# Atlantic Electric

## 1981 Annual Report

## Results of Operations 1981 – 1980

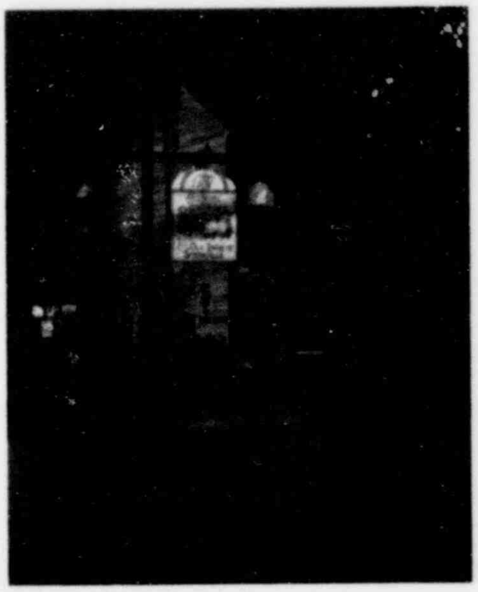
| | 1981 | 1980 | % Change |
|---|---|---|---|
| Electric Operating Revenues | $ 469,683,000 | $ 358,391,000 | 31.1 |
| Operating Expenses | $ 396,172,000 | $ 302,158,000 | 31.1 |
| Fuel Costs | $ 154,652,000 | $ 131,894,000 | 17.3 |
| Net Income | $ 46,988,000 | $ 38,538,000 | 21.9 |
| Earnings Per Common Share | $ 3.03 | $ 2.62 | 15.6 |
| Dividends Paid Per Common Share | $ 2.04 | $ 1.90 | 7.4 |
| Total Assets | $1,013,789,000 | $ 879,795,000 | 15.2 |
| Cash Construction Expenditures | $ 113,221,000 | $ 88,791,000 | 27.5 |
| Sales of Electricity (KWH) | 5,675,367,000 | 5,633,904,000 | .7 |
| Total Customer Service Installations (Year-end) | 386,046 | 379,242 | 1.8 |
| Number of Shareholders (Common Stock) (Year-end) | 48,424 | 47,762 | 1.4 |
| Number of Employees (Year-end) | 2,035 | 1,968 | 3.4 |
| Book Value | $ 22.40 | $ 22.22 | .8 |

## The Corporate Name and Trade Name

Atlantic City Electric Company, 1600 Pacific Avenue, Atlantic City, New Jersey 08404, is the official name of the Company as it appears in the Articles of Incorporation. The Company also uses the registered trade name Atlantic Electric in various publications to shareholders and customers, and in its day-to-day operations.

## Notice of Annual Meeting

The 1982 Annual Meeting of Shareholders will be held Tuesday, April 27, 1982, at Quail Hill Inn, Route 9, Smithville, New Jersey. A Notice of Meeting will be mailed in March to those shareholders entitled to vote.



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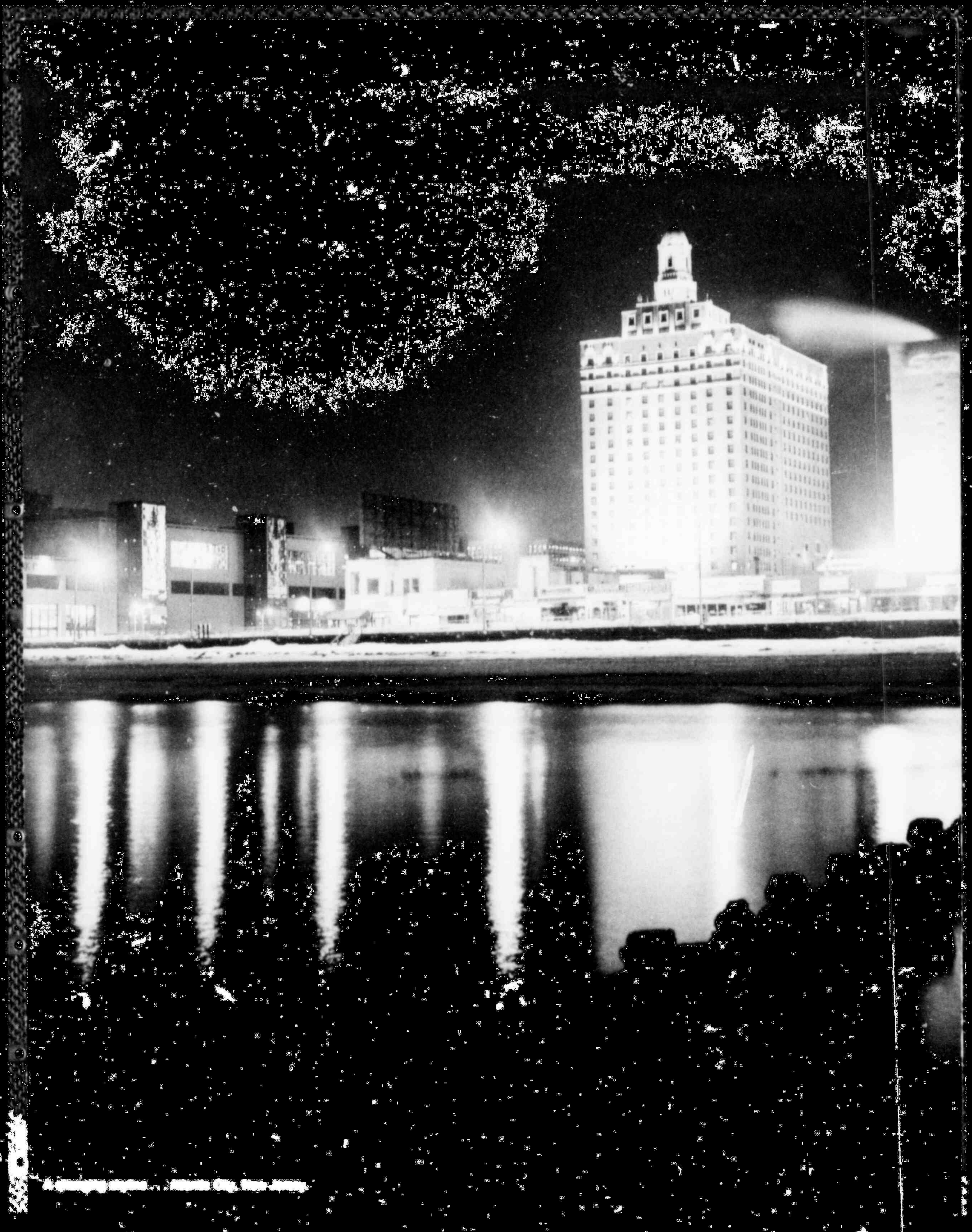
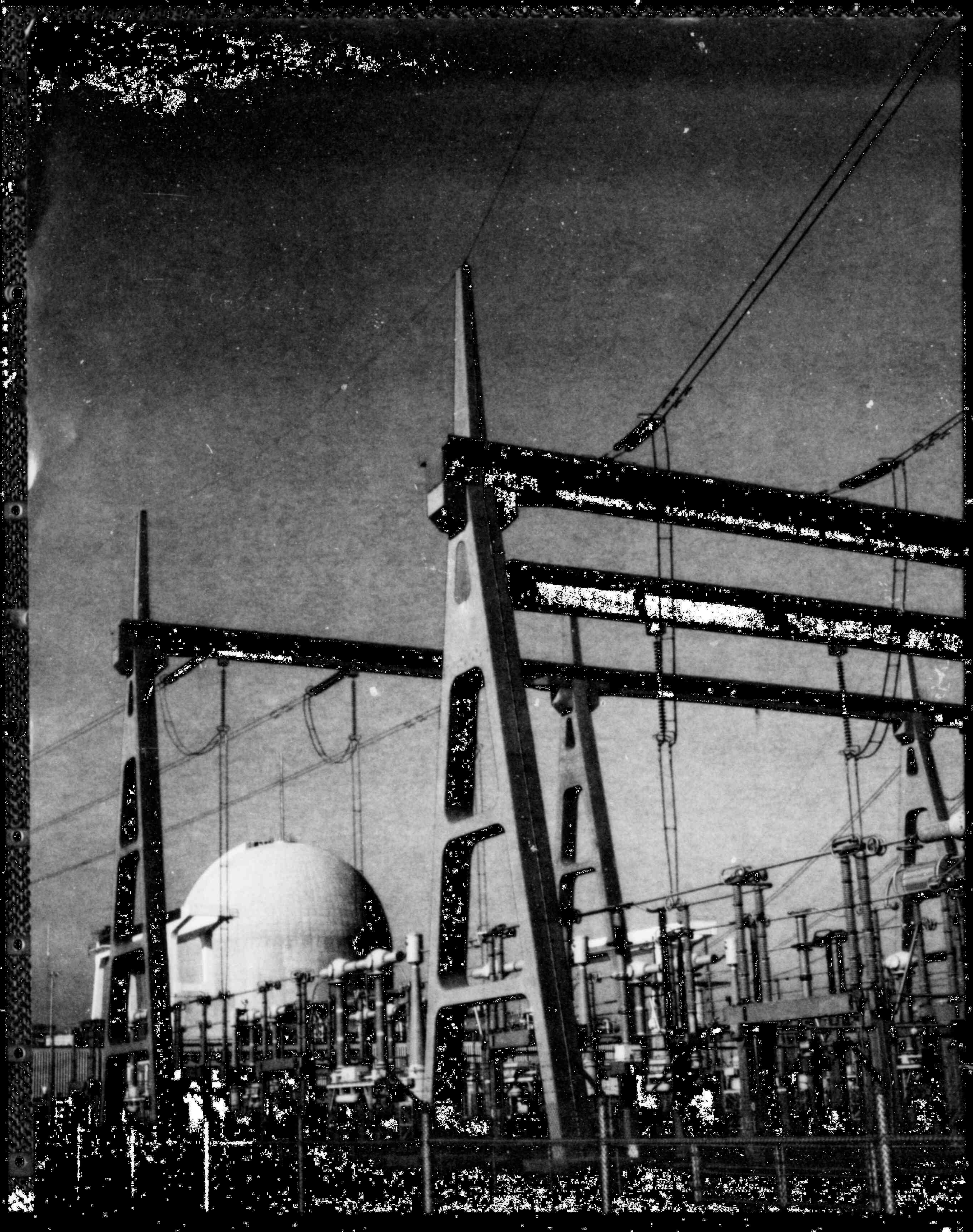




## To Our Shareholders:

1981 was a successful year for your Company. Atlantic Electric had a successful year making substantial progress in the face of major challenges and adversities. These successes occurred in a number of areas:

Earnings increased by more than 15% to $3.03 per share, representing the fourth consecutive year of growth in earnings for the Company. Dividends paid in 1981 were increased to $2.04 per share, compared to $1.90 in 1980, an increase of over 7%. This represents the 29th consecutive year that the Company has *increased* its dividend payment—a truly remarkable record. The current annual dividend rate established in July 1981 is $2.12 per share.

Atlantic Electric made further progress in reducing its dependence on overseas oil. Only 20% of the kilowatt-hours our customers used were produced with oil, compared to 24% in 1980 and 32% in 1979. We are moving away from oil by means of greater use of coal and uranium; and are converting more units back to coal as well as importing coal-produced electricity from the Midwest. With the commercial operation of Salem Nuclear Unit No. 2 in October 1981, nuclear's contribution to our electric energy supply is growing.

By the end of 1981, Atlantic Electric was successful in reducing its 5-year forecast of construction expenditures by some $362 million. As a result, cash expenditures for 1982-1986 will drop from $970 million to a much-more-manageable $608 million. We have been able to lower our forecast of load growth and to reschedule major capacity additions because of the greater conservation and energy efficiency of our customers. These developments are consistent with our "New Direction" program announced at the Annual Meeting last year.

This New Direction recognizes that growth in electrical demand is extremely costly to serve in these days of high inflation and high interest rates, and that all our efforts should be directed toward reducing our capital expenditures. We made real progress in that direction in 1981, as evidenced by this reduction in projected capital expenditures.

< Unit No. 2 at the Salem Nuclear Generating Station became commercially operable in October 1981. Atlantic Electric's participation in this Unit entitles it to 82½ MW of capacity.

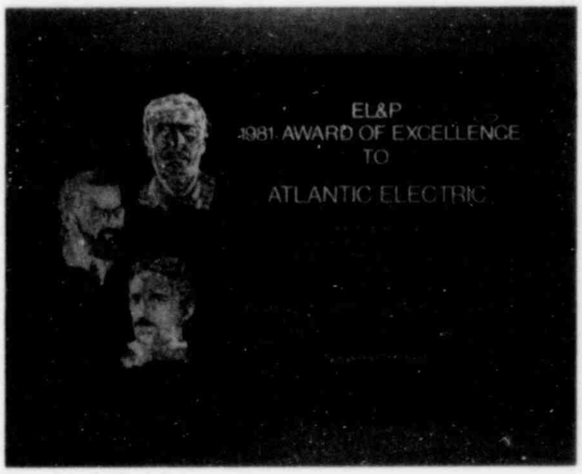
> Alfred C. Linkletter, Chairman of the Board of Directors, and John D. Feehan, President and Chief Executive Officer.

In 1981, Atlantic Electric was successful in attaining one of its long term goals. Some years back, we set a five-year goal to achieve a level of excellence that would warrant national recognition in the form of the Electric Light & Power Magazine's annual award. We are pleased that your Company was selected by this prominent trade magazine (through a panel of judges) as the Outstanding Electric Utility of the Year 1981! We are doubly pleased that the Company achieved this high level of excellence and that this excellence has been recognized. But most of all, we are grateful that the management and personnel of Atlantic Electric set such a challenging goal for themselves and then made it happen.

