Station Support Depa[illegible]ment

10CFR 50.71

PECO ENERGY

PECO Energy Company
Nuclear Group Headquarters
965 Chesterbrook Boulevard
Wayne, PA 19087-5691

September 9, 1994

Docket Nos. 50-277
50-278
50-352
50-353

License Nos. DPR-44
DPR-56
NPF-39
NPF-85

U. S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

SUBJECT: Peach Bottom Atomic Power Station, Units 2 & 3
Limerick Generating Station, Units 1 & 2
PECO Energy Company Annual Financial Statements

Dear Sirs:

Attached is the 1993 Annual Report of PECO Energy Company, operator of Peach Bottom Atomic Power Station and Limerick Generating Station.

This Annual Report contains the annual financial statements for 1993.

Very truly yours,

G. A. Hunger, Jr.

G. A. Hunger, Jr.,
Director
Licensing Section

Attachment

cc: T. T. Martin, Administration, Region 1, USNRC
N. S. Perry, USNRC Senior Resident Inspector, LGS
W. L. Schmidt, USNRC Senior Resident Inspector, PBAPS

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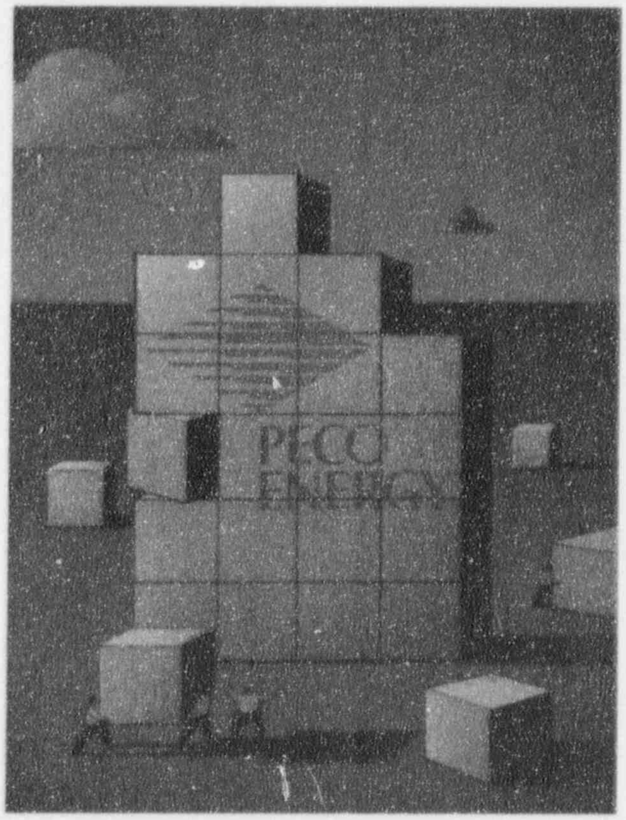
Building a new Company to meet the challenges of a competitive market.



