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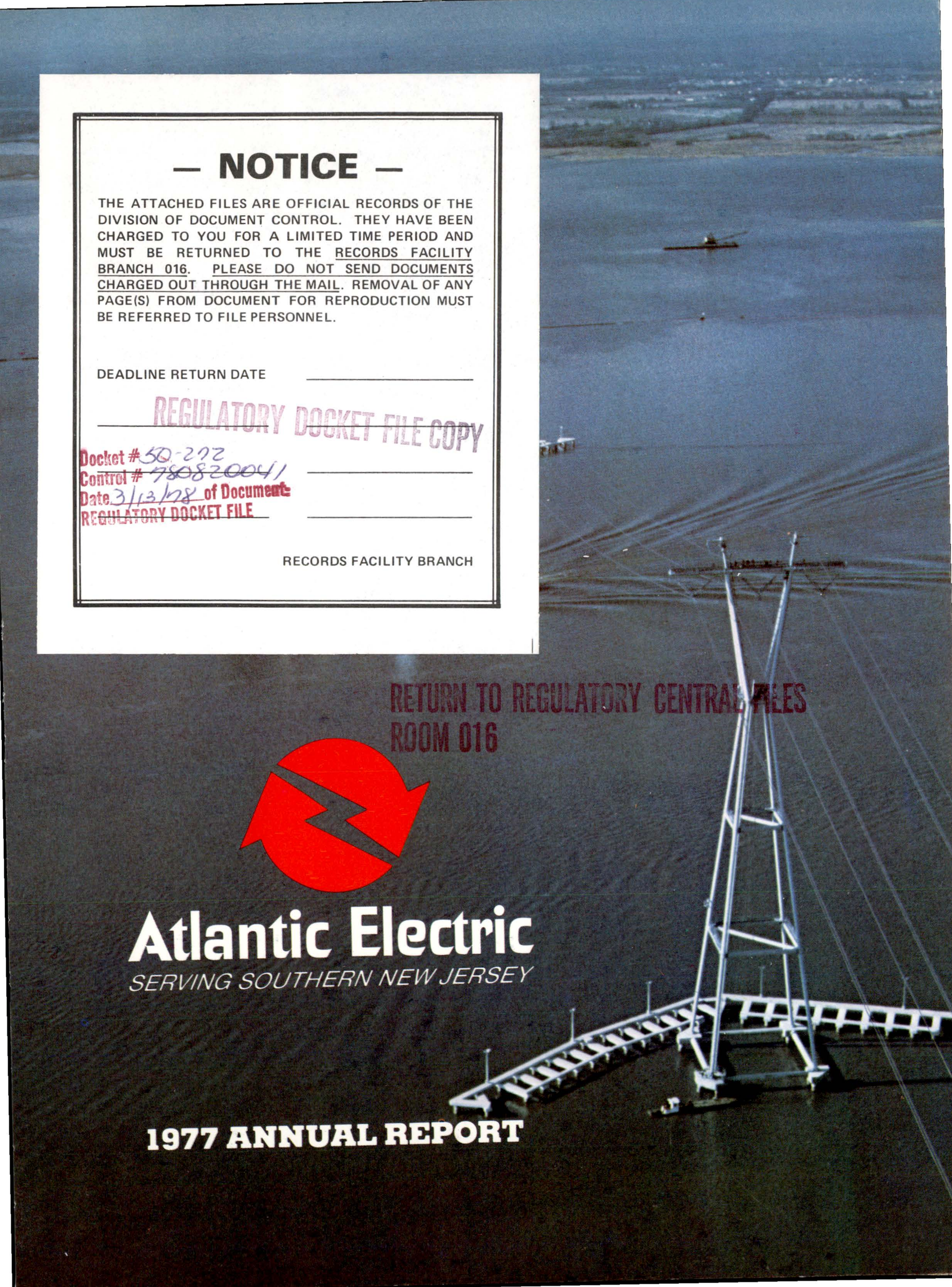
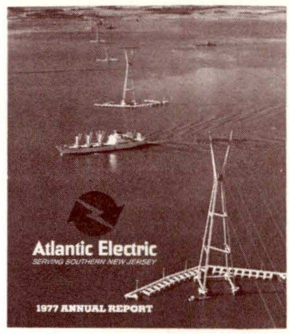


Atlantic Electric

SERVING SOUTHERN NEW JERSEY

1977 ANNUAL REPORT

Cover

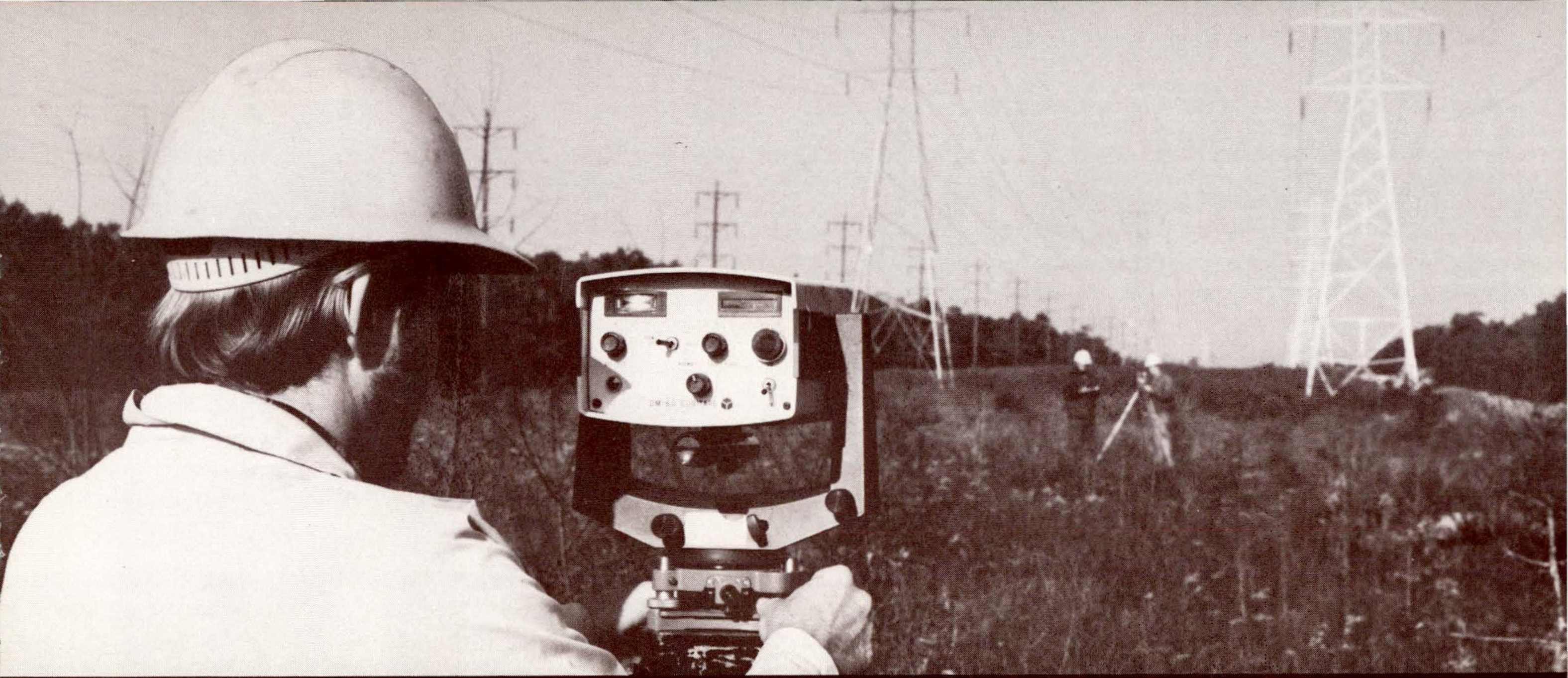


The photograph on our cover shows the Delaware River crossing of the newly constructed Keeney-Salem 500 KV line. The tower structures pictured form part of a two and one-half mile crossing of the Delaware River at a point five miles south of the Delaware Memorial Bridge. Seven towers, the tallest of which stands 428 feet above the water, support six spans of transmission lines over the river that links Delaware Valley ports with the rest of the world. The Keeney-Salem 500 KV line has a total length of 25 miles and connects Salem Nuclear Generating Station with Keeney Substation in Delaware. Construction of the line was completed in 1977. The line is also part of the Pennsylvania-New Jersey-Maryland Interconnection shown on the back cover.

Contents

Advance Notice

The 1978 Annual Meeting of Shareholders will be held Tuesday, April 25, 1978, at the Company's Data Processing Center, Black Horse Pike and Fire Road, near Pleasantville, New Jersey. A Notice of Meeting will be mailed in March to those shareholders entitled to vote.



Among the many behind the scenes employees who play a vital role in our day to day operations are the Company surveyors, seen here "eyeing-up" a right-of-way in Egg Harbor Township.

Results of Operations 1977–1973

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

	1977	1976	1975	1974	1973
Sales of Electricity (Billions of Kilowatt-hours)	4.979	4.664	4.378	4.376	4.429
Electric Operating Revenues (Millions)	$ 235.0	$ 212.0	$ 199.1	$ 176.6	$ 132.9
Net Income (Millions)	$ 27.4	$ 30.8	$ 28.3	$ 27.0	$ 22.9
Earnings per Share	$ 2.06	$ 2.60	$ 2.41	$ 2.54	$ 2.40
Dividends Paid per Share	$ 1.62	$ 1.56	$ 1.51	$ 1.50	$ 1.4688
Gross Additions to Utility Plant (Millions)	$ 48.7	$ 41.7	$ 46.7	$ 71.2	$ 67.9
Generating Capacity (Kilowatts)	1,414,700	1,334,700	1,334,700	1,278,700	1,013,500
Utility System Peak Load (Kilowatts)	1,176,000	1,030,300	1,069,400	1,004,400	1,051,400
Average Annual Residential Kilowatt-hour Use	7,653	7,320	7,018	6,982	7,303
Electrically Heated Dwelling Units (Year-end)	45,389	42,878	41,026	38,146	34,870
Customer Service Installations (Year-end)	352,205	343,147	336,105	330,758	320,834

Transfair, a five day transportation exposition comprised of air, land and sea vehicles was held in August, 1977 at the National Aviation Facilities Experimental Center in Pomona. Transfair drew an estimated 179,000 persons, resulting in $1 million of business activity.

Mr. Alfred C. Linkletter, Chairman of the Board of Directors and Mr. John D. Feehan, President and Chief Executive Officer.

To Our Shareholders:

There are many accomplishments that will be reported throughout this Annual Report about the successful operations of your Company in 1977. However, the most important financial result was not good—earnings declined. Earnings available for Common Stock amounted to $2.06 per average share outstanding in 1977 compared to $2.60 per share in 1976 when there were fewer average shares outstanding.

The major factors that caused the decline in earnings were increased depreciation expenses, higher taxes, increased labor costs, and other increased expenses resulting primarily from inflation.

Depreciation expense in 1977 amounted to $19.4 million, up 11%. Total taxes were $43.2 million, up $5 million—this 13.2% increase in taxes had the effect of reducing earnings per share by 47.3¢ a share. The effects of increased labor costs, the increased costs of material and supplies and general inflation is demonstrated by the $7.2 million increase in Operation and Maintenance Expenses (excluding fuel and interchange) during 1977.

The State of Pennsylvania enacted a gross receipts tax in December, 1977 which was made retroactive to January 1, 1977. It amounted to $1 million for Atlantic Electric—however, we expect to join with other utility companies in a suit against Pennsylvania which will contest the legality of the tax.

Notwithstanding our aggressive programs to combat higher expenses, it became evident in late 1976 that an increase in electric rates would be necessary in 1977 to enable Atlantic Electric to earn an adequate return on the investment of shareholders. On February 11, 1977 we filed a request for a $16.5 million rate increase with the New Jersey Board of Public Utilities. Unfortunately the rate increase was not effective until January 27, 1978 and we were only granted an $8 million increase. Consequently, we plan to file a court appeal of the rate decision in the Superior Court of New Jersey. We will keep shareholders advised of this matter. We also are preparing a request for an additional rate increase—timely rate relief will be needed in 1978 if financial results are to show an upward trend. Unless we get adequate rate relief in the future, we will have to make further curtailments in our construction program and consider other serious retrenchments.

Progress was achieved during 1977 in many areas of operations of the Company:

Despite inflation of more than 11% during the two-year period 1975-1977 the average price paid per kilowatt-hour by Atlantic Electric's customers only increased about 4%! Even if an adequate, timely rate increase had been granted in 1977 the price paid per kilowatt-hour would have been about 4% lower than inflation growth!

Major construction was completed—The first unit of Salem Nuclear Generating Station was placed in commercial operation. This not only provides Atlantic Electric with additional generating capacity to meet the electric energy needs of its customers, but it also provides the benefit to the Company and its customers of lower cost energy—the total cost of generating electric energy (including construction costs and fuel) is less through nuclear than any other fuel.

Increases in Kilowatt-hour Sales and in Revenues—It's important to distinguish between orderly growth, which we welcome, and accelerated growth, which we oppose. Orderly growth is needed if the economy of Southern New Jersey is to prosper. Our concern about growth has caused us to be a leading promoter of conservation.

Kilowatt-hour sales increased 6.8% in 1977—7.3% growth was recorded in the residential category, and 6.2% and 6.7% in commercial and industrial categories respectively.