Truly, 1981 was a successful year for your Company. However, Atlantic Electric faces major challenges in 1982 in order to continue its successful performance. Our major challenge is to maintain good earnings and to finance our planned heavy construction program. Both problems are more severe in 1982 because we are in a transition period in which many measures taken in 1981 will bear fruit beyond 1982.

For example, major cuts made in our five-year capital expenditure program will result in sizable reductions in our capital outlays in 1983, '84, '85 and '86. But our capital expenditures will still be at a high level in 1982—some $160 million compared to approximately $98 million in 1983 and $91 million in 1984. These capital expenditures remain high in 1982 because we have major ongoing programs to convert units from oil back to coal and to rebuild major furnace components in our existing coal-burning units. These measures will ultimately lower costs and improve performance and efficiency in our system, but involve sizable outlays in 1982.

Earnings performance in 1982 hinges to a large degree on the timing and adequacy of a rate increase in our base rates. We filed a rate increase request in the amount of $172 million on February 19, 1982 and will be aggressively pursuing speedy rate relief.




< The real recipients of the Outstanding Electric Utility of the Year 1981 Award were Atlantic Electric's 2000 employees.


Atlantic Electric

Once we are beyond 1982, the benefits of our New Direction program will be more dramatic in terms of lowered capital expenditures and improved financial parameters. We are convinced that the New Direction program will be in the best interest of the shareholder, the customer and the Nation's efforts to contain inflation and lower interest rates.

Your Company faces the challenges of 1982 and beyond with a great deal of confidence. This confidence comes from our successes over many years and is highlighted by some record successes in 1981. We have a strong Company . . . a Company which gets its strength from its diversity. We are strong because of the diversity of our service area. We are strong because of the diversity of our fuels. We are strong because of the diversity of our generating capacity. We are strong because of the diversity of our management team.

We appreciate the confidence the shareholders have placed in this Company and this management. We intend to continue to advance the interest of the shareholders while fulfilling our obligations to serve the customer. Our goal is to continue to be successful so that we may continue to warrant the confidence of our shareholders.

For the Board of Directors,

A. C. Linkletter

*A. C. Linkletter*
*Chairman of the Board*

J D Feehan

*J. D. Feehan*
*President*

> A new Operations Center was opened in the Fall of 1981 to house the Atlantic City Overhead and Underground Departments.

< Overhead lines crews often work under adverse conditions to restore service which is interrupted because of traffic accidents or storm damage.

## The New Direction

We are pleased that we made substantial progress in 1981 by achieving the Company's basic goal of effecting a reduction in growth of the peak demand for electricity and a reduction of estimated construction expenditures for the next five years. However, we face a major challenge of reducing projected major cash construction requirements beyond that period into the 1990s. For that reason we will be expanding the "New Direction Program" in 1982 and in future years as we aggressively pursue energy efficiency and conservation.

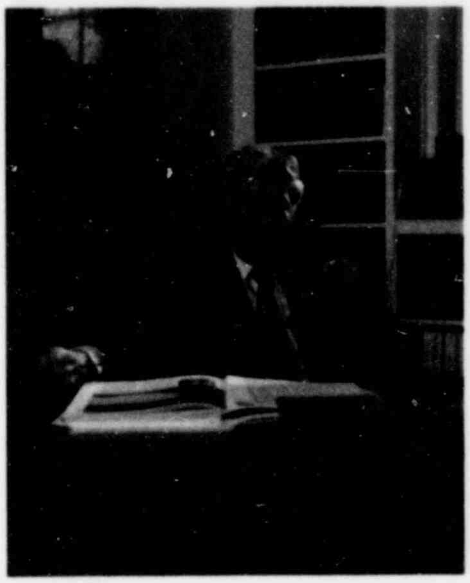
We believe that the letter we received from Mrs. Mary Owen, and the comments of Mr. Joseph Muldoon (see page 13), describe the recognition we hope the "New Direction Program" will receive throughout our service area . . . and that our present customers, and future customers, will adopt the energy efficiency measures which are becoming available.

< Wind and solar energy installations are encouraged under Atlantic Electric's "New Direction." Some applications of both technologies have begun to appear in the Southern New Jersey area.

*"You and your Company are to be most heartily congratulated for the wisdom of your approach to energy conservation and growth limitation . . . Would that other utilities, businesses and corporations would follow your prudent example! Your customers are indeed fortunate."*

Mrs. Robert I. Owen
*West Long Branch, New Jersey*

*"On December 11th, Atlantic City Electric Company announced, as part of its New Direction Program, that it was reducing its 1982–1986 construction budget from $970 million to about $610 million, basically due to lowering of its long term peak demand growth rate from 2.7% to 2.4%. We view this decision . . . and the New Direction Program . . . favorably as it will reduce the necessity for debt and equity financing approximately 37% over the next five years. Atlantic City Electric has followed a prudent expansion program and this decision to reduce future expenditures should eliminate the possibility of excess capacity later in the eighties."*



Joseph B. Muldoon, Certified Financial Analyst
*Janney Montgomery Scott Inc.*
*Philadelphia, Pennsylvania*

< B. L. England Generating Station at Beesley's Point, the Company's largest generating facility. Units No. 1 and 2 burn coal and have a total capacity of 289 megawatts; Unit No. 3 has a capacity of 160 megawatts and burns oil. The cooling tower to the right is used for condensing the steam in Unit No. 3.

## Board of Directors

Seated left to right: **Richard M. Wilson,** *Retired. Formerly Senior Vice President of the Company;* **John D. Feehan,** *President and Chief Executive Officer of the Company;* **Alfred C. Linkletter,** *Consultant. Chairman of the Board of Directors of the Company;* **Mack C. Jones,** *Engineer. Retired;* **Eleanor S. Daniel,** *Self-employed. Vice President and Director of several real estate corporations.*

Standing, left to right: **Irving K. Kessler,** *Executive Vice President, RCA Corporation;* **Matthew Holden, Jr.,** *Professor of Government and Foreign Affairs, University of Virginia;* **Richard M. Dicke,** *Counselor at law. Partner of the law firm of Simpson Thacher and Bartlett;* **Jos. Michael Galvin, Jr.,** *President and Executive Director of Salem County Memorial Hospital;* **Frank H. Wheaton, Jr.,** *President of Wheaton Industries. Manufacturer of glass and plastic products;* **John M. Miner,** *Senior Vice President of Crocker National Bank.*

## Committee Listings

Mr. Linkletter, Chairman of the Board, serves as an ex officio member of all committees and Mr. Feehan, President, serves as an ex officio member of all committees except the Audit Committee.

**Audit Committee**
John M. Miner, Chairman
Eleanor S. Daniel
Jos. Michael Galvin, Jr.
Mack C. Jones
Irving K. Kessler

**Corporate Development Committee**
Frank H. Wheaton, Jr., Chairman
Eleanor S. Daniel
Matthew Holden, Jr.
Mack C. Jones
John M. Miner

**Energy, Operations and Research Committee**
Mack C. Jones, Chairman
Richard M. Dicke
Jos. Michael Galvin, Jr.
Matthew Holden, Jr.
Irving K. Kessler
Richard M. Wilson

**Finance Committee**
John M. Miner, Chairman
Eleanor S. Daniel
Richard M. Dicke
Mack C. Jones
Irving K. Kessler
Richard M. Wilson

**Pension and Insurance Committee**
Richard M. Dicke, Chairman
Matthew Holden, Jr.
John M. Miner
Frank H. Wheaton, Jr.
Richard M. Wilson

**Personnel Committee**
Jos. Michael Galvin, Jr., Chairman
Eleanor S. Daniel
Richard M. Dicke
Irving K. Kessler
Frank H. Wheaton, Jr.

**Shareholder, Community and Government Relations Committee**
Eleanor S. Daniel, Chairman
Jos. Michael Galvin, Jr.
Matthew Holden, Jr.
Frank H. Wheaton, Jr.
Richard M. Wilson

## Officers

John D. Feehan, *President and Chief Executive Officer*
Frank J. Ficadenti, *Senior Vice President*
Ernest D. Huggard, *Senior Vice President*
Jerrold L. Jacobs, *Senior Vice President*
Michael A. Jarrett, *Senior Vice President*
David V. Boney, *Vice President—Customer and Community Services*
John F. Born, *Vice President—Electric Operations*
Thomas E. Freeman, *Vice President—Human Resources*
Brian A. Parent, *Vice President and Treasurer*
Joseph G. Salomone, *Vice President—Control*
Henry C. Schwemm, Jr., *Vice President—Production*
Martin R. Meyer, *Secretary and Assistant Treasurer*
Joseph T. Kelly, Jr., *Assistant Vice President—Operations, and Assistant Secretary*

## Dividend Reinvestment and Stock Purchase Plan

The Company continues to offer a Dividend Reinvestment and Stock Purchase Plan which enables shareholders and employees to automatically invest their cash dividends in Company stock, and also make optional cash payments without paying brokerage commissions or service charges. Over 302,000 shares were purchased through the Plan in 1981 with proceeds to the Company in excess of $5 million. There were 12,711 participants in the Plan at year-end. To enroll, please contact our Investor Records Department. See address on page 40.

## Share Listings

Common Stock of the Company is listed on the New York Stock Exchange and the Philadelphia Stock Exchange. The 5 7/8% Cumulative Convertible Preferred Stock of the Company is listed on the New York Stock Exchange.

## 10-K Report Available

The annual report to the Securities and Exchange Commission on Form10-K is available to shareholders and may be obtained by writing to the Company, Attention: Mr. M. R. Meyer, Secretary. See address on page 1.

## Transfer Agents

*For Common and Preferred Stock*

Morgan Guaranty Trust Company of New York
30 West Broadway, New York, New York 10015