Annual Report *1993*

AnLr

PECO ENERGY

COMPANY PROFILE

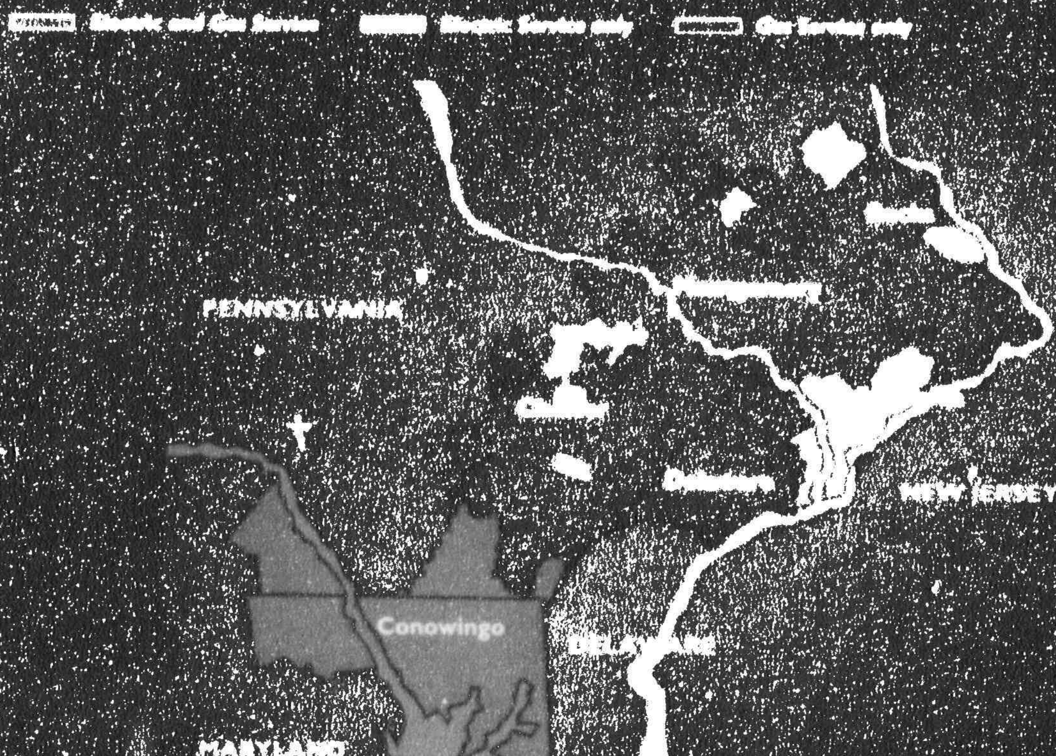
PECO Energy Company is an operating utility which provides electric and gas service in southeastern Pennsylvania. Two subsidiaries own, and a third subsidiary operates, the Conowingo Hydroelectric Project, and one distribution subsidiary provides electric service in two counties in northeastern Maryland.

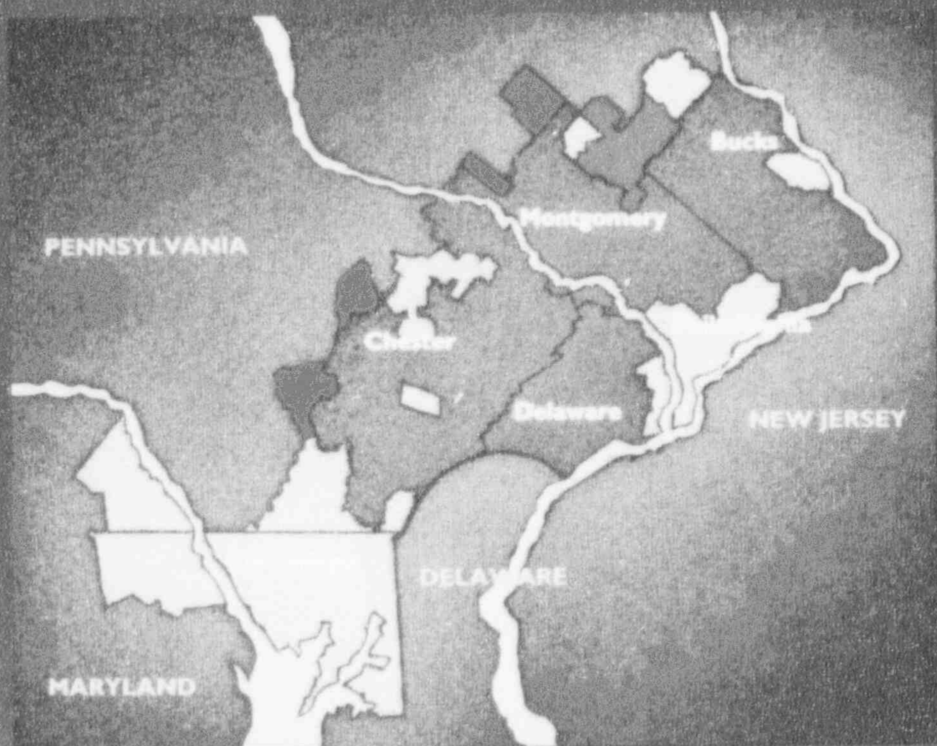
The total area served by the Company and subsidiaries covers 2,475 square miles. Electric service is supplied in an area of 2,340 square miles with a population of about 3,700,000, including 1,600,000 in the City of Philadelphia. Approximately 95 percent of the electric service area and 64 percent of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

Natural gas service is supplied to a population of about 1,900,000 in a 1,475-square-mile area of southeastern Pennsylvania adjacent to Philadelphia.