Atlantic Electric experienced increases of 11% in residential revenues, 10.5% in commercial and 12.2% in industrial in 1977. Some of this growth is indicative of an upswing in certain sections of the area's economy; a significant amount resulted from the very cold weather in the early months and hotter than normal weather in the summer of 1977.

Dividend Reinvestment and Stock Purchase Plan contributed funds towards cash requirements—We raised $2.3 million in 1977 through the sale of 102,417 shares of Common Stock under this Plan. It's gratifying to know that so many of our shareholders and employees have sustained

confidence in Atlantic Electric and are investing on a continuing basis.

Several aspects of our Safety and Public Relations Programs were improved—We've been conducting programs on electrical safety throughout our service area for students as well as for other groups. We also work closely with local police and fire departments and present safety seminars in trade schools for apprentice electrician trainees.

Through our public relations program we strive to make the public aware of the realities of the energy situation such as (1) the need for increased use of coal and nuclear fuel; (2) the need to conserve energy; (3) the prospects for impending energy shortages; and (4) the fact that the age of inexpensive energy is over.

We had hoped that 1977 would be the year that an effective National Energy Policy would be adopted. Unfortunately, the legislation proposed was more of a revenue producing bill with extremely onerous provisions regarding electric utilities. However, through the efforts of many, including the electric utility industry and shareholders, a more effective energy bill will be developed by the joint Senate-House Committee.

Dividends on Common Stock have been paid for 53 consecutive years and increases in the dividend payment have occurred each year for the past 25 years. The Board of Directors and Management intend to make every effort to continue this record. We are fully aware of the need to provide an adequate return to our investors and to provide a measure of protection from inflation. We know that many shareholders are retired and depend upon dividends to sustain them.

Although earnings per share were diluted as a result of the greater average number of shares of Common Stock outstanding in 1977, the sale of the additional shares (1,000,000 shares sold in October, 1976) enabled Atlantic Electric to strengthen its capitalization structure and the funds obtained ($19.3 million) helped pay for construction of new generating stations and other electrical facilities required to serve Atlantic Electric's customers.

1978 promises to be a year of challenge for the people of Atlantic Electric and we plan to make it a year of important progress which will set the pace for more prosperous years to follow. Several of our major objectives are:

1. Continue to control operating expenses to the extent possible to minimize increases in the cost of electricity in Southern New Jersey.
2. Obtain an adequate rate increase which together with operating efficiencies will result in higher earnings, increased dividends and an improved financial rating.
3. Effect the continued use of additional energy-efficient appliances, promote conservation and load management.
4. Firm up the generating capacity program for the future.

Although we have been able to defer many capital expenditures in recent years as a result of the slowdown in the economy and conservation, we continue to anticipate orderly but sustained growth in Southern New Jersey in the future. Atlantic Electric will be called upon to provide a reliable, adequate energy supply to meet the growth. We must retain our financial strength and flexibility if we are to sell securities at reasonable financing costs in order to build the required facilities, and at the same time continue to provide existing shareholders with a reasonable return on their investment. We can assure you that your management will continue to make every effort to strengthen the Company and get public and regulatory understanding of the importance of our need to obtain timely, adequate rate relief. As a shareholder you can add your voice to ours—your support can provide a necessary extra ingredient to assure a brighter future for all.

For the Board of Directors,

A. C. Linkletter

A. C. Linkletter
Chairman of the Board

J. D. Feehan

J. D. Feehan
President

A team of Company workers prepare to lower an underground transformer at the corner of Ohio and Pacific Avenues in Atlantic City.

A "cable pulling" job was the order of the day for this overhead line crew in Sea Isle City.

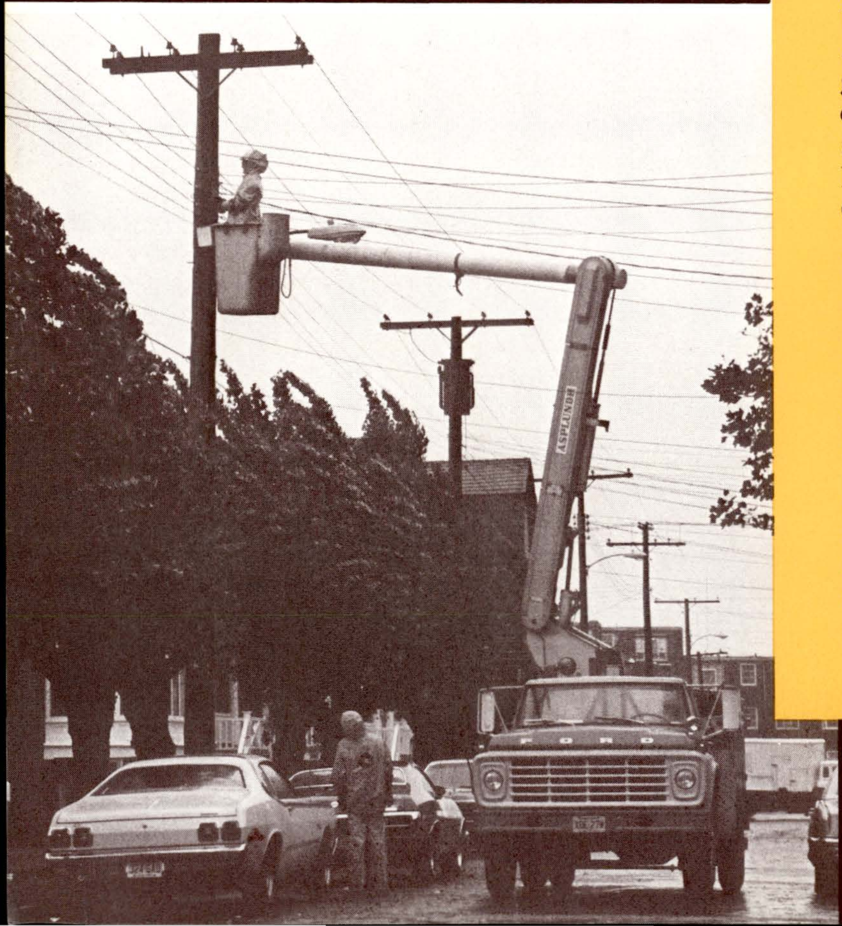
The Company and The Area It Serves

Located in an area close to the major metropolitan centers of Philadelphia and New York, Atlantic Electric provides electric service to the southern one-third of the State of New Jersey. Its 2,700 square mile territory boasts popular seaside resorts, fine residential communities and cities, excellent shopping centers and other commercial business centers, and diversified industrial and agricultural areas.

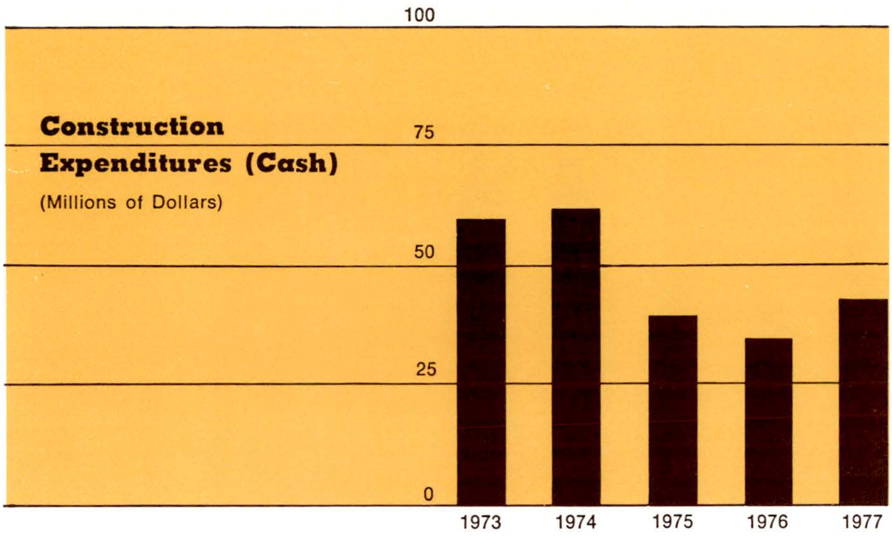
Atlantic Electric is an investor-owned electric utility serving more than 352,000 customers in an area with a year-round population of 961,000. Approximately 32% of the holders of Common Stock are also customers of Atlantic Electric—the Company thus feels a strong obligation to the area it serves and to the best interests of its customers and shareholders alike. The Company has 43,826 shareholders of Common Stock and 2,113 holders of Preferred Stock. As of year-end 1977, 10,702,557 shares of Common Stock were outstanding.

Earnings Declined—Dividends Increased

Earnings available for Common Stock amounted to $2.06 per average share outstanding in 1977 as compared to $2.60 in 1976 when there were fewer average shares outstanding. Dividends paid on Common Stock during 1977 amounted to $1.62 per share, compared with $1.56 paid in 1976. Earnings per share are the lowest since 1971 and their depressed level is attributable to a number of adverse factors including increased depreciation, higher taxes and inflation-generated increases in labor costs and in other operation and maintenance expenses.



Neither wind nor rain . . . Troublemen brave a coastal storm while repairing overhead lines in Atlantic City.



Types of Fuel and Fuel Costs

Atlantic Electric has achieved substantial stabilization in electric rates in recent years. Although the cost of all forms of energy (including electricity) is expected to continue to rise, there is hope for some stabilization of fuel costs in the short term for the Company through increased production of energy with nuclear fuel. During 1977 approximately 18% of the electric energy used by our customers was produced by nuclear fuel—the estimate for 1978 is 24%. Coal and oil produced 43% and 39% of the 1977 kilowatt-hours respectively—the estimates for 1978 are 42% for coal and 34% for oil.

Increases Recorded in Number of Electrically Heated Homes Kilowatt-hour Sales and Revenues

The number of electrically-heated dwelling units has increased steadily over the years. During 1977, 2,511 such units were added to the Company's lines; the total included 2,358 newly constructed homes and 153 units which were converted from other types of fuel. By the end of 1977 there were 45,389 electrically heated dwelling units in our service area. Residential customers with electric heat represent 14% of our residential customers. Significantly, during 1977, residential customers with electric heating used 28% of our total residential kilowatt-hour sales and produced 23.5% of residential revenue.

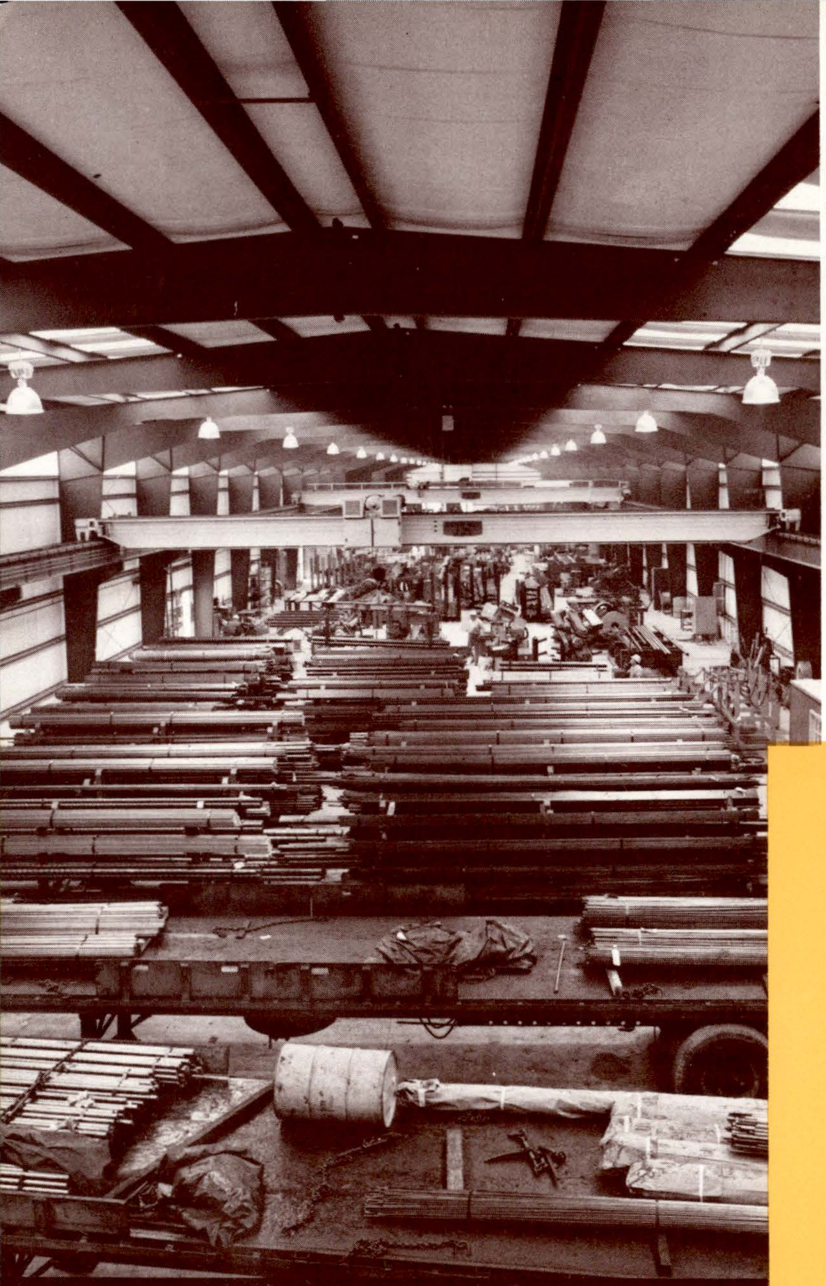
Much colder than normal weather conditions during the first quarter of 1977 and hotter than normal weather during the 1977 summer season were principal reasons for the 315.3 million increase in kilowatt-hour sales for the year. We estimate that over half of the kilowatt-hour sales growth was related to abnormal weather conditions and the remaining growth attributable to new load being added to the Company's lines.

