) |
| ATE | **9,182** | 9,959 | **(777)** | 667 | 511 |
| AEI (parent only) | — | — | **(183)** | (401) | (493) |

AET's 1993 results are due to the receipt of insurance proceeds by its subsidiary company. In 1993 this subsidiary discontinued its operating activities and now concentrates on licensing its patented proprietary knowledge. AET's 1992 results reflect the provision for the restructuring of its subsidiary's activities.

AGI's 1993 and 1992 results reflect the operation of two cogeneration facilities that became operational during 1992. AGI's results for 1991 primarily reflect its equity share of losses attributable to the reduction of carrying values of certain cogeneration projects that were subsequently sold at a loss by one of its partnerships.

ASP's results in each year reflect the inability to rent vacant space in its commercial site due to generally poor market conditions in commercial real estate.

ATE's 1993 results were reduced by increased deferred state income taxes. ATE's 1992 results benefitted from lower interest rates on amounts outstanding under its revolving credit agreement.

Results of operations of AEI above exclude its equity in the results of subsidiary companies and generally reflect administrative expenses. Net assets of AEI (parent only) shown on the Consolidated Balance Sheet represent investments in and intercompany balances with the subsidiary companies and common stock issued on behalf of the consolidated group.

## NOTE 7 CUMULATIVE PREFERRED STOCK OF ACE

ACE has authorized 799,979 shares of Cumulative Preferred Stock, $100 Par Value, two million shares of No Par Preferred Stock and three million shares of Preference Stock, No Par Value. Information relating to outstanding shares at December 31 is shown in the table below.

| | | 1993 | | 1992 | | Current Optional |
|---|---|---|---|---|---|---|
| Series | Par Value | Shares | Amount (000) | Shares | Amount(000) | RedemptionPrice |
| Not Subject to Mandatory Redemption: | | | | | | |
| 4% | $100 | **77,000** | **$ 7,700** | 77,000 | $ 7,700 | $105.50 |
| 4.10% | 100 | **72,000** | **7,200** | 72,000 | 7,200 | 101.00 |
| 4.35% | 100 | **15,000** | **1,500** | 15,000 | 1,500 | 101.00 |
| 4.35% | 100 | **36,000** | **3,600** | 36,000 | 3,600 | 101.00 |
| 4.75% | 100 | **50,000** | **5,000** | 50,000 | 5,000 | 101.00 |
| 5% | 100 | **50,000** | **5,000** | 50,000 | 5,000 | 100.00 |
| 7.52% | 100 | **100,000** | **10,000** | 100,000 | 10,000 | 101.88 |
| Total | | | **$ 40,000** | | $ 40,000 | |
| Subject to Mandatory Redemption: | | | | | | |
| 9.96% | $100 | **—** | **$ —** | 48,000 | $ 4,800 | $ — |
| $8.25 | None | **60,000** | **6,000** | 65,000 | 6,500 | 104.87 |
| $8.53 | None | **600,000** | **60,000** | 600,000 | 60,000 | 103.00 |
| $8.20 | None | **500,000** | **50,000** | 500,000 | 50,000 | — |
| $7.80 | None | **700,000** | **70,000** | 700,000 | 70,000 | — |
| Total | | | **186,000** | | 191,300 | |
| Less portion due within one year | | | **12,250** | | 1,050 | |
| Total | | | **$173,750** | | $190,250 | |

Cumulative Preferred Stock Not Subject to Mandatory Redemption is redeemable solely at the option of ACE.

In May 1993, ACE redeemed all of the outstanding shares of the Cumulative Preferred Stock, 9.96% Series at a price of $103.54 per share.On November 1 of each year, 2,500 shares of the $8.25 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. ACE may redeem not more than an additional 2,500 shares on any sinking fund date without premium. ACE redeemed 5,000 shares in 1993 and 2,500 shares in each of the years 1992 and 1991.

Beginning November 1, 1994 and until fully redeemed, 120,000 shares of the $8.53 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of ACE, not more than an additional 120,000 shares may be redeemed on any sinking fund date without premium.

Beginning August 1, 1996 and annually thereafter, 100,000 shares of the $8.20 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of ACE, not more than an additional 100,000 shares may be redeemed on any sinking fund date without premium. This series is not refundable prior to August 1, 2000.

Beginning May 1, 2001 and annually through 2005, 115,000 shares of $7.80 No Par Preferred Stock must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. On May 1, 2006, the remaining shares outstanding must be redeemed at $100 per share. ACE has the option to redeem up to an additional 115,000 shares without premium on each May 1 through 2005. This series is not refundable prior to May 1, 2006.

For the next five years, the annual minimum sinking fund requirements of the Cumulative Preferred Stock Subject to Mandatory Redemption are $12.25 million in each of the years 1994 and 1995, and $22.25 million in each of the years 1996, 1997 and 1998.

Cumulative Preferred Stock of ACE is not widely held and generally trades infrequently. The estimated aggregate fair market value at December 31, 1993 of ACE's Cumulative Preferred Stock was approximately $231 million. This fair market value determination is based on actual trades of certain series of ACE's Preferred Stock on or nearest to December 31, 1993 and on actual trades of preferred stock of other companies with similar credit quality, coupon rates and maturities.

## NOTE 8 LONG TERM DEBT

| Series | Maturity Date | December 31 1993 | 1992 |
|---|---|---|---|
| Medium Term Notes–MTNs–have varying maturity dates and are shown with the weighted average interest rate of all the related issues within the year of maturity | | | |
| 4⅜% First Mortgage Bonds | 3/1/1993 | $ — | $ 9,540 |
| 5⅛% First Mortgage Bonds | 2/1/1996 | 9,980 | 9,980 |
| 8% First Mortgage Bonds | 11/1/1996 | — | 95,000 |
| Medium Term Notes Series B–(6.28%) | 1998 | 56,000 | — |
| Medium Term Notes Series A–(7.52%) | 1999 | 30,000 | 30,000 |
| 8⅛% First Mortgage Bonds | 9/1/2000 | — | 19,000 |
| Medium Term Notes Series B–(6.83%) | 2000 | 46,000 | — |
| 8% First Mortgage Bonds | 5/1/2001 | — | 27,000 |
| 7½% First Mortgage Bonds | 4/1/2002 | 20,000 | 20,000 |
| Medium Term Notes Series B–(7.18%) | 2003 | 20,000 | — |
| 7¼% First Mortgage Bonds | 5/1/2003 | 29,976 | 29,976 |
| Medium Term Notes Series A–(7.98%) | 2004 | 30,000 | 30,000 |
| Medium Term Notes Series B–(7.125%) | 2004 | 28,000 | — |
| 7⅝% Pollution Control | 1/1/2005 | 6,500 | 6,500 |
| Medium Term Notes Series B–(6.45%) | 2005 | 40,000 | — |
| 6¾% Pollution Control | 12/1/2006 | 2,500 | 2,500 |
| Medium Term Notes Series B–(6.76%) | 2008 | 50,000 | — |
| 10½% Pollution Control Series B | 7/15/2012 | 850 | 850 |
| 6⅝% First Mortgage Bonds | 8/1/2013 | 75,000 | — |
| 7⅞% Pollution Control Series A | 4/15/2014 | 18,200 | 18,200 |
| 10½% Pollution Control Series C | 7/15/2014 | 23,150 | 23,150 |
| 8⅛% First Mortgage Bonds | 5/1/2016 | — | 125,000 |
| 8¾% Pollution Control Series A | 7/15/2017 | 4,400 | 4,400 |
| 9¼% First Mortgage Bonds | 10/1/2019 | 65,767 | 135,000 |
| 6.80% Pollution Control Series A | 3/1/2021 | 38,865 | 38,865 |
| 7% First Mortgage Bonds | 9/1/2023 | 75,000 | — |
| 5.60% Pollution Control Series A | 11/1/2025 | 4,000 | — |
| 7% First Mortgage Bonds | 8/1/2028 | 75,000 | — |
| Total | | 749,188 | 624,961 |
| Debentures: | | | |
| 5⅝% | 2/1/1996 | 2,267 | 2,267 |
| 7¼% | 5/1/1998 | 2,619 | 2,619 |
| Total | | 4,886 | 4,886 |
| Unamortized Premium and Discount–Net | | (2,973) | (4,039) |
| Total Long Term Debt of ACE | | 751,101 | 625,808 |
| Long Term Debt of ATE | | 15,000 | 23,900 |
| Long Term Debt of Other Subsidiaries | | — | 1,228 |
| Less portion due within one year | | — | 19,356 |
| Total Long Term Debt | | $766,101 | $631,580 |

In 1993, ACE redeemed principal amounts of the following series of First Mortgage Bonds: $95 million, 8% due November 1996; $19 million, 8⅛% due September 2000; $27 million, 8% due May 2001 and $125 million, 8⅛% due May 2016. ACE acquired and retired $69.233 million principal amount of First Mortgage Bonds, 9¼% Series due October 2019. The aggregate cost of these redemptions and acquisitions was $13.1 million, net of related Federal income taxes.

Sinking fund deposits are required for retirement of the 5¼% Debentures annually on February 1 through 1995 and for the 7¼% Debentures annually on May 1 through 1997 in amounts in each case sufficient to redeem $100,000 principal amount. ACE may, at its option, redeem an additional $100,000 annually in each case. Through December 31, 1993, ACE acquired and cancelled $433,000 and $281,000 principal amount of the 5¼% and 7¼% Debentures, respectively, which amounts are sufficient to satisfy its requirements for 1994 and subsequent years. Certain series of First Mortgage Bonds contain provisions for deposits of cash or certification of bondable property currently amounting to $250,000, which ACE may elect to satisfy through property additions. Additional sinking fund requirements are as follows:

| *Series* | *Beginning Date* | *Annual Sinking Fund* |
|---|---|---|
| 6⅞% Pollution Control Series Due 2006 | December 1, 1997 | $ 75,000 |
| 7⅜% Pollution Control Series Due 2005 | January 1, 2000 | 500,000 |

For the next five years, the annual amount of scheduled debt maturities and sinking fund requirements of ACE's long term debt are $12.247 million in 1996, $75 thousand in 1997 and $58.619 million in 1998.

ACE's long term debt securities are not widely held and generally trade infrequently. The estimated aggregate fair market value at December 31, 1993 of ACE's long term debt was approximately $768 million, based on actual trades of ACE's long term debt that occurred on or nearest to December 31, 1993.

Long term debt of ATE consists of $15 million of 7.44% Senior Notes due 1999. ATE has a revolving credit and term loan agreement which provides for borrowings of up to $35 million during successive revolving credit and term loan periods. There were no borrowings outstanding under this agreement at December 31, 1993, and commitment fees on the unused credit line were not significant. In accordance with provisions of the agreement, the expiration of the revolving credit period was extended from June 1, 1993 to June 1, 1994. Interest rates on borrowings when outstanding are determined by reference to periodic pricing options available under the facility. The estimated aggregate fair market value at December 31, 1993 of ATE's senior notes was approximately $15.8 million, based on the present value of the future cash flows to the date of maturity.

## NOTE 9 SHORT TERM DEBT

As of December 31, 1993, ACE had available for use bank lines of credit of $150 million. ACE is charged commitment fees, which were not material, for these available credit lines. As of December 31, 1993, ACE had no compensating balance requirements.

ACE had no short term debt outstanding as of December 31, 1993. As of December 31, 1992, ACE had $14.6 million in notes payable to banks outstanding, and as of December 31, 1991, had $20.6 million in commercial paper outstanding. Additional information regarding short term debt of ACE is as follows:

| *(000)* *For the year ended:* | **1993** | *1992* | *1991* |
|---|---|---|---|
| Maximum amount of total short term debt at any month end: | | | |
| Commercial Paper | **$45,500** | $107,400 | $82,700 |
| Notes Payable to Banks | **86,300** | 14,600 | — |
| Average amounts of short term debt (based on daily outstanding balances): | | | |
| Commercial Paper | **$ 8,790** | $ 31,567 | $26,802 |
| Notes Payable to Banks | **29,269** | 2,785 | — |
| Weighted daily average interest rates on short term debt: | | | |
| Commercial Paper | **3.2%** | 4.0% | 6.6% |
| Notes Payable to Banks | **3.2%** | 3.4% | — |

## NOTE 10 COMMITMENTS AND CONTINGENCIES

**Construction Program**

ACE's cash construction expenditures for 1994 are estimated to be approximately $150 million. Current commitments for the construction of major production and transmission facilities approximate $62.3 million, of which it is estimated that $45.3 million will be expended in 1994. These amounts exclude AFDC and customer contributions.

**Insurance Programs**

ACE is a member of certain insurance programs that provide coverage for decontamination and property damage to members' nuclear generating plants. Facilities at the Peach Bottom, Salem and Hope Creek stations are insured against property damage losses up to $2.75 billion per site under these programs.

In addition, ACE is a member of an insurance program which provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specific conditions. Under the property and replacement power insurance programs, ACE could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. As of December 31, 1993, the maximum amount of retrospective premiums ACE could be assessed for losses during the current policy year was $6.19 million under these programs.