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

Company Service Territory Operating Divisions




Bucks
Montgomery
PENNSYLVANIA
Chester
Delaware
NEW JERSEY
DELAWARE
MARYLAND

PECO Energy Company

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

CONTENTS

To Our Shareholders:

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

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

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

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

Corbin A. McNeill, Jr.

President and

Chief Operating Officer

Building A New Company

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

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

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

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

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

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

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

Looking Ahead

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

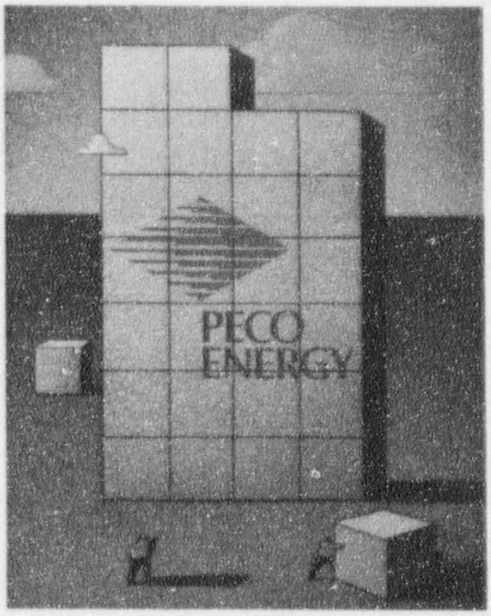
We appreciate the support of our shareholders during these interesting times. I have great confidence in our strong management team and our talented and caring employees who have demonstrated continued commitment to enhancing customer satisfaction and shareholder value. Together, we are determined to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