Electric Operating Revenues in 1977 amounted to $235 million, up 10.8% from the prior year. Growth registered was 11% in the residential category and 10.5% and 12.2% in commercial and industrial respectively.

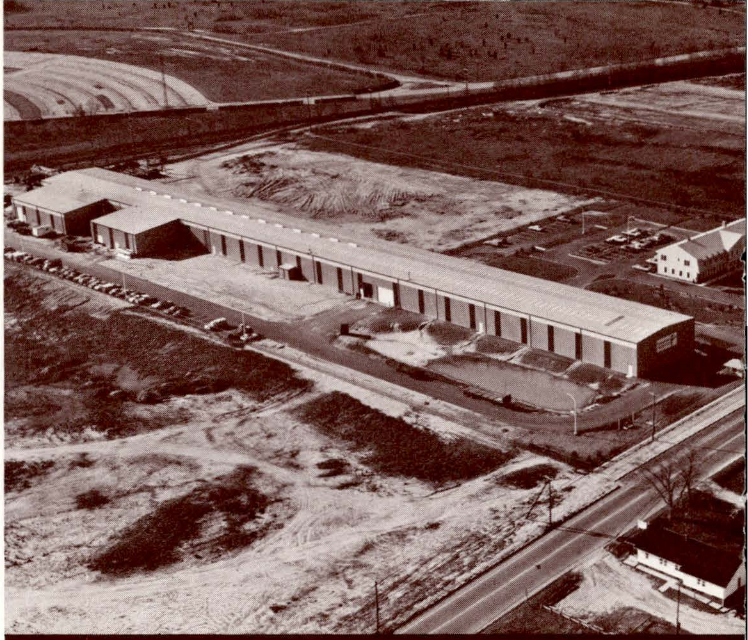
Construction of New Facilities Continued

One of the daily challenges facing a utility such as Atlantic Electric is that of providing the capacity to meet the present and future needs of its customers. As the demand for electric energy increases, additional generation, transmission and distribution facilities must be built if Atlantic Electric's customers are to continue to receive the reliable service on which they depend. In addition to providing new facilities to meet increased demand, we must also replace obsolete and worn out equipment. Even in the absence of load growth, the Company would still be required to carry out a significant construction program just to replace current facilities as they become worn out.

The Company's construction expenditures, including nuclear fuel, amounted to $42 million in 1977. Allowance for Funds Used During Construction totaled another $6.7 million. Of the 1977 expenditures, $26.9 million was for production facilities and $21.8 million was used for substations, and transmission, distribution and general facilities. It is estimated that cash construction expenditures will amount to approximately $66.7 million for 1978.



A unique look at the spacious interior and products of Predco Incorporated's recently constructed plant.



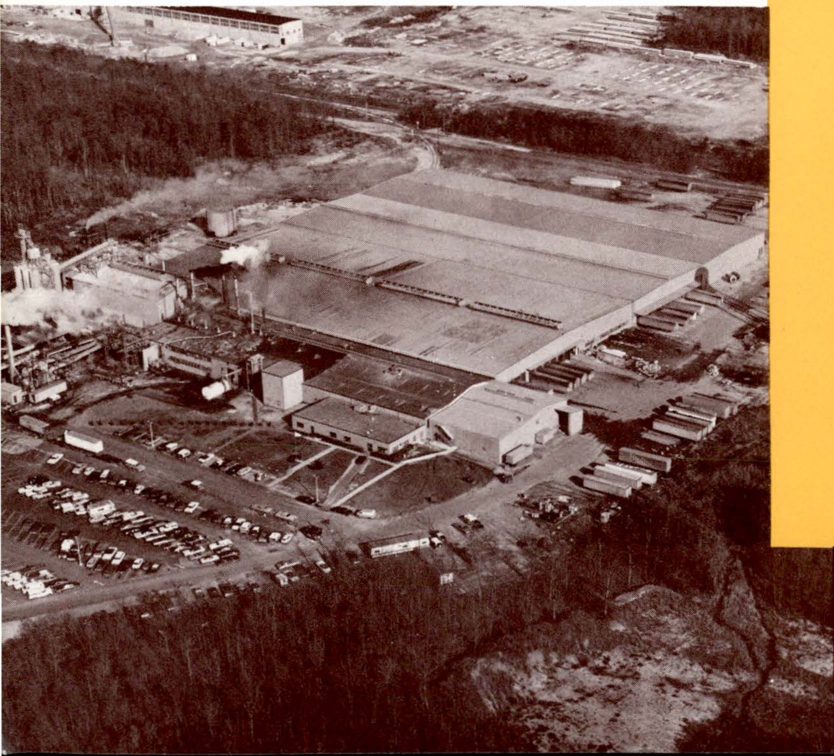
Southern New Jersey's industrial growth is exhibited by such new arrivals to our service area as Predco Inc., with its modern plant and corporate headquarters located in Atco.

The first unit at the Salem Nuclear Generating Station was placed in full commercial operation on June 30, 1977. Atlantic Electric's share of this 1,090,000 kilowatt unit is 80,000 kilowatts. Unit No. 2 at Salem is scheduled for completion in 1979. The Company's share of this second unit is 83,000 kilowatts.

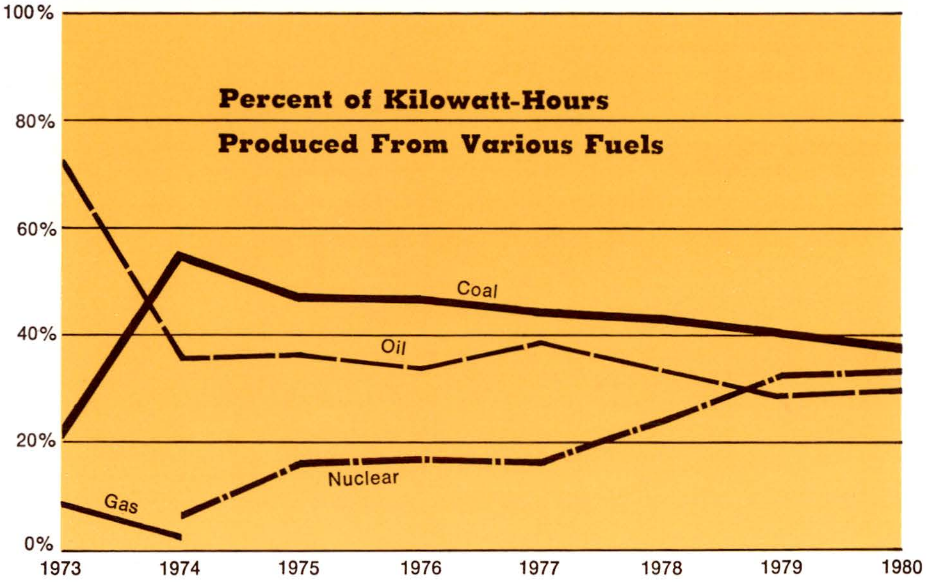
The Company is also participating in the construction of two nuclear units at the Hope Creek Generating Station located adjacent to the Salem Station. Ownership interest in these units, the first of which is scheduled for completion in 1984 and the second in 1986, totals 107,000 kilowatts.

The Company also expects to have ownership interest totaling 460,000 kilowatts in four proposed floating nuclear generating units to be constructed under the direction of Public Service Electric and Gas Company. The first unit was scheduled for service in 1985, the second in 1987 and the remaining two in the early 1990's. As this report went to press, Public Service was in the process of negotiating with Offshore Power Systems, which is to construct the units, for a three year delay in delivery of the units. Atlantic Electric's current load projections indicate that new generating capacity must be available in the mid 1980's and it has commenced a study to determine how it will meet this requirement.

To provide these facilities and others needed to meet forecasted increases in demand, Atlantic Electric must always look ahead. Construction of major generating plants can take as long as ten to twelve years from the time the need is clearly defined until the plant is placed in commercial operation. Needless delays in application and licensing



Certain-Teed Corporation in Williamstown Junction, manufacturers of insulation, is a fine example of diversified industries in our service area.



procedures result in costly increases in the already lengthy lead times. Given the pressing need for development of future energy supplies, neither Atlantic Electric nor its customers can afford to waste time—a truly valuable resource. Atlantic Electric must provide the plant and equipment necessary to meet future demand for electricity when it occurs, a demand which, including conservation, is expected to grow at an average rate of 3.9% per year for the next ten years.

Funds from External Sources are Required

The production, transmission and distribution of electricity requires large investments in plant and equipment. Because of this investment and because of the highly capital-intensive nature of the industry, Atlantic Electric must raise millions of dollars each year to maintain its ongoing construction program.

In December, 1977, Atlantic Electric raised $10 million from the issuance and sale through a private placement of 100,000 shares of an $8.25 series of No Par Preferred Stock. The proceeds were used to fund part of the cost of the Company's construction program and for repayment of its short-term debt incurred to provide interim financing of construction costs. Also in December, $15 million of Unsecured Notes were issued bearing an interest rate of 7.9% per year and having a term of five years. The funds received from the sale of the Notes were used to pay $15 million of 9.90% Notes which matured on December 15, 1977.

Of the $66.7 million 1978 cash construction requirements, it is anticipated that 43% will be generated from internal sources and 4% will be provided from the sale of Common Stock through the Dividend Reinvestment and Stock Purchase Plan. The balance of 53% is to be financed temporarily through short-term bank loans and commercial paper borrowings. However, should economic and market conditions during 1978 present a favorable situation for the issuance of long-term securities, the Company would consider the sale of such securities.

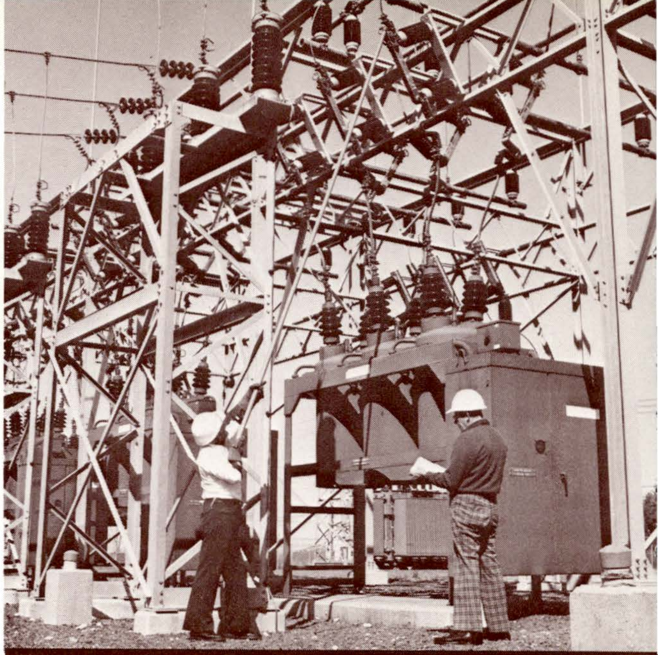
During 1977, $2.3 million was obtained through the issuance of 102,417 shares of Common Stock under the Company's Dividend Reinvestment and Stock Purchase Plan. This plan makes it possible for shareholders and employees to purchase additional shares of Common Stock directly from the Company at a price based on the average high and low market prices of Atlantic Electric's Common Stock on the investment date. In January, 1978, the Board of Directors authorized an additional 100,000 shares of Common Stock for issuance under the Plan. At year end 1977 there were about 7,000 participants in the Plan.

Conservation—Control of Peak Demands

Conservation and control of peak demands continue to be two of the focal points of Atlantic Electric's efforts to minimize increases in the cost of electric energy to customers and simultaneously improve the prospects for earning a reasonable return on investment.

The Company took a bold step forward in energy conservation and its efforts to suppress the summer peak demand when it became the first electric utility in the nation

What appears to be fun and games on the surface actually carries an important message on electrical safety as Company linemen conduct a seminar for youngsters at the Edward R. Johnstone School.

