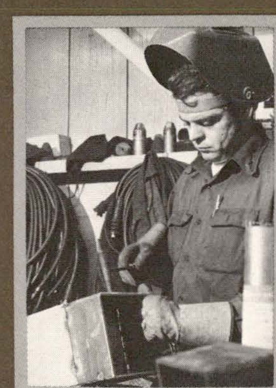
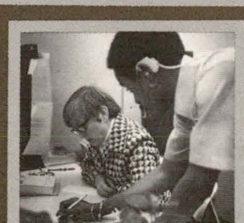
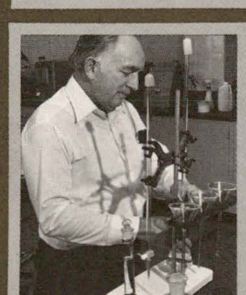
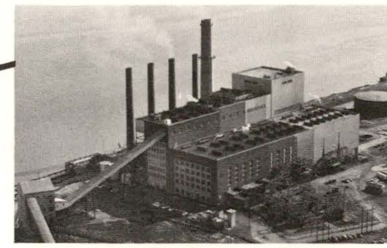
1976 Annual Report
Delmarva Power & Light Company

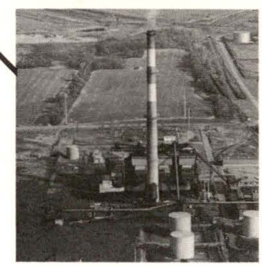


Our Service Area — Delmarva Power provides electric service throughout most of the 5,700 square-mile Delmarva Peninsula. This area includes the State of Delaware, portions of nine Eastern Shore Counties of Maryland and the two Eastern Shore Counties of Virginia. In addition, the Company distributes natural gas in a 270 square-mile area in Northern Delaware.

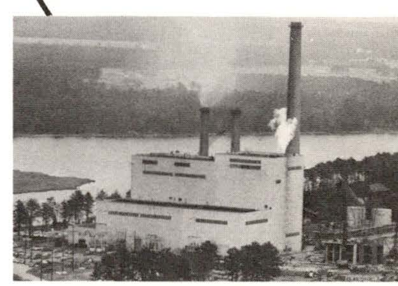
Locations of the Company's generating stations on the peninsula are indicated on the map. In addition, the Company receives generation from two coal-burning stations in Western Pennsylvania and from the Peach Bottom, Pennsylvania, and Salem, New Jersey, nuclear power stations.



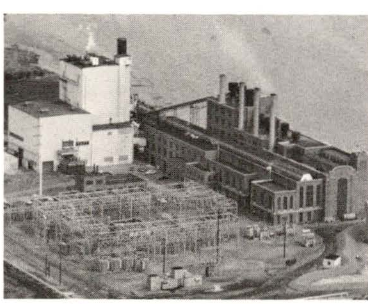
Edge Moor Power Station, Wilmington



Delaware City Power Station, Delaware City



Indian River Power Station, Millsboro



Vienna Power Station, Vienna

ON THE COVER (Clockwise from top left) — Construction is underway on coal-fired unit at Indian River Power Station; Thomas J. Warren, Sr., Mechanical Welder at Delaware City Power Station; propane mixing station helps offset increased natural gas curtailment by our pipeline supplier; Joseph Huszti, Chemist, Delaware City Power Station; Jean McGrory, Section Supervisor, Customer Services, discusses billing question with Robert Moore, Clerk, Customer Services.

Financial Highlights

	1976	1975	Percent Increase (Decrease)
Revenues	$286.4 million	$276.0 million*	3.8
Net Income	$35.1 million	$31.5 million*	11.4
Earnings per share	$1.48	$1.38*	7.2
Dividends Declared	$1.20	$1.20	—
Common Stock Outstanding (Average Shares)	18,820,521	17,579,509	7.1
Common Stock Book Value	$15.01	$14.79	1.5
Construction Requirements	$76.0 million	$80.5 million	(5.6)
Electric Sales	6.7 billion kwh	6.4 billion kwh	4.7
Gas Sales	13.8 million mcf	12.9 million mcf	7.0
Electric Customers	260,476	250,593	3.9
Gas Customers	73,352	73,827	(0.6)

**Restated*

Contents

ANNUAL MEETING

Third Tuesday in April at
12:30 p.m., in the Company's
General Offices
800 King Street
Wilmington, Delaware

FIRST MORTGAGE AND COLLATERAL TRUST BONDS — Trustee, Chemical Bank, New York, N.Y.
PREFERRED STOCK — Transfer Agent, Wilmington Trust Company, Wilmington, Del., Registrar — Delaware Trust Company, Wilmington, Del.
COMMON STOCK — Stock Symbol, DEW, Listed on the New York and Philadelphia Stock Exchanges. Transfer Agents — Wilmington Trust Company, Wilmington, Del., and Irving Trust Company, New York, N.Y. Registrars — Delaware Trust Company, Wilmington, Del. and Bankers Trust Company, New York, N.Y.

To Our Shareholders:

Company earnings of $1.48 for 1976 were 7.2% over restated earnings for 1975 of $1.38. In spite of this increase, earnings were well below expectations mainly because of an adverse rate decision by the Delaware Public Service Commission which allowed only 52% of the amount requested. In addition, a tentative settlement was reached in February, 1977 of a rate case pending before the Federal Power Commission, which reduced revenue collected during 1976 by 1.4 million dollars.

In mid-January, 1977 the Company filed for an overall increase in Delaware electric revenues of about $26 million or 18%. This increase is required to bring Company revenues up to the rate of return previously authorized as well as offset the continuing erosion of the Company's earnings during 1977. The Company plans to request in a timely manner rate increases in other jurisdictions during the year.

Your Company is working with the Delaware, Maryland and Virginia Commissions to develop electric rate structures that will more closely reflect the on peak and off peak costs of providing service.

Several events took place during the year which are of special importance to the Company:

- The final permit for the 500,000 volt aerial transmission line across the Delaware River was received and construction is underway.
- The Securities & Exchange Commission granted the Company's request for an exemption from the Public Utility Company Holding Act of 1935. The SEC decision essentially reaffirms our position that the Company is a single integrated utility system and puts to rest the uncertainty regarding the separation of the gas and electric properties.
- The natural gas exploration venture in which the Company is participating found gas in the Southwest. The Company's share of the find will be an extremely small portion of our customers' needs.
- A reorganization of Company management was accomplished to more closely coordinate the parent and subsidiary companies' operations throughout the peninsula. Mr. Roe was elected Chairman of the Board, succeeding Mr. Gardner and we are working together to improve internal efficiencies.
- With the exception of $34.5 million of pollution control revenue bonds, no external financing was required in 1976. The pollution bonds afford the Company a more favorable interest rate.

During the year a plan was developed for meeting the need power in our service area during the next decade and for financin this plan. The plan is based on a very thorough study and project of our peak load growth betwee now and the year 1995. We have concluded that our peak load wi grow at a rate of about 5.44% pe year during the next 10 years. Th compares to an 8.5% average annual rate of growth for the pas decade. Our projections take int account the influence of energy conservation, population growth and the effects of higher energy prices. In accordance with a Delaware P.S.C. order, this plan h been submitted to the Commiss for approval.

In order to have adequate generation to meet our growth projections, we studied many generation alternatives before selecting the one which is most acceptable from the standpoint capital and revenue requiremen

One part of our generation pl consists of purchase of capacit from the Philadelphia Electric Company's Limerick nuclear po station from mid-1983 through 19 This arrangement is beneficial because these units are under construction and no capital expenditures are required by Delmarva prior to the startup of units.

Another part of our plan is the stallation of a nuclear generating it to be on line in 1987. In order to chieve economy of size, this cility would be either 900 or 1200 egawatts. Our system would quire about 600 megawatts of this it and we would invite other lities to share ownership. Our alysis of generation options dicates that a nuclear plant is esently the most economical ernative for the late 1980's. owever, the plan provides us with e flexibility to make changes in the ze of the unit or type of fuel uclear or fossil). Our objective is provide the most economical neration for the lowest overall st to the Company and its stomers.

At the present time, oil provides out 53% of our kilowatt-hour neration; coal provides 36%, d nuclear power 11%. In 1987, we an for nuclear power to provide % of our kilowatt-hour neration, while coal will provide % and oil only 12%.

The Company continues to nphasize conservation of all ms of energy due to what we lieve to be a serious, long range ergy problem in this country.

It has been necessary to curtail tural gas supplies to many dustrial and commercial gas stomers because of severe rtailments by our pipeline pplier. In order to stimulate gas production, we continue to support industry efforts aimed at the deregulation of the price of natural gas.

A national energy policy is sorely needed and is long overdue. We hope that a comprehensive policy regarding use of all fuels and the closing of the nuclear fuel cycle will be formulated during the next year. Such a policy will assist us in choosing the best course to follow in carrying out our proposed 10-year generation plan. The results of nuclear referendums in seven states this year are encouraging and indicate that a majority of people support development of nuclear power.

Your Company will seek to improve the quality of its earnings by proposing changes in the methods of accounting for construction work in progress and allowance for funds used during construction.

We appreciate the cooperation of all employees during the past year and we will all work together in 1977 to improve the return on shareholders' equity while providing our customers with the best possible service.

Sincerely,

Thomas C. Roe

Thomas C. Roe
Chairman of the Board

R D Weimer

Robert D. Weimer
President and Chief
Executive Officer

February 14, 1977

Robert D. Weimer   Thomas C. Roe

Summit Settlement Provides Construction Funds

Revenues Up $10.4 Million

Operating revenues totaled $286.4 in 1976, a 3.8% increase over 1975. The increase is due primarily to increased rates and a 4.7% increase in electric sales.