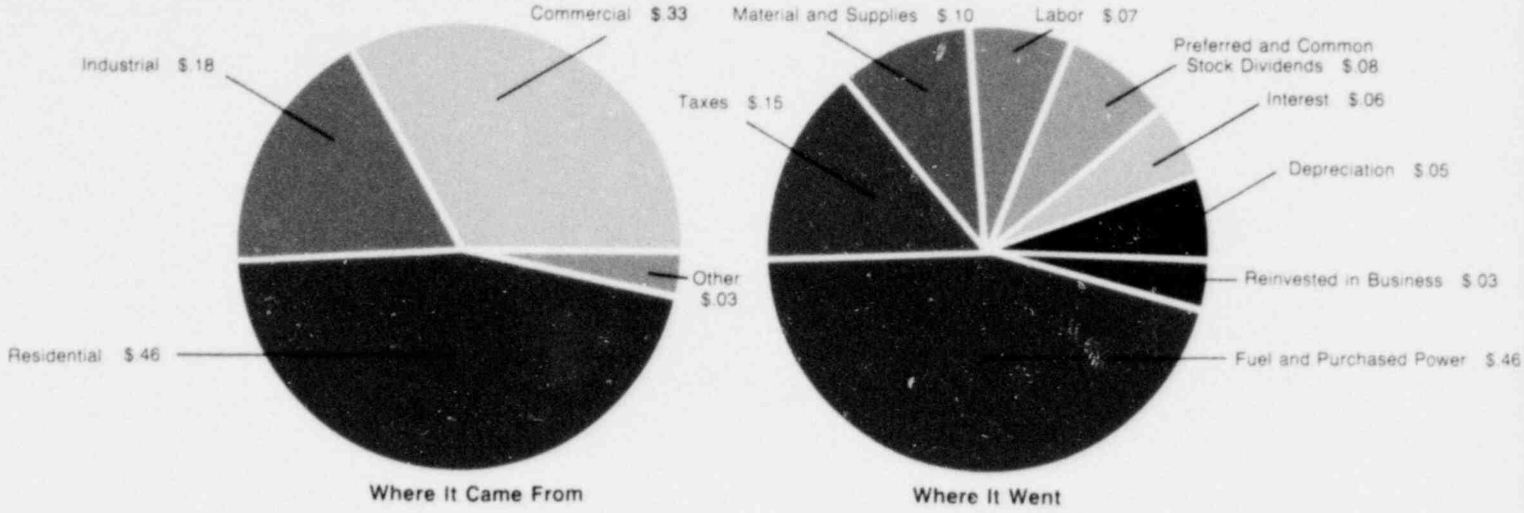
*For Common Stock*

First National State Bank of South Jersey
Atlantic City, New Jersey 08404

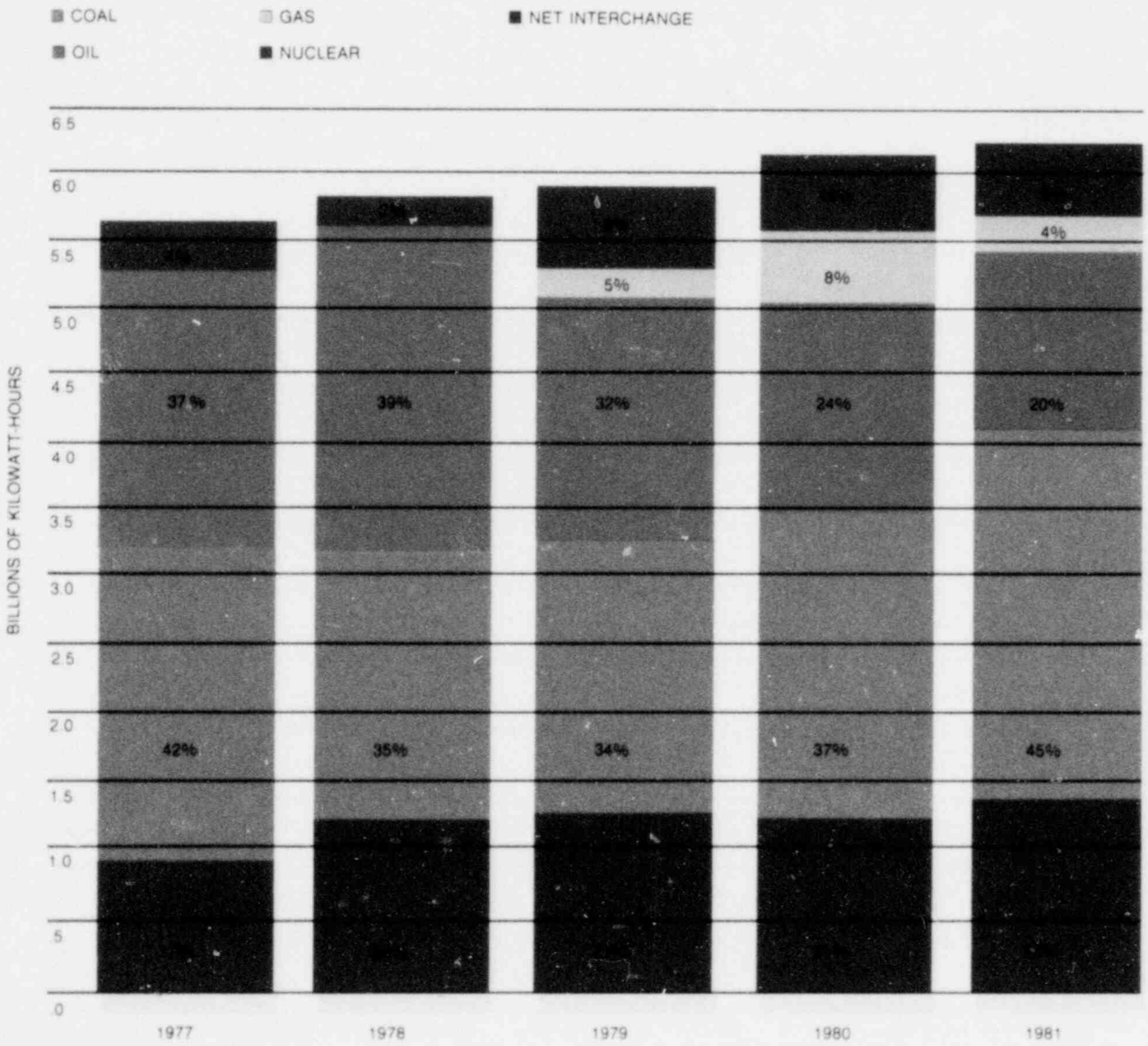
> The Company's Deepwater Generating Station, located on the Delaware River. A major conversion is underway at this Station to convert several units from oil-firing to coal-firing.

< At the Company's Deepwater Generating Station in Salem County, steam is produced and then provided to a neighboring large industrial customer. A by-product of this steam production is electricity.

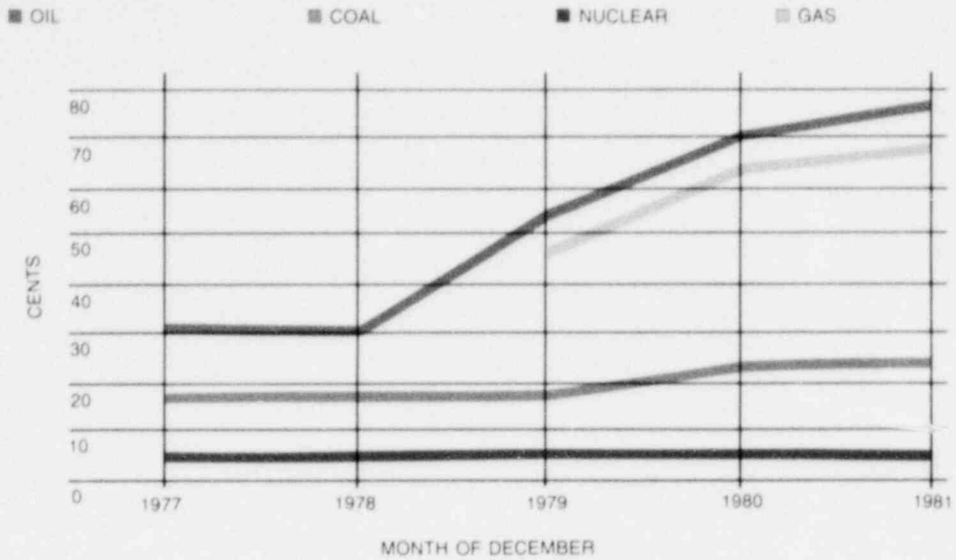
## 1981 Revenue Dollar    Year to Date - December 31, 1981



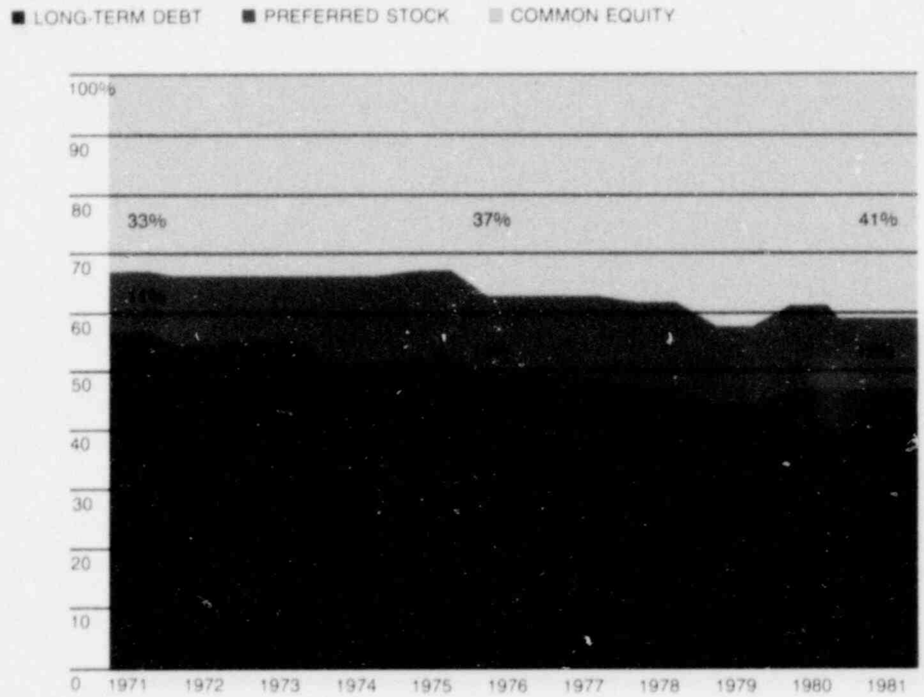

## Generation by Fuel Source    % of Utility System



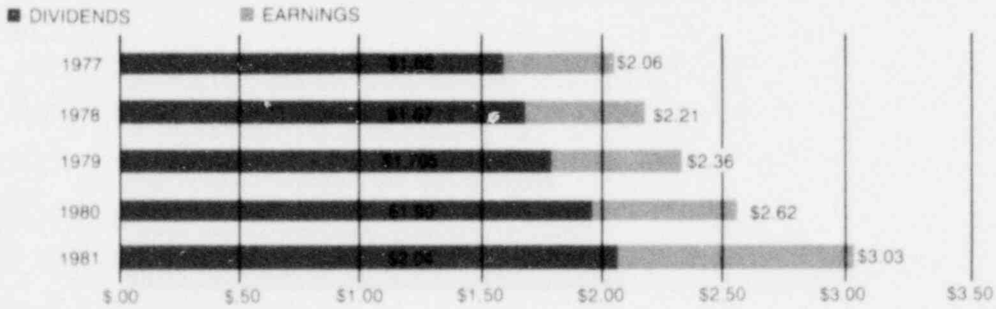
## Average Cost of Fuel/Cents Per Gallon




## Year-End Capitalization




## Dividends & Earnings Per Share of Common Stock

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## Report of Management

The financial statements presented herein have been prepared by management in conformity with Generally Accepted Accounting Principles applicable to rate-regulated public utilities. Such Accounting Principles are consistent in all material respects with the accounting prescribed by the Federal Energy Regulatory Commission and the New Jersey Department of Energy, Board of Public Utilities. In preparing the financial statements, management makes informed judgments and estimates relating to events and transactions that are currently being reported. The Company has established a system of internal accounting and financial controls and procedures designed to insure that the books and records reflect the transactions of the Company and that established policies and procedures are followed. This system is examined by management on a continuing basis for effectiveness and efficiency and is reviewed on a regular basis by an internal audit staff that reports directly to the Audit Committee of the Board of Directors.

The financial statements have been examined by Deloitte Haskins & Sells, Certified Public Accountants, whose report thereon appears below. The auditors provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. Their examination includes procedures believed by them to provide reasonable assurance that the financial statements are not misleading and includes a review of the Company's system of internal accounting and financial controls and a test of transactions.

The Board of Directors has oversight responsibility for determining that management has fulfilled its obligation in the preparation of financial statements and the ongoing examination of the Company's system of internal accounting control. The Audit Committee, which is composed solely of outside directors and reports to the Board of Directors, meets regularly with management, Deloitte Haskins & Sells and the internal audit staff to discuss accounting, auditing and financial reporting matters. The Audit Committee reviews the program of audit work performed by the internal audit staff. To insure auditor independence, both Deloitte Haskins & Sells and the internal audit staff have complete and free access to the Audit Committee.

## Auditors' Opinion

**Deloitte Haskins & Sells**
**Certified Public Accountants**

**One World Trade Center**
**New York, New York 10048**

To the Shareholders and the Board of Directors of Atlantic City Electric Company:

We have examined the balance sheets of Atlantic City Electric Company as of December 31, 1981 and 1980 and the related statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

January 29, 1982

< The Company's new customer service annex, completed in 1981, effectively handles about 10,000 inquiries per week. The new electronic call distribution and walk-in areas have improved the quality of service to our customers.

## Statement of Income and Retained Earnings

**For the Years Ended December 31**
**(Thousands of Dollars Except Per Share Amounts)**

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| **OPERATING REVENUES—ELECTRIC** (Notes 1 and 3) | **$469,683** | $358,391 | $283,106 |
| **OPERATING EXPENSES:** | | | |
| Energy (Note 1): | | | |
| Fuel | **154,652** | 131,894 | 100,472 |
| Interchange | **39,312** | 38,029 | 19,098 |
| Deferred Costs | **14,043** | (20,281) | (20,340) |
| Net Energy | **208,007** | 149,642 | 99,230 |
| Purchased Power—Exclusive of Fuel | **7,238** | 1,827 | — |
| Power Production—Operation and Maintenance | **36,206** | 28,819 | 24,717 |
| Other Operation and Maintenance | **50,366** | 44,890 | 36,145 |
| Depreciation (Note 1) | **25,161** | 23,593 | 22,590 |
| Taxes Other Than Federal Income Taxes (Note 13) | **44,200** | 35,546 | 35,860 |
| Federal Income Tax Expense (Notes 1 and 2) | **24,994** | 17,841 | 17,886 |
| Total Operating Expenses | **396,172** | 302,158 | 236,428 |
| **OPERATING INCOME** | **73,511** | 56,233 | 46,678 |
| **OTHER INCOME:** | | | |
| Allowance for Equity Funds Used During Construction (Note 1) | **6,045** | 4,997 | 3,669 |
| Miscellaneous Non-Operating Income Less Income Deductions | **3,684** | 2,609 | 1,611 |
| Total Other Income | **9,729** | 7,606 | 5,280 |
| **INCOME BEFORE INTEREST CHARGES** | **83,240** | 63,839 | 51,958 |
| **INTEREST CHARGES:** | | | |
| Interest on Long Term Debt | **30,621** | 26,705 | 18,094 |
| Amortization of Debt Expense and Premium—Net | **210** | 57 | 41 |
| Interest on Short Term Debt | **8,150** | 1,573 | 1,632 |
| Other Interest Expense | **1,323** | 321 | 493 |
| Total Interest Charges | **40,304** | 28,656 | 20,260 |
| Allowance for Debt Funds Used During Construction (Note 1) | **(4,052)** | (3,355) | (2,609) |
| Net Interest Charges | **36,252** | 25,301 | 17,651 |
| **NET INCOME** | **46,988** | 38,538 | 34,307 |
| **RETAINED EARNINGS AT BEGINNING OF YEAR** | **108,977** | 100,697 | 94,052 |
| | **155,965** | 139,235 | 128,359 |
| **DIVIDENDS DECLARED:** | | | |
| On Cumulative Preferred Stock | **7,508** | 6,340 | 6,039 |
| On Common Stock | **27,379** | 23,918 | 21,623 |
| Total Dividends Declared | **34,887** | 30,258 | 27,662 |
| **RETAINED EARNINGS AT END OF YEAR** | **$121,078** | $108,977 | $100,697 |
| **EARNINGS FOR COMMON STOCK:** | | | |
| Net Income | **$ 46,988** | $ 38,538 | $ 34,307 |
| Less Preferred Dividend Requirements | **7,531** | 6,161 | 6,066 |
| Balance Available for Common Stock | **$ 39,457** | $ 32,377 | $ 28,241 |
| **AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING (in thousands)** | **13,034** | 12,372 | 11,980 |
| **PER COMMON SHARE:** | | | |
| Earnings | **$ 3.03** | $ 2.62 | $ 2.36 |
| Dividends Declared | **$ 2.08** | $ 1.93 | $ 1.79 |
| Dividends Paid | **$ 2.04** | $ 1.90 | $ 1.765 |