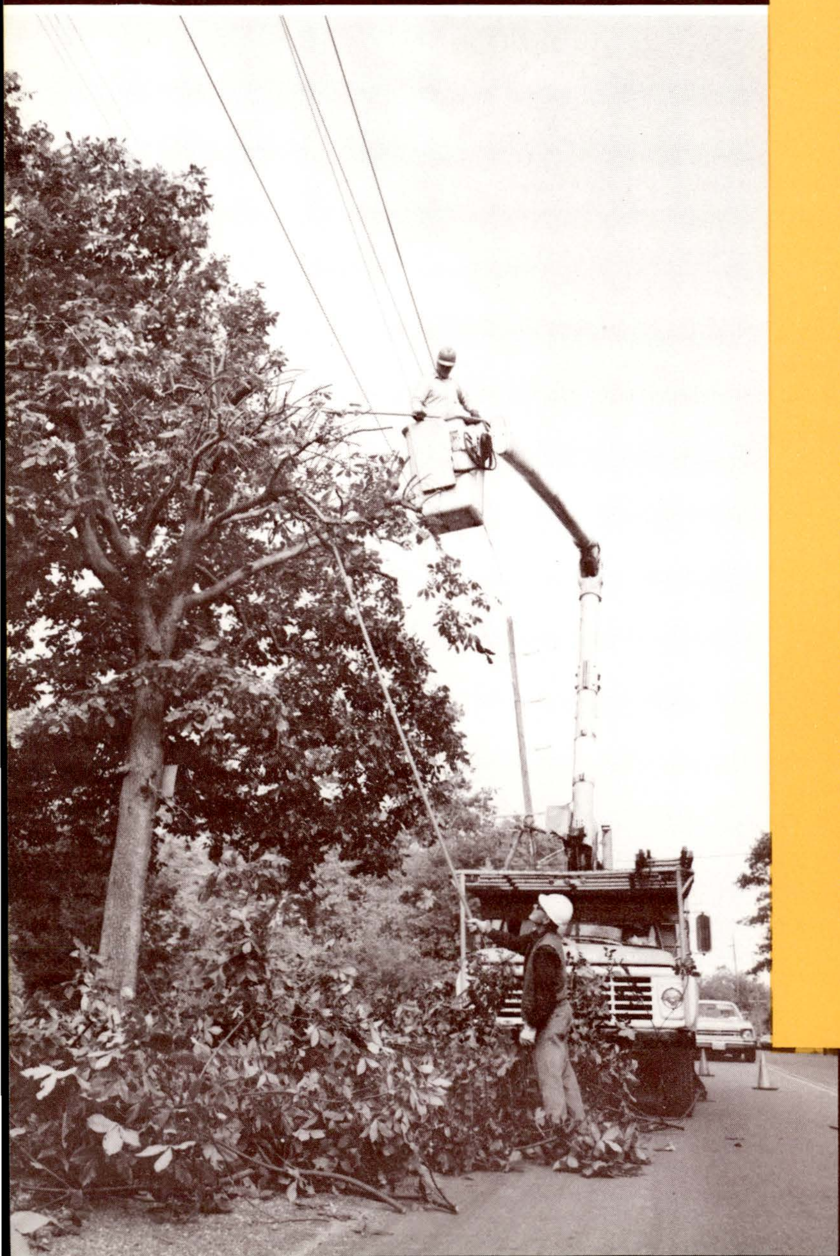


A supervisor conducts a transmission and distribution trainin session at the Company's Ontario Substation in Atlantic City

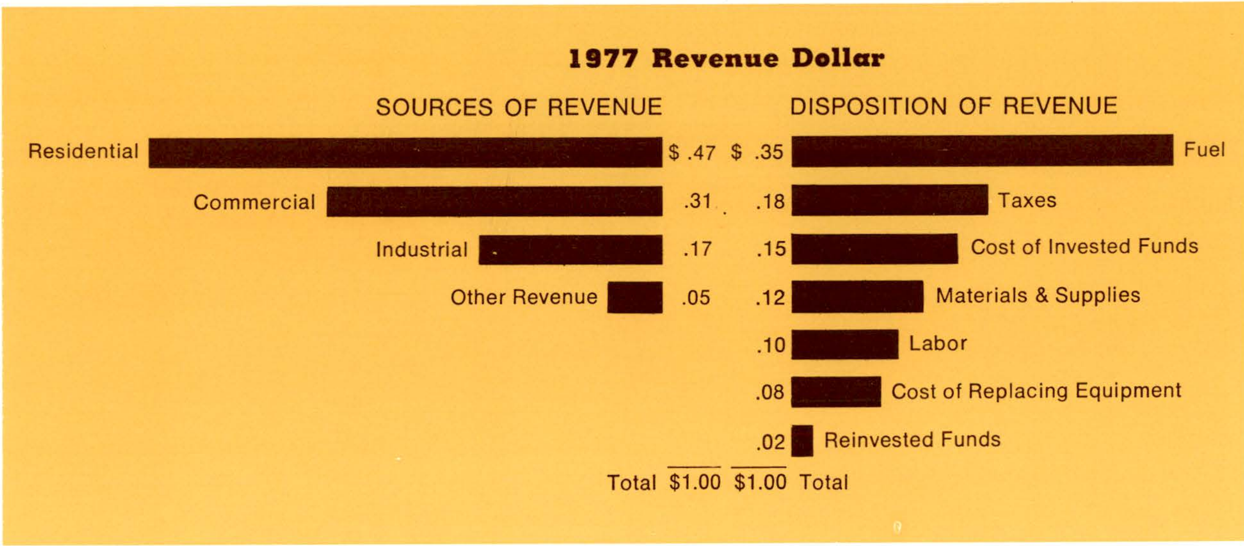
to enforce a minimum acceptable efficiency ratio for air conditioners. This program was approved by the New Jersey Board of Public Utilities and permits us to refuse to connect electric service to a new building or home with air conditioning equipment having an energy efficiency ratio of less than 7.0. We believe that this vigorously addresses itself to the problem of the sale and use of inefficient air conditioners, which is a major cause of the undesirable peak demand.

A continuing phase of Atlantic Electric's program is to provide customers with specific information regarding conservation and peak demand control—the Company has encouraged weather protection of homes, proper maintenance of heating equipment, use of major appliances during periods of lower energy demand and other energy saving methods.

The Company has always advocated and promoted extensive use of insulation and thermal treatment in electrically-heated homes, thereby setting a standard for other heating sources to move up to. If gas and oil heated homes had been built to such standards, vast amounts of energy could have been saved throughout New Jersey and the nation. The Company hopes that its recently adopted National Energy Watch (NEW) program will be the catalyst behind a further movement to encourage builders to improve thermal treatment in homes under construction. The program also applies to owners of existing homes and encourages them to install energy efficient equipment and appliances in their homes. The National Energy Watch, based on guidelines provided by the Edison Electric Insti-



A tree trimming crew clears "danger timber" from overhead lines, thus helping ensure uninterrupted service for our customers.



tute, is an award and certification program aimed at enhancing the marketability of homes that save energy.

While Atlantic Electric did make progress in peak demand control and conservation we still experienced a new record peak load of 1,176,000 kilowatts in July 1977. We estimate that about 58,000 kilowatts of this peak was caused by the hotter and more humid than normal weather conditions. The 1976 peak load was 1,030,300; the previous record peak load of 1,069,400 was experienced in 1975.

The Environment and the cost of its Protection

Atlantic Electric has been a leader in Southern New Jersey in advocating and promoting environmental protection and fulfilling its obligation to provide adequate, reliable electric service at a reasonable cost while doing its utmost to protect the quality of life of this area. We believe our Company has, over the years, been one of the most responsible citizens of Southern New Jersey and has prudently weighed the pressing energy needs of the people with their ability to meet the higher cost of energy, while at the same time doing its best to protect the environment for future generations.

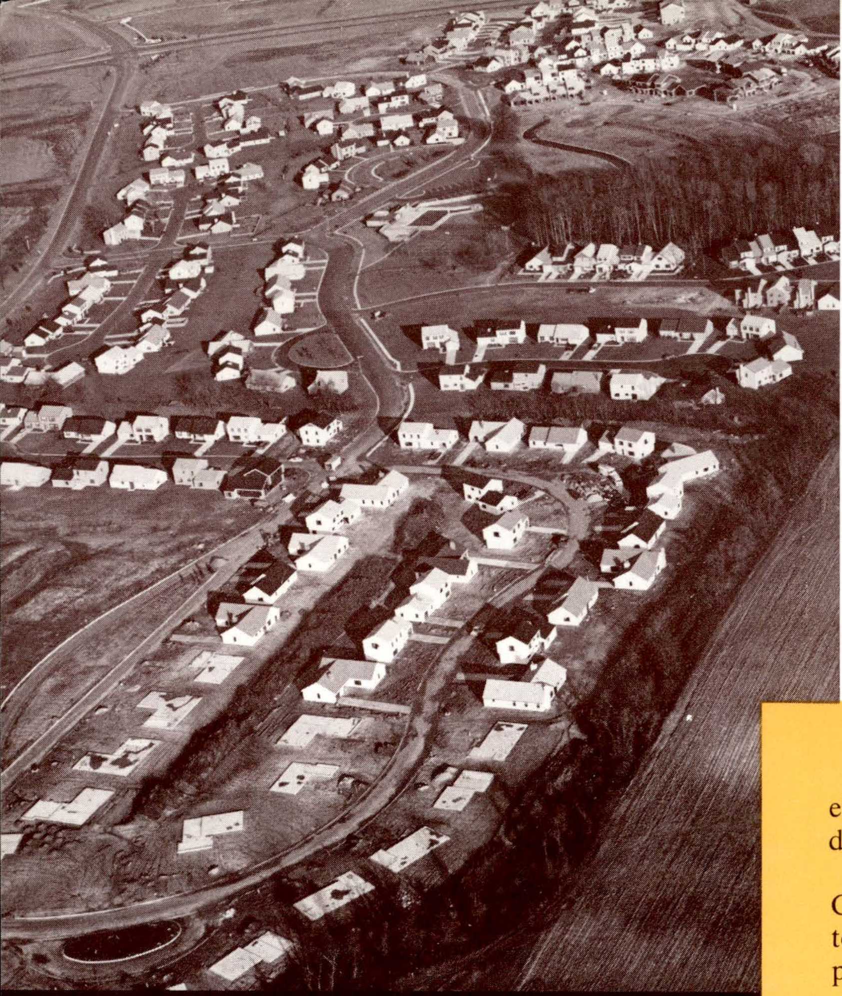
The New Jersey Department of Environmental Protection (D.E.P.) and the Federal Environmental Protection Agency (E.P.A.) have determined that the B.L. England Generating Station meets the requirements of New Jersey thermal water quality standards. Atlantic Electric is cooperating with these agencies by conducting biological studies at the B.L. England and Deepwater Generating Stations to determine the effects of once-through condenser cooling on fish.

The D.E.P. also has approved the concept of continued coal burning in Units 1 and 2 of the B.L. England Generating Station with the installation of additional precipitator equipment. A final decision regarding the modifications which will be required and the costs involved is expected to be made early in 1978.

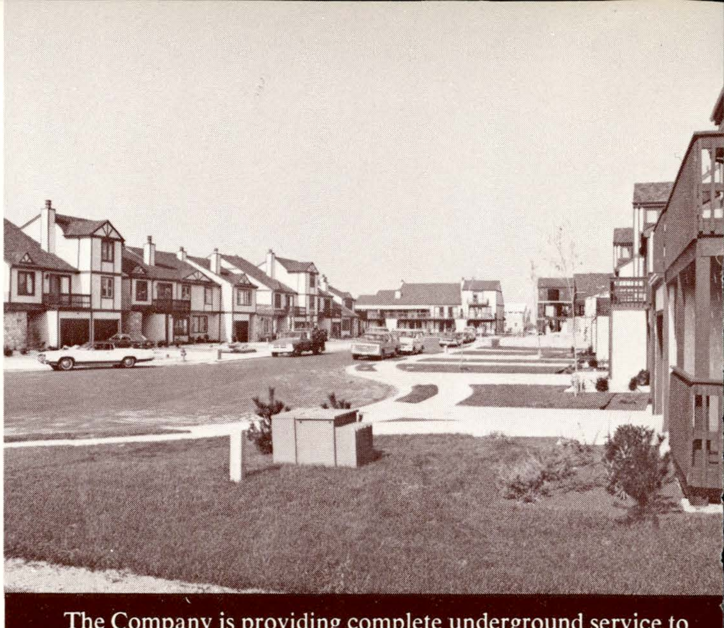
Safety and Public Relations Programs were Improved

Atlantic Electric is conducting programs on electric safety throughout its service area. Specially-trained linemen appear at schools throughout our service area to educate students who are unaware of the potential hazards of electricity and the respect it demands. The Safety Department often dispatches its personnel to fire departments—both professional and volunteer—to show films and discuss the proper way to extinguish electrical fires. Discussions often center on actions taken by veteran Company linemen in confronting hazardous situations in their daily work experience. Several trade schools have held safety seminars for the benefit of their apprentice electricians to better acquaint them with safe methods of handling electrical tools and electrical fixtures. The demand for the safety program has been increasing and we are gratified that the public is so eager to learn more about electrical safety.

The Speakers Bureau, comprised of employees of the Company, continues to be an important part of our program to communicate with those interested in the challenges and controversial issues which affect their



The ever increasing residential growth in our service area is typified by attractive Old Orchard Village, just one of three similar developments currently under construction in the new community of Beckett in Logan Township.



The Company is providing complete underground service to the stylish Beacon Beach condominiums in Brigantine. The condominiums are equipped with electric heat pumps.

electric supply. The Bureau made 197 presentations during 1977.

The ongoing safety and health program within the Company also was strengthened during 1977 in our efforts to prevent accidents and help employees to recognize potentially dangerous situations both on and off the job.