Increases and decreases in revenue over 1975 by customer class were as follows:

	Electric	Gas
Residential	4.3 %	22.5%
Commercial	3.3 %	29.6%
Industrial	0.5 %	37.8%
Resale	(3.3)%	—
Interruptible	—	(27.4)%

Operating Expenses Increase $9.1 Million

Operating expenses totaled $233.3 million for 1976, an increase of $9.1 million or 4.1% over 1975. The increase primarily reflects the higher cost of purchased natural gas and increased maintenance costs for generation and transmission facilities. Fuel expenses leveled off in 1976 and represented an increase of 1.5%.

Earnings Increase to $1.48 Per Share

Earnings on common stock for 1976 increased to $27.9 million from $24.3 million in 1975. Earnings per share in 1976 were $1.48, compared to $1.38 in 1975. At year's end there were 55,860 shareholders of common stock.

The Company has determined that 100% of 1976 common stock dividends are taxable for federal income tax purposes.

Construction and Financing

Construction requirements for 1976 were approximately $76.0 million. From 1977 to 1981 construction requirements are estimated at $673 million. Of that amount, approximately $190 million will be required in 1977, $157 million in 1978, $98 million in 1979, $83 million in 1980 and $145 million in 1981.

Funds for 1976 construction requirements were provided by proceeds from the settlement of the nuclear plant contract with General Atomic Company and from internally generated funds. These sources are also expected to provide the cash requirements for $255 million of the financing requirements for 1977 through 1981. We expect to finance the balance of the construction program through 1981, together with $32 million required for refunding maturing long-term debt, through the issuance of first mortgage bonds, pollution control revenue bonds, preferred and common stock and unsecured short-term notes.

In December the Company received the proceeds from the sale of $32 million of pollution control revenue bonds by the State of Delaware and $2.5 million of pollution control revenue bonds by the Commonwealth of Pennsylvania. The bonds bear an interest rate of 7¼% and 7⅛% respectively and were sold to finance pollution control equipme for the Company's coal-burning Indian River Power Station and fo its share of pollution control equipment at the Peach Bottom Atomic Power Station.

During 1977 the Company anticipates financing a portion of its construction program through the sale of approximately $23.2 million of common stock, $20.0 million of preferred stock and $41 million of first mortgage bonds ar short-term securities. The type, amounts and timing of future financing will be determined by prevailing market conditions.

Rate Increases In Effect and Pending

Gas Rates

In April the Public Service Commission of Delaware (PSC) approved the Company's reques for an increase of 11.4%, or $2.7 million, in revenue from rates charged natural gas customers. The increase had been in effect, subject to refund since June 197

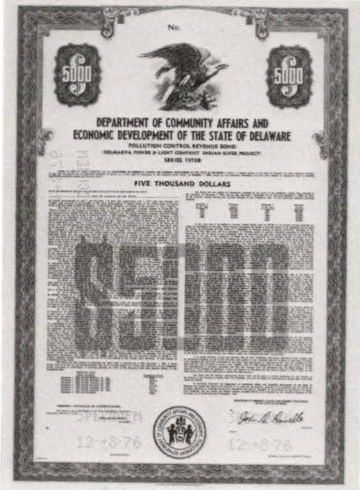
No decision was reached duri the year on the Company's appe to the courts, for the second tim of the Delaware Public Service Commission's order concerning 1973 request for a 12% increase gas rates. The Commission granted an increase of about 4½

April 1974. On remand by the
ourt, the Commission reaffirmed
1975 the 4½% increase to be
fective from June 1, 1973 through
arch 8, 1974 and agreed to
examine the subsequent period
ntil June, 1 1975 in connection
th an application for increased
as rates filed in 1975. The Court
held Delmarva's position in the
cond appeal, but a Commission
ng for rehearing was pending at
ar end.

ectric Rates

In May, at the Company's
quest, the Delaware PSC reheard
rtions of its decision issued the
evious month which allowed the
mpany a 6.5% increase in retail
ectric revenues. As a result of the
hearing, the PSC granted a total
crease of 7.1% or $10.6 million in
ditional revenues. The Company
d requested an increase of
5%. The primary reason the full
quest was not granted was due
the Commission's treatment of
favorable settlement of the
mmit project which occurred
ee months after the rate
rease was filed in 1975.

By order of the Commission, the
mpany proposed a new
idential electric rate to the
laware PSC in June. The
posed rate is not a rate increase
cause it is intended to provide
proximately the same revenues
he Company. The proposed rate
uces the cost of electricity
ing winter months for customers



Top — The Company sorts service bills to use 12¢ first-class bulk mail rate for an annual savings of about $25,000. Bottom left — The issuance of pollution control revenue bonds afforded the Company more favorable interest rates as compared to conventional financing. Bottom right — Ken Jones, left, Assistant Manager of Corporate Planning and Earl Krapf, Manager of Corporate Planning, share a lighter moment between rate hearings.

S.E.C. Decision Supports Company Position

who conserve electricity during the peak summer months and increases costs for those who contribute to the summer peak. Hearings before the PSC on the rate proposal have not been scheduled. The Company is unable to predict when the new rates will become effective or if changes in the rates will be made.

In August the Delaware PSC approved a temporary residential electric heating rate retroactive to April 13, 1976. The temporary heating rate, like the proposed residential rate, offers an incentive to customers who conserve electricity during the peak summer months.

Maryland

In January, 1976 the Maryland PSC approved a 5.2% rate increase in retail electric revenues for the Maryland subsidiary. The increase represents 58% of the Company's total request and will increase annual revenue by $2,379,000.

The Company has appealed an order from the Public Service Commission of Maryland requiring the Maryland subsidiary to refund $125,000 to Maryland customers. The appeal results from a 1975 decision by the PSC of Maryland requiring the Maryland subsidiary to revise its formula for billing customers for the changing costs of fuel used to produce electricity. The Commission concluded that the Company's calculation method resulted in collecting more during 1974 than the method proposed by the Commission. The Company was ordered to refund that amount or show cause why such refunds should not be made. The Company is unable to predict what the final decision will be on this matter.

Virginia

In November the Virginia State Corporation Commission approved a 4.5% increase in retail electric revenues for the Virginia subsidiary. The increase represents 44% of the Company's total request and will increase annual revenues by $349,000.

Municipals and Cooperatives

In January, 1976 the Company applied to the Federal Power Commission (FPC) for an average increase in electric rates of 12.9% to all resale customers. The increase was placed in effect in April subject to refund. If approved, the new rate will increase annual revenues by approximately $4.1 million. A tentative settlement in this case was reached on February 2, 1977, and is explained in Note 2 (b) to Financial Statements.

In November a tentative settlement was reached between the Company and intervenors concerning a resale rate increase filed with the FPC in August 1974. The agreement provides the Company with 47% or approximately $1.7 million of a $3 million rate increase. The settlement requires final FPC approval. Since the entire increas has been in effect since October 1974, amounts collected in exces of the settlement amount will be refunded to resale customers following FPC approval.

See Note 2 to Financial Statements for additional information concerning "Rate Matters."

Favorable SEC Decision

In October the Securities and Exchange Commission (SEC) granted the Company an exemption from most of the provisions of the Public Utility Holding Company Act of 1935 as requested by the Company. The decision does not require the Company to divest its gas proper However, the Commission reserv the right to consider divestiture c the gas property at some future date.

The Commission took into consideration testimony of the Public Service Commission of Delaware indicating that separation of the gas company would increase costs to users of both gas and electricity.

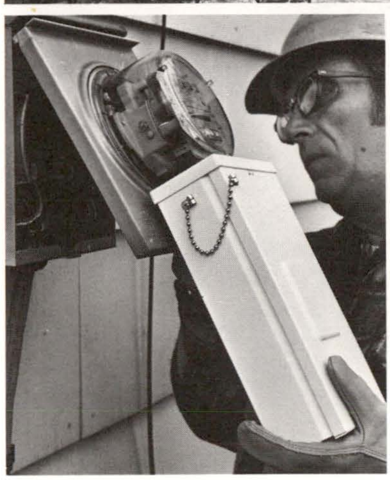
The decision by the SEC emmed from action initiated by e SEC in 1972 concerning the paration of Delmarva's gas operty. In response to the SEC der, the Company requested an emption from the Public Utility olding Company Act of 1935 on e basis that the Company is edominately an operating mpany and is operating a single egrated utility system.

ectric Consumption creases

System electric sales were 6.7 lion kilowatt hours in 1976, or 7% higher than in 1975. The crease reflects an improvement in onomic conditions affecting ectric sales to firm industrial stomers along with increased age by commercial and sidential customers.

Increases and decreases in les as compared to 1975 by stomer class were as follows:

Residential	6.9 %
Commercial	3.9 %
Industrial	5.5 %
Resale	(1.8)%



Top — These townhouses in Wilton, a new community near Wilmington, reflect continued residential growth. Center — Progress continues at Wilmington's Civic Center complex, where Company headquarters building is located (partially visible, center background). Bottom — Bill Abernathy, Sr., Electric Meterman, affixes metering device to record customer usage patterns for rate-making analysis.

Generation Planning Centers on Coal and Nuclear Power

Electric heating is a popular choice of new customers. During 1976 the Company added 8,799 residential electric customers; of these, 2,764 heat their homes electrically. Of the 1,000 commercial customers added during the year, 193 have electric heat. Further increases in the electric heating category are anticipated as new home construction on the Delmarva Peninsula increases.