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

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

February 1, 1994

EARNINGS IMPROVE; DIVIDEND INCREASES



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

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

SALES CLIMB

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

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

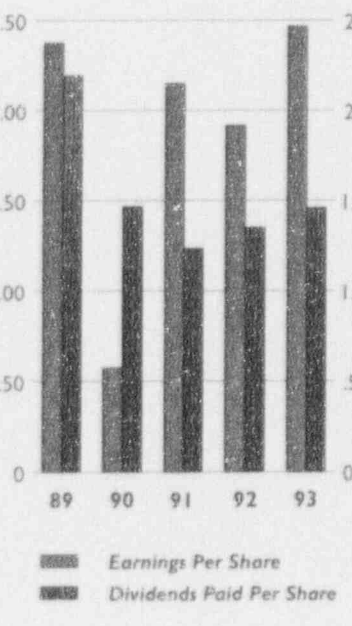
FINANCING HIGHLIGHTS

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

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

EARNINGS AND DIVIDENDS

Dollars Per Share



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

CAPITAL EXPENDITURES STABILIZE

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

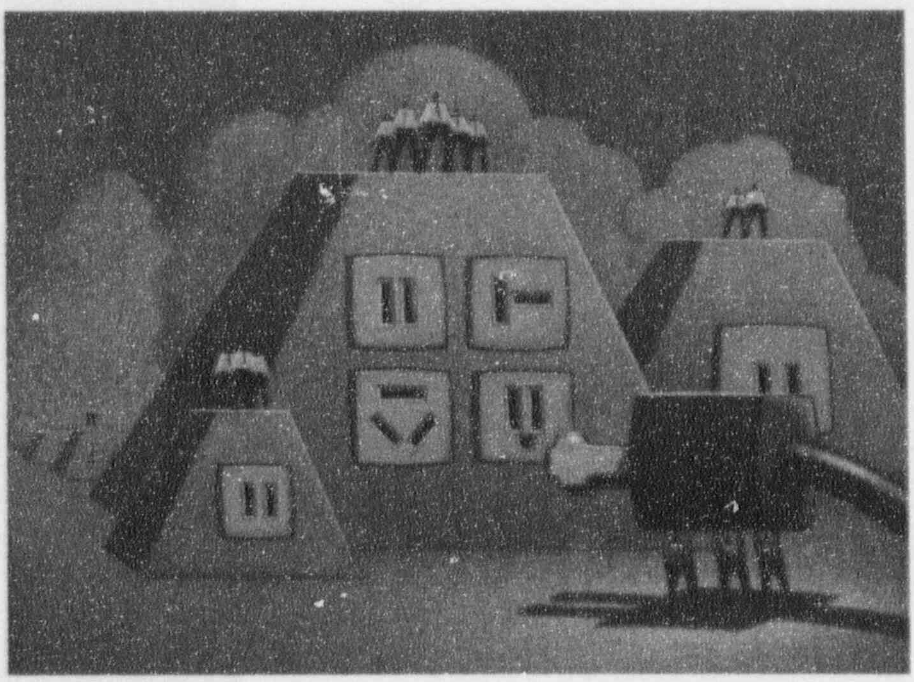
PECO ENERGY

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

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

RATE MATTERS

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

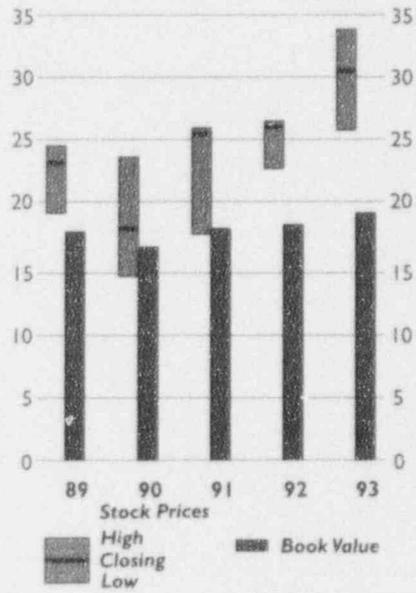


In December 1993, following a three-year investigation, the PUC approved a cost-recovery mechanism for Demand Side Management (DSM) programs that allows the current recovery of DSM program costs, recovery through base-rate cases of lost revenues and the ability to earn a performance incentive. As part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