The Price-Anderson provisions of the Atomic Energy Act of 1954, as amended by the Price-Anderson Amendments Act of 1988, govern liability and indemnification for nuclear incidents. All nuclear facilities could be assessed, after exhaustion of private insurance, up to $79.275 million each, payable at $10 million per year, per reactor and per incident. Based on its ownership share of nuclear facilities, ACE could be assessed up to $27.6 million per incident. This amount would be payable at $3.48 million per year, per incident.

**Energy and Capacity Arrangements**

UTILITY

ACE has an arrangement for the purchase of 125 MWs of capacity and related energy from PP&L through September 30, 2000. Capacity costs are charged to Purchased Capacity expense on the Consolidated Statement of Income and totaled $24.4 million, $25.1 million and $28.7 million in 1993, 1992 and 1991, respectively. Energy cost is charged to Energy expense on the Consolidated Statement of Income and totaled $11.2 million, $13.4 million and $8.6 million, respectively. Commitments for capacity costs expected to be incurred over the next five years are $10.5 million, $10.9 million, $11.2 million, $11.6 million and $12.3 million in each of the years 1994–1998, respectively, and aggregate $25.3 million thereafter.

ACE has an arrangement for the purchase of 200 MWs of capacity and related energy from PECO through May 31, 1994. Capacity costs charged to Purchased Capacity expense totaled $55.9 million, $52.5 million and $48.2 million in 1993, 1992 and 1991, respectively. Energy cost charged to Energy expense amounted to $21.0 million, $19.2 million and $22.6 million, respectively. ACE is committed to capacity charges of $23.5 million in 1994. These costs are subject to adjustment under certain conditions. ACE has another arrangement with PECO for the purchase of energy only. Energy cost charged to Energy expense amounted to $19.0 million, $17.5 million and $14.4 million, in 1993, 1992 and 1991, respectively.

ACE periodically enters into arrangements with certain other electric utilities for short term generating and transmission capacity and the purchase of energy on an as-needed basis, which are utilized to the extent they are economic and available. Costs of capacity and energy under these arrangements totaled $1.4 million, $4.4 million and $16.4 million in 1993, 1992 and 1991, respectively.

ACE is a member of the Pennsylvania-New Jersey-Maryland Interconnection (PJM), an integrated power pool that is connected with other utilities for the interchange of energy on an as-needed and as-available basis. ACE is required to plan for reserve capacity based on aggregate PJM requirements allocated to member companies. ACE has satisfied its current reserve requirements. ACE also has an interchange agreement with the City of Vineland, New Jersey, which operates a municipal utility located in ACE's service territory. The cost of energy purchased through interchange agreements charged to Energy expense totaled $9.9 million, $9.4 million and $11.3 million in 1993, 1992 and 1991, respectively.

**NONUTILITY**

ACE has contracted and received BRC approval for a total of 569 MWs of capacity and related energy from nonutility sources, primarily cogenerators. Two projects totaling 181 MWs are currently operational. One of these projects is owned 50% by wholly-owned subsidiaries of AGI. Of the remaining two projects under construction, one project providing 188 MWs is expected to be in operation in the spring of 1994, and the other providing 200 MWs is expected to be operational in early 1995. Nonutility capacity costs charged to Purchased Capacity expense totaled $30.2 million, $24.4 million and $1.0 million, and energy purchased charged to Energy expense totaled $36.0 million, $27.6 million and $3.2 million, in 1993, 1992 and 1991, respectively. Capacity and energy costs from nonutility sources are recovered through the LECs.

ACE has concluded negotiations with one project sponsor of a facility under construction to amend its power purchase agreement in an effort to make the cost of energy obtained from the facility more economical for ACE's customers. The amendments, which have received BRC approval, will result in savings from increased dispatch of the unit, lower energy payments and lower capacity payments. As part of the contract amendments, in December 1993, ACE was required to pay $20 million to the project lenders for termination of interest rate swap agreements entered into by the project developer. ACE has requested recovery of such payment in its 1994 LEC filing.

ACE has signed a letter of intent with another nonutility project to amend its power purchase agreement. Subsidiaries of AGI have a 50% ownership interest in this project. ACE expects that the contract renegotiations with this facility will be concluded in 1994.

In addition, discussions have commenced with a third nonutility project sponsor to amend its power purchase agreement. Expected savings from changes to all three nonutility power purchase agreements are estimated to be between $15 million and $20 million annually in the early years of the agreements.

**Environmental Matters**

The provisions of Title IV of the Clean Air Act Amendments of 1990 (CAAA) will require, among other things, phased reductions of sulfur dioxide ($SO_2$) emissions by 10 million tons per year, and a limit on $SO_2$ emissions nationwide by the year 2000, and reductions in emissions of nitrogen oxides ($NO_x$) by approximately 2 million tons per year. ACE's wholly-owned B.L. England Units 1 and 2 and its jointly-owned Conemaugh Station are affected during Phase I (1995) and all of ACE's other fossil-fuel steam generating units are affected by Phase II (2000) of the CAAA. ACE is installing flue gas desulfurization equipment (scrubber) on B.L. England Unit 2 costing approximately $75 million to $80 million. By scrubbing B.L. England Unit 2, Phase I $SO_2$ emission requirements are met for both units. Construction is scheduled for completion in early 1995. The Conemaugh owners have elected to install scrubbers on Conemaugh Units 1 and 2, with ACE's 3.83% share of the total cost estimated to be $14 million. Construction for Conemaugh Unit 1 is to be completed in 1994, and for Conemaugh Unit 2 in 1995. The jointly-owned Keystone Station is impacted by the $SO_2$ and $NO_x$ provisions of Title IV of the CAAA during Phase II, and the Keystone owners are studying various methods of compliance. In addition, certain power purchase arrangements will be affected by the CAAA, in amounts that are not presently determinable.

Federal and state legislation authorize various governmental authorities to issue orders compelling responsible parties to take cleanup action at sites determined to present danger from releases of hazardous substances. The various statutes impose joint and several liability without regard to fault for certain investigative and cleanup costs for all potentially responsible parties.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACE has received notification with respect to two sites within New Jersey as one of a number of alleged responsible parties for cleanup and remedial actions. Both sites are contained within the National Priority Lists. As to one site, litigation has been instituted by the Federal government. The second site is the subject of a Notice of Directive by the New Jersey Department of Environmental Protection and Energy (NJDEPE). The total amount of cleanup and remedial measures associated with these sites as claimed by the authorities for all defendants is currently estimated to be $178 million. ACE believes that primary responsibility for the claims will be borne by other parties and its share, if any, of the claims would not be material. ACE plans to defend these matters aggressively.

Public interest over the possibility of health effects due to electric and magnetic fields (EMF) exposure is an emerging national issue. Some states have adopted EMF limits. To date, there is no conclusive scientific evidence to support such concerns. The New Jersey Commission on Radiation Protection is considering promulgation of regulations which would authorize the NJDEPE to review all new power line projects of 100 kilovolts (KV) or more. The promulgation of such regulations may affect the design and location of ACE's existing and future electric power lines and facilities and the cost thereof. ACE has a program of Prudent Field Management, implementing reasonable measures, at modest cost, to limit magnetic field levels in the design and location of new facilities. Such amounts as may be necessary to comply with any new EMF rules cannot be determined at this time and are not included in ACE's 1994–1998 estimated construction expenditures. At the April 14, 1993 regular open public meeting of the BRC, a motion was approved which required all New Jersey electric utilities to sponsor a survey of EMF readings at schools located near 69 KV lines and above. A joint survey protocol was developed among the New Jersey utilities and approved by the BRC. Fifteen schools in ACE's service territory fall within the criteria. A report of survey results was presented to the BRC in December 1993. The survey results demonstrated that the EMF levels were within the expected range for transmission and distribution supply lines generally.

**Other**

ACE is subject to a performance standard for all of its jointly-owned nuclear units. This standard is used by the BRC in determining recovery of replacement energy costs. The standard establishes a target aggregate capacity factor within a zone of reasonable performance to be achieved by the units. Performance outside of the zone results in penalties or rewards. Any penalties incurred would not be permitted to be recovered from customers and would be charged against income. For 1993, the aggregate capacity factor of ACE's nuclear units is within the reasonable performance zone, which will result in no penalty or reward.

In 1990, the NJDEPE issued to Public Service Electric & Gas (PS) a revised Draft Permit for surface water discharges for Salem Station. PS is the operator of the station, in which ACE has a 7.41% ownership interest. The Draft Permit contained stringent terms and conditions and, if adopted as proposed, could require the construction of cooling towers and the immediate shutdown of the two generating units for up to a four-year period pending this construction. Public hearings on the Draft Permit have been held and PS has filed written comments and demonstrations, which PS believes establish its position that cooling towers are not required. PS estimates that if construction of cooling towers is necessary, under the most adverse scenario, the costs of construction are currently estimated to be $555 million, of which ACE's share would be 7.41%. Replacement power costs during such four-year outage would amount to approximately $25 million per year for ACE. In addition, a permanent de-rating of 5% of the station capacity would also occur. ACE has been advised that on March 4, 1993 PS submitted a Supplement to its Application for Renewal of the Salem, New Jersey Pollutant Discharge Elimination System Permit. The Supplement proposes that Salem continue operation with a once-through cooling system, and includes provisions for plant modifications and environmental enhancements to the Delaware River estuary in the vicinity of the Station. On June 24, 1993, the NJDEPE issued a draft permit which essentially incorporated as Special Conditions the proposal made by PS in its Application Supplement. A final permit is expected to be issued by the NJDEPE subsequent to a public comment period. Two public hearings and a round table discussion for interested parties have been held. The NJDEPE has indicated it expects to issue a final permit in the first quarter of 1994. While it is not possible to determine what action the NJDEPE will ultimately take with respect to the terms and conditions of the final Permit, certain environmental interest groups have indicated their intent to challenge the NJDEPE's actions if, at the end of the public comment period, a final Permit is issued which contains the Special Conditions proposed in the 1993 Draft Permit instead of requiring that the Salem Station be retrofitted with cooling towers. In that event, PS would also participate in any such further proceedings.

ACE and the other nonoperating co-owners of the Peach Bottom Atomic Power Station reached a settlement in 1992 with PECO, the operator of the station, in connection with litigation regarding the Nuclear Regulatory Commission shutdown of the station from March 1987 through October 1989. According to the terms of the agreement, ACE received $18.5 million in October 1992 as its share of the settlement. Of this amount, $3 million represented reimbursement for legal fees previously incurred and expensed during the litigation, and the remaining settlement proceeds of $15.5 million were allocated 75% to shareholders and 25% to customers. This allocation was determined by ACE to be the amount of costs borne by each respective group during the station's outage. The BRC had approved this allocation subject to later review. In 1992, ACE recorded $9.7 million, net of related Federal income taxes of $4.9 million, as Other Income, and $3.8 million as a liability to reimburse customers through the LECs. In August 1993, ACE agreed, in its then pending 1993 LEC filing, to allocate to customers an additional $3.8 million of the litigation settlement received in 1992. In 1993, ACE recorded $2.6 million, net of related Federal income taxes of $1.3 million, as Other Expenses, and $3.8 million as a liability to reimburse customers. This reimbursement is to be made through the 1994 LEC which ACE has requested to become effective in June 1994.

ACE delivers process steam, water and by-product electricity under a contract with a third-party facility. Equipment at ACE's Deepwater Station provides these services. In 1993, ACE received $4.3 million for the supply of steam and related services, and $8.3 million in revenues for electric services rendered to the third party. ACE received a notice of contract termination from this third party, effective August 31, 1994, at which time such steam and electric requirements are to be served by an independent power producer. ACE is presently negotiating contract termination provisions, including the timing of service termination, equipment removal and termination payments. ACE has contracted for the purchase of 188 MWs of capacity from the independent power producer upon commercial operation of the facility, which is expected in the spring of 1994.

In 1993, ACE restructured its organization to better position itself in an emerging competitive environment. During the year, ACE offered severance and incentive programs to employees that were terminated or elected to retire. ACE recorded expenses of $5.4 million, net of Federal income taxes of $2.7 million, in the Consolidated Statement of Income for 1993 for these and continuing reorganization activities. At December 31, 1993, the remaining liability for the program payments was $6.8 million.

AGI through its subsidiaries has partnership interests in common with affiliates of Columbia Gas System, Inc. (Columbia) in certain cogeneration projects. Columbia is currently operating under Chapter 11 of the Federal Bankruptcy Code. Columbia has filed a plan of reorganization. AGI cannot predict what effect, if any, Columbia's situation may have on AGI's interests in these cogeneration projects.