The peak demand was 1,434,000 kilowatts on June 28, 1976 at 5 p.m. This peak was less than the 1975 peak by 2%, and was 4.9% less than the 1,508,000 kilowatt all time peak set in 1973.

Gas Curtailment Increases

For the sixth consecutive year, the Company's natural gas supply was curtailed by the Transcontinental Gas Pipe Line Corporation (Transco). The Company experienced a curtailment of 41% for the 1976 – 1977 winter season and expects a curtailment of 52% for the summer of 1977.

To partially offset these shortages we are storing 3.4 billion cubic feet of natural gas and have obtained propane equivalent to an additional 220 million cubic feet. The Company is seeking additional underground field storage.

As a result of severe winter weather and additional curtailments by our pipeline supplier, gas volumes were curtailed to industrial and commercial customers during January and February, 1977. Gas service to residential customers was not curtailed. Customers cooperated in reducing natural gas usage as requested by the Company.

No new gas customers have been added to the system since 1972.

The Company continues to support efforts to deregulate the interstate price of new natural gas in order to stimulate exploration and production of this domestic fuel.

Gas Exploration Successful

Natural gas was discovered in 1976 by the exploration consortium which the Company joined in 1975 through a wholly-owned subsidiary, "Delmarva Energy Company". The Company's share of the discoveries, which are located in the Southwest, is equivalent to 0.3% of our daily contractual supply and will help to offset the pipeline curtailment. The gas is expected to arrive by mid 1977.

Delmarva Energy Company has a 7.5% share in the exploration partnership and has invested $338,000 through 1976. Exploration is continuing and Delmarva Energy Company will participate in a second year of exploration at a cost of $280,000.

Marketing Energy Efficiency

The Company is committed to encouraging its customers to ma the most efficient use of electrici especially during peak load periods on the system.

An Energy Efficiency Award Program was initiated to encourage home builders to incorporate energy efficient features in new home constructic on the peninsula. To qualify for th award, the builder must meet requirements for adequate insulation in order to reduce ener requirements. Response from builders and potential home buye has been very favorable.

Company representatives are pointing out the benefits of the electric heat pump, which offers the homeowner improved heatin efficiency at a cost that is very competitive with other systems. Considerable interest has been developed and a substantial number of new electric heating installations are heat pumps.

Through on-going meetings wi commercial and industrial customers, the Company provid assistance in energy manageme especially the use of techniques help control energy demand duri peak periods. Studies are underway to measure customer usage patterns in order to impro load management aspects of marketing energy efficiency.

eneration Planning

The Company has developed a ew generating plan following ancellation of the Summit Power ation in 1975 when the reactor upplier was unable to fulfill its ontract. In agreeing to terminate e contract, the Company btained a settlement of $125 illion.

The plan is based on a year-long udy of generation alternatives d energy demand on our system om 1976 through 1995.

The following table shows major enerating facilities of the ompany which are under onstruction and those which are anned as part of the long range eneration plan.

The generation plan includes 0 megawatts of peaking eneration in 1986 and an dditional 100 megawatts in 1988. e addition of these units can be djusted to reflect changes in emand and gives flexibility to the erall plan.

An integral and necessary part our overall plan is to undertake te selection activities on the eninsula for a coal-burning plant oncurrently with our plans for eveloping a nuclear site. Early site lection for a coal plant must oceed to provide an alternate ould future events, for whatever ason, make a nuclear facility desirable or impossible.

PLANNED CAPACITY ADDITIONS

	Total Megawatts	Company Portion	Scheduled Commercial Operation
Under Construction:			
Nuclear:			
Salem #1	1,090	81	1977
Salem #2	1,115	82	1979
Coal Fired:			
Indian River #4	400	400	1979
Planned:			
Nuclear:			
Limerick #1	1,055	200*	1983 – 86
Limerick #2	1,055	200*	1985 – 87
Summit	900/1200	600	1987

**short term purchase*

Top — Meeting customer demand requires near-term and long-range generation planning. Left — Bob Bradway, Builder Services Representative, holds the Company's "Energy Efficiency Award" sign for placement in front of qualifying home. The award was created in 1976 to encourage energy-efficient construction from the ground up.

Construction Underway on River Crossing Transmission Line

Fuel Supply and Cost

The fuel supply situation was stable in 1976 and the overall cost of fuel (per million BTU) declined for the second consecutive year.

During 1976 the Company received 11% of its generation from the Peach Bottom nuclear units, representing a savings in fossil fuels equivalent to 1.5 million barrels of fuel oil.

Oil provided 53% of the Company's generation in 1976, and 36% was provided by coal.

The Company expects oil costs to increase in 1977 as the result of a worldwide increase in oil prices. The increase will be partially offset by greater nuclear generation from Unit #1 at Salem Nuclear Generating Station, which began pre-commercial operation in December 1976.

Environmental Matters

Wastewater discharge permits issued for the Company's four generating stations on the peninsula require compliance with chemical and thermal discharge limitations. Construction of wastewater treatment facilities to meet chemical discharge limits by a July 1, 1977, statutory deadline is now underway at all four plants and total costs are estimated at about $6.5 million.

Studies at Pea Patch Island, Delaware, continued in 1976 in order to adequately document the status of the colony of wading birds which nest there in the spring and summer months. This site is a breeding area and is one of the largest mixed-species heronries on the east coast. Construction of the Company's 500,000 volt Delaware River transmission line crossing began about one mile north of the heronry in the fall of 1976 after most of the birds had departed for their winter nesting areas to the south. Since construction will continue into the 1977 breeding season, an additional year of study is planned. No significant adverse impacts on the heronry are anticipated as a result of line construction.

FEA Conversion Order

No decision was reached in 1976 regarding the Federal Energy Administration's (FEA) order in 1975 prohibiting the burning of oil in Units 1 through 4 at the Edge Moor Power Station. Environmental studies are being conducted by both the FEA and the Environmental Protection Agency (EPA) on the effects of burning coal.

The Company questions the advisability of converting all 4 units at Edge Moor because three of the units have remaining useful lives o only 6 to 9 years and the availabili of an adequate supply of low sulf coal is questionable. The Compa has filed a plan with the EPA to convert two of the units to burn 1 sulfur coal with an upgrading of particulate control equipment. Th two oldest units would remain oil-fired. The cost of the Company plan would be approximately $31 million, including interest during construction but excluding expenditures to obtain an adequate supply of coal.

A ruling on this matter is expected from the FEA in 1977.

River Crossing Project Started

In August the Company received the final permit required construct a 500,000 volt transmission line across the Delaware River. Construction of th line is expected to take 15 months to complete at a cost of $22 millio When proposed in 1969 the projected cost was approximately $6 million.

The line represents an importa link in an interstate high voltage transmission system and will enable the Company to receive it share of power from the Salem Nuclear Generating Station.

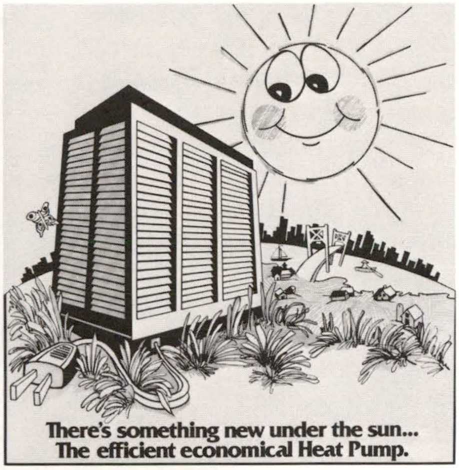
hestertown Utility cquired

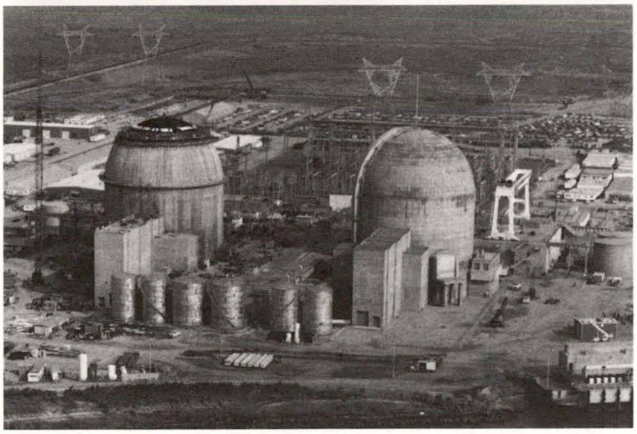
In November the Company cquired The Chestertown Electric ght and Power Company, which erved approximately 4,500 ectric customers in Kent and ueen Anne's counties, Maryland. he acquisition occurred through a ock-for-stock transfer. The hestertown system previously as one of the Company's holesale-for-resale customers.

ommunications Activities

To inform our customers about e many energy issues and oncerns facing us, the Company onducts an on-going ommunications program using a riety of media. Energy onservation information is a key ement in the program. The ompany instituted a ommunications campaign to form southern system customers the economies and energy ficiency of the electric heat ump.

Experience has proven that ce-to-face communications rough school programs, eaking engagements and daily stomer contact is extremely fective in building understanding Company decisions and erations. Such communications





Top Left — Environmental studies during the year indicate that wading birds, such as this snowy egret, will not be adversely affected by a high voltage transmission line across the Delaware River. Top Right — The energy conservation attributes of the electric heat pump are featured in Company advertising. Bottom — Unit #1 at Salem Nuclear Generating Station, right, began pre-commercial testing in late December, with commercial operation scheduled for spring.

also provide feedback of customer attitudes toward the Company. This aspect of the program receives greater emphasis than in the past.