See Notes to Financial Statements

## Statement of Changes in Financial Position

**For the Years Ended December 31**
**(Thousands of Dollars)**

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| **SOURCE OF FUNDS:** | | | |
| Funds from Operations: | | | |
| Net Income | $ 46,988 | $ 38,538 | $ 34,307 |
| Principal Non-Cash Charges (Credits) to Income: | | | |
| Depreciation | 25,161 | 23,593 | 22,590 |
| Amortization of Nuclear Fuel | 2,951 | 1,595 | 732 |
| Allowance for Funds Used During Construction | (10,097) | (8,539) | (6,363) |
| Federal Income Taxes-Deferred—Net | 14,648 | 6,158 | 6,281 |
| Investment Tax Credit Adjustments—Net | 7,141 | 5,045 | 4,354 |
| Other—Net | 458 | 422 | 308 |
| Total Funds from Operations | 87,250 | 66,812 | 62,209 |
| Funds from Outside Sources: | | | |
| Long Term Debt | 60,000 | 75,000 | — |
| Less Pollution Control Funds Held by Trustees | 27,874 | — | — |
| Subtotal | 32,126 | 75,000 | — |
| Sale of Common Stock | 32,441 | 6,514 | 24,934 |
| Sale of Preferred Stock | — | 20,000 | — |
| Increase (Decrease) in Short Term Debt | 10,525 | (24,175) | 39,475 |
| Total Funds from Outside Sources | 75,092 | 77,339 | 64,409 |
| Other—Net | (3,451) | (717) | 633 |
| Total Source of Funds | $158,891 | $143,434 | $127,251 |
| **APPLICATION OF FUNDS:** | | | |
| Gross Additions to Utility Plant | $123,318 | $ 97,330 | $ 72,773 |
| Property Abandonment Costs | (15,956) | — | — |
| Allowance for Funds Used During Construction | (10,097) | (8,539) | (6,363) |
| Net | 97,265 | 88,791 | 66,410 |
| Dividends on Preferred Stock | 7,508 | 6,340 | 6,039 |
| Dividends on Common Stock | 27,379 | 23,918 | 21,623 |
| Retirement and Maturity of Long Term Debt | 5,682 | 23,847 | 3,222 |
| Property Abandonment Costs | 15,956 | — | — |
| Conversion of Preferred Stock | 1,993 | 877 | 1,331 |
| Redemption of Preferred Stock | 800 | 1,600 | 1,600 |
| Investments in Subsidiary Companies | (96) | 320 | 391 |
| Increase (Decrease) in Working Capital* | 2,404 | (2,259) | 26,635 |
| Total Application of Funds | $158,891 | $143,434 | $127,251 |
| **INCREASE (DECREASE) IN WORKING CAPITAL*** | | | |
| Cash and Cash Items | $ 3,845 | $ (889) | $ 1,064 |
| Accounts Receivable | 10,740 | 6,727 | 2,392 |
| Fuel | 5,890 | 1,422 | 3,240 |
| Materials and Supplies | 2,365 | 1,500 | 3,030 |
| Deferred Energy Costs | (14,104) | 18,741 | 23,529 |
| Accounts Payable | 2,959 | (11,202) | (5,366) |
| Taxes Accrued | (5,285) | (4,587) | 7,509 |
| Accumulated Deferred Taxes | 3,894 | (6,500) | (8,102) |
| Other | (7,900) | (7,471) | (661) |
| Increase (Decrease) in Working Capital | $ 2,404 | $ (2,259) | $ 26,635 |

*Excludes Short Term Debt, Notes and Current Maturities of Long Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption.

See Notes to Financial Statements

## Balance Sheet
**December 31, 1981 and 1980**
**(Thousands of Dollars)**

| *Assets* | 1981 | 1980 |
|---|---|---|
| **ELECTRIC UTILITY PLANT** (Notes 1 and 5): | | |
| In Service: | | |
| Production | $ 422,162 | $339,722 |
| Transmission | 154,418 | 137,076 |
| Distribution | 280,842 | 262,074 |
| General | 20,274 | 17,682 |
| Total | 877,696 | 756,554 |
| Less Accumulated Depreciation | 225,372 | 205,588 |
| Net | 652,324 | 550,966 |
| Construction Work in Progress | 158,995 | 183,215 |
| Nuclear Fuel | 28,237 | 22,283 |
| Less Accumulated Amortization | 7,692 | 4,741 |
| Net | 20,545 | 17,542 |
| Electric Utility Plant—Net | 831,864 | 751,723 |
| **INVESTMENTS** (Note 6) | 5,537 | 5,352 |
| **POLLUTION CONTROL CONSTRUCTION FUNDS UNEXPENDED—HELD BY TRUSTEES** | 27,874 | — |
| **CURRENT ASSETS:** | | |
| Cash (Note 10) | 1,034 | 3,157 |
| Temporary Cash Investments | 5,800 | 300 |
| Special Deposits and Working Funds | 1,881 | 1,413 |
| Accounts Receivable: | | |
| Utility Service | 35,410 | 26,761 |
| Miscellaneous | 5,669 | 3,078 |
| Allowance for Doubtful Accounts | (1,000) | (500) |
| Fuel (at average cost) | 29,576 | 23,686 |
| Materials and Supplies (at average cost) | 16,641 | 14,276 |
| Prepayments | 3,771 | 3,924 |
| Deferred Energy Costs (Notes 1 and 3) | 23,177 | 37,281 |
| Total Current Assets | 121,959 | 113,376 |
| **DEFERRED DEBITS:** | | |
| Property Abandonment Costs (Notes 1 and 11) | 19,934 | 4,236 |
| Unamortized Debt Expense (Note 1) | 3,598 | 2,074 |
| Other | 3,023 | 3,034 |
| Total Deferred Debits | 26,555 | 9,344 |
| **TOTAL ASSETS** | $1,013,789 | $879,795 |

See Notes to Financial Statements

| *Liabilities and Capitalization* | 1981 | 1980 |
|---|---|---|
| **CAPITALIZATION:** | | |
| Common Shareholders' Equity: | | |
| Common Stock (Note 7) | $ 43,284 | $ 37,617 |
| Premium on Capital Stock | 160,499 | 133,714 |
| Capital Stock Purchase Plan | 78 | 39 |
| Capital Stock Expense | (1,730) | (1,744) |
| Retained Earnings | 121,078 | 108,977 |
| Total Common Shareholders' Equity | 323,209 | 278,603 |
| Cumulative Preferred Stock Not Subject to Mandatory Redemption (Note 8) | 43,531 | 45,524 |
| Cumulative Preferred Stock Subject to Mandatory Redemption (Note 8) | 55,200 | 56,000 |
| Long Term Debt (Note 9) | 371,769 | 337,488 |
| Total Capitalization (less long term debt due and cumulative preferred stock subject to mandatory redemption within one year) | 793,709 | 717,615 |
| **CURRENT LIABILITIES:** | | |
| Current Portion: | | |
| Cumulative Preferred Stock Subject to Mandatory Redemption (Note 8) | 800 | 800 |
| Long Term Debt (Note 9) | 19,620 | — |
| Notes Payable to Banks (Note 10) | 7,500 | 3,500 |
| Commercial Paper (Note 10) | 18,325 | 11,800 |
| Accounts Payable | 25,869 | 28,828 |
| Customer Deposits | 2,810 | 3,613 |
| Taxes Accrued | 12,980 | 7,695 |
| Interest Accrued | 5,757 | 3,720 |
| Dividends Declared | 9,509 | 8,090 |
| Accumulated Deferred Taxes (Notes 1 and 2) | 16,245 | 20,139 |
| Other | 7,505 | 2,409 |
| Total Current Liabilities | 126,920 | 90,594 |
| **DEFERRED CREDITS:** | | |
| Accumulated Deferred Investment Tax Credits (Notes 1 and 2) | 36,725 | 29,584 |
| Accumulated Deferred Income Taxes (Notes 1 and 2) | 53,509 | 38,861 |
| Other | 2,926 | 3,141 |
| Total Deferred Credits | 93,160 | 71,586 |
| **COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)** | | |
| **TOTAL LIABILITIES AND CAPITALIZATION** | $1,013,789 | $879,795 |

## Notes to Financial Statements

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES:

REGULATION—The accounting and rates of the Company are subject to the regulations of the State of New Jersey, Department of Energy, Board of Public Utilities (BPU) and in certain respects to the Federal Energy Regulatory Commission (FERC).

ELECTRIC UTILITY PLANT—Property is stated at original cost. Generally the plant is subject to a first mortgage lien. The cost of property additions, including replacement of units of property and betterments, is capitalized. Included in certain 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. AFDC has been calculated using a rate of 8% for all years reported. Such rate is less than the maximum allowed under a FERC order.

DEFERRED ENERGY COSTS—The Company has a Levelized Energy Clause (LEC) which utilizes projected energy costs and includes a provision for prior period under or over recoveries. The recovery of energy costs is made through levelized monthly charges over the period of projection. Any under or over recoveries are deferred in balance sheet accounts as a current asset or current liability as appropriate. Such deferrals are recognized in the Statement of Income in the period in which they are subsequently recovered through the clause.

DEPRECIATION AND MAINTENANCE—The Company provides for straight-line depreciation based on the estimated remaining life of transmission and distribution property and, based on the estimated service life, for all other depreciable property. Depreciation applicable to nuclear plant includes certain amounts for dismantling or decommissioning. The overall composite rate of depreciation was approximately 3.3% for 1981, 1980 and 1979. Accumulated depreciation is charged with the cost of depreciable property units retired together with removal costs less salvage and other recoveries.

NUCLEAR FUEL—The Company's amortization of Salem Units No. 1 & 2 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 future costs (storage and disposal for the disposition of spent nuclear fuel).

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. The cost of nuclear fuel consumed is included in the Statement of Income as a charge to fuel expense.

FEDERAL INCOME TAXES—Deferred Federal Income Taxes are provided on depreciable property added after 1973, but before January 1, 1981, for the difference between tax accelerated and tax straight-line depreciation under the ADR system. Tax reductions relating to the difference between tax straight-line and book depreciation are reflected currently (flowed-through) in Federal Income Tax Expense as allowed by the BPU.

For all property placed in service after December 31, 1980, the Company provides deferred Federal Income Taxes for the difference between tax depreciation computed using the Accelerated Cost Recovery System (ACRS) under the Economic Recovery Tax Act of 1981, and tax depreciation computed using book lines.

In addition, the Company provides deferred Federal Income Taxes relating to the deferral of energy costs and, up to December 31, 1980, 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.

Gains on reacquired debt are recognized currently for book purposes and as a reduction of property accounts for tax purposes. Tax gains, therefore, are being returned to income by reduced tax depreciation expense over the lives of the property. Accordingly, the Company provides deferred Federal Income Taxes on its books.

RETIREMENT PLAN—The Company has in effect a non-contributory defined benefit retirement plan covering all regular employees. Concurrent with a 1979 amendment, the Board of Directors established a funding policy providing for direct payment, from plan assets, of retirement benefits relating to services on or subsequent to January 1, 1979. (Benefits were previously provided by the purchase of individual annuities upon the retirement of Plan participants.) Such funding arrangement was also extended to service prior to January 1, 1979 for those employees consenting to the change. Costs of the plan are determined under the aggregate cost method.

PROPERTY ABANDONMENT COSTS—These costs consist of the Company's unamortized investment in Hope Creek Unit No. 2, a nuclear generating unit which was cancelled in December 1981, and four off-shore nuclear units which were cancelled in December 1978.

The off-shore nuclear units are being amortized, with the concurrence of the BPU, over a 20 year period. See Note 11 of Notes to Financial Statements for additional details on the 1981 Hope Creek Unit No. 2 cancellation.

OTHER—Capital Stock expense is being amortized on a ratable basis over 20 years.

Debt premium, discount and expenses are amortized over the life of the related debt. In conformity with allowed BPU rate-making accounting, all gains or losses relating to reacquired debt are recognized currently.

NOTE 2. 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:

| | Years Ended December 31 | | |
|---|---|---|---|
| | **1981** | 1980 | 1979 |
| | | (In Thousands) | |
| Net Income | **$46,988** | $38,538 | $34,307 |
| Federal Income Tax Expense (as below) | **27,332** | 19,700 | 18,868 |
| Book Income Subject to Tax | **$74,320** | $58,238 | $53,175 |
| Income Tax at Statutory Rate (46%) | **$34,187** | $26,789 | $24,461 |
| Less: | | | |
| Allowance for Funds Used During Construction | **4,645** | 3,842 | 2,888 |
| Capitalized Overheads | **1,242** | 1,179 | 1,041 |
| Investment Tax Credits—Used | **1,075** | 914 | 735 |
| Other | **(107)** | 1,154 | 929 |
| Total Federal Income Tax Expense | **$27,332** | $19,700 | $18,868 |
| Federal Income Tax Expense is comprised of the following: | | | |
| Federal Income Tax Currently Payable | **$13,124** | $ (667) | $(1,550) |
| Deferred Federal Income Taxes (as below) | **4,438** | 12,657 | 14,383 |
| Investment Tax Credit—Earned | **8,507** | 6,765 | 5,788 |
| Investment Tax Credit—Used | **(1,075)** | (914) | (735) |
| Federal Income Tax Expense | **24,994** | 17,841 | 17,886 |
| Federal Income Tax—Other Income: | | | |
| Currently Payable | **826** | 1,859 | 982 |
| Deferred (as below) | **1,512** | — | — |
| Total | **2,338** | 1,859 | 982 |
| Total Federal Income Tax Expense | **$27,332** | $19,700 | $18,868 |
| Deferred Federal Income Taxes result from the folowing timing differences: | | | |
| Liberalized Depreciation | **$ 6,195** | $ 4,189 | $ 3,830 |
| Repair Allowance | **—** | 2,551 | 2,967 |
| Amortization-Accelerated Depreciation, Repair Allowance and Property Abandonment Costs | **(708)** | (625) | (516) |
| Property Abandonment Costs | **6,700** | — | 6 |
| Gains on Reacquired Debt and Purchased Tax Benefits | **1,512** | — | — |
| Other | **949** | 43 | (6) |
| Total | **14,648** | 6,158 | 6,281 |
| Current Liabilities: | | | |
| Deferred Energy Costs | **(6,488)** | 8,620 | 8,528 |
| Deferred Revenue | **(2,210)** | (2,121) | (426) |
| Total Deferred Federal Taxes | **$ 5,950** | $12,657 | $14,383 |

Investment tax credit earned in 1981, 1980 and 1979 includes $291,000, $806,000 and $699,000 respectively, representing the Company's use of the additional investment tax credit available under the Tax Reduction Act of 1975.