The Energy Policy Act of 1992 permits the Federal government to assess investor-owned electric utilities that have ownership interests in nuclear generating facilities an amount to fund the decontamination and decommissioning of three Federally operated nuclear enrichment facilities. ACE currently estimates that, based on its ownership in five nuclear generating units, its remaining assessment to be paid over the next 14 years could amount to approximately $8 million. ACE has provided a liability in this amount at December 31, 1993. ACE has a regulatory asset of $8.4 million at December 31, 1993 as a consequence of this liability. Amounts are currently being recovered in rates for this liability and the regulatory asset is concurrently being amortized to expense based on the annual assessment billed by the Federal government.

The Financial Accounting Standards Board issued Statement No. 112 "Employers' Accounting for Postemployment Benefits." This statement is effective for the Company in 1994 and concerns benefits provided to inactive and terminated but not yet retired employees. It is expected that the annual costs calculated under the new standard will not be significantly different from those recorded under the current method of accounting and that any additional liabilities recorded will not be material to the financial statements.

## NOTE 11 LEASES

ACE leases various types of property and equipment for use in its operations. Certain of these lease agreements are capital leases consisting of the following at December 31:

| (000) | 1993 | 1992 |
|---|---|---|
| Production plant | **$13,521** | $13,521 |
| Less accumulated amortization | **8,846** | 8,048 |
| Net | **4,675** | 5,473 |
| Nuclear fuel | **40,593** | 43,831 |
| Leased property-net | **$45,268** | $49,304 |

ACE has a contractual obligation to purchase nuclear fuel for the Salem, Hope Creek and Peach Bottom stations. The asset and related obligation for the leased fuel are reduced as the fuel is burned and are increased as additional fuel purchases are made. No commitments for future payments beyond satisfaction of the outstanding obligation exist. Operating expenses for 1993, 1992 and 1991 include leased nuclear fuel costs of $13.9 million, $13.5 million and $14.7 million, respectively, and rentals and lease payments for all other capital and operating leases of $4.8 million, $4.8 million and $4.5 million, respectively. Future minimum rental payments for all noncancellable lease agreements are not significant to ACE's operations. Rental charges of other subsidiary companies are not significant.

## NOTE 12 QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Quarterly financial data, reflecting all adjustments necessary in the opinion of the Company for a fair presentation of such amounts, are as follows:

| Quarter | Operating Revenues (000) | Operating Income (000) | Net Income (000) | Earnings Per Share | Dividends Paid Per Share |
|---|---|---|---|---|---|
| **1993** | | | | | |
| **1st** | **$203,656** | **$ 35,445** | **$19,995** | **$ .38** | **$ .38** |
| **2nd** | **192,538** | **27,381** | **11,093** | **.21** | **.38** |
| **3rd** | **268,883** | **68,580** | **52,329** | **.99** | **.385** |
| **4th** | **200,596** | **28,177** | **11,880** | **.22** | **.385** |
| **Annual** | **$865,675** | **$159,584** | **$95,297** | **$1.80** | **$1.53** |
| 1992 | | | | | |
| 1st | $197,833 | $ 33,290 | $27,937 | $ .55 | $ .375 |
| 2nd | 187,387 | 24,949 | 10,908 | .21 | .375 |
| 3rd | 236,892 | 54,118 | 39,570 | .76 | .38 |
| 4th | 194,713 | 24,811 | 7,795 | .15 | .38 |
| Annual | $816,825 | $137,168 | $86,210 | $1.67 | $1.51 |

Individual quarters may not add to the total due to rounding and the effect on earnings per share of increasing average number of common shares outstanding.

The revenues of ACE are subject to seasonal fluctuations due to increased sales and higher residential rates during the summer months.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Atlantic Energy, Inc. (the Company or parent) is the parent of a consolidated group consisting of the following wholly-owned subsidiaries: Atlantic City Electric Company (ACE), Atlantic Energy Technology, Inc. (AET), Atlantic Generation, Inc. (AGI), Atlantic Southern Properties, Inc. (ASP) and ATE Investment, Inc. (ATE). ACE, the primary subsidiary, is an electric utility regulated by the New Jersey Board of Regulatory Commissioners (BRC). ACE has a wholly-owned subsidiary that operates certain generating facilities. AET has a wholly-owned subsidiary that owns patented technology for geothermal heating and cooling systems. AGI is engaged in the development and operation of cogeneration and alternate energy projects through various partnership arrangements. ASP owns, develops and manages commercial real estate property. ATE manages its portfolio of leveraged lease investments and provides financing and fund management to an affiliate.

The Company's business plan will continue to be concentrated on the operations of ACE. The emergence of competition in the area of electric generation, relatively slow growth in energy sales, Federal deregulation of wholesale energy sales, prospective retail wheeling initiatives coupled with a public utility's obligation to serve, and the need to mitigate future rate increases, has caused ACE to reexamine its traditional approach to its business. ACE's current business plan recognizes the increasingly competitive nature of the electric energy business and the need to encourage economic growth and stability in the service territory and surrounding region. ACE is reevaluating its revenue requirements and service pricing, the implementation of additional cost controls and the development of new sources of revenue. Nonutility business strategies are expected to pursue new investment opportunities closely related to the utility business.

**Financial Results**

Consolidated operating revenues for the twelve months ended December 31, 1993, 1992 and 1991 were $865.7 million, $816.8 million and $808.4 million, respectively. The increased revenues for 1993 and 1992 reflect the effect of net rate increases effective in those years. The revenue increase in 1993 is also due to increased sales of energy as a result of summer weather.

Consolidated earnings per share for 1993 were $1.80 on net income of $95.3 million, compared with $1.67 on net income of $86.2 million in 1992 and $1.75 on net income of $85.6 million in 1991. In 1993, ACE contributed $1.73 to consolidated earnings, primarily as a result of increased kilowatt-hour sales from more normal summer weather. ACE's 1993 earnings were reduced by approximately $.10 as a result of nonrecurring charges for reorganization activities. In 1992, ACE contributed $1.74 to reported consolidated earnings. ACE's 1992 earnings were increased by several nonrecurring items, including $.15 from a settlement of a lawsuit with PECO Energy Company (formerly Philadelphia Electric Company –PECO) relating to the shutdown of the Peach Bottom Atomic Power Station several years ago and $.11 from certain other nonrecurring items. Earnings in 1992 were adversely affected by lower energy sales resulting from cooler than normal summer weather conditions and decreased sales to Industrial customers.

Nonutility operations resulted in net income for 1993 of $3.7 million and losses for 1992 and 1991 of $3.4 million and $5.4 million, respectively. Nonutility net income for 1993 is primarily the result of higher earnings of AGI derived from the full year's commercial operation of two of its cogeneration projects. The loss in 1992 is primarily due to provisions made by AET relating to restructuring of certain business activities. That loss is offset, in part, by earnings of AGI resulting from the initial commercial operation during the year of two of its cogeneration projects and earnings of ATE resulting from lower interest expense. The loss recognized in 1991 is attributable to AGI's equity share of writedowns of carrying values by one of its partnerships of certain cogeneration projects that were subsequently sold.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In June 1993, the quarterly dividend on Common Stock was increased from $.38 to $.385 per share, or an annual rate of $1.54 per share. Information with respect to Common Stock for the period 1991–1993 is as follows:

| | 1993 | 1992 | 1991 |
|---|---|---|---|
| Dividends Paid Per Share | $ 1.53 | $ 1.51 | $ 1.49 |
| Book Value Per Share | $15.62 | $15.17 | $14.84 |
| Annualized Dividend Yield | 7.0% | 6.6% | 7.3% |
| Return on Average Common Equity | 11.7% | 11.1% | 12.1% |
| Total Return (Dividends paid plus change in share price) | 0.6% | 20.2% | 29.8% |
| Market to Book Value | 139% | 152% | 138% |
| Price/Earnings Ratio | 12 | 14 | 12 |
| Closing Price—New York Stock Exchange | $21.75 | $23.13 | $20.50 |

**Liquidity and Capital Resources**

**Overview**

The Company's cash flows are dependent on the cash flows of its subsidiaries, primarily ACE. Principal cash inflows of the Company are dividends from ACE and funds provided by the issuance of Common Stock. Principal cash outflows of the Company are investments (capital contributions and advances) in its subsidiaries for their investing activities and dividends to common shareholders. Cash invested in ACE is utilized primarily for the construction of utility generating, transmission and distribution facilities, redemption and maturity of long and short term debt and redemption of preferred stock. Current investing activities of the nonutility subsidiaries are primarily for the development of nonutility power generation projects.

To facilitate the activities and operations of the subsidiaries, separate credit support agreements exist between the Company and ATE and ASP. In addition, agreements between the Company and its subsidiaries provide for allocation of tax liabilities and benefits generated by the respective subsidiaries.

In 1993, 1992 and 1991, the Company recorded $81.3 million, $78.3 million and $74.1 million, respectively, in dividends from ACE. Other sources of funds available to the Company, which include the issuance of common equity through public offerings, optional cash purchases under the Dividend Reinvestment and Stock Purchase Plan (DRP) and ACE's employee benefit plans, are shown as follows:

| *Issuance of Common Stock* | 1993 | 1992 | 1991 |
|---|---|---|---|
| Public Offerings | | | |
| Shares issued | — | — | 4,000,000 |
| Proceeds (000) | — | — | $67,140 |
| DRP Optional Cash Purchases | | | |
| Shares issued | 690,466 | 719,324 | 301,272 |
| Proceeds (000) | $15,985 | $16,034 | $ 5,537 |
| Employee Benefit Plans | | | |
| Shares issued | 8,033 | 10,897 | 12,416 |
| Proceeds (000) | $ 258 | $ 259 | $ 249 |

Additional common equity is provided by reinvested dividends through the DRP. Common shares issued from such reinvested dividends in 1993, 1992 and 1991 were 609,663, 572,329 and 630,410, respectively. The Company's current financing plans for 1994–1996 contemplate the issuance of approximately $14 million in additional common equity, to be obtained through the DRP.

Major cash outflows of the Company were as follows:

| | 1993 | 1992 | 1991 |
|---|---|---|---|
| | | (Millions) | |
| Dividends to Shareholders | $81.3 | $78.3 | $74.1 |
| Advances and Capital Contributions* to Subsidiaries | 29.8 | 24.1 | 83.8 |

* Net of repayments

**ACE**

Cash construction expenditures for the 1991–1993 period amounted to $441.2 million and included expenditures for a new combustion turbine unit, upgrades to existing transmission and distribution facilities and compliance with provisions of the Clean Air Act Amendments of 1990 (CAAA). ACE's current estimate of cash construction expenditures for the 1994–1996 period is $377.3 million. These estimated expenditures reflect necessary improvements to transmission and distribution facilities and compliance with provisions of the CAAA.

ACE also utilizes cash for mandatory redemptions of Preferred Stock and maturities of long term debt. Optional redemptions of securities are reviewed on an ongoing basis with a view toward reducing the overall cost of funds.

Redemptions of Preferred Stock (at par or stated value) and redemptions, reacquisitions and retirements, and maturities of First Mortgage Bonds for the period 1991–1993 are shown as follows:

| | **1993** | *1992* | *1991* |
|---|---|---|---|
| Preferred Stock (Series) | | | |
| 9.96% (Shares) | **48,000** | 8,000 | 8,000 |
| $8.25 (Shares) | **5,000** | 2,500 | 2,500 |
| Aggregate Amount (000) | **$ 5,300** | $ 1,050 | $ 1,050 |
| First Mortgage Bonds Principal Amount retired (000) | **$344,773** | $10,350 | $49,000 |

First Mortgage Bonds redeemed or acquired and retired in 1993 were as follows:

| *Date* | *Series* | *Principal Amount (000)* | *Price (%)* |
|---|---|---|---|
| March 1993 | 8% due 1996 | $ 95,000 | 100.91 |
| March 1993 | 8 ⅜% due 2000 | 19,000 | 102.41 |
| March 1993 | 8% due 2001 | 27,000 | 102.53 |
| March 1993 | 4 ⅝% due 1993 | 9,540 | 100.00 |
| September 1993 | 9 ⅛% due 2019 | 69,233 | 110.95* |
| September 1993 | 8 ⅜% due 2016 | 125,000 | 104.80 |

*average price

Scheduled debt maturities and mandatory Preferred Stock sinking fund requirements aggregate $59 million for the years 1994–1996.

On or before April 1 of each year, ACE and other New Jersey utilities are required to pay state excise taxes to the State of New Jersey. In March 1993, ACE paid $139.2 million. Included in this amount was $45 million representing one-half of an additional year's tax payment, as required by state law. This payment was funded by ACE through the issuance of short term debt. ACE expects to pay state excise taxes of approximately $140 million in March 1994, which will include the final installment of one-half the required additional year's tax payment. ACE expects to fund this payment with short term debt. In December 1993, ACE paid $20 million in connection with renegotiation of a nonutility purchased power contract. ACE has deferred such amount on its Consolidated Balance Sheet, pending recovery through its LEC.