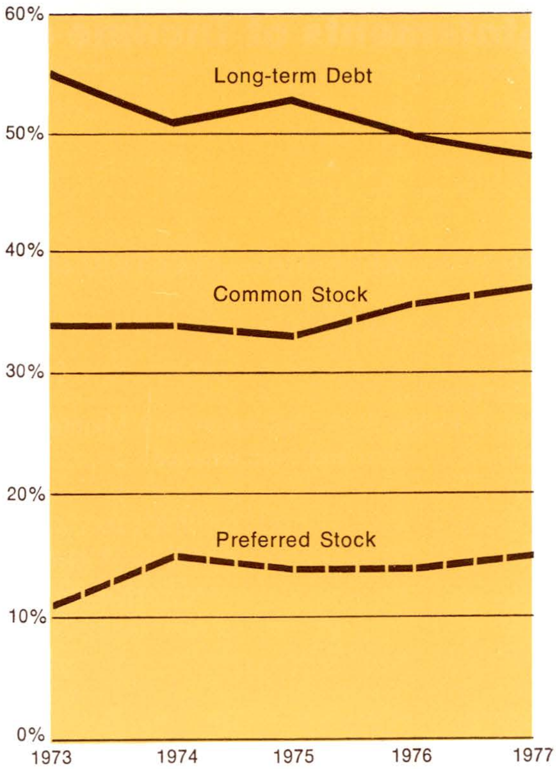
Our Employees—A Key to Successful Operations

Over the years Atlantic Electric has developed a good working relationship with its employees. Without a highly trained, capable and efficient work force, we could not continue to reliably provide electricity to a million people in Southern New Jersey. The varied and diverse roles performed by our people range from the familiar and visible linemen and meter readers to the "behind-the-scenes" employees, such as power plant operators, engineers, draftsmen and clerical personnel. No matter what their job title, each of the 1,739 employees of Atlantic Electric plays an important and necessary role in the overall operation of the Company. Following the culmination of negotiations with union representatives, a new two-year agreement was entered into in December, 1977. A general wage increase each year and improved benefits were granted to employees by the Company. The increase and benefits will add approximately $2.6 million to the Company's 1978 payroll costs and $2.8 million to 1979 costs.

Atlantic Electric has implemented an improved Customer Relations and Service Training Program which brings to employees who interact with the public a greater knowledge of various departments in the Company. The program has an all-encompassing curriculum of some 18 subjects which

The Company's Shareholder Records Department has assumed all record-keeping and dividend disbursing responsibilities for Common Stock and Preferred Stock as well as administration of the Dividend Reinvestment and Stock Purchase Plan.

Year-End Capitalization



This capitalization chart clearly reflects two of our long-range goals which have been achieved—a reduced debt ratio and increased shareholder equity. These are key factors in determining financial ratings.

will assist employees in becoming more articulate in their dealings with customers and help them develop knowledge which will enable our employees to better serve our customers. The program consists of 28 classroom sessions covering more than 100 hours and includes examinations.

Community Activities

President John D. Feehan has accepted the Delaware Valley Council's 1977 Corporate Award on behalf of Atlantic Electric in recognition of its "People Helping People" program. The program encourages employees to become involved in community activities. The Delaware Valley Council, currently in its 22nd year, concerns itself with the orderly economic development of the 15-county Delaware Valley Region, which includes our service area. The Council is comprised of business executives, professional people, community leaders and public officials.

Mr. Feehan also accepted awards from the New Jersey Science Teachers Association and the New Jersey Council for the Social Studies in recognition of the Company's work in the field of education. As one of the co-sponsors of the Science-Energy Conferences, we have tried to improve "energy awareness". Company officials and outside speakers meet in all day sessions with student and faculty representatives from area high schools to discuss energy matters from the basics of electric generation to alternate energy sources for the future. We have taken a leadership role in the Science-Energy Conferences for four years.

Serving One-third of the State of New Jersey

Statements of Income and Retained Earnings

	Year Ended December 31 1977	1976
OPERATING REVENUES—ELECTRIC (Note 9)	$234,994,695	$212,027,442
OPERATING EXPENSES:		
Fuel	82,734,593	69,233,774
Interchange	3,735,245	4,819,194
Power Production—Operation and Maintenance	17,781,985	13,497,991
Other Operation and Maintenance	29,262,922	26,333,575
Depreciation (Note 1)	19,368,780	17,394,673
Taxes Other Than Federal Income Taxes	29,069,476	26,341,778
Federal Income Tax Expense (Notes 1 and 6)	13,188,156	11,495,656
Total Operating Expenses	195,141,157	169,116,641
OPERATING INCOME	39,853,538	42,910,801
OTHER INCOME:		
Allowance for Funds Used During Construction (Note 1):		
Debt and Equity (Prior to January 1, 1977)	—	7,456,612
Equity (After December 31, 1976)	3,906,318	—
Miscellaneous Non-Operating Income Less Income Deductions	(24,754)	385,583
Total Other Income	3,881,564	7,842,195
INCOME BEFORE INTEREST CHARGES	43,735,102	50,752,996
INTEREST CHARGES:		
Interest on Long-Term Debt	18,489,133	18,948,850
Amortization of Debt Expense and Premium—Net	62,993	52,023
Interest on Short-Term Debt	433,725	800,563
Other Interest Expense	162,104	155,864
Total Interest Charges	19,147,955	19,957,300
Allowance for Funds Used During Construction-Debt, after December 31, 1976 (Note 1)	2,771,148	—
Net Interest Charges	16,376,807	19,957,300
NET INCOME	27,358,295	30,795,696
RETAINED EARNINGS AT BEGINNING OF YEAR	84,027,439	74,165,678
	111,385,734	104,961,374
DIVIDENDS DECLARED:		
Dividends on Cumulative Preferred Stock	5,549,678	5,483,936
Dividends on Common Stock (per share 1977—$1.62, 1976—$1.58)	17,235,204	15,449,999
Total Dividends Declared	22,784,882	20,933,935
RETAINED EARNINGS AT END OF YEAR	$ 88,600,852	$ 84,027,439
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	10,629,930	9,747,012
EARNINGS PER SHARE OF COMMON STOCK (Note 4)	$2.06	$2.60

See Notes to Financial Statements

Statements of Changes in Financial Position

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

	Year Ended December 31 1977	1976
SOURCE OF FUNDS		
Funds from Operations:		
Net Income	$ 27,358,295	$ 30,795,696
Principal Non-Cash (Credits) to Income:		
Depreciation	19,368,780	17,394,673
Amortization of Nuclear Fuel	1,037,980	—
Allowance for Funds Used During Construction	(6,677,466)	(7,456,612)
Federal Income Taxes—Deferred—Net	7,866,279	4,697,375
Investment Tax Credit Adjustments—Net	2,850,249	6,419,859
Other—Net	(166,944)	132,117
Total Funds from Operations	51,637,173	51,983,108
Funds from Outside Sources:		
Long-Term Debt	15,000,000	2,500,000
Sale of Common Stock	3,349,523	20,790,854
Sale of Preferred Stock	10,000,000	—
Capital Stock Purchase Plan	24,446	—
Total Funds from Outside Sources	28,373,969	23,290,854*
Hope Creek Transfer—Net	—	3,262,031
Other Sources—Net	22,750	(126,801)
Total Source of Funds	$ 80,033,892	$ 78,409,192
APPLICATION OF FUNDS		
Gross Additions to Utility Plant	$ 48,733,032	$ 41,701,515
Allowance for Funds Used During Construction	(6,677,466)	(7,456,612)
Net	42,055,566	34,244,903
Dividends on Preferred Stock	5,549,678	5,483,936
Dividends on Common Stock	17,235,204	15,449,999
Retirement and Maturity of Long-Term Debt	15,400,000	10,592,000*
Conversion of Preferred Stock	512,000	25,000
Decrease in Short-Term Debt	—	13,650,000
Investments in Subsidiary Companies (Note 2)	(2,802,950)	1,161,473
Increase (Decrease) in Working Capital (see below)	2,084,394	(2,198,119)
Total Application of Funds	$ 80,033,892	$ 78,409,192
NET INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL*		
Current Assets:		
Cash and Cash Items	$ 2,253,616	$ (993,958)
Accounts Receivable	94,824	1,366,882
Fuel	3,388,800	(2,082,246)
Materials and Supplies	1,028,650	68,915
Prepayments	319,558	134,299
Other	(3,262,031)	3,262,031
Total	3,823,417	1,755,923
Current Liabilities:		
Accounts Payable	(193,576)	2,526,763
Taxes Accrued	3,661,828	336,836
Interest Accrued	35,621	(291,120)
Other	(1,764,850)	1,381,563
Total	1,739,023	3,954,042
Net Increase (Decrease) in Working Capital	$ 2,084,394	$ (2,198,119)

*Excludes Short-Term Debt, Notes and Debentures Maturing in 1977 and 1976.

See Notes to Financial Statements

Balance Sheets

Assets

	December 31 1977	December 31 1976
ELECTRIC UTILITY PLANT (Note 1):		
In Service:		
Production	$324,354,058	$254,882,314
Transmission	106,353,003	100,078,636
Distribution	210,656,415	197,834,649
General	15,821,460	15,961,996
Total	657,184,936	568,757,595
Less Accumulated Depreciation	151,570,215	137,204,449
Net	505,614,721	431,553,146
Construction Work in Progress	86,700,308	133,754,943
Nuclear Fuel, Less Accumulated Amortization at December 31, 1977 of $1,037,980	8,346,184	7,830,430
Electric Utility Plant—Net	600,661,213	573,138,519
INVESTMENTS:		
Investment in Subsidiary Companies, at Equity (Note 2)	2,955,832	5,538,846
Land Purchase Contracts	638,231	635,231
Other	499,645	422,792
Total Investments	4,093,708	6,596,869
CURRENT ASSETS:		
Cash (Note 5)	4,993,103	4,708,804
Temporary Cash Investments	2,700,000	600,000
Special Deposits and Working Funds	335,886	466,569
Accounts Receivable:		
Utility Services	15,123,741	13,546,972
Miscellaneous	1,390,018	2,871,963
Allowance for Doubtful Accounts	(200,000)	(200,000)
Fuel (at average cost)	18,271,502	14,882,702
Materials and Supplies (at average cost)	8,295,918	7,267,268
Prepayments	2,026,355	1,706,797
Other	—	3,262,031
Total Current Assets	52,936,523	49,113,106
DEFERRED DEBITS:		
Unamortized Debt Expense (Note 1)	2,028,635	2,150,559
Other	2,894,087	2,058,703
Total Deferred Debits	4,922,722	4,209,262
Total Assets	$662,614,166	$633,057,756

See Notes to Financial Statements

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

Liabilities and Shareholders' Equity

	December 31 1977	December 31 1976
SHAREHOLDERS' EQUITY (Note 3):		
Cumulative Preferred Stock	$ 89,554,045	$ 80,066,045
Common Stock, Par Value $3:		
Authorized Shares, 14,000,000		
Outstanding Shares 1977—10,702,557; 1976—10,556,372	32,107,671	31,669,116
Premium on Common Stock	102,695,631	99,700,474
Total Common Stock	134,803,302	131,369,590
Capital Stock Purchase Plan	24,446	—
Capital Stock Expense (not being amortized)	(1,848,177)	(1,723,230)
Retained Earnings	88,600,852	84,027,439
Total Shareholders' Equity	311,134,468	293,739,844
LONG-TERM DEBT (Note 12)	290,120,223	275,635,523
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	—	15,000,000
Accounts Payable	4,047,067	4,240,643
Customer Deposits	2,915,418	2,440,353
Taxes Accrued	6,016,229	2,354,401
Interest Accrued	3,564,494	3,528,873
Dividends Declared	5,784,550	5,644,728
Other	3,534,269	5,914,005
Total Current Liabilities	25,862,027	39,123,003
DEFERRED CREDITS:		
Customer Advances for Construction	597,960	517,448
Accumulated Deferred Investment Tax Credits (Notes 1 and 6)	15,221,703	12,371,454
Accumulated Deferred Income Taxes (Notes 1 and 6)	18,306,228	10,439,949
Other Deferred Credits	381,557	230,535
Reserve for Storm Damage	450,000	450,000
Other Reserves	540,000	550,000
Total Deferred Credits	35,497,448	24,559,386
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
Total Liabilities and Shareholders' Equity	$662,614,166	$633,057,756

See Notes to Financial Statements

Notes to Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES:
REGULATION—The accounting and rates of the Company are subject to the requirements of the Board of Public Utilities of the State of New Jersey (BPU) and in certain respects to the Federal Energy Regulatory Commission, formerly the Federal Power Commission (FPC).

ELECTRIC UTILITY PLANT—Property is stated at original cost (cost to the person first devoting the plant to public service). 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 additions is an Allowance for Funds Used During Construction (AFDC) which is defined in the applicable regulatory systems of accounts as the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. In February, 1977, the FPC issued an order relating to AFDC and revising the Uniform System of Accounts. Such order was effective January 1, 1977, and provides a formula for determining the maximum allowable AFDC rate. In addition, the order requires the segregating of AFDC into two component parts; borrowed funds (debt) and other funds (equity). Since January 1, 1977, the debt component has been included in the Interest Charges section of the Statement of Income as a credit, while the equity component continues to remain as a credit to Other Income. The Company has not reclassified AFDC into its debt and equity components for periods prior to January 1, 1977, since the FPC order does not require reclassification. Further, the Company believes that such a reclassification would be inappropriate since this would imply that the prior periods were comparable when, in fact, prior to January 1, 1977, separate AFDC rates were not required and were not calculated for the cost of debt and equity funds. The Company does not expect any adverse effects on the results of its operations as a result of this order. The 1977 rate for calculating AFDC was 8%, which is less than the maximum allowed under the FPC formula and is the same rate used in 1976.

DEPRECIATION AND MAINTENANCE—The Company provides for depreciation on the basis of the estimated service lives of depreciable property on a straight-line basis. The over-all composite rate of depreciation was approximately 3.3% and 3.2% for the years 1977 and 1976 respectively. In addition to the provision for depreciation, income is charged with the cost of labor, material, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient condition. Accumulated depreciation is charged with the cost of depreciable property units retired, together with removal costs less salvage and other recoveries.