Delmarva Power is interested in the well-being of all communities in its service area and continues to encourage employees to participate in business and social organizations of the communities where they live. As members of these groups, employees are company spokesmen and benefit the company greatly by being able to discuss questions about company activities at the time they arise.

Employees

Approximately 1,671 of the Company's 2,416 employees are represented by the International Brotherhood of Electrical Workers (A.F.L.-C.I.O.). During 1976 a labor contract was satisfactorily concluded for the parent company. The labor contract for the subsidiary companies is effective until June, 1977. Wages and salaries of all employees during 1976 totaled $39.6 million.

Providing dependable utility service is the very basis of our business. Our success at living up to this responsibility requires the individual efforts and skills of men and women throughout our system. The following letter from a customer speaks for the way that our employees strive to provide service.

"Last night at about 10:00 my house was plunged into darkness because of the failure of the transformer in my yard.

"Your Resident Serviceman in Trappe responded promptly to my call and quickly organized a replacement. This was accomplished by a crew from Cambridge in a little over two hours from the time of the outage. Since this involved mobilizing a number of men and two pieces of heavy equipment in the middle of the night, I consider it very good service indeed!

"Many thanks to everyone concerned." — Robert W. Chapin, Trappe, Maryland.

Management Changes

In September the Board of Directors elected Thomas C. Roe Chairman of the Board. He succeeds Austin T. Gardner who retired November 1. Mr. Gardner remains on the Board, is a member of the Executive Committee and is retained in a consulting capacity. William G. Price was elected to the Board to replace Charles G. Minich, Vice President, Gas Operations, who retired October Mr. Minich served the Company with distinction for 42 years and h expertise contributed greatly to a well-run gas system.

James A. Clark, Jr., added the duties of Vice President of Gas Operations and President of Delmarva Energy Company to hi duties as Vice President of Electric Operations.

The Board also approved management and organizational structure changes to improve the efficiency and coordination of th Company's system-wide operations. The changes include the election of William G. Price to Senior Vice President, Operation and Generation; J. Kenneth Wile to Senior Vice President, Engineering and Accounting; H. Ray Landon to Vice President, Personnel and Industrial Relatio J. Edwin Hobbs to a Vice Preside and Ralph H. Smith to an Assista Comptroller. In addition, Mr. Hob was named President and Mr. Smith a Vice President of the subsidiary companies.

Mr. Roe joined the subsidiary companies in 1936 and has serv as President and Director of the subsidiaries and a Vice Presiden and Director of the parent Company since 1971.

Mr. Price joined the parent ompany in 1970 as Manager of ›wer Plant Design Engineering ıd was promoted to Vice esident, Generation, in 1972.

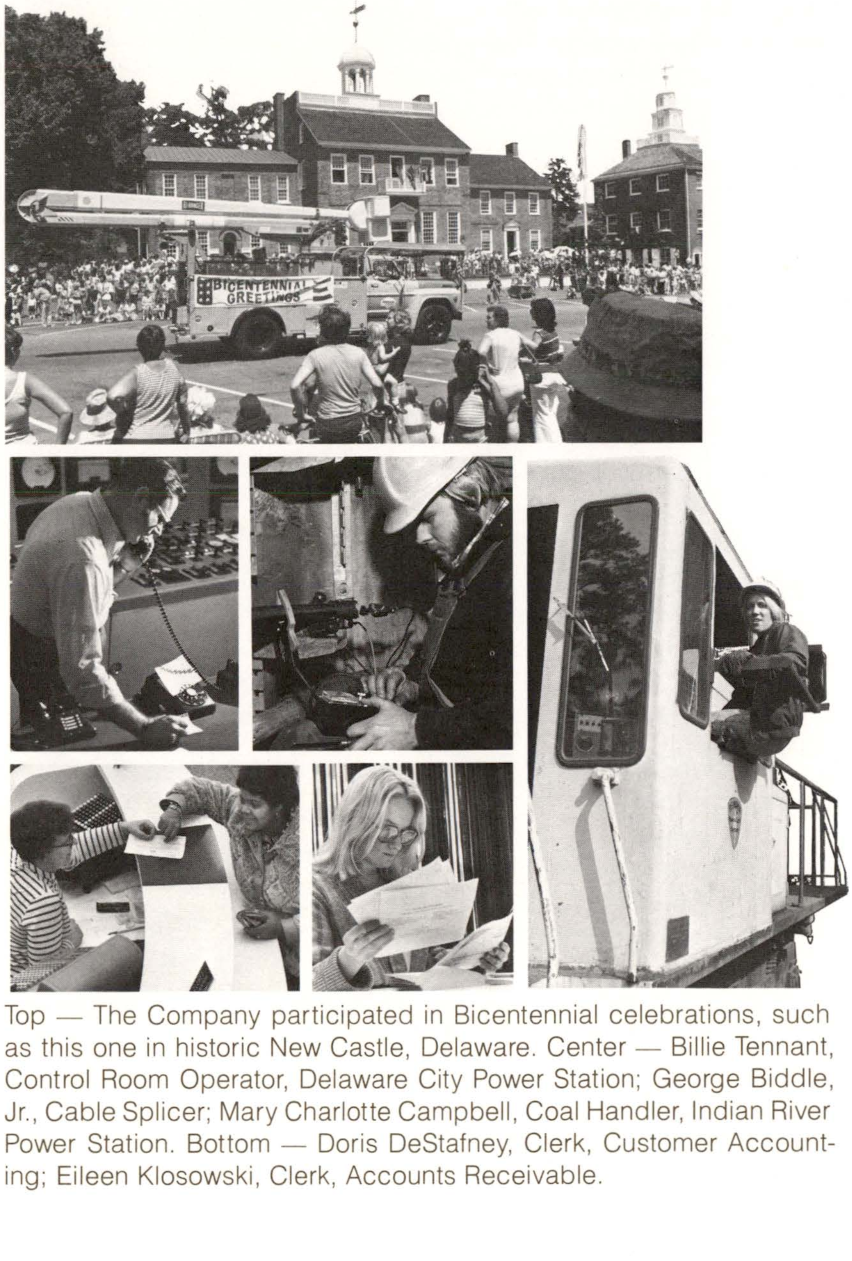
Mr. Wiley joined the parent ompany in 1974 as Vice esident, Engineering. He was eviously associated with electric ilities in Florida.

Mr. Landon joined the subsidiary ımpanies in 1963 as Manager of dustrial Relations and was ımed their Vice President, ersonnel and Public Relations in 73.

Mr. Hobbs joined the subsidiary ımpanies in 1933 and has served Vice President of Operations nce 1968 and Director since 1974.

Mr. Clark joined the parent ompany in 1949 and was named ce President of Electric perations in 1975.

Mr. Smith joined the bsidiary companies in 1961 a Staff Accountant and has rved as an Assistant Secretary ıd Assistant Treasurer of the rent Company since 1971. He is rrently Treasurer and Vice esident for finance of the bsidiary companies.



Top — The Company participated in Bicentennial celebrations, such as this one in historic New Castle, Delaware. Center — Billie Tennant, Control Room Operator, Delaware City Power Station; George Biddle, Jr., Cable Splicer; Mary Charlotte Campbell, Coal Handler, Indian River Power Station. Bottom — Doris DeStafney, Clerk, Customer Accounting; Eileen Klosowski, Clerk, Accounts Receivable.

Board of Directors

THOMAS C. ROE*
Chairman of the Board

ROBERT D. WEIMER*
President and Chief Executive Officer of the Company

WERNER C. BROWN**
President and Director of Hercules, Inc. (chemical manufacturer) Wilmington, Delaware

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

IRÉNÉE duPONT, JR.*
Senior Vice President and Director of E. I. duPont de Nemours & Company (chemical manufacturer) Wilmington, Delaware

AUSTIN T. GARDNER*
Retired, former Chairman of the Board, President and Chief Executive Officer

*Member of Executive Committee
**Chairman of Executive Committee

FRANK R. GRIER
Director of Dentsply International, Inc. (manufacturer and distributor of dental and optical supplies) and retired Vice President, the L. D. Caulk Division of Dentsply, Milford, Delaware

DR. EARL C. JACKSON, SR.
Retired, former Superintendent of the Wilmington Public Schools
Wilmington, Delaware

WILLIAM G. PRICE
Senior Vice President of the Company

DR. E. ARTHUR TRABANT
President of the University of Delaware
Newark, Delaware

JAMES M. TUNNELL, JR.*
Partner of Morris, Nichols, Arsht & Tunnell, attorneys
Wilmington, Delaware

Officers

THOMAS C. ROE
Chairman of the Board
41 Years' Service

ROBERT D. WEIMER
President and Chief Executive Officer of the Company
29 Years' Service

WILLIAM G. PRICE
Senior Vice President, Operations and Generation
6 Years' Service

J. KENNETH WILEY
Senior Vice President, Engineering and Accounting
2 Years' Service

JAMES A. CLARK, JR.
Vice President, (Electric and Gas Operations) of the Company and President of Delmarva Energy Company
27 Years' Service

JAMES L. HAMMOND
Vice President, Finance & Accounting
18 Years' Service

J. EDWIN HOBBS
Vice President of the Company and President of Delmarva Power & Light Company of Maryland and Delmarva Power & Light Company of Virginia
43 Years' Service

H. RAY LANDON
Vice President, Personnel and Industrial Relations
13 Years' Service

GEORGE J. PINTO
Vice President, Administrative Services
28 Years' Service

EDWARD F. SPEAR
Vice President, Corporate Communications and Customer Services
30 Years' Service

ALFRED C. THAWLEY, JR.
Secretary and Treasurer
21 Years' Service

WILLIAM E. ROSSELL, SR.
Comptroller
28 Years' Service

JAMES W. PORTER
Assistant Comptroller
20 Years' Service

RALPH H. SMITH
Assistant Comptroller
16 Years' Service

RUTH V. LOKEY
Assistant Secretary and Assistant Treasurer
39 Years' Service

PAUL A. MODESTO
Assistant Secretary and Assistant Treasurer
6 Years' Service

A Reminder. . .