ACE's cash flows from operating activities after dividends on Preferred Stock and Common Stock (internal generation) amounted to $75.9 million, or 54.9% of 1993 construction expenditures. In 1992 and 1991, ACE's internal generation was $116.8 million and $85.2 million, and represented 89.3% and 49.4%, respectively, of construction expenditures. For the three-year period 1994–1996, ACE's internal generation is expected to average 75% of currently estimated construction expenditures. However, actual levels may vary within the period based upon specific amounts of construction expenditures and internally generated funds in the individual years. Through 2000, ACE's cash flows will be positively affected by the recovery of its Unrecovered Purchased Power Costs. ACE expects that such recovery will provide $14 million, $15 million and $16 million in cash flows in 1994, 1995 and 1996, respectively.

On an interim basis, ACE finances that portion of its construction costs and other capital requirements in excess of internally generated funds through the issuance of unsecured short term debt consisting of commercial paper and borrowings from banks. Permanent financing by ACE is undertaken by the issuance of its long term debt and Preferred Stock and from capital contributions by the parent company. ACE's nuclear fuel requirements associated with its jointly-owned units have been financed through arrangements with a third party.

In 1993, ACE issued and sold $469 million of long term debt consisting of $240 million of Series B Medium Term Notes, $225 million of First Mortgage Bonds and $4 million of Pollution Control Bonds. The proceeds from the 1993 financings were used for refunding higher cost debt, as detailed above, and construction purposes. In 1992, ACE issued and sold $60 million of Series A Medium Term Notes, the proceeds of which were used for ACE's construction program. In 1991, ACE issued and sold 700,000 shares of $7.80 No Par Preferred Stock and issued $38.865 million of Pollution Control Bonds. The proceeds from the 1991 financings were used for construction and refunding ACE's 11 ⅜% Pollution Control Bonds due 2011. During the three-year period 1994–1996, ACE expects to issue $160 million in new long term debt, and in such period ACE expects to receive $14 million in capital contributions from the Company.

ACE's debt securities are rated "A-/A3" by the major rating agencies and its Preferred Stock is rated "BBB+/Baa1." In October 1993, ACE was advised that a major rating agency lowered its rating on ACE's outstanding securities as follows: senior secured debt to "A-" from "A," senior unsecured debt and preferred stock to "BBB+" from "A-," and commercial paper to "A-2" from "A-1." In November 1993, ACE was advised that a second major rating agency lowered its ratings of ACE's outstanding securities as follows: first mortgage bonds, secured pollution control revenue bonds and secured medium term notes to "A3" from "A2," debentures to "Baa1" from "A3," preferred stock to "Baa1" from "A3," and commercial paper to "P2" from "P1." In taking such action, both agencies cited increasing business risks from competition, significant purchased power commitments, anticipated modest sales growth and high electric rates relative to the Mid-Atlantic region as factors contributing to their respective decisions.

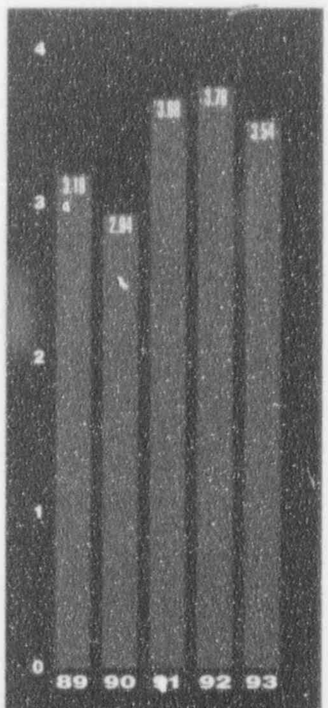
Provisions of ACE's charter, mortgage and debenture agreements can limit, in certain cases, the amount and type of additional financing which may be used. At December 31, 1993, ACE estimates additional funding capacities of $293 million of First Mortgage Bonds, or $463 million of Preferred Stock, or $345 million of unsecured debt. These amounts are not necessarily additive.

**AET**

AET invests in and manages investments in companies with energy-related products and technologies. AET's only investment at December 31, 1993 is a capital investment of $3 million in a wholly-owned subsidiary that owns a patented technology and has proprietary knowledge relating to geothermal heating and cooling systems. AET obtained the funds for this investment through capital contributions from the parent company. The amount of this investment has been written down from $5.1 million at December 31, 1992 as a result of planned reorganization activities that had been provided for in 1992. The subsidiary discontinued its operations and will now concentrate on licensing its proprietary knowledge. In 1993, AET received insurance proceeds of $500 thousand through its subsidiary. Additional investments by AET will be under review in 1994 but are not expected to be significant.

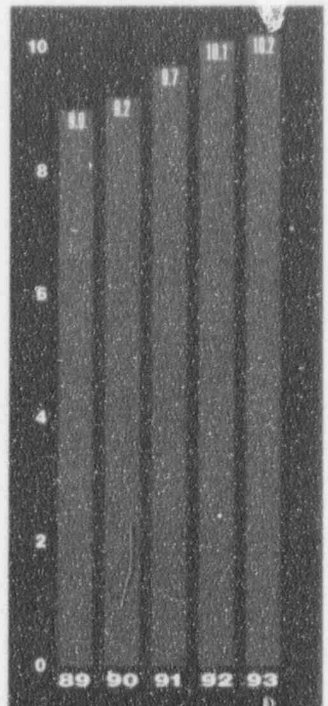
**AGI**

AGI's activities are represented by partnership interests in cogeneration projects. At December 31, 1993, total investments amounted to $24.5 million. Cash outlays for investments (comprised of capital investment, advances and loans) by AGI for the period 1991–1993 totaled $15.1 million. AGI obtained the funds for its investments through capital contributions from the parent company. During the period 1991–1993, AGI received distributions from the partnerships totaling $6.4 million from return of investment and repayment of outstanding advances and loans. A cogeneration project is under construction and is expected to become operational in May 1994 requiring an equity payment of $2 million. This commitment will be funded by a capital contribution from the parent company. AGI expects to invest an additional $8 million in domestic independent power projects in the years 1994–1996. Operators of a nonutility power project in which AGI subsidiaries have a 50% ownership interest are presently negotiating amendments to its power purchase contract. The outcome of these discussions cannot be determined at this time.




*(times coverage)*

*This ratio measures the ability of Atlantic Electric to meet its interest payments to creditors. It is the number of times that interest charges are "covered" by earnings before the payment of income taxes. For an "A" rated utility, pre-tax coverage should be between 2.75 and 4.5 times. To calculate the coverage ratio, net income is adjusted for certain amounts and then divided by interest charges.*




*(in cents)*

*This represents the average amount of revenue recorded for each kilowatt hour sold. It is calculated by dividing Atlantic Electric's revenue from kilowatt hour sales by the number of kilowatt hours sold.*

**ASP**

ASP's real estate investment at December 31, 1993 is a 280,000 square-foot office and warehouse facility in Atlantic County, New Jersey, with a net book value of $13.2 million. As of December 31, 1993, ASP's investment has been funded by capital contributions from the parent company and borrowings under a loan agreement with ATE. ASP's current agreement with ATE provides for the repayment of such borrowings on or before December 31, 1994. Extensions to repay these borrowings have been routinely granted in the past. ASP genercommitments, anticipated modest sales growth and high electric rates relative to the Mid-Atlantic region as factors contributing to their respective decisions.

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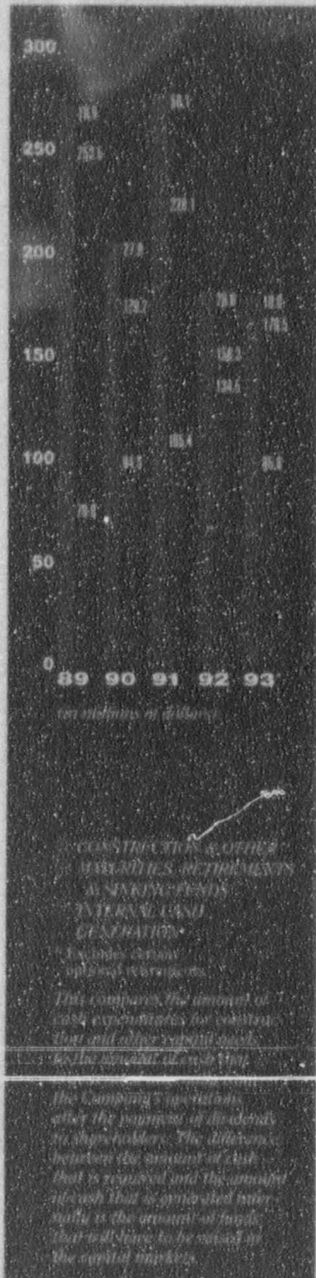
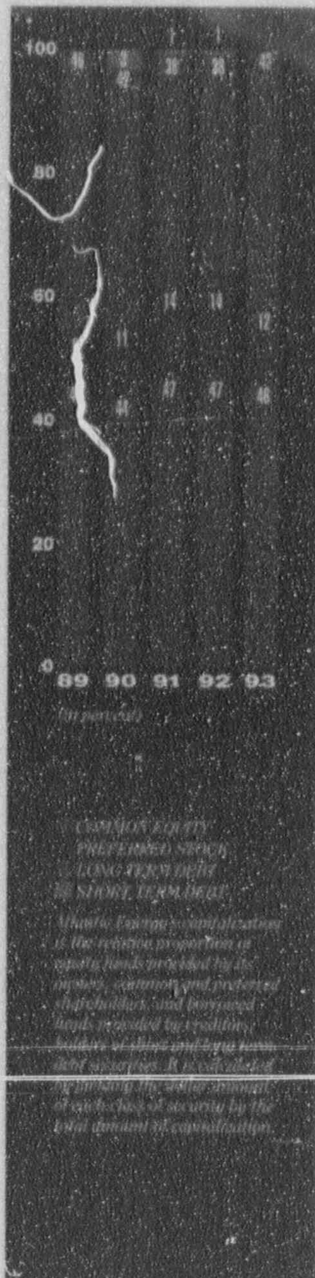



ates sufficient cash flows from its rental income to sustain its operations. Over half of the office space is presently leased to ACE. ASP and ACE are exploring options to modify ACE's current lease obligations. In the second half of 1993, another tenant leased all the available warehouse space. No real estate activity beyond the existing site is contemplated at this time by ASP.

**ATE**

ATE has invested $77.3 million in leveraged leases of three commercial aircraft and two containerships. ATE has loans outstanding to ASP, including unpaid interest, which totaled $8.9 million at December 31, 1993. ATE obtained funds for its business activities and loans to ASP through capital contributions from the parent company and external borrowings. ATE has outstanding $15 million principal amount of 7.44% Senior Notes due 1999. A revolving credit and term loan facility for borrowings of up to $35 million is available to ATE. At December 31, 1993, there were no borrowings outstanding under this facility. ATE's positive cash flows are provided from lease rental receipts and realization of existing tax benefits generated by the leveraged leases sufficient to sustain operations. It is expected that these will continue to be the only sources of cash flows for the foreseeable future.

**RESULTS OF OPERATIONS**

Operating results are dependent upon the performance of the subsidiaries, primarily ACE. Since ACE is the principal subsidiary within the consolidated group, the operating results presented in the Consolidated Statement of Income are those of ACE, after elimination of transactions among members of the consolidated group. Results of the nonutility companies are reported in Other Income.

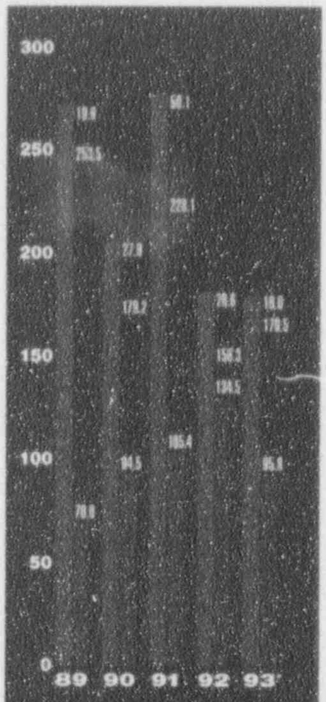
During 1993, ACE undertook reorganization efforts to enable it to streamline its operations and become more competitive. Provisions for severance and early retirement costs associated with the reorganization amounted to $5.4 million after taxes, or $.10 per share of Common Stock.