On December 30, 1981, the Company entered into an agreement with a corporation to purchase the tax benefits on equipment having a tax basis of $2,636,371. Such tax benefits include 6% Investment Tax Credit and an ACRS life of 3 years.

NOTE 3. RATE INCREASES:

During the three year period ended December 31, 1981 rate increases have been approved by the BPU as follows, based in each case on the applicable test year indicated:

| Date Petition | Amount Requested (millions) | Date Effective | Amount Approved (millions) | Increase In Revenue | Test Year |
|---|---|---|---|---|---|
| March 1978 | $35.7 (1) | July 1, 1979 | $10.0 | 4.0% | 1978 |
| November 1979 | 85.7 | September 26, 1980 | 50.6 | 16.0% | June 30, 1980 |
| August 1981 (2) | 14.4 | January 29, 1982 | 11.3 | | June 30, 1981 |

(1) $14,800,000 of the requested amount had previously been granted on a preliminary basis in July 1978.

(2) The Company's request was to recognize the cost of owning and operating its 7.41% share of the Salem Unit No. 2 Nuclear Generating Station (not considered in the $50,600,000 increase approved effective September 26, 1980). The unit went into full commercial operation in October 1981. The $11,300,000 increase granted was based on the Company's investment in the unit as of June 30, 1980.

On September 9, 1981, the BPU issued a decision with respect to the design of the Company's residential, commercial and industrial rates. In this decision, the BPU recognized a separate customer class consisting of casino hotels in Atlantic City, and ordered the Company to provide a separate base rate and a separate energy adjustment clause for such customers. The effect of this change is to increase the rates of such customers with a corresponding reduction in the revenues received from all other customers. The revised rates became effective on October 1, 1981. The casino hotels are seeking further proceedings before the BPU and in the courts on this issue. The Company cannot presently predict the final outcome of these proceedings or the effect, if any, on the Company.

Effective January 1, 1981, the BPU authorized an annual increase of approximately $41,600,000 in the Company's LEC from 1.1019 cents per kwh to 1.7914 cents per kwh and at the same time transferred 1.0 cent per kwh from the LEC to base rates. In March 1981, as a result of a significant projected under-recovery of energy costs, the Company filed a petition with the Board requesting an emergency increase in the LEC. Effective August 21, 1981, the BPU granted an emergency LEC of 2.4582 cents per kwh to be effective through the remainder of 1981 and ordered an additional 1.0 cent per kwh transferred from the LEC to base rates, effective October 1, 1981, resulting in an LEC of 1.4582 cents per kwh. The BPU set the LEC at this level to allow the Company to collect $25,600,000 by December 31, 1981. In December 1981, the Company proposed a reduction in the LEC based on projected unrecovered energy costs of $33,100,000, and a slight decrease in the projected 1982 total cost of energy. On January 6, 1982, the BPU ordered an interim reduction in the Company's LEC to 0.7602 cent per kwh. This represents an approximate $39,300,000 reduction in the Company's LEC revenues on an annual basis. Concurrently, the BPU reduced, on an interim basis, the energy adjustment clause rate applied to casino hotels (marginal energy adjustment clause—MEAC) from 2.4596 cents per kwh to 1.7616 cents per kwh. This represents an approximate $1,900,000 reduction in MEAC revenues on an annual basis. The BPU order that the LEC and MEAC reductions, which are effective January 1, 1982, would go into effect simultaneously with the Company's $11,300,000 base rate increase for Salem Unit No. 2 on January 29, 1982. The net effect of these rate changes is a decrease of approximately $30,000,000 on an annual basis. In addition, the BPU has referred the Company's LEC and MEAC filings to the Office of Administrative Law for evidentiary hearings. The Company cannot presently predict the timing or the final decision of the BPU on the ultimate level of the LEC and MEAC.

In February 1982, the Company will file a petition with the BPU requesting a base rate increase of $172,400,000, based on a projected September 30, 1982 test year. The requested amount represents an increase of approximately 33.7% of total estimated 1982 revenues. The Company cannot presently predict either the amount, if any, of the increase which might be granted or the timing of the decision by the BPU.

NOTE 4. RETIREMENT PLAN:

The cost to the Company in providing a retirement plan for its employees was $5,476,000, $4,652,000 and $4,238,000 in 1981, 1980 and 1979, respectively. Approximately 80% of these costs were charged to operating expense and the remaining 20%, which was associated with construction labor, was charged to the cost of new utility plant.

A comparison of accumulated plan benefits and plan net assets (including purchased annuity contract amounts) for the Company's Plan is as follows:

| | January 1 1981 | January 1 1980 | January 1 1979 |
|---|---|---|---|
| | (In Thousands) | | |
| Actuarial present value of accumulated plan benefits: | | | |
| Vested | **$67,810** | $66,091 | $63,497 |
| Nonvested | **1,370** | 1,528 | 1,497 |
| Total | **$69,180** | $67,619 | $64,994 |
| Net assets available for benefits | **$83,989** | $70,303 | $61,316 |

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% for 1981 and 6% for 1980 and 1979. The Company's Plan is in compliance with the Employee Retirement Income Security Act of 1974.

NOTE 5. JOINTLY-OWNED GENERATING STATIONS:

The Company participates with other utilities in the construction and operation of several jointly-owned electric production facilities. The amounts shown represent the Company's share of each jointly-owned plant at December 31, and includes an allowance for funds used during construction.

| Station | Energy Source | Company's Share | Electric Plant in Service 1981 | Electric Plant in Service 1980 | Construction Work in Progress 1981 | Construction Work in Progress 1980 | Generation (KWHs) 1981 | Generation (KWHs) 1980 |
|---|---|---|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | | | | |
| Keystone | Coal | 2.47% | $ 5,752 | $ 5,607 | $ 173 | $ 139 | 213,104 | 262,768 |
| Conemaugh | Coal | 3.83 | 11,189 | 10,786 | 165 | 433 | 290,209 | 403,660 |
| Peach Bottom | Nuclear | 7.51 | 63,778 | 61,485 | 7,438 | 6,142 | 730,034 | 865,946 |
| Salem (1) | Nuclear | 7.41 | 140,849 | 77,485 | 3,647 | 57,458 | 577,113 | 420,148 |
| Hope Creek (2) | Nuclear | 5.00 | — | — | 72,207 | 64,743 | — | — |

(1) Salem Unit No. 2 was placed in commercial operation on October 13, 1981.

(2) As of December 23, 1981, Hope Creek Unit No. 2 has been cancelled. See Note 11 of Notes to Financial Statements.

The Company provides its own financing during the construction period for its share of the jointly-owned plants and includes its share of direct operations and maintenance expenses in its Statement of Income.

NOTE 6. 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 $2,841,000 at December 31, 1981 and 1980. The assets of Deepwater principally consist 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 contract charges) are charged to the Company. These costs are included in the Company's accounts classified as to operation, maintenance and taxes.

The Company also has an investment in Atlantic Housing, Inc. (Housing), a wholly-owned subsidiary, which amounted to $820,538 and $916,455 at December 31, 1981 and 1980, respectively. Housing's principal investment is a 20% undivided interest as tenant in common in a future generating station and industrial site.

NOTE 7. COMMON STOCK:

As of December 31, 1981 and 1980, the Company's Common Stock included 18,000,000 authorized shares of Common Stock ($3 par value), respectively.

| Shares issued and outstanding: | 1981 | 1980 | 1979 |
|---|---|---|---|
| Beginning of Year | **12,538,880** | 12,196,486 | 10,916,308 |
| Sale of Common Stock | **1,500,000** | — | 1,000,000 |
| Dividend Reinvestment and Stock Purchase | **302,726** | 257,095 | 184,889 |
| Employee Stock Ownership Plan | **16,641** | 54,616 | 48,710 |
| Conversion of Preferred Stock | **69,743** | 30,683 | 46,579 |
| Shares at end of year | **14,427,990** | 12,538,880 | 12,196,486 |
| At $3 Par Value | **$43,283,970** | $37,616,640 | $36,589,458 |

Premium on Capital Stock was credited in 1981, 1980 and 1979 with $26,785,552, $5,428,822 and $21,114,141, respectively, representing the excess of proceeds over the par value of shares of Common Stock issued, sold and converted. At December 31, 1981 there were 340,769 shares of Common Stock authorized for issuance pursuant to its Dividend Reinvestment and Stock Purchase Plan which became effective in 1976 and 77,638 shares of Common Stock authorized for issuance pursuant to its Employee Stock Ownership Plan. At December 31, 1981, 123,603 shares of Common Stock were reserved for the conversion of 5-7/8% Convertible Series of Preferred Stock.

NOTE 8. CUMULATIVE PREFERRED STOCK:

The Company has authorized 799,979 shares of Cumulative Preferred Stock, $100 Par Value, 2,000,000 shares of cumulative preferred stock, No Par Value, and 3,000,000 shares of Preference Stock, No Par Value. Unissued shares may, or may not, possess mandatory redemption characteristics upon issuance. In certain circumstances, if dividends on issued Cumulative Preferred Stock are in arrears voting rights for the election of a majority of the Board of Directors becomes operative.

NOTE 8(A). Cumulative Preferred Stock Not Subject To Mandatory Redemption:

| | December 31 1981 | December 31 1980 | Premium on Capital Stock | Current Redemption Price Per Share |
|---|---|---|---|---|
| | (In Thousands) | | | |
| $100 Par Value—Cumulative and Non-participating shares issued and outstanding: | | | | |
| Series: | | | | |
| 4% 77,000 Shares | $ 7,700 | $ 7,700 | $93 | $105.50 |
| 4.10% 72,000 Shares | 7,200 | 7,200 | | 101.00 |
| 4.35% 15,000 Shares | 1,500 | 1,500 | | 101.00 |
| 4.35% 36,000 Shares | 3,600 | 3,600 | | 101.00 |
| 4.75% 50,000 Shares | 5,000 | 5,000 | | 101.00 |
| 5.0% 50,000 Shares | 5,000 | 5,000 | | 100.00 |
| 5-7/8% Convertible Series: | | | | |
| 35,310 Shares (1981) | 3,531 | | | 103.00 |
| 55,240 Shares (1980) | | 5,524 | | |
| 7.52% 100,000 Shares | 10,000 | 10,000 | | 106.77 |
| Total | $43,531 | $45,524 | | |

Cumulative Preferred Stock Not Subject to Mandatory Redemption is redeemable solely at the option of the Company upon payment of the redemption price plus accumulated and unpaid dividends to the date fixed for redemption.

The 5-7/8% Convertible Series, of which 19,927, 8,767 and 13,309 shares were converted in 1981, 1980 and 1979 respectively, 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 Preferred.

NOTE 8(B). Cumulative Preferred Stock Subject To Mandatory Redemption:

| | Par Value | December 31 1981 | December 31 1980 | Current Redemption Price Per Share | Refunding Restricted Prior to |
|---|---|---|---|---|---|
| | | (In Thousands) | | | |
| Shares Issued and Outstanding: | | | | | |
| Series: | | | | | |
| 8.40% 100,000 Shares | $100 | $10,000 | $10,000 | $115.00 | |
| 9.96% 160,000 Shares (1981) | 100 | 16,000 | | 107.50 | August 1, 1984 |
| 168,000 Shares (1980) | 100 | | 16,800 | | |
| $8.25 100,000 Shares | None | 10,000 | 10,000 | 107.41 | November 1, 1987 |
| $9.45 200,000 Shares | None | 20,000 | 20,000 | | November 1, 1989 |
| | | 56,000 | 56,800 | | |
| Less Portion due within one year | | 800 | 800 | | |
| Total | | $55,200 | $56,000 | | |

On October 24, 1980, the Company sold 200,000 shares of $9.45 No Par Preferred Stock ($100 stated value) in a private placement.

On August 1, annually 8,000 shares of the 9.96% 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 8,000 shares may be redeemed on any sinking fund date, without premium, up to 40,000 shares in the aggregate. The Company redeemed 8,000 and 16,000 shares at par in 1981 and 1980, respectively.

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.

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 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.

On November 1, 1986, and annually thereafter, 40,000 shares of the $9.45 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 40,000 shares may be redeemed on any sinking fund date, without premium, up to 50,000 shares in the aggregate.

The minimum sinking fund provisions of the above series aggregate $800,000 in 1982, $1,050,000 in 1983 and 1984, $1,450,000 in 1985, and $5,450,000 in 1986.