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

COMMON STOCK PRICE VS. BOOK VALUE

Dollars Per Share



PJM SEPARATES FROM COMPANY

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

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

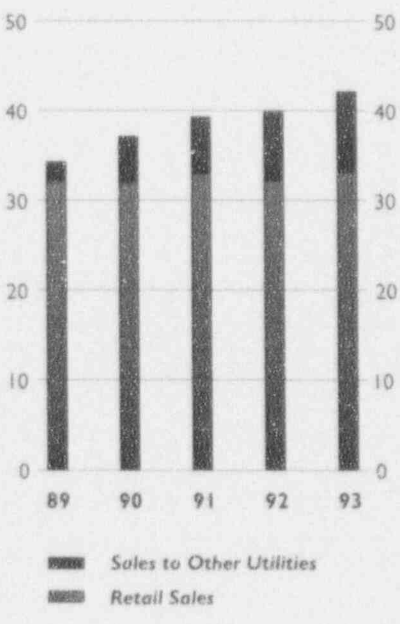
PECO ENERGY

OPERATING HIGHLIGHTS

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

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

ELECTRIC SALES
Billion Kilowatthours



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

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

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

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

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

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

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

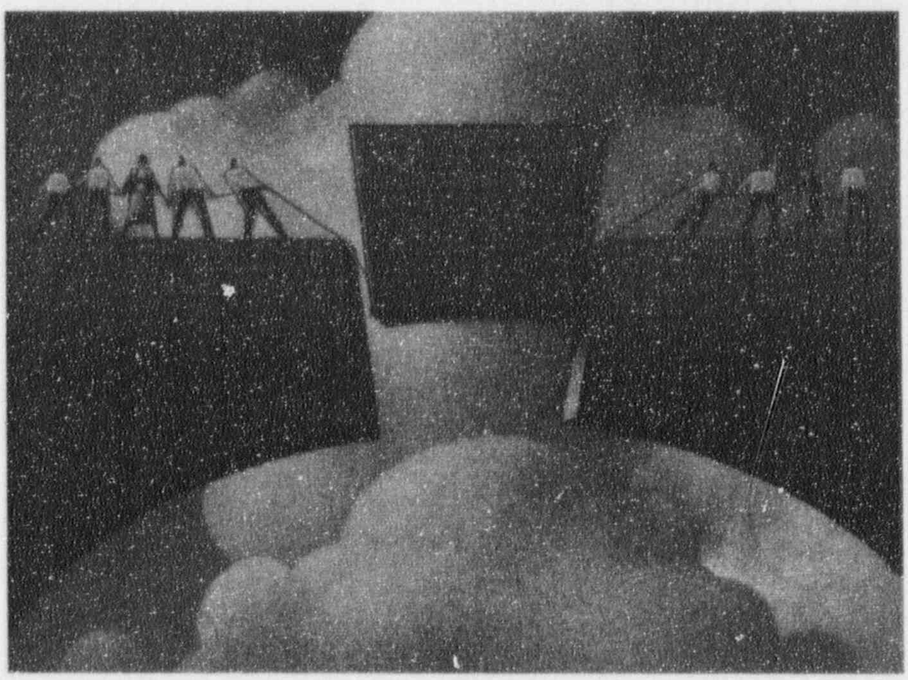
customers about $70 million in future years, because it will replace fuel that otherwise would have to be purchased. By year-end, the Company had received 18 of the expected 33 shipments.

UNION ORGANIZATION ATTEMPT FAILS

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

ECONOMIC DEVELOPMENT

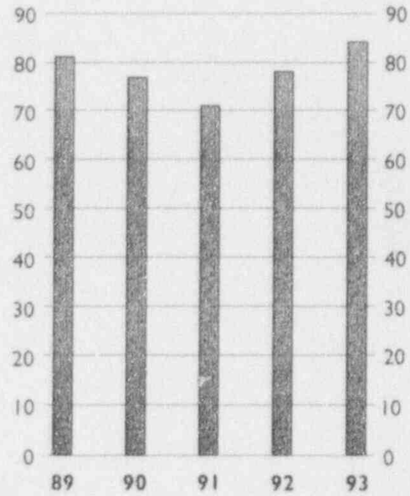
After many years of financial decline and negative publicity, Phila-



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

GAS SALES & TRANSPORTED GAS

Billion Cubic Feet



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

The success of

Quality Management

depends upon

teamwork.