**Revenues**

Operating Revenues-Electric increased 6.0% and 1.0% in 1993 and 1992, respectively. Components of the overall changes are shown as follows:

| *(millions)* | **1993** | *1992* |
|---|---|---|
| Base Revenues | **$12.2** | $ 11.0 |
| Levelized Energy Clauses | **(5.0)** | 23.0 |
| Kilowatt-hour Sales | **42.6** | (28.7) |
| Unbilled Revenues | **(1.2)** | (2.0) |
| Sales for Resale | **0.7** | 5.5 |
| Other | **(0.4)** | (0.3) |
| Total | **$48.9** | $ 8.5 |

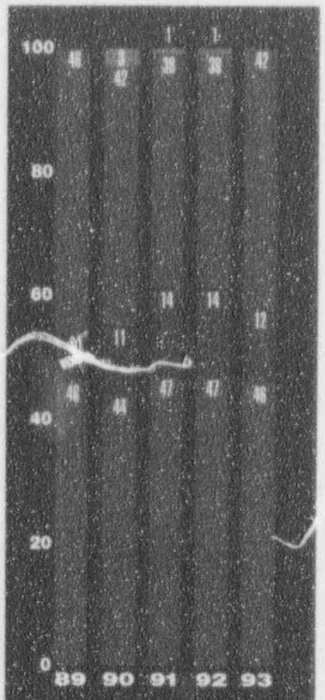
Base Revenues increased in 1993 as a result of a $12.9 million base rate increase effective in October 1992. Base Revenues increased in 1992 as a result of the October 1992 increase and a $50.0 million base rate increase effective in July 1991. Levelized Energy Clause (LEC) revenues decreased in 1993 as a result of the net effects of a $10.9 million increase effective in October 1993 and an $8.5 million decrease effective in October 1992. LEC revenues increased in 1992 as a result of the October 1992 decrease and a $21.3 million LEC increase effective in June 1991.




(in millions of dollars)

CONSTRUCTION & OTHER
MATURITIES, RETIREMENTS & SINKING FUNDS
INTERNAL CASH GENERATION
* Excludes certain optional retirements

*This compares the amount of cash expenditures for construction and other capital needs to the amount of cash that is generated internally from the Company's operations after the payment of dividends to shareholders. The difference between the amount of cash that is required and the amount of cash that is generated [illegible] nally is the amount of [illegible] that will have to be raised [illegible] the capital markets.*




(in percent)

COMMON EQUITY
PREFERRED STOCK
LONG TERM DEBT
SHORT TERM DEBT

*Atlantic Energy's capitalization is the relative proportion of equity funds provided by its owners, common and preferred shareholders, and borrowed funds provided by creditors, holders of short and long term debt securities. It is calculated by dividing the dollar amount of each class of security by the total amount of capitalization.*

ates sufficient cash flows from its rental income to sustain its operatic^.s. Over half of the office space is presently l. ased to ACE. ASP and ACE are exploring options to n. dify ACE's current lease obligations. In the second half ol 1993, another tenant leased all the available warehouse space. No real estate activity beyond the existing site is contemplated at this time by ASP.

**ATE**

ATE has invested $77.3 million in leveraged leases of three commercial aircraft and two containerships. ATE has loans outstanding to ASP, including unpaid interest, which totaled $8.9 million at December 31, 1993. ATE obtained funds for its business activities and loans to ASP through capital contributions from the parent company and external borrowings. ATE has outstanding $15 million principal amount of 7.44% Senior Notes due 1999. A revolving credit and term loan facility for borrowings of up to $35 million is available to ATE. At December 31, 1993, there were no borrowings outstanding under this facility. ATE's positive cash flows are provided from lease rental receipts and realization of existing tax benefits generated by the leveraged leases sufficient to sustain operations. It is expected that these will continue to be the only sources of cash flows for the foreseeable future.

**RESULTS OF OPERATIONS**

Operating results are dependent upon the performance of the subsidiaries, primarily ACE. Since ACE is the principal subsidiary within the consolidated group, the operating results presented in the Consolidated Statement of Income are those of ACE, after elimination of transactions among members of the consolidated group. Results of the nonutility companies are reported in Other Income.

During 1993, ACE undertook reorganization efforts to enable it to streamline its operations and become more competitive. Provisions for severance and early retirement costs associated with the reorganization amounted to $5.4 million after taxes, or $.10 per share of Common Stock.

**Revenues**

Operating Revenues-Electric increased 6.0% and 1.0% in 1993 and 1992, respectively. Components of the overall changes are shown as follows:

| *(millions)* | **1993** | *1992* |
|---|---|---|
| Base Revenues | **$12.2** | $ 11.0 |
| Levelized Energy Clauses | **(5.0)** | 23.0 |
| Kilowatt-hour Sales | **42.6** | (28.7) |
| Unbilled Revenues | **(1.2)** | (2.0) |
| Sales for Resale | **0.7** | 5.5 |
| Other | **(0.4)** | (0.3) |
| Total | **$48.9** | $ 8.5 |

Base Revenues increased in 1993 as a result of a $12.9 million base rate increase effective in October 1992. Base Revenues increased in 1992 as a result of the October 1992 increase and a $50.0 million base rate increase effective in July 1991. Levelized Energy Clause (LEC) revenues decreased in 1993 as a result of the net effects of a $10.9 million increase effective in October 1993 and an $8.5 million decrease effective in October 1992. LEC revenues increased in 1992 as a result of the October 1992 decrease and a $21.3 million LEC increase effective in June 1991.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Changes in kilowatt-hour sales are discussed under "Billed Sales to Ultimate Utility Customers." Overall, the combined effects of changes in rates charged to customers and kilowatt-hour sales resulted in increases of 0.8% and 4.4% in revenues per kilowatt-hour in 1993 and 1992, respectively. The changes in Unbilled Revenues are a result of the amount of kilowatt-hours consumed by ultimate customers at the end of the respective periods, which are affected by weather and economic conditions, and the corresponding price per kilowatt-hour. The changes in Sales for Resale are a function of ACE's energy mix strategy, which in turn is dependent upon ACE's needs for energy, the energy needs of other utilities participating in the regional power pool of which ACE is a member, and the sources and prices of energy available.

**Billed Sales to Ultimate Utility Customers**

Changes in kilowatt-hour sales are generally due to changes in the average number of customers and average customer use, which is affected by economic and weather conditions. Energy sales statistics, stated as percentage changes from the previous year, are shown as follows:

| | **1993** | | | *1992* | | |
|---|---|---|---|---|---|---|
| *Customer Class* | *Avg Sales* | *Us.* | *Avg # of Cust* | *Avg Sales* | *Use* | *Avg # of Cust* |
| Residential | **6.7%** | **5.9%** | **0.8%** | (2.8)% | (3.7)% | 0.9 % |
| Commercial | **5.1** | **3.2** | **1.9** | (1.5) | (3.2) | 1.8 |
| Industrial | **2.6** | **4.6** | **(1.9)** | (10.2) | (9.4) | (0.8) |
| Other | **1.2** | **1.6** | **(.4)** | (0.3) | (0.3) | — |
| Total | **5.4** | **4.4** | **0.9** | (3.5) | (4.5) | 1.0 |

In 1993, total kilowatt-hour sales increased primarily due to the colder winter temperatures during the first quarter, and more normal temperatures during the third quarter in contrast to the cooler temperatures in the same period of 1992. Improved economic conditions also contributed to the increase in 1993 sales. In 1992, total kilowatt-hour sales declined primarily due to lower sales to Industrial customers because two large Industrial customers obtained primary service from independent nonutility sources. Sales also declined in 1992 due to cooler temperatures in the third quarter.

ACE continues to experience the effects of competition in the electric utility business. One large Industrial customer is expected to receive primary electric service from an independent power producer commencing in the spring of 1994. This customer accounted for 10.1% and 8.1% of 1993 Industrial kilowatt-hour sales and revenues, respectively. Sales to this customer amounted to 1.6% of 1993 total kilowatt-hour sales and 1.0% of 1993 total energy revenues. ACE will also lose additional revenues from this customer for other services that amounted to $4.3 million in 1993.

**Costs and Expenses**

Total Operating Expenses increased 3.9% and 2.4% in 1993 and 1992, respectively. Included in these expenses are the costs of energy, purchased capacity, operations, maintenance, depreciation and taxes.

Energy expense reflects costs incurred to meet load requirements, energy supply mix used and operation of the LECs. Changes in costs reflect the varying availability of low-cost generation from ACE-owned and purchased energy sources, and the corresponding unit prices of the energy sources used, as well as changes in the needs of other utilities participating in the Pennsylvania–New Jersey–Maryland Interconnection. The cost of energy is recovered from customers primarily through the operation of the LECs. Earnings are not affected by Energy expense because these costs are adjusted to match the associated LEC revenues. In any period, the actual amount of LEC revenue recovered from customers will be greater or less than the actual amount of energy cost incurred in that period. Such respective overrecovery or underrecovery of energy costs is recorded on the Consolidated Balance Sheet as a liability or an asset, as appropriate. Amounts in the balance sheet are recognized in the Consolidated Statement of Income within Energy expense during the period in which they are subsequently recovered through the LECs. ACE was underrecovered by $7.2 million and overrecovered by $8.1 million at December 31, 1993 and 1992, respectively.

In 1993, Energy expense decreased 1.1% primarily because there was a larger amount of fuel costs underrecovered in 1993 than in 1992. Production-related energy costs for 1993 increased by 6.7% largely due to increased generation of 4.8%. The average unit cost for energy in 1993 increased to 1.82 cents per kilowatt-hour compared to 1.80 cents per kilowatt-hour in 1992. The 1993 increase in the per unit cost is a result of increased amounts of higher-cost energy from nonutility sources and a decreased supply of lower cost energy from coal sources. Energy expense for 1992 decreased 11.9% primarily due to an underrecovery of fuel costs in 1992 compared to an overrecovery in 1991. The decrease was partially offset by increased production-related energy costs associated with a 3.4% increase in net generation.

Purchased Capacity expense reflects entitlements to generating capacity owned by others. Purchased Capacity expense increased 7.4% in 1993 and 30.1% in 1992 primarily due to capacity supplied by two nonutility power producers beginning in September 1991 and March 1992, respectively.

Operations expense increased 8.9% in 1993 due primarily to corporate reorganization activities by ACE. Operations expense increased 2.8% in 1992 primarily due to nuclear decommissioning expenses previously classified as depreciation expense, in accordance with BRC requirements. Maintenance expense decreased 9.0% and 4.1% in 1993 and 1992, respectively, due to the timing of maintenance projects.

The method of computing state excise taxes was changed by legislation in 1992 to a unit tax that is based on kilowatt-hours sold during the year. In prior years, such taxes were based on revenues collected from customers. State Excise Taxes expense increased in 1993 and 1992 by 6.4% and 10.2%, respectively. The increase in 1993 is due to higher kilowatt-hour sales during the year and an additional amount of tax required under recently enacted state law. The increase in 1992 reflects additional tax liabilities incurred as a result of changes in legislation.

Federal Income Taxes increased 21.9% and 2.5% in 1993 and 1992, respectively, due to an increased level of taxable income, and in part to the increase in the Federal income tax rate to 35% from 34% for 1993.

Interest on Long Term Debt increased 11.4% in 1993 reflecting the net effects of issuance of $469 million of First Mortgage Bonds during the year, and the maturity, redemption and reacquisition of various series of First Mortgage Bonds totaling $344.8 million principal amount. Interest on Long Term Debt increased 3.3% in 1992 reflecting the net effects of issuance of $60 million of Medium Term Notes in May 1992 with a weighted average interest rate of 7.75% and the maturity of $10.35 million principal amount of First Mortgage Bonds, 4½% Series due in July 1992. At December 31, 1993, 1992 and 1991, ACE's embedded cost of long term debt was 7.8%, 8.8% and 8.9%, respectively.

Preferred Stock Dividend Requirements of ACE decreased 2.3% in 1993 and reflects the redemption of 48,000 shares of 9.96% No Par Preferred Stock in May 1993. Preferred Stock Dividend Requirements of ACE increased 8.5% in 1992 and reflects the issuance and sale of 700,000 shares of $7.80 No Par Preferred Stock in May 1991. Embedded cost of Preferred Stock as of December 31, 1993, 1992 and 1991 was 7.7%, 7.7% and 7.8%, respectively.

New accounting standards concerning the accounting for postretirement benefits other than pensions and income taxes became effective for the Company in 1993. The effect of adopting these standards did not materially affect net income in 1993, primarily because the incremental costs to ACE resulting from these standards have been deferred on the Consolidated Balance Sheet subject to future recovery in rates.

**Outlook**

The nature of the electric utility business is capital intensive. ACE's ability to generate cash flows from operating activities and its continued access to the capital markets is affected by the timing and adequacy of rate relief, competition and the economic vitality of its service territory.

The financial performance of ACE will be affected in the future by the level of sales of energy and the impacts of regulation. The amount earned on capital investments by the utility is subject to general business conditions and regulations. Other issues which may impact the electric utility business include public health, safety, environmental legislation and competition.

Changes in operating revenues in the future will result from changes in customer rates, energy consumption and general economic conditions in the service area, as well as the impacts of load management and conservation programs instituted by ACE. ACE's revenues could also be affected by the loss of sales through increasing competition in the generation of electricity by other utility and nonutility sources.

The emergence of competition among suppliers of electricity may require ACE to create new rate structures and offer discounts to its Commercial and Industrial customers. ACE has petitioned the BRC to permit hotel/casino customers to take electric service under existing commercial rate tariffs, which are lower than those rates currently charged to hotel/casinos. If all hotel/casinos make such an election, ACE's annual revenues would be reduced by approximately $5 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net income of ACE can be affected by the operational performance of nuclear generating facilities. ACE is subject to a BRC mandated nuclear unit performance standard. Under the standard, penalties or rewards are based on the aggregate capacity factor of ACE's five jointly-owned nuclear units. Any penalties incurred would not be permitted to be recovered from customers and would be charged against income.