DEBT EXPENSE AND PREMIUM—Debt issuance expense and premium are being amortized over the lives of the issues to which they pertain.

NUCLEAR FUEL—The Company's amortization of the Salem nuclear fuel is based on a rate using the number of units of thermal energy produced over the estimated total thermal units to be produced during the life of the fuel, plus a factor representing the estimated costs applicable to a "throwaway" cycle. The "throwaway" cycle assumes perpetual storage of spent fuel plus associated charges and includes no credit for the reprocessing of spent fuel materials.

Nuclear fuel requirements for Peach Bottom Units No. 2 and 3 are being provided by the operating company for Peach Bottom through a fuel purchase contract. Presently, such costs are calculated using a zero net salvage value. The Company is responsible for payment of its proportionate interest (7.51%) of the cost of the fuel consumed and of certain operating costs and interest expense during the term of the contract.

All nuclear fuel costs are charged to Fuel Expense.

FEDERAL INCOME TAXES—Deferred Federal income taxes are provided in amounts equal to the tax effect of the difference between tax depreciation computed on depreciable property added after 1973 using accelerated methods under the ADR System and the straight-line method using asset guideline periods. Tax reductions relating to the differences between book depreciation and straight-line asset guideline depreciation are reflected in Federal income tax expense currently as allowed by the current ratemaking policy of the BPU. In addition, the Company provides deferred Federal income taxes relating to the use of the repair allowance provisions of ADR. Investment tax credits are deferred on the balance sheet and are restored to income over the life of the related property.

PENSION PLAN—The Company and Deepwater, referred to in Note 2, have in effect a noncontributory insured retirement annuity plan covering all regular employees. The cost of the plan, determined under the aggregate cost actuarial method for the years 1977 and 1976 respectively, amounted to $3,076,000 and $2,544,000 for the Company (including $678,000 and $582,000 charged to construction) and $498,000 and $414,000 for Deepwater. Based on an actuarial study as of December 31, 1976, the fund assets were in excess of the vested benefits computed under the plan. The Company's plan is in compliance with the Employee Retirement Income Security Act of 1974.

NOTE 2: INVESTMENT IN SUBSIDIARY COMPANIES:
The Company's investment in Deepwater Operating Company (Deepwater), a wholly-owned subsidiary which operates generating and process steam units owned by the Company was $2,301,000 and $2,101,000 at December 31, 1977 and 1976 respectively. The assets of Deepwater consist almost wholly of working capital in which the equity of the Company is fairly represented by its investment in Deepwater. The net production costs of Deepwater (after deducting charges to E. I. duPont deNemours & Company) are charged to the Company. These costs are included in the Company's accounts classified as to operation, maintenance and taxes.

On November 30, 1977, the Company sold the stock of its wholly-owned subsidiary, Overland Realty, Inc. (Overland). Prior to the sale of Overland's stock, certain properties and related liabilities of Overland were transferred to Atlantic Housing, Inc. (Atlantic), a wholly-owned subsidiary of the Company. The effect on net income resulting from the sale of Overland's stock was not material and was recorded in Other Income. The Company's investment in Atlantic, at December 31, 1977, amounted to $654,832. At December 31, 1977, Atlantic had $2,140,693 invested in land and mortgages of which $1,780,032 is invested as a 20% undivided interest as tenant in common in a future generating station and industrial site. This site is subject to a mortgage of which the Company is liable for the payment of $780,000 principal amount and interest under a suretyship agreement.

NOTE 3: CAPITAL STOCK:

CUMULATIVE PREFERRED STOCK, Par Value $100
Authorized 799,979 Shares

	December 31 1977	December 31 1976	Current Redemption Price Per Share	Refunding Restricted Prior to (A)
Issued and Outstanding Series:				
4% Series—77,000 Shares	$ 7,700,000	$ 7,700,000	$105.50	
4.10% Series—72,000 Shares	7,200,000	7,200,000	101.00	
4.35% Series—15,000 Shares	1,500,000	1,500,000	101.00	
4.35% 2nd Series—36,000 Shares	3,600,000	3,600,000	101.00	
4.75% Series—50,000 Shares	5,000,000	5,000,000	101.00	
5% Series—50,000 Shares	5,000,000	5,000,000	100.00	
5⅞% Convertible Series—94,609 Shares (1977) 99,729 Shares (1976) (B)	9,460,900	9,972,900	104.50	
7.52% Series—100,000 Shares	10,000,000	10,000,000	106.77	
8.40% Series—100,000 Shares (C)	10,000,000	10,000,000	115.00	Feb. 1, 1979
9.96% Series—200,000 Shares (D)	20,000,000	20,000,000	109.26	Aug. 1, 1984
Total Cumulative Preferred Stock	79,460,900	79,972,900		
PREFERRED STOCK, No Par				
Authorized 2,000,000 Shares				
Issued and Outstanding:				
$8.25 Series (Cumulative)—100,000 Shares issued December 22, 1977 (E)	10,000,000	—	108.25	Nov. 1, 1987
	89,460,900	79,972,900		
Premium on Preferred Stock	93,145	93,145		
Total Preferred Stock	$89,554,045	$80,066,045		

Preference Stock, without par value, 3,000,000 Shares authorized, none outstanding.

(A) Prior to the date specified, no shares may be redeemed through certain refunding operations.

(B) The 5⅞% Convertible Series is convertible (subject to adjustment in certain events) into Common Stock at the rate of 3.5 shares of Common Stock for each share of the Preferred (331,132 shares of authorized Common Stock are reserved for the conversion of the Series).

(C) On February 1, 1985, and annually thereafter, 4,000 shares of the 8.40% Series must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share. At the option of the Company, an additional 4,000 shares may be redeemed on any sinking fund date, without premium, up to 32,000 shares in the aggregate.

(D) On August 1, 1979, and annually thereafter, 8,000 shares of the 9.96% Series must be redeemed through the operation of a sinking fund at a redemption price of $100.00 per share. At the option of the Company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium, up to 40,000 shares in the aggregate.

(E) On November 1, 1983, and annually thereafter, 2,500 shares of the 8.25% No Par Preferred Stock Series must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of the Company, an additional number of shares, not to exceed 2,500 may be redeemed, on any sinking fund date, without premium.

COMMON STOCK—Issues of common stock in 1977 consist of the following:

	Shares
Dividend Reinvestment and Stock Purchase	102,417
Employee Stock Ownership Plan	25,848
Conversion of Preferred Stock	17,920
Total	146,185

Premium on Common Stock was credited in 1977 with the amount of $2,995,157 representing the excess of proceeds over the par value of shares of Common Stock issued, sold and converted. At December 31, 1977, the Company had reserved 162,159 shares of Common Stock under its Dividend Reinvestment and Stock Purchase Plan which became effective in 1976 and 224,152 shares of Common Stock under its Employee Stock Ownership Plan which became effective in 1977.

Notes to Financial Statements

NOTE 4: EARNINGS PER SHARE:
Earnings per share of Common Stock has been computed by dividing net income net of applicable preferred stock dividend requirements ($5,484,691 in 1977 and $5,483,936 in 1976) by the average common shares outstanding during the year.

NOTE 5: SHORT-TERM BORROWINGS AND COMPENSATING BALANCES:
The Company had arrangements for short-term borrowings as follows:

	1977	1976
Maximum amount of short-term borrowings outstanding at any month end during the year	$9,600,000	$19,300,000
Average amount outstanding during the year	$5,619,000	$11,629,000
Average interest rate on above	5.8%	6.3%
Weighted average interest rate on short-term borrowings outstanding during the year:		
Notes Payable to Banks	6.8%	7.2%
Commercial Paper	5.7%	5.5%

The unused lines of credit available at December 31, 1977 and 1976 were $50,000,000. Demand deposits are maintained with lending banks certain of which are deemed to constitute compensating balances which are not legally restricted. Based on lines of credit and loans outstanding at December 31, 1977 and 1976 respectively, such compensating balances approximated $2,000,000 and $2,500,000.

NOTE 6: FEDERAL INCOME TAXES:
Federal income tax expense applicable to current operations is less than the amount computed by applying the statutory rate on book income subject to tax for the following reasons:

	Year Ended December 31, 1977	1976
Net Income	$27,358,295	$30,795,696
Federal Income Tax Expense (as below)	14,129,924	11,824,751
Book Income Subject to Tax	$41,488,219	$42,620,447
Income Tax at Statutory Rate (48%)	$19,914,345	$20,457,815
Less:		
Excess of Tax over Book Depreciation (flow-through portion)	1,788,210	3,655,710
Allowance for Funds Used During Construction	3,205,184	3,579,174
Capitalized Overheads	796,260	729,801
Investment Tax Credits—Used	378,974	288,882
Accelerated Amortization—Deferred Taxes	103,260	161,852
Amortization—Repair Allowance	211,478	85,000
Other	(698,945)	132,645
Total Federal Income Tax Expense	$14,129,924	$11,824,751

Federal income tax expense is comprised of the following:

Federal Income Tax	$ 1,850,404	$ 378,422
Deferred Taxes (as below)	7,866,279	4,697,375
Investment Tax Credit—Earned	3,850,447	6,708,741
Investment Tax Credit—Used	(378,974)	(288,882)
Federal Income Tax Expense	13,188,156	11,495,656
Federal Income Tax—Other Income (Note 2)	941,768	329,095
Total Federal Income Tax Expense	$14,129,924	$11,824,751

The provision for Deferred Federal income taxes, net, results from the following timing differences:

Liberalized Depreciation	$ 4,137,707	$ 3,264,227
Repair Allowance	4,062,510	1,920,000
Accelerated Amortization and Repair Allowance Amortization	(314,738)	(246,852)
Other	(19,200)	(240,000)
	$ 7,866,279	$ 4,697,375

Investment tax credit earned in 1977 includes $621,000 representing the Company's use of the additional 1% investment tax credit available under the Tax Reduction Act of 1975. Such amount was used to purchase 25,848 shares of the Company's Common Stock (See Note 3). At December 31, 1976 Investment Tax Credits of approximately $2,697,000 were available for carryforward. All available credits have been utilized in 1977. Federal income tax returns have been settled through 1971.

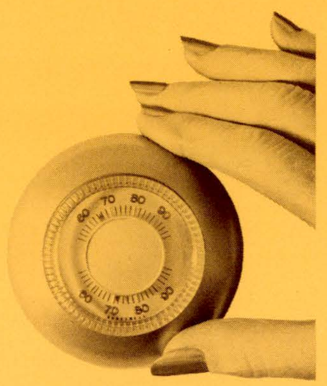
NOTE 7: LEASES:
Rentals incurred in 1977 and 1976 were approximately $3,600,000 and $3,500,000 respectively.

Certain of the Company's leases meet the conditions for capitalization under the criteria established by FASB No. 13 and ASR No. 225 but in accordance with rate making treatment are accounted for as operating leases. Such leases, if capitalized, would have increased the Company's assets and liabilities by approximately $18,600,000 and would not have had a material impact on the Company's net income.

Future minimum rental commitments under noncancelable leases as of December 31, 1977 are approximately as follows:

	Capital	Operating	Total
1978—	$ 2,400,000	$ 600,000	$ 3,000,000
1979—	2,400,000	550,000	2,950,000
1980—	2,400,000	500,000	2,900,000
1981—	2,400,000	400,000	2,800,000
1982—	2,400,000	300,000	2,700,000
Thereafter—	27,200,000	1,100,000	28,300,000

The total minimum rental commitments for capital leases as of December 31, 1977 are applicable to combustion turbine generating units (69%), fuel storage facilities (19%) and general plant (12%). Minimum rental commitments for operating leases are applicable to steam production (55%) and general plant (45%).



Lower Thermostats Do Mean Lower Energy Bills

For each degree lower than 70° that you set your thermostat, you use 3% less energy . . . compared to the price you'll pay for higher thermostat settings. Lower thermostats in the winter (and higher thermostats in the summer) mean lower energy bills.

NOTE 8: COMMITMENTS AND CONTINGENCIES:
Construction expenditures, including nuclear fuel but excluding production plant, are estimated at $41,000,000 for 1978. Commitments for the construction of production plant amount to approximately $110,000,000 of which it is estimated that $26,000,000 will be expended in 1978.

The Price-Anderson Act places a liability limit of $560 million on each nuclear generating unit for public liability claims that could arise from a nuclear incident. In the event of any such incident, all owners of nuclear generating units licensed to operate would be required to contribute toward satisfaction of such claims. The Company, as a co-owner of the Peach Bottom and Salem Stations, has partially insured for this exposure by purchasing, through the principal owners, private insurance in the maximum available amount of $140 million. The remainder is provided by the owners of licensed nuclear generating units and by indemnity agreements with the Nuclear Regulatory Commission. Accordingly, in the event of a nuclear incident, which was not covered by the $140 million private insurance, the Company could be assessed an amount equal to its ownership participation times $5 million for each reactor owned, approximately $375,000 per reactor, not to exceed $10 million per reactor per year, times the Company's ownership or approximately $750,000 per reactor.

The Company has an ownership interest in the Construction of offshore Nuclear Generating Stations and its investment in such projects at December 31, 1977 was $4,055,574. The Department of Energy of the State of New Jersey has questioned the schedule and some safety aspects of such units. Also the Department has suggested to the BPU that it should consider possible adverse rate treatment of amounts invested in excess of the Company's current investment. Deferral of the completion of construction of the offshore units, or possible relocation, is now being considered by the joint owners.