Dividend Reinvestment and Common Share Purchase Plan

For more than 2 years, the Company has offered the owners of Common Stock the opportunity to reinvest cash dividends and/or invest additional cash monthly in amounts from $25 up to $3,000 per quarter to purchase additional shares of Common Stock without paying any brokerage or service charges. More than 8,000 (or 14%) of the common shareholders are participating in the Plan. They have

invested their dividends and/or optional cash payments amounting to more than $5.6 million to purchase 455,252 new shares of the Company's Common Stock.

If you are not participating, you may want to consider the benefits of joining the Plan. To receive a Summary Prospectus containing details of the Plan, please complete and mail the attached form to the Company. In the event that you are participating in the Plan on an optional cash payment basis only, remember that you can instruct the Company to invest your dividends also.

Yes, please send me additional information about the dividend reinvestment plan.

Name ______________________________

Address ______________________________

City ______________ State ______________ Zip Code

Please
Affix 9¢
Postage.

Delmarva Power
800 King Street
Wilmington, DE. 19899

ATTN: Stockholders Relations

MANAGEMENT REVIEW OF OPERATIONS

Consolidated Summary of Earnings

	(Thousands of Dollars)					
	1976	1975*	1974*	1973	1972	1971
Operating Revenue	$286,388	$276,026	$261,494	$188,359	$158,844	$129,505
Operating Expenses						
Operation	169,924	165,165	153,494	99,323	80,517	66,982
Maintenance	21,596	17,769	16,289	13,715	12,960	10,536
Depreciation	25,367	24,579	21,656	18,278	16,329	13,961
Taxes	16,455	16,689	18,684	15,545	14,609	9,479
Total operating expenses	233,342	224,202	210,123	146,861	124,415	100,958
Operating Income	53,046	51,824	51,371	41,498	34,429	28,547
Other Income						
Allowance for funds used during construction	9,439	8,354	8,527	10,251	9,770	8,037
Other, net of taxes	2,289	605	190	54	156	92
Income Before Interest Charges	64,774	60,783	60,088	51,803	44,355	36,676
Interest Charges	29,646	29,244	27,355	21,141	16,848	13,368
Net Income	35,128	31,539	32,733	30,662	27,507	23,308
Dividends on Preferred Stock	7,250	7,250	7,250	6,360	6,050	4,637
Earnings Applicable to Common Stock	27,878	24,289	25,483	24,302	21,457	18,671
Dividends on Common Stock	22,618	21,107	17,995	15,851	13,940	12,233
Addition to Retained Earnings	$ 5,260	$ 3,182	$ 7,488	$ 8,451	$ 7,517	$ 6,438
Common Stock						
Average shares outstanding (thousands)	18,821	17,580	14,862	13,547	12,128	10,921
Earnings per average share	$1.48	$1.38	$1.72	$1.79	$1.77	$1.71
Dividends per share	$1.20	$1.20	$1.20	$1.17	$1.13	$1.12

*Restated

Operating Revenue

Total operating revenue for the year ended December 31, 1976 increased $10.4 million, or 3.8%, over 1975. The increase reflects higher gas base rate and gas production revenues ($6.6 million) as well as increased electric base rate revenues ($25.8 million) and higher electric and gas sales. This increase was partially offset by lower electric fuel adjustment charges ($19.2 million) and, in 1975, repeal of the Delaware 5% utility tax to residential customers and the termination of a facilities agreement between the Company and a neighboring utility.

Increased sales reflect improved economic conditions and greater heating demands as a result of unusually cold weather. Total heating degree days in the Company's area for 1976 were higher than the norm for the past thirty years. Industrial sales were 119,000,000 KWH, or 6%, higher than last year.

Total operating revenues for 1975 increased $14.5 million, or 5.6%, over 1974 due mainly to rate increases placed into effect and higher fuel adjustments partially offset by the repeal of the Delaware 5% utility tax and a slight decrease (3.0%) in electrical energy sales.

Operation, Fuel and Maintenance Expenses

Total electric fuel expense for 1976 increased slightly over 1975 reflecting write-offs of fuel costs previously deferred, partially offset by a decrease in fuel cost per million Btu. The increase in 1975 over 1974 reflects higher previously deferred fuel costs offset by a decrease in cost per million Btu combined with lower generation during the year (See Note 1 — Fuel Costs). Fuel expense per million Btu at the Company's generating stations is shown in the following table:

	1976	1975	1974
Oil	$1.91	$2.12	$2.18
Coal	1.07	1.09	.90
Refinery By-Product	1.83	2.03	1.71
Nuclear	.26	.26	.26
Overall Cost	$1.46	$1.53	$1.70

Generation was 494,000,000 KWH, or 6.7%, higher in 1976 and 781,000,000 KWH lower in 1975 when compared to the corresponding previous years. The increase in 1976 reflects greater sales of energy to the Pennsylvania-New Jersey-Maryland interconnection. Nuclear energy was 11% of system generation in 1976 and 1975 compared with 4% in 1974.

Other operation expenses increased $10.6 million, or 18.9%, over 1975 and 1975 increased $6.5, or 13%, over 1974. These increases are due primarily to an increase in the cost of gas purchased, escalated labor costs and general inflationary pressures. The increase in the cost of gas purchased was particularly higher in 1976 as the Company acted in response to greater curtailments from its supplier by purchasing supplemental gas supplies in the unregulated intrastate market at higher rates. The average cost of gas was $1.22 per MCF in 1976 compared to $0.92 per MCF in 1975.

Maintenance expenses increased $3.8 million, or 21.5%, over 1975 due mainly to increased maintenance performed at the Peach Bottom Nuclear Generating Station as well as increased maintenance on the Company's transmission and distribution systems.

Taxes

Taxes on income increased $1.2 million over the year 1975, reflecting the normalization of tax benefits with respect to additions to plant for 1975 and 1976. Taxes other than income decreased $1.4 million compared to 1975 and such taxes for 1975 decreased $1.1 million compared to 1974 primarily due to the repeal of the Delaware Public Utility Tax to residential customers in July, 1975.

Other Income

Allowance for funds used during construction increased $1.1 million, or 13.0%, over 1975 primarily as a result of on-going construction at the Salem Nuclear and Indian River Power Stations as well as an increase in the rate used to 8% in January 1976 from 7½% in 1975.

Other income increased $1.7 million over 1975 largely due to interest income received from short-term investment of the proceeds of the Summit Nuclear Settlement.

Interest Charges

Total interest charges for 1976 increased slightly over 1975. Interest on long-term debt increased $2.2 million and represented the annualization of interest paid on $30 million of bonds issued in July, 1975. This increase was largely offset by a decrease in short-term interest charges of $1.9 million. As a result of a favorable cash position gained through the Summit settlement, the Company did not incur any short-term debt in 1976. Total interest charges for 1975 increased 6.9% over 1974 reflecting the sale of two $30 million bond issues.

Earnings Per Share

Earnings applicable to Common Stock increased 14.8% in 1976. An increase in the average number of common shares outstanding as a result of the Company's Dividend Reinvestment Plan and the Chestertown acquisition acted to hold the increase in earnings per share to 7.2%. Earnings per share decreased in 1975 from 1974 due to the factors discussed above and the sale of 2 million shares of Common Stock in July, 1975.

Dividends and Price Range of Common Stock

The initial public distribution of the Common Stock of the Company was made in May 1944, and quarterly dividends have been paid continuously since July, 1944. A quarterly dividend of 30¢ per share has been declared for the fourth quarter of 1976 payable January 31, 1977 to shareholders of record January 9, 1977.

Dividends on Common Stock increased $1.5 million over 1975 and 1975 dividends increased $3.1 million over 1974. These increases were due to an increased number of shares outstanding. Dividends paid during 1976 averaged 81.1% of earnings applicable to Common Stock compared to 86.9% in 1975 and 70.6% in 1974. Future dividends will be dependent upon future earnings, the financial condition of the Company and other factors (See Note 9 to Financial Statements).

The following tabulation shows the price range and dividends per share of the Common Stock of the Company on the New York Stock Exchange during the periods indicated:

	1976			1975		
	High	Low	Div.	High	Low	Div.
1st quarter	13⅝	12¼	$0.30	11⅜	9	$0.30
2nd quarter	13⅛	12⅜	0.30	13⅜	10¼	0.30
3rd quarter	14⅜	12½	0.30	12⅝	10½	0.30
4th quarter	14⅜	13⅛	0.30	13	10¾	0.30

Quarterly Financial Information

Presented below are quarterly results of operations for 1976 and 1975. Previously reported quarterly financial statements have been restated to reflect the adjustments described in Note 2 to Financial Statements pertaining to "Rate Matters".