An accounting standard issued but not yet effective for the Company concerns benefits provided to inactive and terminated but not yet retired employees. It is expected that the annual costs calculated under the new standard will not be significantly different from those recorded under the current method of accounting and that any additional liabilities recorded will not be material to the consolidated financial statements.

The Energy Policy Act, enacted in October 1992, provides, among other things, for increased comp ion between utility and nonutility electric generators and permits wholesale transmission access, or wheeling, with certain requirements. Other competitive pressures such as increased customer demands for discounted rates, potential loss of municipal power sales, excess generating capacity, together with the emergence of nonutility energy sources, are expected to increase the amount of business risk for electric utilities in the future. In addition, the extent to which New Jersey public utility regulation is modified to be reflective of these new competitive realities will be a key factor affecting the Company.

Development of electric generating facilities by nonutilities has occurred in ACE's service territory. Effects of nonutility generation could be offset to some extent by natural growth in the service territory and additional efforts by ACE to reduce the impact of the potential loss of kilowatt-hour sales and revenues. As a result of economic conditions in the service territory, ACE estimates that the rate of growth of overall sales of energy will be modest.

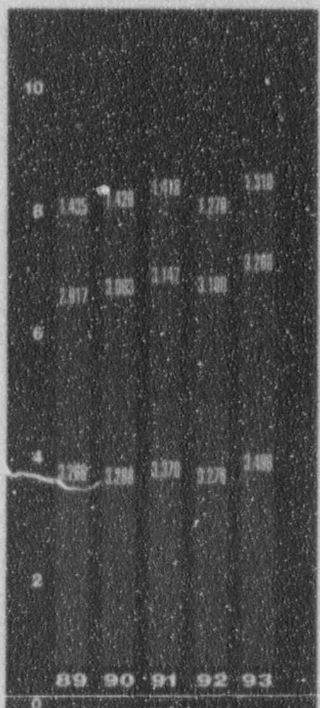
The Clean Air Act Amendments (CAAA) enacted in 1990 relating to acid rain and limitations on emissions at electric generating plants will require modifications at certain of ACE's facilities. Compliance with the CAAA will cause ACE to incur additional operating and/or capital costs. Presently, ACE's cash construction budget for 1994 through 1996 includes approximately $47 million related to the cost of compliance. In addition, certain power purchase arrangements will be affected by the CAAA, the effects of which are not presently determinable.

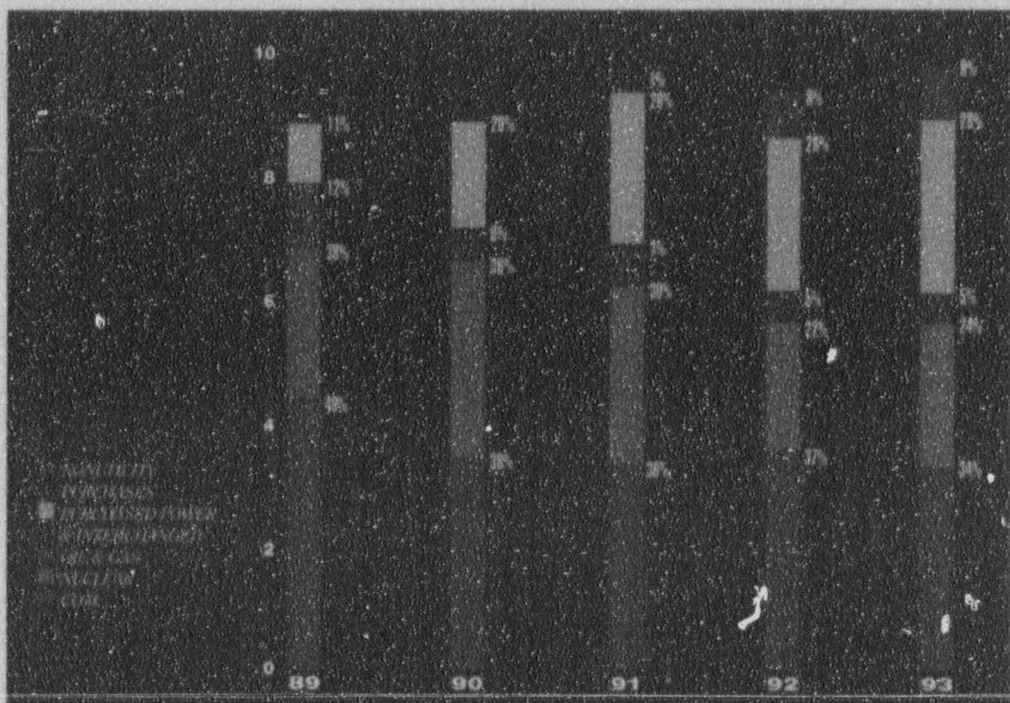
The New Jersey Department of Environmental Protection and Energy (NJDEPE) has proposed modifications to certain environmental permits at Salem Station. The Salem owners have opposed these modifications that would require the immediate shutdown of both Salem units, the construction of cooling towers at costs which are estimated to be substantial, and extended outages for the design, licensing and construction of such towers. In addition to the cost of construction, ACE would be required to purchase replacement energy, the cost of which could also be substantial. The retrofitting of cooling towers at Salem would also result in a permanent capacity de-rating of up to 120 MWs, as well as increased operation and maintenance costs. As more fully detailed in Note 10 of the financial statements, Public Service Electric & Gas (PS), the operator, filed a Supplement to its Application which proposed that Salem continue operation with a once-through cooling system, and provided for plant modifications and environmental enhancements to the Delaware River in the vicinity of the Station. In June 1993, the NJDEPE issued a Draft Permit which essentially incorporated the provisions made by PS in its proposal. Costs of this proposal would not be significant. The NJDEPE indicates it expects to issue a final permit in the first quarter of 1994. The outcome of this matter cannot be predicted at this time.

Federal and state legislation authorize various governmental authorities to issue orders compelling responsible parties to take cleanup action at sites determined to present danger from releases of hazardous substances. The various statutes impose joint and several liability without regard to fault for certain investigative and cleanup costs for all potentially responsible parties. ACE has received notification with respect to certain sites as one of a number of alleged responsible parties for cleanup and remedial actions. The total amount of cleanup and remedial measures associated with these sites as claimed by the authorities for all defendants is currently estimated to be $178 million. ACE believes that primary responsibility for the claims will be borne by other parties and its share, if any, of the claims would not be significant. ACE plans to pursue these matters aggressively.

**Inflation**

Inflation affects the level of operating expenses and also the cost of new utility plant placed in service. Traditionally, the ratemaking practices that have applied to ACE have involved the use of historical test years and the actual cost of utility plant. However, the ability to recover increased costs through rates, whether resulting from inflation or otherwise, depends upon the frequency, timing and results of rate case decisions.




| Cost of Energy | 89 | 90 | 91 | 92 | 93 |
|---|---|---|---|---|---|
| COAL | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| NUCLEAR | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| OIL & NATURAL GAS | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| PURCHASED POWER & INTERCHANGES | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| NONUTILITY PURCHASES | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| YEARLY AVERAGE | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

and remedial actions. The total amount of cleanup and remedial measures associated with these sites as claimed by the authorities for all defendants is currently estimated to be $178 million. ACE believes that primary responsibility for the claims will be borne by other parties and its share, if any, of the claims would not be significant. ACE plans to pursue these matters aggressively.

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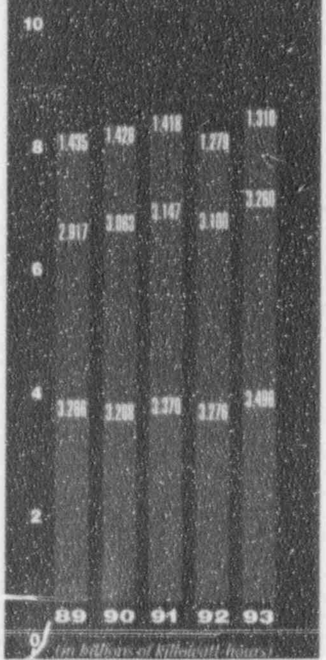
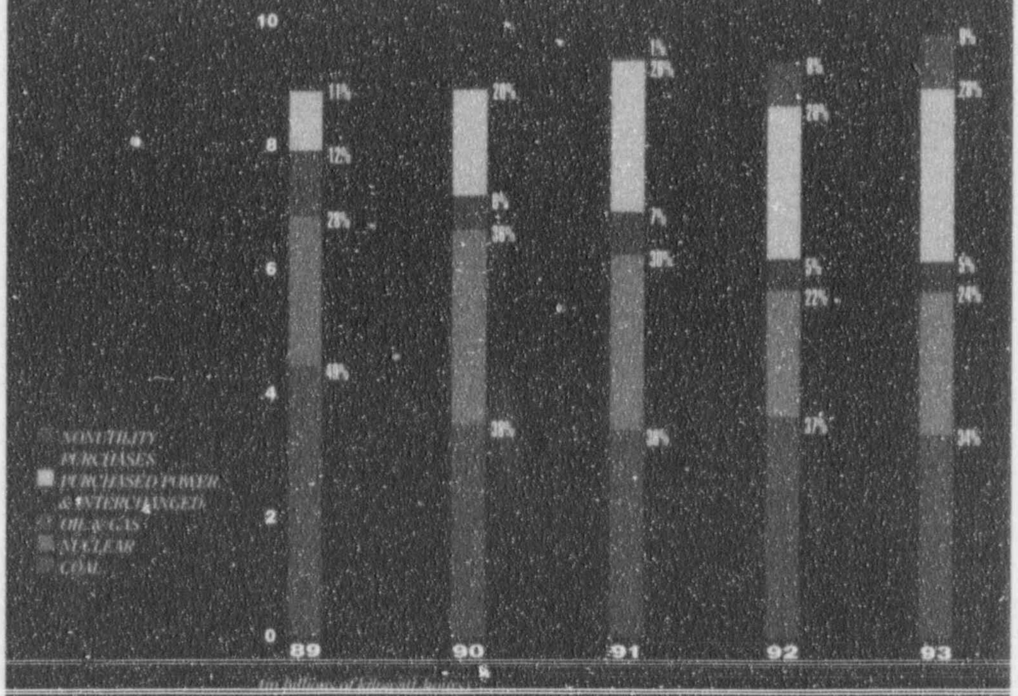



*RESIDENTIAL*
*COMMERCIAL*
*INDUSTRIAL & OTHER*

*The change in kilowatt-hour sales is determined by how many new customers are added, how much electricity each customer uses and weather conditions.*




*In the last five years, coal and nuclear fuel sources combined have provided on average more than 60% of Atlantic Electric's total energy requirements. Nonutility purchases are from an independent power producer and a cogeneration facility.*

| Cost of Energy (in cents per kilowatt-hour) | 89 | 90 | 91 | 92 | 93 |
|---|---|---|---|---|---|
| COAL | 2.26 | 2.20 | 1.99 | 1.76 | 1.68 |
| NUCLEAR | 0.87 | 0.83 | 0.78 | 0.73 | 0.68 |
| OIL & NATURAL GAS | 3.45 | 4.17 | 3.97 | 3.92 | 4.57 |
| PURCHASED POWER & INTERCHANGED | 3.29 | 2.45 | 1.93 | 4.75 | 1.78 |
| NONUTILITY PURCHASES | | | 3.95 | 3.62 | 3.86 |
| YEARLY AVERAGE | 2.08 | 1.85 | 1.78 | 1.80 | 1.82 |