PECO ENERGY

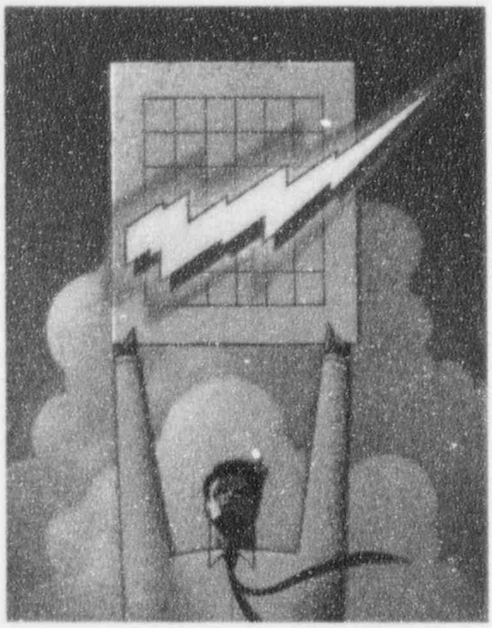


FIGURE 1

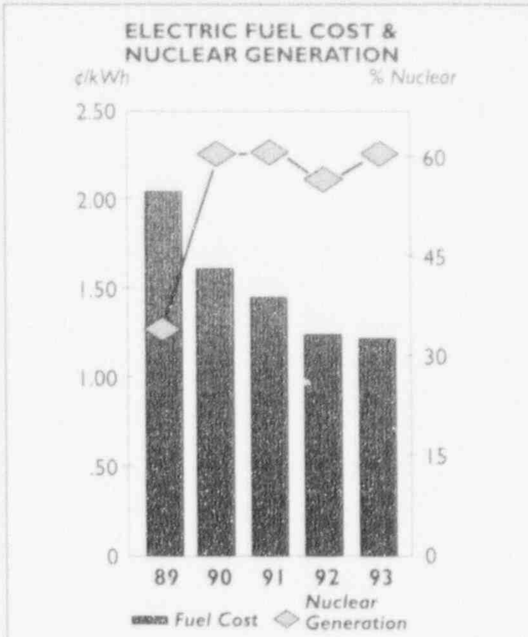
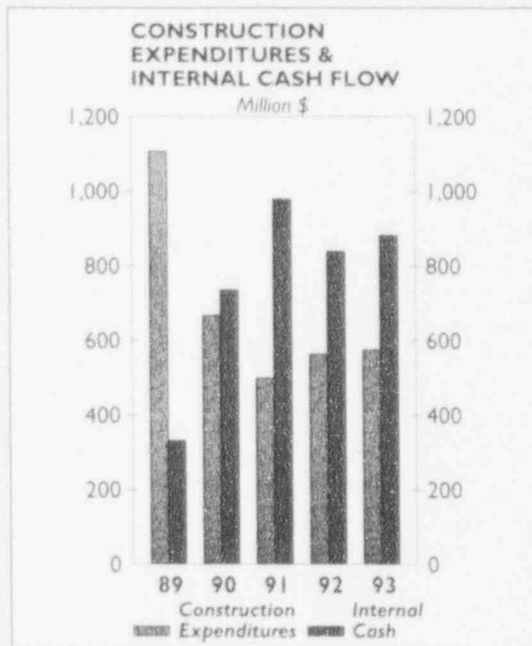
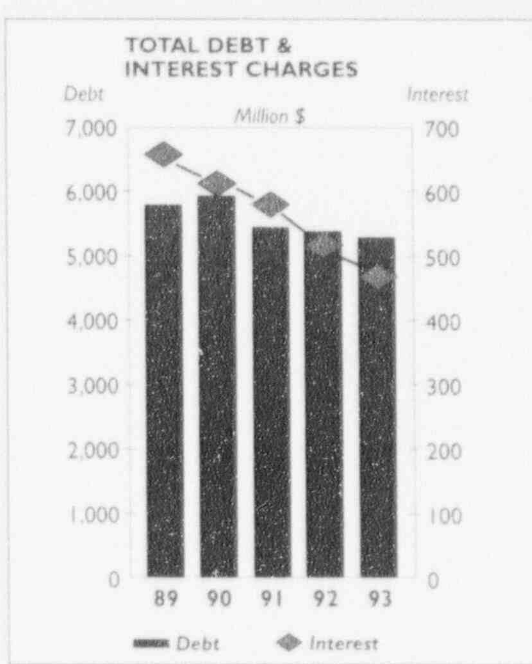


FIGURE 2



Despite significant changes, the Company remains committed to increasing shareholder value.

FIGURE 3



Financial Progress Continues

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

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

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

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

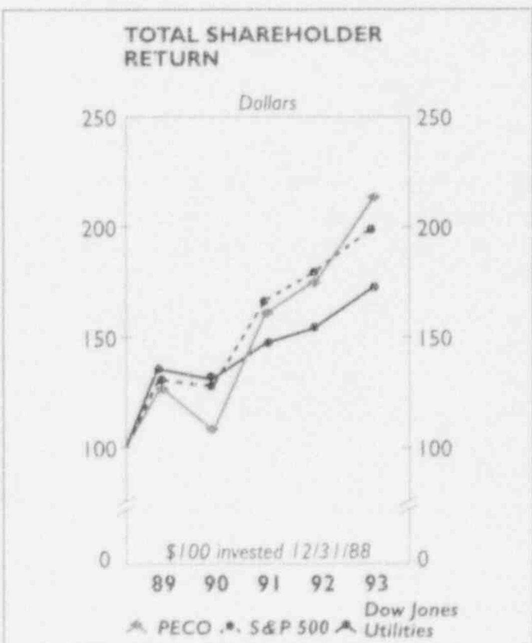
Construction expenditures (Figure 2) decreased dramatically with the completion of the nuclear construction program. Annual construction expenditures are now expected to be $500 to $600 million. Internal cash flow has also increased significantly and now exceeds construction needs, allowing the Company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