NOTE 9. LONG TERM DEBT:

| | December 31 1981 | 1980 |
|---|---|---|
| | (In Thousands) | |
| First Mortgage Bonds: | | |
| 3-1/4% Series due (March 1) 1982 | **$ 4,620** | $ 4,620 |
| 3-1/4% Series due (January 1) 1983 | **4,050** | 4,050 |
| 9-1/4% Series due (May 1) 1983 | **35,000** | 35,000 |
| 3% Series due (March 1) 1984 | **5,000** | 5,000 |
| 9% Pollution Control Series due (May 1) 1984 | **21,000** | — |
| 3-1/4% Series due (March 1) 1985 | **10,000** | 10,000 |
| 4-1/2% Series due (January 1) 1987 | **10,000** | 10,000 |
| 3-7/8% Series due (April 1) 1988 | **10,000** | 10,000 |
| 4-1/2% Series due (April 1) 1989 | **5,000** | 5,000 |
| 4-1/2% Series due (March 1) 1991 | **10,000** | 10,000 |
| 4-1/2% Series due (July 1) 1992 | **12,350** | 15,000 |
| 4-3/8% Series due (March 1) 1993 | **13,500** | 15,000 |
| 5-1/8% Series due (February 1) 1996 | **9,980** | 10,000 |
| 8-7/8% Series due (September 1) 2000 | **20,000** | 20,000 |
| 8% Series due (May 1) 2001 | **27,000** | 27,000 |
| 7-1/2% Series due (April 1) 2002 | **20,000** | 20,000 |
| 7-3/4% Series due (June 1) 2003 | **30,000** | 30,000 |
| 7-5/8% Pollution Control Series due (January 1) 2005 | **6,500** | 6,500 |
| 6-3/8% Pollution Control Series due (December 1) 2006 | **2,500** | 2,500 |
| 12-5/8% Series due (January 1) 2010 | **75,000** | 75,000 |
| 11-5/8% Pollution Control Series due (May 1) 2011 | **39,000** | — |
| | **370,500** | 314,670 |
| Debentures: | | |
| 5-1/4% Sinking Fund Debentures due (February 1) 1996 | **2,267** | 2,840 |
| 7-1/4% Sinking Fund Debentures due (May 1) 1998 | **2,786** | 3,725 |
| | **5,053** | 6,565 |
| Notes—7.90% Notes due (December 15) 1982 | **15,000** | 15,000 |
| Unamortized Premium and Discount—Net | **836** | 1,253 |
| | **391,389** | 337,488 |
| Deduct First Mortgage Bonds and Notes due within one year | **(19,620)** | — |
| | **$371,769** | $337,488 |

Deposits in sinking funds for retirement of debentures are required on February 1 of each year through 1995 for the 5-1/4% debentures, and on May 1 of each year through 1997 for the 7-1/4% 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, 1981 the Company had reacquired and cancelled $1,533,000 principal amount of the 5-1/4% debentures and $1,314,000 principal amount of the 7-1/4% debentures toward its requirements for 1982 and subsequent periods.

Current sinking fund requirements of $986,700 in connection with certain first mortgage bonds outstanding, are being satisfied by certification of property additions as provided for in the related mortgage indentures.

Annual sinking fund deposits are also required each year from 1986 through 2010 sufficient to redeem $3,000,000 principal amount of the 12-5/8% first mortgage bonds plus, at the election of the Company, an additional $3,000,000 in each year.

In addition, annual sinking fund deposits of $3,500,000 in 2007 and 2008 and $10,000,000 in 2009 and 2010 are required in order to redeem principal amounts of the 11-5/8% Pollution Control Series.

NOTE 10. SHORT TERM DEBT AND COMPENSATING BALANCES:

The Company had arrangements for short term debt as follows:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| As of end of year— | | | |
| Weighted average interest rate for short term debt outstanding: | | | |
| Commercial Paper | **12.2%** | 18.3% | 13.2% |
| Notes Payable to Banks | **12.8%** | 19.3% | 14.7% |
| For the year ended— | | | |
| Monthly amount of short term debt at any month-end: | | | |
| Commercial Paper | **$62,475** | $16,725 | $31,975 |
| Notes Payable to Banks | **$ 7,500** | $ 3,500 | $ 7,500 |
| Average amount of short term debt (based on daily outstanding balances): | | | |
| Commercial Paper | **$43,284** | $ 8,879 | $ 9,352 |
| Notes Payable to Banks | **$ 3,661** | $ 1,810 | $ 2,260 |
| Weighted daily average interest rates on short term debt: | | | |
| Commercial Paper | **16.4%** | 11.4% | 12.4% |
| Notes Payable to Banks | **16.7%** | 13.1% | 13.0% |

NOTE 10. Continued:

In April of 1981, the Company negotiated new agreements providing for $115,000,000 of bank lines of credit, $108,000,000 of which were unused at December 31, 1981. The Company is required, with respect to $17,000,000 of these credit lines, to maintain average compensating balances of $1,070,000 plus an equivalent additional amount if these lines are fully utilized. These compensating balances are maintained in demand deposits which are not legally restricted. The Company is in compliance with such compensating balance arrangements. With respect to the remaining available credit lines of $98,000,000 the Company pays commitment fees ranging from 3/8% to 1/2%. In 1981 commitment fees aggregated $400,897.

NOTE 11. COMMITMENTS AND CONTINGENCIES:

Construction expenditures including nuclear fuel but excluding production plant are estimated at approximately $60,000,000 for 1982. Commitments for the construction of major production and transmission facilities amount to approximately $274,000,000 of which it is estimated that approximately $24,000,000 will be expended in 1982. These amounts exclude allowance for funds used during construction.

The Price-Anderson Act places a liability limit of $560,000,000 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 $160,000,000. The remainder ($400,000,000) is provided by a combination of a mandatory program of retrospective premiums to be assessed against owners of nuclear reactors after a nuclear incident (up to $5,000,000 per incident but not more than $10,000,000 in any calendar year for each licensed nuclear reactor in the United States) and by indemnity agreements with the Nuclear Regulatory Commission. Accordingly, in the event of a nuclear incident involving any licensed nuclear reactor in the United States which was not covered by the $160,000,000 private insurance, the Company could be assessed, based on the four nuclear reactors now in service, a maximum amount in relation to its ownership participation (approximately $1,492,000 for any such incident but not more than $2,984,000 in any year).

The Company is a member of Nuclear Mutual Ltd. which provides insurance coverage up to $450,000,000 for property damages to nuclear generating facilities of the member companies. In the event of major loss at any plant covered by the group, the Company could be assessed up to $4,007,644, fourteen times its annual premium.

The Company is also a member of Nuclear Electric Insurance Ltd. which provides insurance coverage for the extra expense of replacement power during prolonged accidental outages of nuclear plants. After a deductible period of 26 weeks, weekly payments of up to $2,300,000 are provided for one year and up to $1,150,000 for an additional year, for each insured unit. If losses exceed accumulated funds available to the group, the Company could be assessed up to $2,421,252, five times its current annual premium. In addition, Nuclear Electric Insurance Ltd. also provides insurance for property damages to nuclear generating facilities in the amount of $247,000,000 for any damages in excess of $500,000,000. In the event of a major loss, the Company could be assessed $1,230,648, seven and one-half times its annual premium.

The Company has an agreement expiring May 31, 1985, with Delmarva Power & Light (DPL) for the purchase of 50 MW of power from the output of DPL's coal-fired Indian River Station. Indian River Station commenced commercial operation on October 1, 1980. Also, DPL is planning to construct a 500 MW coal-fired generating station (Vienna No. 9) which has been sized to accommodate a 25% ownership (125 MW) by Atlantic Electric. Such unit is scheduled to be placed in commercial operation in 1990. The Company and Pennsylvania Power & Light Company (PPL), have entered into an agreement whereby the Company will purchase 5.94% of the net capacity and energy output of each of two PPL 1050 MW nuclear generating units scheduled to be placed in service in the second quarter of 1983 and the fourth quarter of 1984, respectively. The purchase of power from PPL will commence with commercial operation of the stations and continue through September 30, 1991.

In 1981, the Company entered into a new agreement with Allegheny Power Systems (APS) which will entitle the Company to 50 MW of coal-fired capacity from the APS Pleasants Station in St. Mary's, West Virginia for the years 1982 through 1985. In addition, the Company has a commitment with Public Service Electric and Gas Company (PSE&G) where they will provide up to 125 MW of power for the years 1988 through 1995.

As a result of these changes, the planned $550 million, 290 MW coal-fired Cumberland Unit No. 1, which was to go in service in the spring of 1988 has been rescheduled for completion in the fall of 1991.

The Company had planned to participate as a 5% owner in the construction of two 1,067 MW nuclear units, known as Hope Creek Unit No. 1 and 2 to be located in Salem County, New Jersey. On December 23, 1981, PSE&G who owns 95% of the project, announced the cancellation of Hope Creek Unit No. 2. Hope Creek Unit No. 1 is currently planned for completion in 1986. Accordingly, on December 23, 1981, the Company cancelled its 5.0% share of Hope Creek Unit No. 2. The Company's investment in Hope Creek Unit No. 2 has been written off for federal income tax purposes. For book purposes, as of December 23, 1981, the Company's investment of $15,956,476, including $2,390,676 of AFDC has been transferred from Construction Work in Progress to Property Abandonment Costs and an appropriate amount of deferred federal income taxes have been provided.

On December 15, 1981, the BPU held public hearings on the Hope Creek Unit No. 2 abandonment issue. During those hearings, PSE&G and the New Jersey Public Advocate presented the BPU a joint position paper which supports the abandonment of Hope Creek Unit No. 2 and recommends the recovery of the abandonment costs over either a 12 or 15 year period. Such joint position paper also recommends a similar recovery for the Company. The Company, in its next rate request, plans to ask for a shorter amortization period and for carrying costs associated with the unamortized balance. The Company cannot presently predict the outcome or the timing of the decision which will be rendered by the BPU.

NOTE 12. LEASES:

The Company has certain leases for property and equipment which meet the criteria for capitalization, but in accordance with rate making treatment are accounted for as operating leases. The capitalization of such leases would not have a significant effect on assets, liabilites or operating expenses.

NOTE 13. SUPPLEMENTARY INCOME STATEMENT INFORMATION:

Operating expenses include taxes and other items not separately identified in the Statement of Income as follows:

| | Year Ended December 31 1981 | 1980 | 1979 |
|---|---|---|---|
| | (In Thousands) | | |
| Taxes Other Than Federal Income Taxes: | | | |
| Real and Personal Property Taxes | **$ 918** | $ 944 | $ 1,266 |
| State Gross Receipts, Sales, Excise and Franchise Taxes and Miscellaneous State and Local Taxes | **41,204** | 32,924 | 33,149 |
| Payroll Taxes—Federal and State | **2,078** | 1,678 | 1,445 |
| Total | **$44,200** | $35,546 | $35,860 |
| Maintenance Expense | **$28,087** | $24,251 | $20,565 |

Charges to income for royalties and advertising are less than 1% of gross revenue.

NOTE 14. QUARTERLY FINANCIAL RESULTS (UNADUITED):

Quarterly financial data 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 |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| **1981** | | | | | |
| 1st | $112,762 | $18,969 | $13,760 | $11,856 | $ .94 |
| 2nd | 101,908 | 15,194 | 8,739 | 6,845 | .54 |
| 3rd | 133,552 | 24,963 | 17,499 | 15,627 | 1.22 |
| 4th | 121,461 | 14,385 | 6,990 | 5,129 | .36 |
| | $469,683 | $73,511 | $46,988 | $39,457 | $3.03(1) |
| **1980** | | | | | |
| 1st | $ 86,521 | $12,611 | $ 8,043 | $ 6,560 | $ .54 |
| 2nd | 77,378 | 9,572 | 5,995 | 4,514 | .37 |
| 3rd | 103,651 | 19,201 | 14,471 | 13,023 | 1.05 |
| 4th | 90,841 | 14,849 | 10,029 | 8,280 | .66 |
| | $358,391 | $56,233 | $38,538 | $32,377 | $2.62 |

(1) 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.

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

## Supplementary Information Concerning The Effects Of Changing Prices (Unaudited)

The following supplementary information about the effects of changing prices is calculated under two different methoas.

The first method, which uses the Consumer Price Index for All Urban Customers (CPI-U), adjusts data for general inflation, providing financial information in dollars of equivalent value or purchasing power (constant dollars). The purpose of this method is to make financial data more comparable by reporting the financial statement effects of the Company's investment in Utility Plant over a period of time in terms of a common unit of purchasing power.

The second method adjusts the financial data for changes in specific prices of the components of the Company's utility plant by applying the Handy-Whitman Index of Public Utility Construction Costs to historical cost by vintage years, reflecting the current cost of replacing resources actually used in the Company's operations (current costs).

Constant dollar amounts differ from current cost amounts because, over the period utility plant is held, specific prices increase more or less rapidly than general inflation. Both of these methods involve the use of assumptions, approximations and estimates and therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

## Supplementary Information Concerning The Effects Of Changing Prices (Unaudited)—Continued

Statement Of Income From Continuing
Operations Adjusted For Changing Prices
Year Ended December 31, 1981
(In Average 1981 Dollars)

Results of Operations:

| | Historical | In Constant Dollars | At Current Cost |
|---|---|---|---|
| | | (In Thousands) | |
| Operating Revenues | $469,683 | $469,683 | $469,683 |
| Operation and Maintenance Expenses | 346,017 | 346,017 | 346,017 |
| Depreciation and Amortization Expense | 25,161 | 64,352 | 64,500 |
| Federal Income Tax Expense | 24,994 | 24,994 | 24,994 |
| Other | 26,523 | 26,523 | 26,523 |
| | $422,695 | $461,886 | $462,034 |
| Income from Continuing Operations | $ 46,988 | $ 7,797 | $ 7,649 |

Depreciation and amortization expense expressed in constant dollar and current cost amounts were determined using the rates and methods used for computing book depreciation and amortization applied to utility plant balances reexpressed in terms of constant dollars and current costs.

Only depreciation and amortization of nuclear fuel have been specifically adjusted for inflation in the above schedule. Operating revenues and other operating expenses were generally incurred rateably over the year, accordingly, the stated amounts already reflect, in effect, average 1981 dollars.

Significant to this data is the impact of a fixed income tax rate. Income taxes were not adjusted because the present tax laws do not allow a deduction for depreciation and amortization adjusted for the impact of inflation. Therefore, the Company's effective tax rate rises from 36.8% under the historical cost basis to 77.8% and 78.1% under the respective constant dollar and current cost basis.

This supplementary information should not be used to assess the probability of future cash flows when existing utility plant is replaced. The estimates do not reflect the effects of the regulatory process nor the specific plans of the Company for the replacement or moderni.'ation of utility plant. A meaningful estimate of the estimated level of future capital expenditures is set forth on page 17 of the annual report.