	Three Months Ended (000)			
	March 31		June 30	
	1976	1975	1976	1975
Operating Revenue	$75,909	$75,462	$69,330	$61,611
Operating Income	$14,774	$13,625	$11,857	$11,390
Net Income	$10,120	$ 8,345	$ 7,321	$ 6,334
Earnings Applicable to Common Stock	$ 8,308	$ 6,532	$ 5,508	$ 4,522
Average Shares of Common Stock Outstanding	18,701	16,516	18,760	16,558
Earnings Per Average Share of Common Stock	$.44	$.40	$.30	$.27

	Three Months Ended (000)			
	September 30		December 31	
	1976	1975	1976	1975
Operating Revenue	$71,959	$72,374	$69,190	$66,579
Operating Income	$15,159	$15,416	$11,256	$11,393
Net Income	$10,712	$10,232	$ 6,975	$ 6,628
Earnings Applicable to Common Stock	$ 8,900	$ 8,420	$ 5,162	$ 4,815
Average Shares of Common Stock Outstanding	18,820	18,601	19,001	18,643
Earnings Per Average Share of Common Stock	$.47	$.46	$.27	$.25

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31
(Thousands of Dollars)

	1976	1975 (Note 2)
OPERATING REVENUES		
Electric	$242,279	$239,355
Gas	32,248	25,673
Steam and electric (refinery service)	11,861	10,998
	286,388	276,026
OPERATING EXPENSES		
Operation:		
Fuel for electric generation	123,792	122,020
Energy interchange, net	(20,852)	(13,190)
Gas purchased	17,495	12,179
Other operation	49,489	44,156
Maintenance	21,596	17,769
Depreciation	25,367	24,579
Taxes on income	2,614	1,415
Taxes other than income	13,841	15,274
	233,342	224,202
OPERATING INCOME	53,046	51,824
OTHER INCOME		
Allowance for funds used during construction	9,439	8,354
Other, principally interest income in 1976, net of taxes	2,289	605
	11,728	8,959
INCOME BEFORE INTEREST CHARGES	64,774	60,783
INTEREST CHARGES		
Long-term debt	29,379	27,217
Short-term debt and other	267	2,027
	29,646	29,244
NET INCOME	35,128	31,539
DIVIDENDS ON PREFERRED STOCK	7,250	7,250
EARNINGS APPLICABLE TO COMMON STOCK	$ 27,878	$ 24,289
COMMON STOCK		
Average shares outstanding (thousands)	18,821	17,580
Earnings per average share	$1.48	$1.38
Dividends per share	$1.20	$1.20

The Notes to Financial Statements are an integral part of the above statements.

DELMARVA POWER & LIGHT COMPANY and Subsidiary Companies

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31
(Thousands of Dollars)

	1976	1975 (Note 2)
SOURCE OF FUNDS		
Net Income	$35,128	$ 31,539
Items not requiring (providing) funds:		
Depreciation	25,367	24,579
Allowance for funds used during construction	(9,439)	(8,354)
Investment tax credit adjustments, net	4,187	2,962
Deferred income taxes, net	1,175	(3,038)
Funds provided from operations	56,418	47,688
Net proceeds from sale of:		
Long-term debt	33,524	59,339
Common stock	5,221	25,823
Proceeds from sale of contracts for nuclear plant	—	106,250
Other	(3,520)	9,403
	$91,643	$248,503
USE OF FUNDS		
Construction expenditures (excluding allowance for funds used during construction)	$66,541	$ 72,100
Dividends on common and preferred stock	29,868	28,357
Current maturity of long-term debt	10,000	—
Decrease in short-term debt	—	53,050
Increase in preliminary survey and investigation charges	3,755	5,296
Deferred fuel expense not billable within one year	2,268	—
Adjustments to net credit arising from sale of contracts for nuclear plant	(9,343)	13,600
Increase (decrease) in working capital*	(11,446)	76,100
	$91,643	$248,503
***CHANGES IN COMPONENTS OF WORKING CAPITAL**		
Cash and temporary cash investments	$34,552	$ 16,654
Special deposit for pollution control equipment	23,617	—
Receivables from sale of contracts for nuclear plant	(90,000)	90,000
Accounts payable	22,830	(23,062)
Other, net	(2,445)	(7,492)
	$(11,446)	$ 76,100

The Notes to Financial Statements are an integral part of the above statements.

DELMARVA POWER & LIGHT COMPANY and Subsidiary Companies

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31
(Thousands of Dollars)

ASSETS	1976	1975
UTILITY PLANT, at original cost		
Electric	$754,139	$702,393
Gas	54,917	54,268
Steam and electric (refinery service)	22, 223	22,216
Common	17,993	17,766
	849,272	796,643
Less: Accumulated depreciation	220,979	198,965
	628,293	597,678
Construction work in progress	155,028	131,228
	783,321	728,906
NONUTILITY PROPERTY AND OTHER INVESTMENTS	3,106	2,200
CURRENT ASSETS		
Cash and temporary cash investments	62,610	28,058
Special deposit for pollution control equipment	23,617	—
Receivable from sale of contracts for nuclear plant	—	90,000
Accounts receivable	35,607	25,813
Deferred fuel expense	4,785	7,980
Materials and supplies, at average cost:		
Fuel	21,113	22,556
Operation and construction	17,862	17,263
Prepayments	3,067	2,691
	168,661	194,361
DEFERRED DEBITS	16,509	9,257
TOTAL	$971,597	$934,724

The Notes to Financial State

DELMARVA POWER & LI

LIABILITIES	1976	1975 (Note 2)
CAPITALIZATION		
Stockholders' equity:		
Preferred stock, cumulative, par value $100, authorized 1,800,000 shares:		
Outstanding 1,050,000 shares	$105,000	$105,000
Premium on preferred stock	226	226
Common stock, par value $3.375, authorized 25,000,000 shares:		
Outstanding 19,076,019, and 18,652,779 shares	64,382	62,953
Premium on common stock	123,354	119,562
Retained earnings	98,349	93,089
	391,311	380,830
Long-term debt	430,920	407,348
	822,231	788,178
CURRENT LIABILITIES		
Current maturity of long-term debt	10,000	—
Accounts payable	15,811	38,641
Taxes:		
Accrued	5,059	3,411
Deferred	2,410	4,003
Interest accrued	8,938	8,717
Dividends declared	5,723	7,501
Other	3,055	4,570
	50,996	66,843
DEFERRED CREDITS AND OTHER		
Net credit arising from sale of contracts for nuclear plant	74,221	64,878
Accumulated deferred income taxes	5,391	2,623
Accumulated deferred investment tax credits	12,414	8,171
Other	6,344	4,031
	98,370	79,703
CONTINGENCIES AND COMMITMENTS (Note 10)		
TOTAL	$971,597	$934,724

n integral part of the above statements.

ИPANY and Subsidiary Companies

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31
(Thousands of Dollars)

	1976	1975 (Note 2)
BALANCE, JANUARY 1	$ 93,089	$ 89,907
NET INCOME	35,128	31,539
	128,217	121,446
CASH DIVIDENDS DECLARED		
Preferred stock	7,250	7,250
Common stock	22,618	21,107
	29,868	28,357
BALANCE, DECEMBER 31	$ 98,349	$ 93,089

The Notes to Financial Statements are an integral part of the above statements.
DELMARVA POWER & LIGHT COMPANY and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Financial Statements:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies. The accounts are maintained in accordance with the uniform systems of accounts prescribed by the regulatory commissions having jurisdiction with respect to accounting matters.

Revenue:

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

Fuel Costs:

Fuel costs are deferred and charged to operations on the basis of the fuel cost per kilowatt hour included in customer billings. For tax purposes fuel costs are expensed as incurred. See Note 2 for additional information concerning deferred fuel costs.

The Company's share of nuclear fuel costs relating to the Peach Bottom nuclear generating station has been charged to fuel expense on a unit of production basis.

Depreciation and Maintenance:

The annual provisions for depreciation are computed by the use of composite rates applied on the straight-line method for financial accounting purposes and principally on accelerated methods for income tax purposes. The effect of this difference in recording depreciation is a reduction in income taxes, the benefit of which, effective with respect to additions to utility plant in 1975 and thereafter, is deferred (normalized) for credit to subsequent years when financial accounting expense exceeds tax expense.

The previous deferral of such reductions in income taxes was discontinued in 1962, and the deferrals accumulated to that date were restored to income over a 10-year period ended in 1976. Accumulated tax deferrals relating to amortization of completed construction costs under necessity certificates are being restored to income as straight-line depreciation charges exceed the amounts deductible for income tax purposes.

The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.2% and 3.3% for 1976 and 1975, respectively.

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

Investment Tax Credit:

Investment tax credits utilized ($6,551,000 in 1976 and $4,605,000 in 1975) to reduce federal income taxes are deferred for financial accounting purposes by equivalent charges to income and are credited to income over subsequent five-year periods.

Allowance for Funds Used During Construction:

Allowance for funds used during construction (AFUDC) is a noncash item and is defined in regulatory systems of accounts as the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate for other funds so used. The allowance is considered a cost of utility plant and an item of other income in the consolidated statements of income; for income tax purposes, the allowance is excluded from taxable income. The rate used in determining the amount of the allowance was 8% in 1976 and 7½% in 1975.

The estimated portion of AFUDC attributable to the common equity component of total capitalization was 11.9% and 10.6% of earnings applicable to common stock for the years 1976 and 1975, respectively.

Pension Plan:

The Company and Subsidiaries have a trusteed noncontributory pension plan covering all of their regular employees. Pension contributions, charged principally to operating expenses (aggregating $4,950,000 for 1976 and $4,454,000 for 1975), provide for normal cost and amortization of prior service costs over a period of approximately twenty years. At December 31, 1976, the prior service costs exceeded the market value of the assets in the retirement fund by approximately $5,800,000. As of the same date, the market value of the fund assets exceeded the actuarially computed value of vested benefits.

Capital Stock Expenses:

The premiums on preferred and common stock are stated net of the expenses related to the issuance of such stock.