NOTE 9: RATE INCREASES:
Effective February 5, 1976, the PUC granted the Company an increase in rates which would have the effect of increasing the annual revenues of the Company by approximately $9.3 million, or 4.7%, when applied to the billing determinants for 1975, the test year.

Effective January 27, 1978, the BPU granted the Company an increase in rates which would have the effect of increasing the annual revenues of the Company by approximately $8.0 million, or 3.8% when applied to the billing determinants for 1976, the test year.

NOTE 10: QUARTERLY FINANCIAL RESULTS (UNAUDITED):
Quarterly financial data (not examined by independent certified public accountants) which reflect all adjustments (which consist of only normal recurring accruals) necessary in the opinion of the Company for a fair presentation of such amounts are as follows:

Quarter	Operating Revenues	Operating Income	Net Income	Earnings For Common Stock	Earnings Per Share
	Thousands of Dollars				
1976					
1st	$ 51,074	$ 9,752	$ 6,673	$ 5,302	$ .56
2nd	48,861	9,130	6,063	4,692	.49
3rd	61,739	15,363	12,104	10,733	1.13
4th	50,353	8,665	5,956	4,585	.44
	$212,027	$42,910	$30,796	$25,312	$2.60*
1977					
1st	$ 57,935	$ 8,956	$ 6,179	$ 4,812	$ .45
2nd	52,338	9,025	6,325	4,959	.47
3rd	70,320	14,083	10,746	9,380	.88
4th	54,402	7,790	4,108	2,723	.25
	$234,995	$39,854	$27,358	$21,874	$2.06*

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

* The individual quarters do not add to the total, due to the increasing average number of common shares outstanding at the end of each quarter.

NOTE 11: REPLACEMENT COSTS (UNAUDITED):
The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's Financial Statements. The Company's ability to maintain its productive capacity in the future will be contingent upon its ability to finance the needed additions. This, in turn, will depend on the Company's ability to obtain adequate and timely rate relief. In compliance with reporting requirements, estimated replacement cost information is disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

Notes to Financial Statements

NOTE 12: LONG-TERM DEBT:

Long-Term Debt consists of:	December 31 1977	1976
First Mortgage Bonds:		
2⅞% Series due (June 1) 1979	$ 3,000,000	$ 3,000,000
2¾% Series due (July 1) 1980	4,600,000	4,600,000
2⅞% Series A due (Nov. 1) 1980	18,400,000	18,400,000
3¼% Series due (March 1) 1982	4,620,000	4,620,000
3¼% Series due (Jan. 1) 1983	4,050,000	4,050,000
9¼% Series due (May 1) 1983	35,000,000	35,000,000
3% Series due (March 1) 1984	5,000,000	5,000,000
3¼% Series due (March 1) 1985	10,000,000	10,000,000
4½% Series due (Jan. 1) 1987	10,000,000	10,000,000
3⅞% Series due (April 1) 1988	10,000,000	10,000,000
4½% Series due (April 1) 1989	5,000,000	5,000,000
4½% Series due (March 1) 1991	10,000,000	10,000,000
4½% Series due (July 1) 1992	15,000,000	15,000,000
4⅜% Series due (March 1) 1993	15,000,000	15,000,000
5⅛% Series due (Feb. 1) 1996	10,000,000	10,000,000
8⅞% Series due (Sept. 1) 2000	20,000,000	20,000,000
8% Series due (May 1) 2001	27,000,000	27,000,000
7½% Series due (April 1) 2002	20,000,000	20,000,000
7¾% Series due (June 1) 2003	30,000,000	30,000,000
7⅝% Pollution Control Series due (Jan. 1) 2005	6,500,000	6,500,000
6⅜% Pollution Control Series (a) due (Dec. 1) 2006	2,500,000	2,500,000
	265,670,000	265,670,000
Debentures:		
5¼% Sinking Fund Debentures due (Feb. 1) 1996	3,862,000	3,901,000
7¼% Sinking Fund Debentures due (May 1) 1998	4,000,000	4,361,000
	7,862,000	8,262,000
Notes:		
7.90% Notes due (Dec. 15) 1982	15,000,000	—
	288,532,000	273,932,000
Add: Unamortized Premium (Note 1)	1,588,223	1,703,523
	$290,120,223	$275,635,523

Deposits in sinking funds for retirement of debentures are required on February 1 of each year, from 1978 through 1995 for the 5¼% debentures, and on May 1 of each year from 1978 to 1997 for the 7¼% debentures, in amounts in each case sufficient to redeem $100,000 principal amount plus, at the election of the Company, up to an additional $100,000 principal amount in each year. At December 31, 1977, the Company had reacquired and cancelled $438,000 principal amount of the 5¼% debentures and $500,000 principal amount of the 7¼% debentures toward its requirements for 1978 and subsequent periods.

Annual sinking fund requirements of $1,246,700, in connection with certain first mortgage bonds outstanding, are being satisfied by certification of property additions as provided for in the related mortgage indentures.

Accountants' Opinion

Haskins & Sells
Certified Public Accountants

550 Broad Street
Newark, New Jersey 07102

Atlantic City Electric Company:

We have examined the balance sheets of Atlantic City Electric Company as of December 31, 1977 and 1976 and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

January 31, 1978

Haskins & Sells

Management's Discussion and Analysis of the Statements of Income

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

The Statements of Income reflect the results of past operations and is not intended as any representation as to results of operations for any future period.

The following Summary reflects the year-to-year changes, increase or (decrease), in the principal items of the Statements of Income.

	Comparison of*			
	1977 and 1976		1976 and 1975	
Operating Revenues	$22,968	10.8%	$12,948	6.5%
Fuel	13,501	19.5	(2,411)	(3.4)
Interchange	(1,084)	(22.5)	1,964	68.8
Power Production—Operation and Maintenance	4,284	31.7	3,230	31.5
Other Operations and Maintenance	2,929	11.1	1,702	6.9
Depreciation	1,974	11.4	549	3.2
Taxes Other than Federal Income Tax Expense	2,727	10.4	2,948	12.6
Federal Income Tax Expense	1,693	14.8	2,807	32.3
Other Income	(3,961)	(50.5)	96	—
Net Interest Charges	(3,580)	(17.9)	(261)	(1.2)

*Amounts stated in thousands.

OPERATING REVENUES—Increases are principally attributable to increases in energy sales in 1977 and 1976, a rate increase in early 1976 and increased fuel clause revenues in 1977, resulting from higher fuel costs incurred in 1977 by the Company.

FUEL—The 1977 increase is principally due to higher generation, which increased fuel consumption and to increasing fuel costs in 1977. Stabilization of fuel prices in 1976, resulted in lower fuel costs in 1976. Fuel cost charges are reflected in fuel clause revenues two months later.

INTERCHANGE—The Company was a net importer of interchange energy in 1977 and 1976. Decreases in interchange (credits) reflect the Company's ability to sell (export) interchange energy while increases in interchange (debits) reflect the Company's ability to acquire (import) such energy at a lower cost than if the Company had generated the energy.

POWER PRODUCTION—OPERATION AND MAINTENANCE—The increases in 1977 and 1976 are principally attributable to increased operational charges and major maintenance at our jointly-owned facilities, and to higher operational and maintenance costs at our wholly-owned facilities.

OTHER OPERATION AND MAINTENANCE—Increases in 1977 and 1976 are due principally to higher transmission and distribution maintenance expenses and increased administration and general costs. The increased charges continue to result from inflationary pressures, including higher costs of material, supplies and wages.

DEPRECIATION—The increase in 1977 is principally attributable to the Salem Nuclear Generating Unit being placed in service in June. The 1976 increase reflects the normal growth in the Company's Electric Plant in Service.

TAXES OTHER THAN FEDERAL INCOME TAX EXPENSE—These taxes are principally taxes on the Company's gross receipts. The increases in 1977 and 1976 are a direct result of increases in the Company's operating revenues. Also, in 1977, the commonwealth of Pennsylvania enacted a gross receipts tax applicable to foreign utilities which own generating stations in the commonwealth.

FEDERAL INCOME TAX EXPENSE—The increases in 1977 and 1976 are due principally to increased tax deferrals (normalization) relating to accelerated depreciation and the repair allowance. In 1976, the investment tax credit also increased, reflecting the higher availability of such credit.

OTHER INCOME—Other Income (principally Allowance for Funds Used During Construction (AFDC)) decreased in 1977 primarily as a result of the exclusion of the debt portion of AFDC from Other Income (See Note 1 of the Notes to Financial Statements) and the transfer of the Salem Nuclear Generating Unit into service in June.

NET INTEREST CHARGES—The decrease in 1977 is principally due to reductions in the amount of long and short term borrowings outstanding during 1977 and to the inclusion of the debt portion of AFDC (credit) as an element of Interest Charges (See Note 1 of the Notes to the Financial Statements). The decrease in 1976 is as a result of lower interest rates and a reduction of short-term debt.

Statistical Review and Summary of Operations 1977–1967

Facilities for Service	1977	1976	1975
Total Utility Plant (Thousands)	$ 753,269	$ 710,343	$ 675,617
Gross Additions to Utility Plant (Thousands)	$ 48,733	$ 41,702	$ 46,745
Pole Miles of Transmission and Distribution Lines	6,735	6,696	6,645
Generating Capacity (Kilowatts)[a]	1,414,700	1,334,700	1,334,700
Maximum Utility System Demand—Kw	1,176,000	1,030,300	1,069,400
Source of Energy (Thousands of Kwh)			
Net Generation	5,293,019	4,918,906	4,715,357
Purchased and Interchanged—Net	224,169	324,196	190,852
Total	5,517,188	5,243,102	4,906,209
Electric Sales (Thousands of Kwh)			
Residential	2,221,250	2,070,766	1,938,724
Commercial	1,478,559	1,392,029	1,346,216
Industrial	1,220,260	1,143,170	1,036,755
All Others	58,866	57,667	56,465
Total	4,978,935	4,663,632	4,378,160
Gross Revenue (Thousands of Dollars)			
Energy Sales			
Residential	$ 109,818	$ 98,904	$ 90,956
Commercial	73,354	66,354	63,544
Industrial	40,885	36,438	34,974
All Others	5,631	5,406	4,881
Total	229,688	207,102	194,355
Other Electric Revenue	5,307	4,925	4,724
Total	$ 234,995	$ 212,027	$ 199,079
Residential Electric Service (Average per Customer)			
Amount of Electricity used during the year (Kwh)	7,653	7,320	7,018
Amount paid for a year's service	$ 378.36	$ 349.64	$ 329.25
Price paid per Kilowatt-hour	4.94¢	4.78¢	4.69
Customer Service Locations—Electric (Year-End)	352,205	343,147	336,105
Population Served	961,000	937,000	915,000
Summary of Operations (Thousands of Dollars)			
Operating Revenues—Electric	$ 234,995	$ 212,027	$ 199,079
Operating Expenses			
Fuel	82,735	69,234	71,645
Interchange	3,735	4,819	2,855
Power Production	17,782	13,498	10,267
Other Operating and Maintenance Expenses	29,263	26,333	24,632
Depreciation	19,369	17,395	16,846
Taxes	42,257	37,837	32,083
Total Operating Expenses	195,141	169,116	158,328
Operating Income	39,854	42,911	40,751
Other Income and Deductions—Net	3,881	7,842	7,747
Income before interest charges	43,735	50,753	48,498
Interest Charges—Net	16,377	19,957	20,218
Net Income	27,358	30,796	28,280
Dividends Paid or Accrued on Preferred Stock	5,485	5,484	5,484
Earnings for Common Stock	$ 21,873	$ 25,312	$ 22,796
Average Shares of Common Stock Outstanding	10,629,930	9,747,012	9,470,073
Earnings Per Share of Common Stock	$2.06	$2.60	$2.41
Dividends Declared Per Share of Common Stock	$1.62	$1.58	$1.52
Dividends Paid on Common Stock (Cash)	$1.62	$1.56	$1.51

(a) Excludes capacity allocated to a large industrial customer.