# SUMMARY FINANCIAL AND STATISTICAL REVIEW 1993–1983

| | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|
| **Atlantic Energy, Inc.** | | | | |
| ***Investor Information*** | | | | |
| Operating Revenues (000) | **$ 865,675** | $ 816,825 | $ 808,374 | $ 740,894 |
| Net Income (000) | **$ 95,297** | $ 86,210 | $ 85,635 | $ 68,879 |
| Average Number of Common Shares Outstanding (000) | **52,888** | 51,592 | 49,008 | 45,590 |
| Earnings per Average Common Share | **$ 1.80** | $ 1.67 | $ 1.75 | $ 1.51 |
| Total Assets (Year-end) (000) | **$2,487,508** | $2,219,338 | $2,151,416 | $2,006,010 |
| Long Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption (Year-end) (000) | **$ 952,101** | $ 842,236 | $ 807,347 | $ 747,877 |
| Capital Lease Obligations (Year-end) (000) | **$ 45,268** | $ 49,303 | $ 53,093 | $ 57,971 |
| Dividends Declared on Common Stock | **$ 1.535** | $ 1.515 | $ 1.495 | $ 1.47 |
| Dividend Payout Ratio | **85%** | 90% | 85% | 97% |
| Book Value per Share (Year-end) | **$ 15.62** | $ 15.17 | $ 14.84 | $ 14.36 |
| Price/Earnings Ratio (Year-end) | **12** | 14 | 12 | 11 |
| Times Fixed Charges Earned (pre-tax, Atlantic Electric) | **3.54** | 3.76 | 3.68 | 2.94 |
| Common Shareholders (Year-end) | **47,832** | 46,524 | 43,802 | 42,295 |
| Employees (Atlantic Electric) (Year-end) | **1,835** | 2,023 | 2,032 | 2,055 |
| **Atlantic City Electric Company** (Principal Subsidiary) | | | | |
| ***Facilities for Service*** | | | | |
| Total Utility Plant (000) | **$2,402,415** | $2,279,107 | $2,175,601 | $2,027,138 |
| Additions to Utility Plant (000) | **$ 141,927** | $ 134,326 | $ 177,298 | $ 170,772 |
| Generating Capacity (Kilowatts) (Year-end) (a)(b) | **2,307,700** | 2,160,700 | 2,090,700 | 1,959,700 |
| Maximum Utility System Demand (Kilowatts) | **1,962,000** | 1,796,000 | 1,911,000 | 1,741,000 |
| Capacity Reserve at Time of Peak (% of Installed Generation) | **11.2%** | 16.9% | 5.2% | 1[illegible].9% |
| Energy Supply (mwh): | | | | |
| Net Generation | **6,025,861** | 5,775,098 | 6,300,891 | 6,267,559 |
| Purchased and Interchanged | **3,753,433** | 3,553,247 | 3,124,024 | 2,606,067 |
| Total System Load | **9,779,294** | 9,328,345 | 9,424,915 | 8,873,626 |
| ***Electric Sales to Ultimate Customers*** (mwh): | | | | |
| Residential | **3,495,722** | 3,276,330 | 3,370,327 | 3,267,606 |
| Commercial | **3,259,541** | 3,100,133 | 3,147,318 | 3,963,069 |
| Industrial | **1,261,069** | 1,229,211 | 1,368,329 | 1,376,423 |
| All Others | **50,080** | 49,464 | 49,626 | 49,769 |
| Total (a)(c) | **8,066,412** | 7,655,138 | 7,935,600 | 7,756,867 |
| ***Residential Electric Service*** (Average per Customer) | | | | |
| Amount of Electricity Used During the Year (kwh) | **8,608** | 8,131 | 8,440 | 8,251 |
| Revenue for a Year's Service | **$ 969.86** | $ 903.91 | $ 906.66 | $ 844.37 |
| Revenue per Kilowatt-hour | **11.27¢** | 11.12¢ | 10.74¢ | 10.23¢ |
| ***Ultimate Customer Data*** (Average) | | | | |
| Residential With Electric Heating | **82,385** | 82,206 | 81,838 | 81,479 |
| Residential Without Electric Heating | **323,722** | 320,744 | 317,486 | 314,529 |
| Total Residential | **406,107** | 402,950 | 399,324 | 396,008 |
| Commercial | **52,988** | 51,996 | 51,077 | 50,274 |
| Industrial | **971** | 990 | 998 | 1,002 |
| All Others | **522** | 524 | 524 | 537 |
| Total Ultimate Customers (c) | **460,588** | 456,460 | 451,923 | 447,821 |
| ***Operating Revenues*** (000) | | | | |
| Electric Service: | | | | |
| Residential | **$ 393,866** | $ 364,232 | $ 362,050 | $ 334,375 |
| Commercial | **315,089** | 299,866 | 292,349 | 271,688 |
| Industrial | **100,812** | 97,475 | 102,202 | 96,766 |
| All Others | **10,575** | 10,548 | 10,136 | 9,668 |
| Total from Electric Service | **820,342** | 772,121 | 766,737 | 712,497 |
| Unbilled Revenues–Net | **28** | 1,203 | 3,229 | (4,055) |
| Sales for Resale | **36,576** | 35,884 | 30,404 | 24,115 |
| Other Electric Revenues | **8,853** | 7,723 | 8,112 | 8,448 |
| Total Operating Revenues (c) | **$ 865,799** | $ 816,931 | $ 808,482 | $ 741,005 |

(a) Excludes capacity allocated to a large industrial customer. (b) Includes unit purchases and sales of capacity under contracts with certain other utilities and nonutilities. (c) Includes sales to an affiliate within the Atlantic Energy consolidated group.

| 1989 | 1988 | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|---|
| $ 723,216 | $ 687,335 | $ 635,657 | $ 604,716 | $ 612,035 | $ 582,386 | $ 526,681 |
| $ 80,964 | $ 72,171 | $ 73,765 | $ 54,946 | $ 46,150 | $ 56,433 | $ 59,717 |
| 43,268 | 39,186 | 36,622 | 36,532 | 36,138 | 35,162 | 33,845 |
| $ 1.87 | $ 1.84 | $ 2.01 | $ 1.50 | $ 1.28 | $ 1.60 | $ 1.76 |
| $1,864,461 | $1,660,286 | $1,499,381 | $1,401,064 | $1,319,027 | $1,253,083 | $1,170,993 |
| | | | | | | |
| $ 725,329 | $ 594,461 | $ 522,815 | $ 534,822 | $ 521,612 | $ 473,462 | $ 459,366 |
| $ 33,146 | $ 32,880 | $ 37,694 | $ 37,603 | $ 38,857 | $ 41,722 | $ 39,228 |
| $ 1.425 | $ 1.37 | $ 1.3575 | $ 1.305 | $ 1.2775 | $ 1.225 | $ 1.16 |
| 75% | 75% | 66% | 87% | 99% | 76% | 65% |
| $ 14.27 | $ 13.58 | $ 12.86 | $ 12.18 | $ 11.98 | $ 11.95 | $ 11.60 |
| 10 | 9 | 8 | 12 | 11 | 8 | 7 |
| | | | | | | |
| 3.19 | 3.06 | 3.68 | 2.99 | [illegible] | 3.62 | 4.14 |
| 43,383 | 44,473 | 45,586 | 47,133 | 48,635 | 47,446 | 48,299 |
| 2,021 | 2,092 | 2,148 | 2,168 | 2,099 | 2,012 | 1,995 |
| | | | | | | |
| $1,846,122 | $1,712,614 | $1,602,801 | $1,503,010 | $1,438,643 | $1,351,392 | $1,265,393 |
| $ 147,886 | $ 130,281 | $ 105,521 | $ 109,303 | $ 105,213 | $ 95,388 | $ 83,673 |
| 1,879,700 | 1,807,700 | 1,660,700 | 1,660,700 | 1,605,700 | 1,594,200 | 1,594,200 |
| 1,700,000 | 1,636,000 | 1,609,000 | 1,459,000 | 1,432,000 | 1,298,800 | 1,346,700 |
| | | | | | | |
| 9.6% | 9.5% | 3.1% | 12.1% | 10.8% | 18.5% | 15.5% |
| | | | | | | |
| 6,260,942 | 5,863,119 | 6,157,938 | 5,966,600 | 5,817,254 | 6,237,724 | 5,913,196 |
| 2,597,623 | 2,567,871 | 1,773,837 | 1,454,491 | 1,333,174 | 940,987 | 1,065,704 |
| 8,858,565 | 8,430,990 | 7,931,775 | 7,421,091 | 7,150,428 | 7,178,711 | 6,978,900 |
| | | | | | | |
| [illegible] | 3,213,010 | 3,040,410 | 2,839,114 | 2,638,121 | 2,646,813 | 2,545,351 |
| [illegible] | 2,741,976 | 2,592,232 | 2,401,199 | 2,298,895 | 2,150,464 | 2,019,468 |
| [illegible] | 1,339,005 | 1,323,567 | 1,222,981 | 1,204,971 | 1,197,392 | 1,225,637 |
| [illegible] | 56,289 | 58,191 | 58,120 | 57,685 | 59,122 | 60,978 |
| 7,617,784 | 7,350,280 | 7,014,400 | 6,521,414 | 6,199,672 | 6,053,791 | 5,851,434 |
| | | | | | | |
| 8,382 | 8,460 | 8,281 | 7,982 | 7,643 | 7,866 | 7,715 |
| $ 840.34 | $ 838.70 | $ 808.14 | $ 791.09 | $ 799.29 | $ 783.47 | $ 713.79 |
| 10.03¢ | 9.91¢ | 9.76¢ | 9.91¢ | 10.46¢ | 9.96¢ | 9.25¢ |
| | | | | | | |
| 80,409 | 78,805 | 75,900 | [illegible] | 68,871 | 65,261 | 62,272 |
| 309,245 | 300,974 | 291,253 | 283,062 | 276,305 | 271,207 | [illegible] |
| 389,654 | 379,779 | 367,153 | 355,702 | 345,176 | 336,468 | 329,914 |
| 49,509 | 48,398 | 46,775 | 45,359 | 44,256 | 43,615 | 43,152 |
| 1,008 | 1,014 | 1,015 | 1,022 | 1,020 | 1,015 | 1,021 |
| 549 | 552 | 554 | 554 | 554 | 544 | 549 |
| 440,720 | 429,743 | 415,497 | 402,637 | 391,006 | 381,642 | 374,636 |
| | | | | | | |
| $ 327,443 | $ 318,520 | $ 296,712 | $ 281,393 | $ 275,897 | $ 263,612 | $ 235,488 |
| 256,199 | 240,890 | 222,129 | 214,230 | 216,052 | 190,435 | 169,795 |
| 94,634 | 91,661 | 84,476 | 80,037 | 83,628 | 79,123 | 72,633 |
| 9,901 | 9,935 | 10,199 | 10,230 | 10,470 | 10,405 | 9,969 |
| 688,177 | 661,006 | 613,516 | 585,890 | 586,047 | 543,575 | 487,876 |
| 7,215 | 6,716 | 385 | (1,813) | 3,076 | (1,340) | 5,671 |
| 18,196 | 11,476 | 12,840 | 13,045 | 15,656 | 32,855 | 26,130 |
| 9,765 | 8,137 | 8,916 | 7,594 | 7,256 | 7,296 | 7,004 |
| $ 723,353 | $ 687,335 | $ 635,657 | $ 604,716 | $ 612,035 | $ 582,386 | $ 526,681 |

# INVESTOR INFORMATION

*(as of December 31, 1993)*

*Where should I send inquiries concerning my investment in Atlantic Energy or Atlantic Electric?*

The Company serves as recordkeeping agent, dividend disbursing agent and also as Transfer Agent for Common Stock and Atlantic Electric's Preferred Stock. Correspondence concerning such matters as the replacement of dividend checks or stock certificates, address changes, transfer of certificates, Dividend Reinvestment and Stock Purchase Plan inquiries or any general information about the Company should be addressed to:

Atlantic Energy, Inc.
Investor Records
6801 Black Horse Pike
P.O. Box 1334
Pleasantville, New Jersey 08232
Telephone (609) 645-4506 or (609) 645-4507

*When are dividends paid?*

The proposed record dates and payable dates are as follows:

| *Record Dates* | *Payable Dates* |
|---|---|
| March 21, 1994 | April 15, 1994 |
| June 20, 1994 | July 15, 1994 |
| September 19, 1994 | October 17, 1994 |
| December 19, 1994 | January 16, 1995 |

The following table indicates dividends paid per share in 1993 and 1992 on Common Stock:

| | **1993** | *1992* |
|---|---|---|
| First Quarter | **$ .38** | $ .375 |
| Second Quarter | **.38** | .375 |
| Third Quarter | **.385** | .38 |
| Fourth Quarter | **.385** | .38 |
| Annual Total | **$1.53** | $1.51 |

Dividend checks are mailed to reach shareholders approximately on the payment date. If a dividend check is not received within 10 days of the payment date, or if one is lost or stolen, contact Investor Records. Dividend checks may be automatically deposited into a checking, savings, money market or credit union account at any financial institution that accepts electronic direct deposit. Contact Investor Records for an authorization form.

Dividends paid on Common Stock in 1993 and 1992 were fully taxable. Some state and local governments may impose personal property taxes on shares held in certain corporations. Shareholders residing in those states should consult their tax advisors with regard to personal property tax liability.

*Who is the trustee and interest paying agent for Atlantic Electric's bonds and debentures?*

First Mortgage Bond recordkeeping and interest disbursing are performed by The Bank of New York, 101 Barclay Street, New York, New York 10286. Debenture recordkeeping and interest disbursing are performed by First Fidelity Bank, N.A., 765 Broad Street, Newark, New Jersey 07102.

*Does the Company have a Dividend Reinvestment and Stock Purchase Plan?*

Yes. The Plan allows shareholders of record and interested investors to automatically invest their cash dividends and/or optional cash payments in shares of the Company's Common Stock. Other services available to DRP participants include certificate safekeeping and automatic investment. Holders of record of Common Stock or interested investors desiring to enroll in the Plan should contact Investor Records at the address listed. In addition, shareholders whose stock is held in a brokerage account may be able to participate in the Plan. These shareholders should contact their broker or Investor Records for more information.