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

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

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

FIGURE 4



Earnings and Dividends

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

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

Operating Revenues

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

1993 vs 1992

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

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

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

1992 vs 1991

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

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

Fuel and Energy Interchange Expense

1993 vs 1992

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

1992 vs 1991

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

Other Operating and Maintenance Expenses

1993 vs 1992

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

1992 vs 1991

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

Depreciation Expense

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

Allowance for Funds Used During Construction

1993 vs 1992

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

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

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

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

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

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

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

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

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

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

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

Influenced by favorable financial market conditions, the

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

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

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

Outlook

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

General Business Outlook

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

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

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

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

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

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

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

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

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

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

Regulatory Assets

At December 31, 1993, the Company had deferred on its balance sheet certain regulatory assets for which current recovery has not yet been approved by the PUC. These regulatory assets include $91 million of operating and maintenance expenses, depreciation and accrued carrying charges on its investment in Limerick Unit No. 2 and 50% of Limerick common facilities, deferred pursuant to a Declaratory Order of the PUC; $45 million of costs not associated with construction activity related to the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; and $107 million recognized for the effect on deferred taxes of the change in the statutory federal income tax rate from 34% to 35% in 1993. See notes 2, 6 and 12, respectively, of Notes to Consolidated Financial Statements.

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

Competition

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

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

Report of Independent Accountants

To the Shareholders and Board of Directors
PECO Energy Company:

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

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

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

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

2400 Eleven Penn Center
Philadelphia, Pennsylvania
January 31, 1994

Coopers & Lybrand

Consolidated Statements of Income

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

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

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

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

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

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

General

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

Revenues

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

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

Fuel and Energy Cost Adjustment Clauses

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

Nuclear Fuel

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

Depreciation and Decommissioning

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

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

Income Taxes

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

Allowance for Funds Used During Construction (AFUDC)

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

Nuclear Outage Costs

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

expense for the outage are recorded when such differences are known.

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

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

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

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

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

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

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

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

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

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

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

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

Limerick Unit No. 2 Declaratory Order

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

Energy Cost Adjustment

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

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

3. Commitments and Contingencies

Construction Expenditures

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

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

Nuclear Insurance

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

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

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

The Company is a member of an industry mutual insurance company which provides replacement power cost insurance in the event of a major outage at a nuclear

station. The premium for this coverage is subject to an assessment for adverse loss experience. The Company's maximum share of any assessment is $17 million per year.

Nuclear Decommissioning and Spent Fuel Storage

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

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

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

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

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

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

Environmental Issues

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

Other Litigation

On April 11, 1991, 33 former employees of the Company filed an amended class action suit against the Company in the United States District Court for the Eastern District of Pennsylvania (Eastern District Court) on behalf of approximately 141 persons who retired from the Company between January and April 1990. The lawsuit, filed under the Employee Retirement Income Security Act (ERISA), alleges that the Company fraudulently and/or negligently

misrepresented or concealed facts concerning the Company's 1990 Early Retirement Plan and thus induced the plaintiffs to retire or not to defer retirement immediately before the initiation of the Early Retirement Plan, thereby depriving the plaintiffs of substantial pension and salary benefits. On June 6, 1991, the plaintiffs filed amended complaints adding additional plaintiffs. The lawsuit names the Company, the Company's Service Annuity Plan (SAP) and two Company officers as defendants. The plaintiffs seek approximately $20 million in damages representing, among other things, increased pension benefits and nine months' salary pursuant to the terms of the Early Retirement Plan, as well as punitive damages. The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's financial condition.