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

1974	1973	1972	1971	1970	1969	1968	1967
$ 637,250	$ 572,555	$ 511,274	$ 455,956	$ 404,364	$ 357,863	$ 324,561	$ 300,435
$ 71,220	$ 67,864	$ 58,434	$ 54,151	$ 48,200	$ 35,306	$ 25,406	$ 17,063
6,580	6,506	6,408	6,333	6,252	6,187	6,109	6,038
1,278,700	1,013,500	965,900	897,600	821,400	757,800	700,800	678,500
1,004,400	1,051,400	920,400	829,300	755,500	721,800	671,600	563,900
4,651,334	4,236,083	4,071,225	4,262,062	4,294,352	4,227,315	3,929,222	3,598,431
229,197	665,558	458,050	−74,395	−358,203	−566,932	−615,766	−574,707
4,880,531	4,901,641	4,529,275	4,187,667	3,936,149	3,660,383	3,313,456	3,023,724
1,882,560	1,899,122	1,741,895	1,624,793	1,520,939	1,375,546	1,253,772	1,140,797
1,298,858	1,351,974	1,183,668	1,059,498	977,210	879,916	821,538	742,486
1,136,935	1,119,478	1,061,932	990,363	954,111	911,138	801,664	755,624
57,477	58,129	64,531	88,963	101,703	116,021	91,467	81,966
4,375,830	4,428,703	4,052,026	3,763,617	3,553,963	3,282,621	2,968,441	2,720,873
$ 78,512	$ 59,856	$ 51,544	$ 42,623	$ 36,979	$ 32,672	$ 29,850	$ 27,673
55,713	42,804	35,868	28,648	23,933	20,584	18,912	17,345
33,565	22,008	19,350	16,529	13,036	11,303	9,738	9,225
4,207	3,861	3,763	3,919	3,795	3,753	3,302	3,054
171,997	128,529	110,525	91,719	77,743	68,312	61,802	57,297
4,614	4,365	4,128	3,687	3,648	3,731	3,688	3,737
$ 176,611	$ 132,894	$ 114,653	$ 95,406	$ 81,391	$ 72,043	$ 65,490	$ 61,034
6,982	7,303	7,008	6,793	6,542	6,072	5,685	5,313
$ 291.21	$ 230.19	$ 207.37	$ 178.19	$ 159.06	$ 144.22	$ 135.34	$ 128.88
4.17¢	3.15¢	2.96¢	2.62¢	2.43¢	2.38¢	2.38¢	2.43¢
330,758	320,834	309,393	297,437	288,538	282,274	279,976	274,360
894,000	865,000	828,000	796,000	773,000	753,000	733,000	714,000
$ 176,611	$ 132,894	$ 114,653	$ 95,406	$ 81,391	$ 72,043	$ 65,490	$ 61,034
73,167	37,144	29,944	28,705	22,457	15,691	13,057	11,928
5,862	8,155	3,979	(815)	(2,941)	(3,165)	(3,130)	(2,742)
11,360	8,810	8,060	6,686	5,111	5,074	3,971	3,301
21,730	21,119	19,388	17,462	15,692	14,194	13,123	12,176
12,946	11,749	11,190	10,355	9,632	9,043	7,892	7,479
16,203	16,616	15,359	10,603	11,129	12,292	12,748	11,935
141,268	103,593	87,920	72,996	61,080	53,129	47,661	44,077
35,343	29,301	26,733	22,410	20,311	18,914	17,829	16,957
10,755	8,745	6,647	5,164	3,520	1,773	1,097	450
46,098	38,046	33,380	27,574	23,831	20,687	18,926	17,407
19,088	15,129	13,297	11,641	9,276	6,302	6,226	5,700
27,010	22,917	20,083	15,933	14,555	14,385	12,700	11,707
4,233	2,652	2,456	1,900	1,900	1,900	1,672	1,313
$ 22,777	$ 20,265	$ 17,627	$ 14,033	$ 12,655	$ 12,485	$ 11,028	$ 10,394
8,973,400	8,453,400	7,810,073	7,436,740	6,920,073	6,817,083	6,270,000	6,270,000
$2.54	$2.40	$2.26	$1.89	$1.83	$1.83	$1.76	$1.66
$1.50	$1.4766	$1.4316	$1.37	$1.345	$1.31	$1.27	$1.23
$1.50	$1.4688	$1.4144	$1.36	$1.34	$1.30	$1.26	$1.22

This Annual Report has been prepared for the purpose of providing general and statistical information concerning the Company and not in connection with any sale, offer for sale or solicitation of an offer to buy any securities.

Printed in U.S.A.

Price Range of Stock and Dividends Paid on Stock

Common Stock

The Common Stock of the Company is traded on the New York Stock Exchange (principal market) and the Philadelphia Stock Exchange. The reported high and low sales prices of the Common Stock on the New York Stock Exchange for each quarterly period during 1977 and 1976 are listed below.

	High		Low	
	1977	1976	1977	1976
First Quarter	$24.375	$19.75	$21.375	$17.125
Second Quarter	24.00	18.875	21.50	17.125
Third Quarter	24.625	20.25	22.25	18.50
Fourth Quarter	23.125	24.375	20.375	20.00

Cumulative Preferred Stock

The 5⅞% Cumulative Convertible Preferred Stock (par value $100) of the Company is traded on the New York Stock Exchange. The reported high and low sales prices of such Preferred Stock for each quarterly period during 1977 and 1976 are listed below. No other series of Cumulative Preferred Stock is listed on a Stock Exchange.

	High		Low	
	1977	1976	1977	1976
First Quarter	$82.00	$72.00	$81.00	$67.25
Second Quarter	83.50	71.50	76.50	64.00
Third Quarter	84.75	73.00	80.00	69.50
Fourth Quarter	80.00	83.50	75.00	72.50

Common Stock

The Company has paid cash dividends on its Common Stock in each year since 1919. The quarterly cash dividends paid per share was 38½¢ for the first three quarters of 1976 and 40½¢ for the fourth quarter of 1976 and 40½¢ in 1977.

Cumulative Preferred Stock

During 1977 and 1976 the Company paid quarterly cash dividends on each series of Cumulative Preferred Stock as listed below:

Series	1977 Quarterly Rate	1976 Quarterly Rate
4%	$1.00	$1.00
4.10%	1.025	1.025
4.35%	1.0875	1.0875
4.75%	1.1875	1.1875
5%	1.25	1.25
5⅞%	1.46875	1.46875
7.52%	1.88	1.88
8.40%	2.10	2.10
9.96%	2.49	2.49

TRANSFER AGENTS

For Common Stock

Irving Trust Company
1 Wall Street
New York, N.Y. 10015

First National Bank of South Jersey
Atlantic City, N.J. 08404

For Cumulative Preferred Stock

Chemical Bank
20 Pine Street
New York, N.Y. 10015

For Cumulative Convertible Preferred Stock

Irving Trust Company
New York, N.Y. 10015

REGISTRARS

For Common Stock

Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

Guarantee Bank
Atlantic City, N.J. 08404

For Cumulative Preferred Stock

Irving Trust Company
New York, N.Y. 10015

For Cumulative Convertible Preferred Stock

Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

SHARE LISTINGS

Common Stock of the Company is listed on the New York Stock Exchange and the Philadelphia Stock Exchange. The 5⅞% Cumulative Convertible Preferred Stock of the Company is listed on the New York Stock Exchange.

ATLANTIC CITY ELECTRIC COMPANY
1600 PACIFIC AVE.,
ATLANTIC CITY, NEW JERSEY 08404

Directors

Eleanor S. Daniel
Self employed. Former Assistant Vice President of the Mutual Life Insurance Company of New York (Senior Economic Adviser).

Richard M. Dicke
Counselor at Law. Senior Partner of the law firm of Simpson Thacher & Bartlett.

John D. Feehan
President and Chief Executive Officer of the Company.

Mack C. Jones
Retired Engineer.

Alfred C. Linkletter
Consultant.
Chairman of the Board of Directors of the Company.

John M. Miner
Senior Executive Vice President of The Fidelity Bank.

Frank H. Wheaton, Jr.
President of Wheaton Industries. Manufacturer of glass and plastic containers.

Richard M. Wilson
Senior Vice President of the Company.

Officers

John D. Feehan
President and Director

William S. Cowart, Jr.
Senior Vice President

Frederick Lange
Senior Vice President

Richard M. Wilson
Senior Vice President and Director

Charles F. Morgan
Vice President,
Secretary and Treasurer

David V. Boney
Vice President—
Customer and Community Services

John F. Born
Vice President—
Electric Operations

Frank J. Ficadenti
Vice President—
Engineering, Research and Development

Edwin L. Gerber
Vice President—
Personnel and Public Relations

Ernest D. Huggard
Vice President—
Control and Assistant Treasurer

Jerrold L. Jacobs
Vice President—
Production

Michael A. Jarrett
Assistant Vice President—
Corporate Services

Martin R. Meyer
Assistant Secretary
and Assistant Treasurer

In Memoriam:

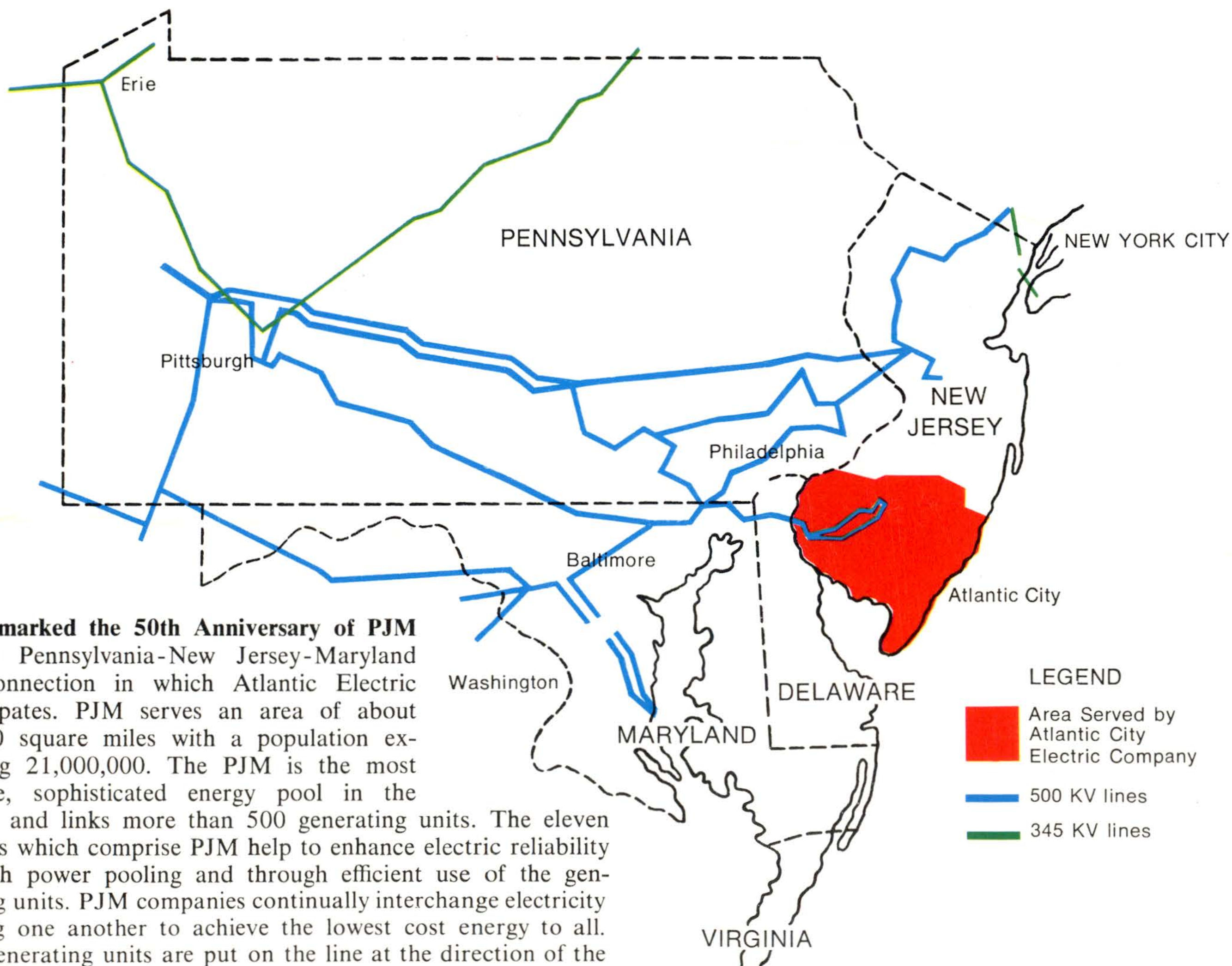
Mr. William W. White, who died December 19, 1977, had served as Director of this Company since November 25, 1970 and as Chairman of the Board of Directors since April 11, 1972.

For the Electric Utility Industry his untimely death cuts short a career of distinguished and devoted service to the preservation and strengthening of the American Free Enterprise System. For Atlantic City Electric Company, its Board of Directors and Officers, the passing of an accomplished leader and a colleague who gave unstintingly of his wise counsel and extraordinary business talents, contributing lastingly to the work and progress of the Company, is a grievous loss.

Mr. White was honored not only by us, his associates, but throughout the area and his home area of Rutland, Vermont, for his generosity, integrity, affableness and untiring energy. He was held in the highest esteem by us and by a host of others for his many fine qualities as a good citizen and as a gentleman.

The Company joins his many friends and associates in expressing their profound sorrow at his passing and in heartfelt tribute to his accomplishments and his memory.

Atlantic Electric
SERVING SOUTHERN NEW JERSEY
1600 PACIFIC AVE.,
ATLANTIC CITY, N.J. 08404



1977 marked the 50th Anniversary of PJM — the Pennsylvania-New Jersey-Maryland Interconnection in which Atlantic Electric participates. PJM serves an area of about 48,700 square miles with a population exceeding 21,000,000. The PJM is the most mature, sophisticated energy pool in the nation and links more than 500 generating units. The eleven utilities which comprise PJM help to enhance electric reliability through power pooling and through efficient use of the generating units. PJM companies continually interchange electricity among one another to achieve the lowest cost energy to all. The generating units are put on the line at the direction of the control center to optimize reliability and economy. These cost-cutting practices resulted in savings to the participating companies totaling $183 million in 1976 and a similar amount in 1977. PJM members passed these savings on to their customers. Power pooling has resulted in PJM companies being able to reduce the number of generating stations which need to be constructed and thus help slow the upward trend in the price of electricity. The map above only portrays higher voltage transmission lines (about 1,300 circuit miles). The PJM is comprised of more than 5,600 circuit miles of transmission lines. Greater electric dependability coupled with economy has been and will always be the hallmark of PJM—America's First Power Pool.