*Where is the Company's stock listed?*

Common Stock is listed on the New York, Pacific and Philadelphia Stock Exchanges. The trading symbol of the Company's Common Stock is ATE; however, newspaper listings generally use AtlEnrg or AtlanEngy.

The high and low sale prices of the Common Stock reported in the Wall Street Journal as New York Stock Exchange–Composite Transactions for the periods indicated were as follows:

| | **1993** | | *1992* | |
|---|---|---|---|---|
| | *High* | *Low* | *High* | *Low* |
| First Quarter | **$25.000** | **$21.875** | $21.000 | $18.000 |
| Second Quarter | **23.875** | **21.625** | 23.500 | 20.813 |
| Third Quarter | **25.375** | **22.625** | 24.625 | 22.500 |
| Fourth Quarter | **23.875** | **20.375** | 23.500 | 21.750 |

*Is additional information about the Company available?*

The annual report to the Securities and Exchange Commission on Form 10-K and other reports containing financial data are available to shareholders. Specific requests should be addressed to:

Atlantic Electric
Financial Services Department
6801 Black Horse Pike
Pleasantville, New Jersey 08232
Telephone (609) 645-4655 or (609) 645-4888
FAX (609) 645-4132

# OFFICERS



*(age/years of service as of December 31, 1993)*

**JERROLD L. JACOBS** *(54/32)*
President and Chief Executive Officer of Atlantic Energy
Director of Atlantic Energy and all subsidiaries
Chairman, President and Chief Executive Officer of Atlantic Electric

Mr. Jacobs was elected President and Chief Executive Officer of Atlantic Energy and Atlantic Electric in 1993. Since 1990, he served as President of Atlantic Energy and President and Chief Operating Officer of Atlantic Electric. Prior to that, he was Executive Vice President of Atlantic Electric. Mr. Jacobs joined Atlantic Electric in 1961 as an engineer.

**MEREDITH I. HARLACHER, JR.** *(51/28)*
Vice President of Atlantic Energy
Director of Atlantic Energy Technology, Atlantic Southern Properties and ATE Investment
Senior Vice President–Energy Supply of Atlantic Electric

Mr. Harlacher has served as Vice President of Atlantic Energy since 1987 and was named Senior Vice President–Energy Supply of Atlantic Electric in 1993. Prior to that, he was Senior Vice President–Utility Operations and Senior Vice President–Corporate Planning and Services of Atlantic Electric. He joined Atlantic Electric in 1965 as an engineer.

**HENRY K. LEVARI, JR.** *(45/22)*
Vice President of Atlantic Energy
Director of all subsidiaries
Senior Vice President–Marketing & Customer Operations of Atlantic Electric

Mr. Levari has served as Vice President of Atlantic Energy since 1991 and was named Senior Vice President–Marketing & Customer Operations of Atlantic Electric in 1993. Prior to that, he was Senior Vice President–Corporate Planning and Services and Vice President–Power Delivery of Atlantic Electric. He joined Atlantic Electric in 1971 as an engineer.

**J. G. (JERRY) SALOMONE** *(53/17)*
Vice President and Treasurer of Atlantic Energy
Director of all subsidiaries
Senior Vice President–Finance & Administration of Atlantic Electric
Certified Public Accountant

Mr. Salomone has served as Vice President of Atlantic Energy since 1987. He was named Senior Vice President–Finance & Administration of Atlantic Electric in 1993. Prior to that, he was Senior Vice President–Finance & Accounting and Treasurer. He has served as Chief Financial and Accounting Officer of Atlantic Electric since 1984. He joined Atlantic Electric as Assistant Controller in 1976.

**SCOTT B. UNGERER** *(35/13)*
Vice President of Atlantic Energy
President and Director of Atlantic Southern Properties, Atlantic Generation, Atlantic Energy Technology and ATE Investment

Mr. Ungerer was elected to the above positions in January 1994. Prior to that he served as Manager–Production Economics, Manager–Joint Generation Projects and most recently Manager-Business Planning Services. He joined Atlantic Electric in 1980 as an engineer.

**SABRINA D. McMILLIAN** *(38/8)*
Secretary of Atlantic Energy
Vice President–Legal and Secretary of Atlantic Electric
Acting Secretary of Atlantic Southern Properties, Atlantic Generation, Atlantic Energy Technology and ATE Investment

Ms. McMillian has served as Secretary of Atlantic Energy and Atlantic Electric since 1986. She was elected Vice President–Legal and Secretary of Atlantic Electric in 1993. She joined Atlantic Electric in 1985 as Assistant to the Corporate Secretary. Ms. McMillian is an attorney.

**JOHN M. CARDEN** *(55/26)*
Vice President–Ocean Region of Atlantic Electric

Mr. Carden was named Vice President–Ocean Region of Atlantic Electric in 1993. Prior to that, he was Vice President–Customer Service and Vice President–Administrative Services of Atlantic Electric. He joined Atlantic Electric in 1967 as an engineer. (retired effective 1/3/94)

**FRANK F. FRANKOWSKI** *(43/10)*
Vice President–Controller and Assistant Treasurer of Atlantic Electric
Certified Public Accountant

Mr. Frankowski was named Vice President–Controller and Assistant Treasurer of Atlantic Electric in 1993. He was previously Controller–Corporate Services. Prior to that, he held management positions in accounting and taxes. He joined Atlantic Electric in 1983 as Manager of Internal Auditing Services.

**JAMES J. LEES** *(49/23)*
Vice President–Marketing of Atlantic Electric

Mr. Lees was named Vice President-Marketing of Atlantic Electric in 1993. He was previously Vice President–Marketing and Rates and Vice President–Rates of Atlantic Electric. He joined Atlantic Electric in 1970 as an engineer.

**ERNEST L. JOLLY** *(41/13)*
Vice President–External Affairs of Atlantic Electric

Mr. Jolly was named Vice President–External Affairs of Atlantic Electric in 1992. Prior to that, he held station manager positions at Deepwater Generating Station from 1987 to 1992. He joined Atlantic Electric in 1980 as an engineer.

**J. DAVID McCANN** *(42/21)*
Vice President–Engineering & Construction Services of Atlantic Electric

Mr. McCann was named Vice President–Engineering & Construction Services of Atlantic Electric in 1993. Prior to that, he was Vice President–Power Delivery and Vice President, Treasurer and Assistant Secretary of Atlantic Electric. He joined Atlantic Electric in 1972 as an engineer.

**HENRY C. SCHWEMM, JR.** *(52/24)*
Vice President–Power Generation & Fuels Management of Atlantic Electric

Mr. Schwemm was named Vice President–Power Generation & Fuels Management of Atlantic Electric in 1993. Prior to that, he served as Vice President–Production of Atlantic Electric since 1980. He joined Atlantic Electric in 1969 as an engineer.

**LOUIS M. WALTERS** *(41/15)*
Vice President–Treasurer and Assistant Secretary of Atlantic Electric
Treasurer of Atlantic Southern Properties, Atlantic Generation, Atlantic Energy Technology and ATE Investment
Certified Public Accountant

Mr. Walters was elected Vice President–Treasurer and Assistant Secretary of Atlantic Electric in 1993. Since 1991, he had served as General Manager–Treasury and Finance of Atlantic Electric. Prior to that, he held management positions in treasury, taxes and accounting. He joined Atlantic Electric in 1978 as an accountant.

# BOARD OF DIRECTORS



*(as of December 31, 1993)*

**JOS. MICHAEL GALVIN, JR.**

Mr. Galvin, a Director since 1978, is president and chief executive officer of the South Jersey Health Corporation – The Memorial Hospital of Salem County. He is a director of Woodstown National Bank and the Center for Health Affairs. He is a graduate of the University of Scranton and holds a Master of Business Administration from Xavier University. Age: 48. Professional Experience: personnel, health care management.

Committee Chairman: Personnel. Committee Membership: Audit; Energy, Operations & Research; Pension & Insurance.

**GERALD A. HALE**

Mr. Hale, a Director since 1983, is president of Hale Resources, Inc., a health care, industrial/natural resource company. He is a director of New Jersey Manufacturers Insurance Company, New Jersey Business and Industry Association and Hoke, Inc. He is a graduate of Western Michigan University. Age: 66. Professional Experience: industrial minerals, chemicals and fabricated O.E.M. products.

Committee Chairman: Corporate Development. Committee Membership: Audit; Energy, Operations & Research; Personnel.

**MATTHEW HOLDEN, JR.**

Mr. Holden, a Director since 1981, is the Henry L. and Grace M. Doherty Professor of Government and Foreign Affairs at the University of Virginia. He is a former commissioner of the Federal Energy Regulatory Commission and the Wisconsin Public Service Commission. He holds a Doctorate of Political Science from Northwestern University. Age: 62. Professional Experience: regulatory affairs, energy consultation, arbitration.

Committee Chairman: Audit. Committee Membership: Corporate Development; Pension & Insurance; Personnel.

**CYRUS H. HOLLEY**

Mr. Holley, a Director since 1990, is president of Management Consulting Services. He was formerly chief operating officer, executive vice president and a director of Engelhard Corporation. He is a graduate of Texas A & M University. Age: 57. Professional Experience: industrial minerals, chemicals and precious metals.

Committee Chairman: Energy, Operations & Research. Committee Membership: Corporate Development; Finance & Investor Relations; Personnel.

**E. DOUGLAS HUGGARD**

Mr. Huggard, a Director since 1984, is Chairman of the Board of the Company. He served as Chairman and Chief Executive Officer of the Company and Atlantic City Electric Company from 1989 until 1993, when he retired after completing 38 years of service. Prior to that, he was Director, President and Chief Executive Officer of the Company and Atlantic City Electric Company. He holds a Master of Mechanical Engineering from the University of Delaware. Age: 60. Professional Experience: utility operations.

Committee Membership: Ex-officio member of all committees except Audit and Personnel.

**JERROLD L. JACOBS**

Mr. Jacobs is President and Chief Executive Officer of the Company and of Atlantic City Electric Company. He is a Director of all of the Company's subsidiaries and has been with the Company for 32 years. He is a graduate of the Newark College of Engineering (New Jersey Institute of Technology). Age: 54. Professional Experience: utility operations.

Committee Membership: Ex-officio member of all committees except Audit and Personnel.

**KATHLEEN MacDONNELL**

Ms. MacDonnell was elected as a Director in 1993. She is vice president of Campbell Soup Company and president of its Frozen Foods Group. She is a member of the board of trustees of the West Jersey Hospital System, a member of the board of directors of the Camden County Girl Scouts and a trustee of the Campbell Foundation. She is a graduate of the University of Massachusetts and holds a Master of International Management from the American Graduate School of International Management. Age: 45. Professional Experience: consumer products, marketing and international management.

Committee Membership: Audit; Energy, Operations & Research; Finance & Investor Relations; Pension & Insurance.

**RICHARD B. McGLYNN**

Mr. McGlynn, a partner in the law firm of LeBoeuf, Lamb, Leiby & MacRae, has been a Director since 1986. He is a former commissioner of the New Jersey Board of Public Utilities and a former judge in Essex County, New Jersey. He is a graduate of Rutgers Law School and Princeton University. Age: 55. Professional Experience: law, utility regulation.

Committee Chairman: Pension & Insurance. Committee Membership: Corporate Development; Energy, Operations & Research; Finance & Investor Relations.

**BERNARD J. MORGAN**

Mr. Morgan, a banking industry executive, was elected as a Director in 1988. He is a director of St. Joseph's University and a member of the Business Advisory Board of the Girl Scouts of Greater Philadelphia. He holds a Master of Business Administration from the Wharton School of the University of Pennsylvania. Age: 57. Professional Experience: banking, finance.

Committee Chairman: Finance & Investor Relations. Committee Membership: Corporate Development; Pension & Insurance; Personnel.

**HAROLD J. RAVECHÉ**

Dr. Raveché, who became a Director in 1990, is president of the Stevens Institute of Technology. He was formerly the dean of science of the Rennsselaer Polytechnic Institute. He is a director of National Westminster Bancorp, Inc. and National Westminster Bank NJ, a commissioner of the New Jersey Commission on Science and Technology and a member of the Newark International Airport Advisory Committee. He holds a Doctorate of Physical Chemistry from the University of California. Age: 50. Professional Experience: higher education, science and technology policy.

Committee Membership: Audit; Corporate Development; Energy, Operations & Research; Finance & Investor Relations.

# OARD OF DIRECTORS

Jos. Michael Galvin, Jr.

Gerald A. Hale

Matthew Holden, Jr.

Cyrus H. Holley

E. Douglas Huggard

Jerrold L. Jacobs

Kathleen MacDonnell

Richard B. McGlynn

Bernard J. Morgan

Harold J. Raveché

FIRST CLASS MAIL
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08232

6801 Black Horse Pike, Pleasantville, New Jersey 08232

# BOARD OF DIRECTORS










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ATLANTIC ENERGY