2. Rate Matters:

(a) **Revenue subject to refund** — Operating revenues for the years 1976 and 1975 include $4,375,000 and $2,916,000, respectively, of amounts billed but subject to refund, pending final determination of requested rate increases. If these amounts had to be currently refunded, the years 1976 and 1975 would be restated, the effect of which would be to reduce earnings applicable to common stock by $2,111,000 ($.11 per share) and $1,407,000 ($.08 per share), respectively. The aforementioned amounts of revenue subject to refund largely represent the tentatively approved portions of resale rate increases and exclude $2,371,000 and $2,522,000, respectively, which the Company anticipates refunding as described below.

(b) **Tentative settlement of 1976 resale rate request** — On February 2, 1977, a tentative settlement was reached between the Company and intervenors in connection with the electric resale rates that became effective as of April 1, 1976, subject to refund. The tentative agreement would require the Company to refund, with interest, approximately 27% of the amount collected ($5,313,000 as of December 31, 1976). The staff of the Federal Power Commission (FPC) were present when the tentative settlement was reached and the Company believes that the settlement will be finalized and ultimately approved by the FPC. Accordingly, the applicable revenue and related tax accounts for the year 1976 have been adjusted to reflect the terms of the tentative settlement. The effect of the adjustment was to reduce 1976 operating revenues, earnings applicable to common stock, and earnings per average share by $1,415,000, $696,000 and $.04, respectively.

(c) **Modifications of fuel adjustment clauses** — Approval was received during 1976 to modify the Company's resale and certain retail fuel adjustment clauses to permit more timely recovery of fuel

expense under these clauses. In addition, approval was received from the Delaware Public Service Commission to recover the deferred fuel balance relating to Delaware retail customers at March 31, 1976, aggregating approximately $4,830,000, over a three-year period beginning June 1, 1976. Similar recovery of the deferred fuel balance relating to resale customers was put into effect April 1, 1976, subject to refund pending FPC approval. On January 12, 1977, an Administrative Law Judge disallowed such recovery. The Company anticipates refunding the amount collected ($419,000 at December 31, 1976) and has excluded such amount from operating revenues. An additional $832,000 of deferred fuel costs not expected to be recovered was charged to 1976 operating expenses, the effect of which was to reduce earnings applicable to common stock and earnings per average share by $410,000 and $.02, respectively.

(d) **Tentative settlement of 1974 resale rate request** — On November 3, 1976, a settlement was reached between the Company and intervenors in connection with electric resale rates that became effective in October 1974, subject to refund. The tentative agreement would require the Company to refund, with interest, approximately 53% of the $6,568,000 collected as of March 31, 1976. The staff of the FPC were present when the settlement was reached and the Company believes that the settlement will be ultimately approved. Accordingly, the applicable revenue and related tax accounts for the year 1975 and retained earnings as of January 1, 1975 have been restated to reflect the terms of the settement.

The effect of the restatement upon previously reported 1975 financial statements was as follows:

	Retained Earnings January 1, 1975 ($000)	Operating Revenues ($000)	Earnings Applicable to Common Stock ($000)	Earnings Per Average Share
As originally reported	$90,115	$278,548	$25,537	$1.45
Adjustment	(208)	(2,522)	(1,248)	(.07)
As restated	$89,907	$276,026	$24,289	$1.38

3. Taxes on Income:

	1976 ($000)	1975
Operations:		
Federal income	$(3,068)	$ 789
State income	320	702
Deferred income, net	1,175	(3,038)
Investment tax credit adjustments, net	4,187	2,962
	2,614	1,415
Other income	2,418	545
	$5,032	$1,960

The Company's effective income tax rates for financial reporting purposes were substantially less than the federal statutory rate of 48%. The reasons for these differences are as follows:

	1976 Amount ($000)	1976 Rate	1975 Amount ($000)	1975 Rate
Statutory income tax expense	$19,277	48%	$16,079	48%
Reduction in taxes resulting from:				
Excess of tax depreciation over book depreciation not normalized	(5,951)	(15)	(7,111)	(21)
Exclusion of AFUDC for income tax purposes	(4,531)	(11)	(4,010)	(12)
Investment tax credits amortized to income	(2,364)	(6)	(1,643)	(5)
Other, net	(1,399)	(3)	(1,355)	(4)
Income tax expense	$ 5,032	13%	$ 1,960	6%

The components of deferred income taxes relate to the following:

	1976	($000)	1975
Normalization of difference between book and tax depreciation	$3,550		$ 544
Deferred fuel costs	(420)		(1,553)
Restoration of prior deferrals	(755)		(755)
Anticipated rate refunds	(1,200)		(1,274)
	$1,175		$(3,038)

4. **Taxes Other Than Income:**

	1976	($000)	1975
Delaware utility	$ 5,214		$ 7,164
Property	4,525		4,309
Franchise and gross receipts	2,093		1,981
Social security	1,521		1,359
Other	488		461
	$13,841		$15,274

5. **Capital Stock:**

Preferred stock outstanding at December 31, 1976, redeemable at the option of the Company, was as follows:

Series	Shares	Redemption Prices per Share at 12/31/76	Par Value ($000)
3.70%-5%	320,000	$103-$105	$ 32,000
7.52%-7.88%	450,000	107- 108	45,000
8%-8.96%	280,000	108- 109	28,000
	1,050,000		$105,000

Changes in capital stock and related accounts for the period January 1, 1975 to December 31, 1976 were as follows:

	Shares		Aggregate Par Value ($000)		Premium ($000)	
	Common	Preferred	Common	Preferred	Common	Preferred
Balance, January 1, 1975	16,487,340	1,050,000	$55,645	$105,000	$101,047	$226
Sale of common stock	2,000,000	—	6,750	—	17,277	—
Issuance of common stock for Dividend Reinvestment and Common Share Purchase Plan	165,439	—	558	—	1,238	—
Balance, December 31, 1975	18,652,779	1,050,000	62,953	105,000	119,562	226
Issuance of common stock for Dividend Reinvestment and Common Share Purchase Plan	236,171	—	798	—	2,179	—
Issuance of common stock for acquisition of certain utility plant	187,069	—	631	—	1,613	—
Balance, December 31, 1976	19,076,019	1,050,000	$64,382	$105,000	$123,354	$226

At December 31, 1976 there were 327,277 shares of common stock reserved for issuance under the Dividend Reinvestment and Common Share Purchase Plan.

6. **Long-Term Debt:**

Long-term debt outstanding at December 31, 1976 was as follows:

	Principal Amount ($000)
First Mortgage and Collateral Trust Bonds:	
3⅛% Series, due 1977	$ 10,000
2⅞% Series, due 1979	10,000
2¾% Series, due 1980	12,000
9⅜% Series, due 1983	30,000
3⅛%-3⅞% Series, due 1984-1988	45,000
4⅝%-7% Series, due 1994-1998	75,000
7½%-8¾% Series, due 2000-2002	125,000
8%-11% Series, due 2003-2005	90,000
	397,000
Pollution Control Notes:	
Series 1973, 5.9% effective rate, due 1983-1998	8,000
Series 1976, 7.3% effective rate, due 1992-2006	34,500
	42,500
Unamortized premium and discount on debt, net	1,420
	440,920
Current maturity of long-term debt	(10,000)
	$430,920

The annual interest requirements on the above indebtedness at December 31, 1976 are $31,370,000.

Substantially all utility plant of the Company now or hereafter owned and all securities issued by its subsidiaries are subject to the lien of the related Mortgage and Deed of Trust.

7. **Short-Term Debt:**

Established bank lines of credit as of December 31, 1976 amounted to $75,000,000, all of which bear interest at the prime rate. The Company is required to maintain a 10% compensating balance on these lines when not in use and an additional 10% balance when in use. There was no short-term debt outstanding during 1976. Average short-term debt outstanding during 1975 was $21,221,000 (principally commercial paper), with an average interest rate of 8.8%.

8. **Sale of Contracts For Nuclear Plant:**

The proceeds received by the Company for the sale, in October 1975, of the contracts for a nuclear steam supply system and related fuel, net of plant expenditures which were considered of no future value to the Company are classified as a deferred credit in the balance sheet. It is the intention of the Company to reduce the cost of subsequent, alternative plant expenditures by the amount of these net proceeds.

The Company, under advice of Counsel, is not treating the sale of these contracts as taxable for federal and state income tax purposes. Accordingly, the tax basis of the Company's depreciable property has been reduced by approximately $77,000,000. The annual tax effect of the resulting decrease in tax depreciation is currently being classified as a reduction of the deferred credit balance. If this transaction is ultimately considered taxable, additional taxes payable at December 31, 1976 would approximate between $26 million and $37 million and would be applied to the aforementioned credit balance.

9. **Dividend Restriction on Common Stock:**

The Fiftieth Supplemental Indenture restricts the amount of retained earnings available for cash dividend payments on common stock to $29,600,000 plus accumulations after June 30, 1975. The unrestricted consolidated retained earnings amounted to approximately $37,000,000 at December 31, 1976.

10. **Contingencies and Commitments:**

See Note 2 for information relating to possible refunds of amounts billed to customers and Note 8 for possible payment of income taxes relating to the sale of contracts.

The Company is constructing a fossil fuel unit estimated to cost approximately $216,000,000. At December 31, 1976, construction commitments for the aforementioned plant and other facilities aggregated approximately $196,000,000.