Current Year Effect of Increased Price Levels:

| | (In Thousands) |
|---|---|
| Increases in Specific Prices on Utility Plant Held | $153,000 |
| Increases in General Price Levels on Utility Plant Held | 127,796 |
| Excess of Increase in Specific Prices Over Increases in General Price Levels | $ 25,204 |

At December 31, 1981 the cost of utility plant, net of accumulated depreciation was $1,537,305,000 on a constant dollar basis and $1,600,527,000 on a current cost basis, while historical cost was $831,864,000. The accumulated provisions for depreciation and amortization under both constant dollar and current cost methods were estimated for each major class of utility plant (production; transmission; distribution and general plant) by multiplying the respective cost data by a percentage representing the expired life of existing facilities of each class at December 31, 1981.

Fuel inventories, the cost of fossil fuels used in generation, have not been restated from their historical cost. New Jersey regulation controls fuel costs, through the operation of a levelized energy clause, such that recovery is ultimately limited to actual cost. For this reason fuel inventories are effectively monetary assets.

Net Utility Plant Costs Recoverable:

Under rate making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of utility plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of utility plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable. Due to this feature, the value of utility plant and its effect on income from continuing operation adjusted for changing prices must be considered in terms of its net recoverable cost which is historical cost. While the rate making process gives no recognition to the current cost of replacing utility plant, based on past practices the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

Current Year Decline in Purchasing Power of Net Amounts Owed:

The current year decline in purchasing power of net amounts owed was $39,573,000. During a period of inflation, holders of monetary assets such as cash and receivables suffer a loss of general purchasing power while holders of monetary liabilities, generally long term debt, experience a gain because debt will be repaid in dollars having less purchasing power. The Company's gain from the decline in purchasing power of its net amounts owed is primarily attributable to the substantial amount of debt and cumulative preferred stock subject to mandatory redemption which has been used to finance utility plant. This gain, however, should not be considered as providing funds to the Company, since the Company is limited under rate making procedure to the recovery only of its embedded cost of debt.

## Five-Year Comparison
## Of Selected Financial Data Including
## Unaudited Supplementary Data Adjusted For Changing Prices

(In Thousands of Dollars Except Per Share Amounts—
Constant Dollar and Current Cost Amounts Expressed in 1977 Dollars)

| | Years Ended December 31 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| Operating Revenue | | | | | |
| —historical | $ 469,683 | $358,391 | $283,106 | $255,058 | $234,995 |
| —in constant dollars (a) | 312,950 | 263,566 | 236,356 | 236,914 | 234,995 |
| Income from Continuing Operations | | | | | |
| —historical | $ 46,988 | $ 38,538 | $ 34,307 | $ 30,064 | $ 27,358 |
| —in constant dollars (a) | 5,195 | 6,339 | 10,108 | | |
| —at current cost (a) | 5,096 | 4,078 | 5,806 | | |
| Income from Continuing Operations per Share of Common Stock | | | | | |
| —historical | $ 3.03 | $ 2.62 | $ 2.36 | $ 2.21 | $ 2.06 |
| —in constant dollars | .01 | .15 | .43 | | |
| —at current cost | .01 | (.03) | .06 | | |
| Effective Income Tax Rate | | | | | |
| —historical | 36.8% | 33.8% | 35.5% | 38.8% | 34.1% |
| —constant dollar basis | 77.8 | 73.8 | 63.9 | | |
| —current cost basis | 78.1 | 81.4 | 75.5 | | |
| Excess of Increases in General Price Levels Over Increases in Specific Prices (a) | $ (16,793) | $ 32,032 | $ 37,783 | | |
| Decline in Purchasing Power of Net Amount Owed (a) | $ 26,367 | $ 33,106 | $ 39,500 | | |
| Net Assets at Year End | | | | | |
| —historical | $ 338,846 | $324,127 | $310,231 | $279,897 | $271,135 |
| —in constant dollars (average) | 218,474 | 227,667 | 243,753 | 286,941 | 281,493 |
| Net Income as a Percent of Operating Revenue | | | | | |
| —historical | 10.00% | 10.75% | 12.12% | 11.79% | 11.64% |
| —trended in 1977 dollars | 6.66 | 7.91 | 10.12 | 10.95 | 11.64 |
| Earned Rate of Return on Shareholders' Equity | | | | | |
| —historical | 12.21% | 11.62% | 10.70% | 10.26% | 9.87% |
| —trended in 1977 dollars | 8.14 | 8.55 | 8.93 | 9.53 | 9.87 |
| Total Assets at Year-End—historical | $1,013,789 | $879,795 | $779,026 | $699,861 | $662,614 |
| Long Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption | | | | | |
| —historical | $ 442,769 | $394,288 | $324,848 | $329,781 | $330,120 |
| Dividends Declared per Share of Common Stock | | | | | |
| —historical | $ 2.08 | $ 1.93 | $ 1.79 | $ 1.70 | $ 1.62 |
| —in constant dollars | 1.39 | 1.42 | 1.49 | 1.58 | 1.62 |
| Market Price per Common Share at Year End | | | | | |
| —historical | $ 17.25 | $ 15.75 | $ 17.125 | $ 18.00 | $ 23.00 |
| —in constant dollars | 11.49 | 11.58 | 14.30 | 16.72 | 23.00 |
| Average Consumer Price Index | 272.4 | 246.8 | 217.4 | 195.4 | 181.5 |

Certain comparative per share data trended in average 1981 dollars (without adjustment of earnings for the pro forma effects of inflation on depreciation amounts) are as follows:

| | | | | | |
|---|---|---|---|---|---|
| Earnings | $ 3.03 | $ 2.89 | $ 2.96 | $ 3.08 | $ 3.09 |
| Dividends Declared | 2.08 | 2.13 | 2.24 | 2.37 | 2.43 |
| Market Price (Year End) | 17.25 | 17.38 | 21.46 | 25.09 | 34.51 |

(a) These amounts will differ from those shown for constant dollar and current costs in Statement of Income From Continuing Operations Adjusted for Changing Prices because a different base year has been used (1977 in the data presented above and 1981 in the Changing Price information) in order to illustrate the impact of changing prices in alternative forms.

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

Atlantic Electric is an investor-owned public utility which provides electric energy to our customers in the southern one-third of New Jersey. Our rates are subject to the approval of the New Jersey Board of Public Utilities (BPU). The Company's goals continue to be the assurance of continued financial stability, providing for the necessary return on investment needed to attract capital at a reasonable cost and offsetting the effects of inflation on our operating costs. A detailed analysis of our Results of Operations, Liquidity and Capital Resources follows:

### RESULTS OF OPERATIONS:

*REVENUES*

Operating revenues have increased during the three-year period ending December 31, 1981, primarily as a result of base rate increases, increases in the Levelized Energy Clause (LEC) and increased kilowatt hour sales. The relative impact of these increases are shown below (dollars in thousands):

| | Increase (Decrease) Over Previous Year | | | |
|---|---|---|---|---|
| | 1981 | | 1980 | |
| Base Rate increase | $ 37,977 | 10.6% | $ 4,160 | 6.0% |
| LEC Increase* | 70,677 | 19.8 | 53,755 | 19.0 |
| Kilowatt-hour Sales Increase | 2,638 | 0.7 | 17,370 | 1.6 |
| | $111,292 | 31.1% | $75,285 | 26.6% |

*Includes transfers to General Rates. See Note 3 of Notes to Financial Statements.

Future operating revenues will be effected by general economic conditions, timeliness and adequacy of rate relief and the effectiveness of our efforts to promote customer conservation and improve our load management techniques.

*OPERATION AND MAINTENANCE EXPENSES*

Net Energy Costs, including purchased power, have increased approximately 110% over the three year period primarily as a result of the increased cost of imported oil and increased generation due to higher sales. We anticipate reducing the impact of increasing energy costs due to a number of factors: 1) Salem Unit #2 became commercially operable on October 13, 1981, and provides us with 82 MW of low cost nuclear generation; 2) on June 1, 1981, we became a full member of the Pennsylvania-New Jersey-Maryland Interconnection, and we anticipate a reduction of approximately 15% in the cost of interchange power as a result of additional benefits provided to full members and 3) conversion of two peaking power jet units at our Carll's Corner Station to natural gas.

Net Deferred Energy Costs of $14,043,000 in 1981 represents the recognition of $36,233,000 of prior period unrecovered energy costs coincident with recovery of such costs through increased revenue and the deferral of $22,190,000 of unrecovered 1981 costs. On January 6, 1982, the BPU, in an interim order, reduced the Company's LEC (See Note 3). However, we project that the reduced LEC will be sufficient to result in the recovery of all unrecovered energy costs in 1982.

The increased cost of purchased power is due to an agreement reached in April 1981 with Allegheny Power Systems, whereby we purchase capacity to the extent it is available on a week-by-week basis. The impact of these purchases in 1981 resulted in a savings to our customers over what it would have cost the Company to acquire this capacity from alternative sources.

Increases in other operation and maintenance expenses are primarily the result of increases in labor costs and the cost of materials and supplies.

*OTHER*

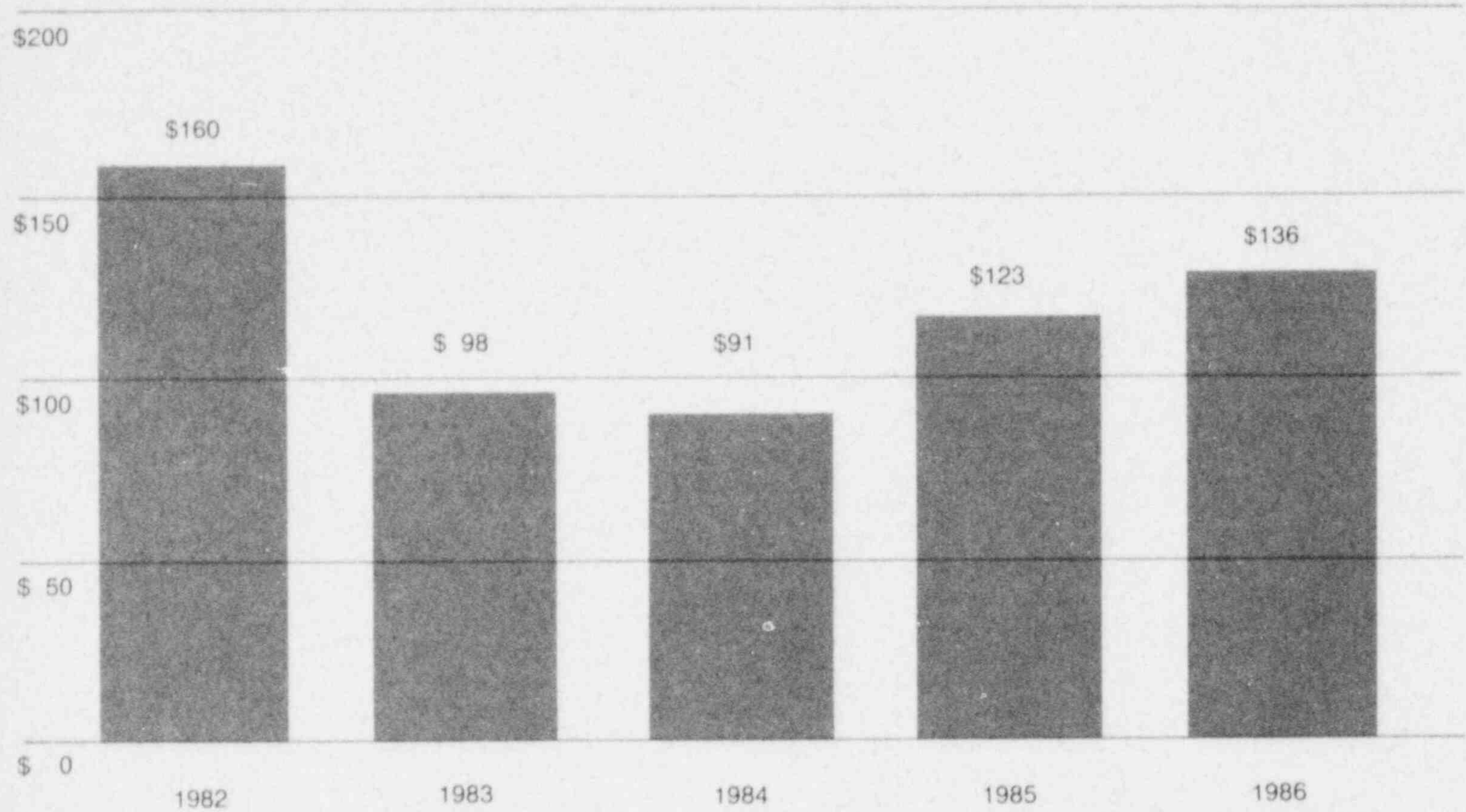
Interest expense has increased substantially in 1981 over the 1980 and 1979 levels, as a result of: 1) significant short-term borrowings necessary to finance unrecovered fuel costs and to continue our expanded construction program until more favorable long-term financing could be arranged, 2) the issuance of additional pollution control series first mortgage bonds and 3) interest related to Federal Income Tax settlements.

### LIQUIDITY AND CAPITAL RESOURCES

Of our gross capital requirements for the period 1979 to 1981, approximately 27%, after deducting dividends declared on common and preferred stock, was generated internally. The remainder was raised through the issuance of common and preferred stock, long-term debt, pollution control bonds and short-term debt on an interim basis.

Although we are making a concerted effort to reduce our capital expenditures by encouraging conservation, use of alternate energy sources and by effective load management, the need to replace existing plant, upgrade our transmission and distribution system, and provide for growth, indicate the need to provide approximately $608 million over the next five years for cash construction expenditures. Due to inflation and changes in technology, depreciation accruals are not adequate to fund the replacement of existing utility plant when necessary (see supplementary information concerning the effects of inflation, page 33).