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

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

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

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

4. Changes in Accounting

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

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

5. Retirement Benefits

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

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

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

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

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

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

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

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

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

6. Non-Pension Postretirement Benefits

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

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

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

would increase the accumulated postretirement benefit obligation by $50 million and the annual service and interest costs by $8 million.

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

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

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

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

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

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

7. Accounts Receivable

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

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

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

8. Common Stock

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

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

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

	1993	*1992*	*1991*
Balance at January 1	**2,445,833**	1,656,244	1,126,675
Options granted	**533,800**	1,380,000	1,018,500
Options exercised	**(981,551)**	(504,411)	(151,996)
Options cancelled	**(36,200)**	(86,000)	(336,935)
Balance at December 31	**1,961,882**	2,445,833	1,656,244
Exercisable at December 31	**1,447,282**	1,162,833	800,744

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

9. Preferred and Preference Stock

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

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

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

10. Long-Term Debt
(Thousands of Dollars)

	Series	Due	At December 31, 1993	1992
First and Refunding Mortgage Bonds (a)	6 1/2%	1993	—	$ 60,000
	4 1/2% - 13.05%	1994	$ 170,000	170,000
	9%	1995	—	51,200
	8 1/4%	1996	—	80,000
	6 1/8%	1997	75,000	75,000
	5 3/8% - 10%	1998	225,000	250,000
	5 5/8% - 11%	1999-2003	1,635,069	1,255,200
	6% - 10 1/4%	2004-2008	131,875	384,437
	(b)	2009-2013	154,200	—
	8 7/8% - 11%	2014-2018	129,900	479,900
	6 5/8% - 10 1/2%	2019-2024	1,776,561	1,207,130
Total First and Refunding Mortgage Bonds			4,297,605	4,012,867
Notes Payable — Banks	(c)	1993-1996	167,000	372,000
Revolving Credit and Term Loan Agreements	(d)	1995-1997	425,000	525,000
Pollution Control Notes	(e)	1997-2025	65,565	173,700
Debentures	10.05% - 11%	1993-2011	62,000	87,000
Medium-Term Notes	(f)	1994-2005	150,000	150,000
Sinking Fund Debentures — PECO Energy Power Company, a Subsidiary	4 1/2%	1995	10,550	11,350
Unamortized Debt Discount and Premium, Net			(41,114)	(28,958)
Total Long-Term Debt			5,136,606	5,302,959
Due Within One Year (g)			252,263	98,998
Long-Term Debt included in Capitalization (h)			$ 4,884,343	$ 5,203,961

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

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

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

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

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

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

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

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

11. Short-Term Debt

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

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

12. Income Taxes

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

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

The $2.3 billion accumulated net deferred income tax liability reflects the tax effect of anticipated revenues and reverses as the related temporary differences reverse over the life of the related depreciable assets concurrent with the recovery of their cost in rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Taxes, Other Than Income - Operating

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

14. Leases

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

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

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

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

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

15. Jointly Owned Electric Utility Plant

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

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

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

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

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

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

16. Segment Information

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

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

17. Cash and Cash Equivalents

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

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

18. Investments

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

19. Financial Instruments

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

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

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

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

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

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

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

21. Quarterly Data (Unaudited)

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

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

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

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

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

Financial Statistics

Summary of Earnings and Financial Condition (Millions of Dollars)

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

Operating Statistics

Electric Operations

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

Operating Statistics

Gas Operations

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

Securities Statistics

Ratings on PECO Energy Company's Securities

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

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

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

Officers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Lucy S. Binder (56)
Secretary

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

James F. Hohenstein (50)
Assistant Treasurer

M. Dorothy Lyons (52)
Assistant Secretary

Todd D. Cutler (33)
Assistant Secretary

Management Changes:

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

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

Board of Directors

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

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

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

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

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

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

Robert D. Harrison (70)
Management and marketing
consultant

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

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

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

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

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

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

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

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

*Member of Executive Committee

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

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

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

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

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

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

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

Toll-Free Telephone Line
Toll-free telephone lines are available to the Company's shareholders for inquiries concerning their stock ownership. Calls should be made to 1-800-626-4729.

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

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

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

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

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

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

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

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PO Box 8699
Philadelphia, PA 19101