Minimum rental commitments as of December 31, 1976 under all noncancelable agreements are as follows:

1977	$ 5,721,000	1982-1986	10,623,000
1978	5,519,000	1987-1991	6,288,000
1979	5,323,000	1992-1996	5,440,000
1980	5,130,000	Remainder	2,901,000
1981	2,888,000		
		Total	$49,833,000

The total minimum rental commitments are applicable to the following types of property: Company's share of Peach Bottom nuclear fuel, $9,206,000 (estimated to be charged to operations over a four-year period); fuel storage and pipeline facilities, $33,989,000; railroad coal cars, $4,041,000; other, principally computer equipment, $2,597,000. Rentals charged to operating expenses aggregated $6,461,000 in 1976 and $5,901,000 in 1975, including $2,477,000 and $2,204,000 for nuclear fuel, respectively.

Public liability insurance on the nuclear generating units in which the Company has an ownership participation is currently provided by a combination of private insurance and indemnity agreements with the Nuclear Regulatory Commission (NRC). Beginning in August 1977, however, the indemnity by the NRC will decrease and, in the event of a nuclear incident involving any facility covered by government indemnification, the Company could be assessed up to $375,000 for each reactor owned (maximum of $750,000 per unit in a year). For property damage to the nuclear plant facilities, the Company and its co-owners have private insurance up to $150 million for the Salem Station and $175 million for the Peach Bottom Station. Because the possibility of a nuclear incident is considered to be highly unlikely, the Company is a self-insurer, to the extent of its ownership interests, for any property loss in excess of the aforementioned amounts.

11. Quarterly Financial Information (Unaudited):

See "Quarterly Financial Information" in the accompanying text for quarterly results of operations for 1976.

12. Replacement Cost Data (Unaudited):

Under new rules of the Securities and Exchange Commission, current replacement cost information for certain assets and expenses is to be disclosed in the Company's Form 10-K filed with the Commission. The current replacement cost of the Company's affected plant and equipment and the amount of the associated depreciation expense calculated using replacement costs are generally higher than the comparable historical costs shown in the financial statements.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Delmarva Power & Light Company
Wilmington, Delaware

We have examined the consolidated balance sheets of Delmarva Power & Light Company and subsidiary companies as of December 31, 1976 and 1975, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 to the financial statements, the 1975 financial statements have been restated, with our concurrence, to reflect adjustments retroactive to October 1974 arising from the tentative settlement of an electric resale rate request. As further explained in Note 2, operating revenues continue to include amounts subject to refund pending final determination of requested rate increases.

In our opinion, subject to the effects, if any, of the final determination of the rate matters referred to in the preceding paragraph, the aforementioned financial statements present fairly the consolidated financial position of Delmarva Power & Light Company and subsidiary companies at December 31, 1976 and 1975, and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

1900 Three Girard Plaza
Philadelphia, Pennsylvania
February 8, 1977

CONSOLIDATED STATISTICS

10 YEARS OF PROGRESS . . . 1966 - 1976

		1976	1975	1974	1973	1972
ELECTRIC REVENUES						
(thousands):	Residential	**$ 80,416**	$ 77,069	$ 68,730	$ 51,799	$ 43,8
	Commercial	**60,111**	58,169	51,192	37,888	31,8
	Industrial	**64,458**	64,141	66,381	41,284	35,9
	Other utilities, etc.	**34,896**	35,606*	32,976*	21,518	16,8
	Miscellaneous revenues	**2,398**	4,370	9,194	5,287	2,8
	Total electric revenues	**$242,279**	$239,355*	$228,473*	$157,776	$131,3
ELECTRIC SALES						
(1,000 kilowatt-hours):	Residential	**1,787,663**	1,672,180	1,597,472	1,629,641	1,463,8
	Commercial	**1,412,259**	1,359,673	1,303,053	1,360,216	1,227,2
	Industrial	**2,260,661**	2,142,151	2,461,303	2,512,877	2,412,2
	Other utilities, etc.	**1,199,155**	1,218,785	1,230,528	1,252,977	1,137,2
	Total electric sales	**6,659,738**	6,392,789	6,592,356	6,755,711	6,240,5
ELECTRIC CUSTOMERS						
(end of period):	Residential	**230,579**	221,780	215,516	208,073	200,5
	Commercial	**28,345**	27,345	27,132	26,708	25,8
	Industrial	**1,002**	923	891	867	8
	Other utilities, etc.	**550**	545	501	506	4
	Total electric customers	**260,476**	250,593	244,040	236,154	227,8
GAS REVENUES						
(thousands):	Residential	**$18,826**	$15,365	$14,298	$13,018	$12,9
	Commercial	**6,062**	4,676	4,201	3,715	3,5
	Industrial	**5,984**	4,343	3,726	3,505	3,2
	Interruptible	**1,301**	1,211	1,532	1.363	1,0
	Other utilities, etc.	**44**	33	26	30	
	Miscellaneous revenues	**31**	45	96	22	
	Total gas revenues	**$32,248**	$25,673	$23,879	$21,653	$20,8
GAS SALES						
(million cubic feet):	Residential	**6,956**	6,540	6,863	7,134	7,7
	Commercial	**2,586**	2,429	2,526	2,614	2,6
	Industrial	**3,264**	2,849	3,215	3,653	3,8
	Interruptible	**953**	1,073	2,257	2,346	2,1
	Other utilities, etc.	**20**	18	16	23	
	Total gas sales	**13,779**	12,909	14,877	15,770	16,4
GAS CUSTOMERS						
(end of period):	Residential	**68,978**	69,418	69,525	69,833	69,8
	Commercial	**4,154**	4,189	4,356	4,418	4,4
	Industrial	**198**	198	195	197	1
	Interruptible	**21**	21	21	21	
	Other utilities, etc.	**1**	1	1	1	
	Total gas customers	**73,352**	73,827	74,098	74,470	74,5
REFINERY SERVICE						
	Electricity delivered (1,000 kilowatt-hours)	**343,531**	297,282	350,021	341,700	295,2
	Steam delivered (1,000 pounds)	**5,301,421**	5,517,000	5,921,000	5,926,000	7,261,0

*Restated

1971	1970	1969	1968	1967	1966	Average Annual Compound % Rate of Growth	
							ELECTRIC REVENUES
$ 36,198	$30,992	$27,857	$25,487	$22,900	$21,406	**14.15**	Residential
25,468	21,430	19,333	17,754	16,377	15,256	**14.70**	Commercial
28,903	24,069	22,483	20,120	16,471	15,187	**15.55**	Industrial
12,964	10,175	8,936	7,962	7,099	6,594	**18.13**	Other utilities, etc.
1,209	530	513	504	497	490	**17.21**	Miscellaneous revenues
$104,742	$87,196	$79,122	$71,827	$63,344	$58,933	**15.18**	Total electric revenues
							ELECTRIC SALES
1,380,763	1,280,420	1,151,108	1,037,223	910,548	838,548	**7.86**	Residential
1,099,897	1,009,488	923,064	856,258	774,382	719,001	**6.98**	Commercial
2,252,219	2,264,084	2,217,655	2,048,776	1,633,827	1,509,966	**4,12**	Industrial
1,014,972	885,720	792,151	708,899	629,643	570,961	**7.70**	Other utilities, etc.
5,747,851	5,439,712	5,083,978	4,651,156	3,948,400	3,638,476	**6.23**	Total electric sales
							ELECTRIC CUSTOMERS
193,282	187,683	183,458	178,948	174,039	169,906	**3.10**	Residential
25,139	24,383	24,058	23,474	22,966	22,644	**2.27**	Commercial
810	834	815	806	760	769	**2.68**	Industrial
460	375	283	281	281	274	**7.22**	Other utilities, etc.
219,691	213,275	208,614	203,509	198,046	193,593	**3.01**	Total electric customers
							GAS REVENUES
$11,948	$11,283	$10,708	$10,290	$10,041	$ 9,333	**7.27**	Residential
3,126	2,861	2,555	2,207	1,980	1,693	**13.60**	Commercial
2,998	2,618	2,641	2,536	2,032	1,668	**13.63**	Industrial
1,153	1,340	1,222	1,155	1,293	1,197	**0.84**	Interruptible
16	10	7	8	8	8	**18.59**	Other utilities, etc.
39	225	251	215	204	186	**(16.40)**	Miscellaneous revenues
$19,280	$18,337	$17,384	$16,411	$15,558	$14,085	**8.64**	Total gas revenues
							GAS SALES
7,583	7,406	6,942	6,601	6,432	5,851	**1.74**	Residential
2,534	2,384	2,097	1,770	1,564	1,305	**7.08**	Commercial
3,797	3,549	3,700	3,455	2,659	2,125	**4.39**	Industrial
2,708	3,423	3,263	3,089	3,447	3,152	**(11.27)**	Interruptible
13	8	6	6	7	6	**12.79**	Other utilities, etc.
16,635	16,770	16,008	14,921	14,109	12,439	**1.03**	Total gas sales
							GAS CUSTOMERS
69,604	68,614	68,074	67,270	66,079	65,097	**0.58**	Residential
4,426	4,444	4,423	4,341	4,225	4,117	**0.09**	Commercial
204	206	103	93	95	91	**8.08**	Industrial
21	21	19	19	16	15	**3.42**	Interruptible
1	1	1	1	1	1	**—**	Other utilities, etc.
74,256	73,286	72,620	71,724	70,416	69,321	**0.57**	Total gas customers
							REFINERY SERVICE
272,649	244,614	281,120	265,824	276,598	288,431	**1.76**	Electricity delivered (1,000 kilowatt-hours)
7,564,000	7,779,000	7,536,000	7,296,000	7,390,000	7,300,000	**(3.15)**	Steam delivered (1,000 pounds)

Delmarva Power & Light Company
800 King Street
Wilmington, Delaware 19899

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Zip Code 19899

Where The 1976 Delmarva Power Dollar Went.