## Projected Construction Expenditures
**(Millions of Dollars)**




Assuming adequate rate relief, our estimates indicate that over the five year period from 1982 to 1986 an average of 45% of our total cash construction requirements will be generated internally.

The additional requirement will be raised through the capital markets with the objective of maintaining a capital structure of less than 48% long-term debt, approximately 41% common equity with the balance composed of preferred stock. Our current capitalization ratios are 48% long-term debt, 40% common and 12% preferred stock. We use short-term financing on an interim basis and maintain total lines of credit of $115,000,000. Refer to Note 10 for additional details on short-term financing.

We are currently investigating alternative methods of financing our program for converting oil-fired units to coal and natural gas. Our proposal, included in our December 4, 1981 LEC filing, would allow us to recoup our investment by retaining a portion (two-thirds) of the fuel cost savings generated by the conversions until the investment is recovered. One-third of the savings is passed on to the customer, immediately. If approved, this would enable us to reduce our financing requirements and would provide substantial savings to our customers through reduced rates and financing costs.

| | 1981 | | 1980 | | 1979 | |
|---|---|---|---|---|---|---|
| Sources: | % | c/kwh | % | c/kwh | % | c/kwh |
| Coal | 45 | 2.177 | 37 | 1.504 | 34 | 1.334 |
| Oil | 20 | 5.771 | 24 | 4.783 | 32 | 3.161 |
| Nuclear | 22 | .384 | 21 | .379 | 21 | .367 |
| Natural Gas | 4 | 5.249 | 8 | 4.191 | 5 | 3.399 |
| Interchange | 9 | 7.529 | 10 | 5.987 | 8 | 4.115 |
| Total | 100 | 3.083 | 100 | 2.731 | 100 | 2.032 |

Our embedded cost of capital, as of December 31, 1981, is 8.54% for long-term debt and 7.50% for preferred stock. With our sinking fund requirements, refinancing of maturing low cost debt and financing our operations, we anticipate our embedded cost to rise.

The tabulation on page 35 includes key indicators which we believe are helpful in evaluating the performance of the Company over the past five years. The tabulation also includes certain unaudited supplementary information showing estimates of the effects of changing prices. This data, which should be viewed as estimates of the approximate effects of inflation rather than as precise measures, is expressed in the dollars of the earliest comparative year (1977). The trends demonstrated reflect the need to control costs and point out the responsibility of regulatory agencies to provide timely and adequate rate relief. Additional supplementary information concerning the effects of changing prices is included on page 33 of the annual report.

## Statistical Review 1981–1971

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| **Facilities for Service** | | | |
| Total Utility Plant (Thousands) | $1,064,928 | $ 962,052 | $ 870,075 |
| Gross Additions to Utility Plant (Thousands) | $ 123,318 | $ 97,330 | $ 72,773 |
| Pole Miles of Transmission and Distribution Lines | 6,910 | 6,879 | 6,831 |
| Generating Capacity (Kilowatts) (a) (b) | 1,524,600 | 1,434,700 | 1,384,700 |
| Maximum Utility System Demand-Kw | 1,263,800 | 1,261,700 | 1,192,600 |
| Margin of Reserve at Times of Peak (% of Avail. Gen.) | 17.1% | 12.1% | 13.9% |
| **Energy Supply (Thousands of Kwh)** | | | |
| Net Generation | 5,302,023 | 5,533,178 | 5,397,338 |
| Purchased and Interchanged — Net | 946,241 | 643,106 | 464,143 |
| Total System Load | 6,248,264 | 6,176,284 | 5,861,481 |
| **Electric Sales (Thousands of Kwh)** | | | |
| Residential | 2,480,225 | 2,514,738 | 2,411,732 |
| Commercial | 1,849,863 | 1,769,208 | 1,580,384 |
| Industrial | 1,279,724 | 1,286,205 | 1,255,304 |
| All Others | 65,555 | 63,753 | 60,799 |
| Total | 5,675,367 | 5,633,904 | 5,308,219 |
| **Residential Electric Service (Average per Customer)** | | | |
| Amount of Electricity used during the year (Kwh) | 7,751 | 8,003 | 7,849 |
| Amount paid for a year's service | $ 670.66 | $ 536.99 | $ 439.92 |
| Price paid per Kilowatt-hour | 8.65¢ | 6.71¢ | 5.61¢ |
| **Customer Data (Average)** | | | |
| Residential With Electric Heating | 56,100 | 52,225 | 48,339 |
| Residential Without Electric Heating | 263,904 | 261,988 | 258,941 |
| Total residential | 320,004 | 314,213 | 307,280 |
| Commercial | 43,219 | 43,267 | 43,219 |
| Industrial | 1,032 | 1,041 | 1,048 |
| Other | 634 | 654 | 667 |
| Total Customers | 364,889 | 359,175 | 352,214 |
| Total Service Locations | 386,046 | 379,242 | 371,362 |
| Population Served | 1,056,000 | 1,037,000 | 1,015,000 |
| **Financial Data (Thousands of Dollars)** | | | |
| Energy Sales | | | |
| Residential | $ 214,614 | $ 168,733 | $ 135,178 |
| Commercial | 156,624 | 115,973 | 88,819 |
| Industrial | 82,908 | 60,512 | 47,590 |
| All Others | 9,700 | 7,836 | 6,624 |
| Total | 463,846 | 353,054 | 278,211 |
| Other Electric Revenue | 5,837 | 5,337 | 4,895 |
| Total | $ 469,683 | $ 358,391 | $ 283,106 |
| **Investor Information** | | | |
| Earnings per Average Common Share | $ 3.03 | $ 2.62 | $ 2.36 |
| Average Number of Shares Outstanding (In Thousands) | 13,034 | 12,372 | 11,980 |
| Dividends Paid on Common Stock (Cash) | $ 2.04 | $ 1.90 | $ 1.765 |
| Dividend Payout Ratio | 67% | 73% | 75% |
| Book Value Per Share (Year End) | $ 22.40 | $ 22.22 | $ 21.63 |
| Price Earnings Ratio (Year End) | 6 | 6 | 7 |
| Times Fixed Charges Earned (before income taxes) | 2.84 | 3.03 | 3.62 |
| **Shareholders and Employees (Year End)** | | | |
| Common shareholders | 48,424 | 47,762 | 48,194 |
| Employees | 2,035 | 1,968 | 1,903 |

(a) Excludes capacity allocated to a large industrial customer.
(b) Includes unit purchase of capacity 50,000 kilowatts under contract with Delmarva Power and Light Company.

| 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|---|---|
| $ 802,473 | $ 753,269 | $ 710,343 | $ 675,617 | $ 637,250 | $ 572,555 | $ 511,274 | $ 455,956 |
| $ 58,073 | $ 48,733 | $ 41,702 | $ 46,745 | $ 71,200 | $ 67,864 | $ 58,434 | $ 54,151 |
| 6,786 | 6,735 | 6,696 | 6,645 | 6,580 | 6,506 | 6,408 | 6,333 |
| 1,414,700 | 1,414,700 | 1,334,700 | 1,334,700 | 1,278,700 | 1,013,500 | 965,900 | 897,600 |
| 1,177,400 | 1,176,000 | 1,030,300 | 1,069,400 | 1,004,400 | 1,051,400 | 920,400 | 829,300 |
| 16.7% | 16.9% | 22.8% | 19.9% | 21.5% | — | 4.7% | 7.6% |
| 5,625,988 | 5,293,019 | 4,918,906 | 4,715,357 | 4,651,334 | 4,236,083 | 4,071,225 | 4,262,062 |
| 130,037 | 224,169 | 324,196 | 190,852 | 229,197 | 665,558 | 458,050 | −74,395 |
| 5,756,025 | 5,517,188 | 5,243,102 | 4,906,209 | 4,880,531 | 4,901,641 | 4,529,275 | 4,187,667 |
| 2,377,202 | 2,221,250 | 2,070,766 | 1,938,724 | 1,882,560 | 1,899,122 | 1,741,895 | 1,624,793 |
| 1,586,097 | 1,478,559 | 1,392,029 | 1,346,216 | 1,298,858 | 1,351,974 | 1,183,668 | 1,059,498 |
| 1,250,636 | 1,220,260 | 1,143,170 | 1,036,755 | 1,136,935 | 1,119,478 | 1,061,932 | 990,363 |
| 60,705 | 58,866 | 57,667 | 56,465 | 57,477 | 58,129 | 64,531 | 88,963 |
| 5,274,640 | 4,978,935 | 4,663,632 | 4,378,160 | 4,375,830 | 4,428,703 | 4,052,026 | 3,763,617 |
| 7,951 | 7,653 | 7,320 | 7,018 | 6,982 | 7,303 | 7,008 | 6,793 |
| $ 406.18 | $ 378.36 | $ 349.64 | $ 329.25 | $ 291.21 | $ 230.19 | $ 207.37 | $ 178.19 |
| 5.11¢ | 4.94¢ | 4.78¢ | 4.69¢ | 4.17¢ | 3.15¢ | 2.96¢ | 2.62¢ |
| 44,387 | 40,318 | 37,581 | 35,235 | 32,215 | 28,627 | 25,105 | 22,228 |
| 254,592 | 249,927 | 245,296 | 241,019 | 237,397 | 231,408 | 223,449 | 216,970 |
| 298,979 | 290,245 | 282,877 | 276,254 | 269,612 | 260,035 | 248,554 | 239,198 |
| 42,672 | 42,033 | 41,170 | 40,608 | 40,351 | 39,810 | 38,009 | 35,921 |
| 1,034 | 1,047 | 1,071 | 1,100 | 1,080 | 948 | 1,011 | 1,047 |
| 673 | 676 | 681 | 684 | 679 | 678 | 757 | 997 |
| 343,358 | 334,001 | 325,799 | 318,646 | 311,722 | 301,471 | 288,331 | 277,163 |
| 362,131 | 352,205 | 343,147 | 336,105 | 330,758 | 320,834 | 309,393 | 297,437 |
| 990,000 | 961,000 | 937,000 | 915,000 | 894,000 | 865,000 | 828,000 | 796,000 |
| $ 121,440 | $ 109,818 | $ 98,904 | $ 90,956 | $ 78,512 | $ 59,856 | $ 51,544 | $ 42,623 |
| 80,539 | 73,354 | 66,354 | 63,544 | 55,713 | 42,804 | 35,868 | 28,648 |
| 42,185 | 40,885 | 36,438 | 34,974 | 33,565 | 22,008 | 19,350 | 16,529 |
| 5,973 | 5,630 | 5,406 | 4,881 | 4,207 | 3,861 | 3,763 | 3,919 |
| 250,137 | 229,687 | 207,102 | 194,355 | 171,997 | 128,529 | 110,525 | 91,719 |
| 4,921 | 5,308 | 4,925 | 4,724 | 4,614 | 4,365 | 4,128 | 3,687 |
| $ 255,058 | $ 234,995 | $ 212,027 | $ 199,079 | $ 176,611 | $ 132,894 | $ 114,653 | $ 95,406 |
| $ 2.21 | $ 2.06 | $ 2.60 | $ 2.41 | $ 2.54 | $ 2.40 | $ 2.26 | $ 1.89 |
| 10,791 | 10,630 | 9,747 | 9,490 | 8,973 | 8,453 | 7,810 | 7,437 |
| $ 1.67 | $ 1.62 | $ 1.56 | $ 1.51 | $ 1.50 | $ 1.4688 | $ 1.4144 | $ 1.36 |
| 76% | 79% | 60% | 63% | 59% | 61% | 63% | 72% |
| $ 21.27 | $ 20.71 | $ 20.25 | $ 19.34 | $ 18.45 | $ 17.85 | $ 16.77 | $ 15.59 |
| 8 | 11 | 9 | 7 | 5 | 7 | 10 | 12 |
| 3.62 | 3.17 | 3.14 | 2.88 | 2.33 | 2.62 | 2.70 | 2.34 |
| 44,490 | 43,826 | 42,516 | 39,232 | 39,054 | 36,835 | 35,549 | 33,839 |
| 1,797 | 1,739 | 1,714 | 1,741 | 1,811 | 1,810 | 1,743 | 1,747 |

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.

## Common Stock, Price Range and Dividends

The Common Stock of the Company is traded on the New York Stock Exchange (Principal Market) and the Philadelphia Stock Exchange. The high and low sales prices of the Common Stock as reported in the Wall Street Journal as New York Stock Exchange—Composite Transactions for the periods indicated were as follows:

| | 1981 | | 1980 | | Dividends Paid Per Share | |
|---|---|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** | **1981** | **1980** |
| First Quarter | 17-1/4 | 15-1/4 | 18-3/8 | 14-7/8 | $.49 | $.46 |
| Second Quarter | 18-1/4 | 15-1/4 | 19-3/4 | 15-1/8 | $.49 | $.46 |
| Third Quarter | 17-3/4 | 16-1/8 | 19-5/8 | 17-1/8 | $.53 | $.49 |
| Fourth Quarter | 18-1/4 | 16 | 17-3/4 | 15-1/8 | $.53 | $.49 |

For your convenience, listed below are the proposed 1982 record dates and payable dates, for dividends on Common Stock:

| Record Dates | | Payable Dates | |
|---|---|---|---|
| March 18, 1982 | September 16, 1982 | April 15, 1982 | October 15, 1982 |
| June 17, 1982 | December 16, 1982 | July 15, 1982 | January 15, 1983 |

Investor Records: Communications regarding stock transfer requirements or lost certificates should be directed to the appropriate Transfer Agent. Changes of address, inquiries on dividends or matters concerning the Dividend Reinvestment and Stock Purchase Plan should be addressed to:

Atlantic City Electric Company
Investor Records Department
1600 Pacific Avenue
Atlantic City, New Jersey 08404
or telephone Area Code 609/645-4506 or 4507.