PHILADELPHIA ELECTRIC COMPANY

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April 18, 1983

Mr. Harold R. Denton
Director
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Re: Peach Bottom Atomic Power Station Units 2 and 3
Docket Nos. 50-277 and 50-278
Operating License Nos. DPR-44 and DPR-56

Dear Mr. Denton:

Pursuant to Section 50.71(b) of the Commission's Regulations, I am forwarding herewith for filing with the Commission seven copies of each of the following:

1. Annual Report 1982 - Philadelphia Electric Company

2. Annual Report 1982 - Public Service Electric and Gas Company

3. Annual Report 1982 - Atlantic City Electric Company

4. Annual Report 1982 - Delmarva Power & Light Company

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Very truly yours,

EUGENE J. BRADLEY

EJB/as
Encls.




1982 Annual Report

Financial Highlights

	1982		1981		Percent Increase (Decrease)
Revenues	$ 636.7	million	$ 608.5	million	4.6
Net Income	$ 73.6	million	$ 58.7	million	25.4
Earnings Per Share	$ 2.13		$ 1.78		19.7
Dividends Declared	$ 1.595		$ 1.535		3.9
Common Stock Outstanding Average Shares	28,488,623		25,747,441		10.6
Common Stock Book Value	$ 16.11		$ 15.66		2.9
Construction Expenditures	$ 110.6	million	$ 84.2	million	31.4
Internally Generated Funds	$ 77.1	million	$ 72.3	million	6.6
Electric Sales	7.25	billion kwh	7.40	billion kwh	(2.0)
Electric Customers (Average)	288,607		280,769		2.8
Average Residential Usage	7,860	kwh	7,967	kwh	(1.3)
Gas Sales	15.60	million mcf	16.52	million mcf	(5.5)
Gas Customers (Average)	74,209		73,299		1.2
Average Residential Usage	86.5	mcf	89.4	mcf	(3.2)

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This was a good year for both stockholders and customers. Significant achievements were:

▶ Earnings increased to $2.13 per share from $1.78 per share, or 19.7%, despite a 2% decline in electric sales and a 5.5% decline in gas sales. This was accomplished through continued tight cost control and rate relief. Dividends were increased to 41 cents per share quarterly—an indicated annual rate of $1.64.

▶ The price of electricity has been less volatile because of the program to switch away from oil as a prime generating fuel and a more stable worldwide fuel market. For most of our residential customers, the price of electricity was less in December, 1982, than it was in the previous January.

Major decisions made in 1982 to keep this momentum going included:

▶ The postponement of construction of the Vienna 9 generating station for five years (until 1995) as part of a thorough review of the demand for electricity on the Delmarva Peninsula. This means stockholders will not need to support a substantial construction program until at least the late 1980s.

▶ The consolidation of five district offices and seven storerooms to streamline operations and reduce future costs.

▶ The beginning of additional, innovative programs designed to increase productivity.

▶ The re-opening of gas service to new industrial customers as well as residential customers.

We believe these results and action plans demonstrate that your company is financially strong and positioned well for the 1980's.

Financial rating agencies agree. Three such companies, Standard & Poors Corp., Moody's Investors Service, Inc., and Duff and Phelps, Inc., upgraded Delmarva Power's credit rating on first mortgage bonds. In the equivalent language of each of these companies, Delmarva's rating climbed from A to AA minus. The company's common stock price also increased 29.7% in 1982.

These achievements result primarily from a strategic plan developed several years ago to make electric rates more competitive regionally and, at the same time, to improve the return on your investment.

Key components of the plan were to reduce fuel costs and operate plants more efficiently; to minimize new capital investment and utilize existing assets more fully; and to reduce operating and maintenance costs and increase employee effectiveness.

Progress was made in each of these areas in 1982. That progress is highlighted here and detailed in the body of this report.

Raw material—fuel—represents 38% of our costs. In October, the conversion of the Edge Moor 4 generating unit from oil to coal was completed. Fuel savings from the conversion enabled the price of electricity to be reduced for customers throughout the service territory.

Capital costs represent 35% of total expenses. The most significant decision made in 1982 to minimize capital costs was to delay until 1995 the next major generating plant —the 500 megawatt, coal-fired Vienna 9 unit. Virtually all capital spending on the project has ceased. This decision is based on present forecasts. If they should change, there is ample time to accelerate the timetable if needed. Reduced sales forecasts also mean that additions to and upgrading of the transmission and distribution system can be deferred.

Finally, operating, maintenance, and other expenses represent 27% of total costs.

Since the company had been prepared for a higher rate of growth than now forecast, management decided to reduce the workforce by

Left: Nevius M. Curtis, president and chief executive officer; right: Robert D. Weimer, chairman of the board.

165 positions by March 31, 1983. Current plans are to meet that goal through attrition and an early retirement program.

Other important areas for cost-savings include improvement in productivity and continued utilization of the latest technology available. In 1982, a program was introduced to help managers increase the involvement of employees in the decisions affecting their jobs. We have also strengthened the commitment to safety and the reduction of job-related accidents. Additional effort was made to use the results of industry research.

We are pleased that this strategic plan is helping our customers in the form of stabilized rates and our stockholders in the form of increased earnings. This mutual benefit is essential to our success in an industry where sources of income are changing.

For several decades, growth was obtained through technology advancements and increased sales. However, the shock of the Arab oil embargo and subsequent steep price increases for energy brought about the need for new business strategies. Customers found ways to use less energy. These included choosing kerosene and wood for heating. Thus, large growth rates are no longer projected. Price and consumer attitudes, while always important, have become more dominant in decision making. In this atmosphere, tighter cost control, utilization of the latest technology and increased productivity are critical.

While several programs responsive to customer needs have been developed, we think the key to customer satisfaction will be to keep increases in the price of electricity and natural gas as small as possible.

That's why our strategic plan is so important.

With the near completion of our program to switch away from oil, the absence of a major construction program, excellent generation and transmission facilities in place, and a highly competent and dedicated employee team, we are in position to achieve this goal.

Success depends on the continued hard work of the 2,697 people who make up the Delmarva Power team. We thank them for the progress made so far and the progress we expect in the future for you and our customers. ■

R D Weimer

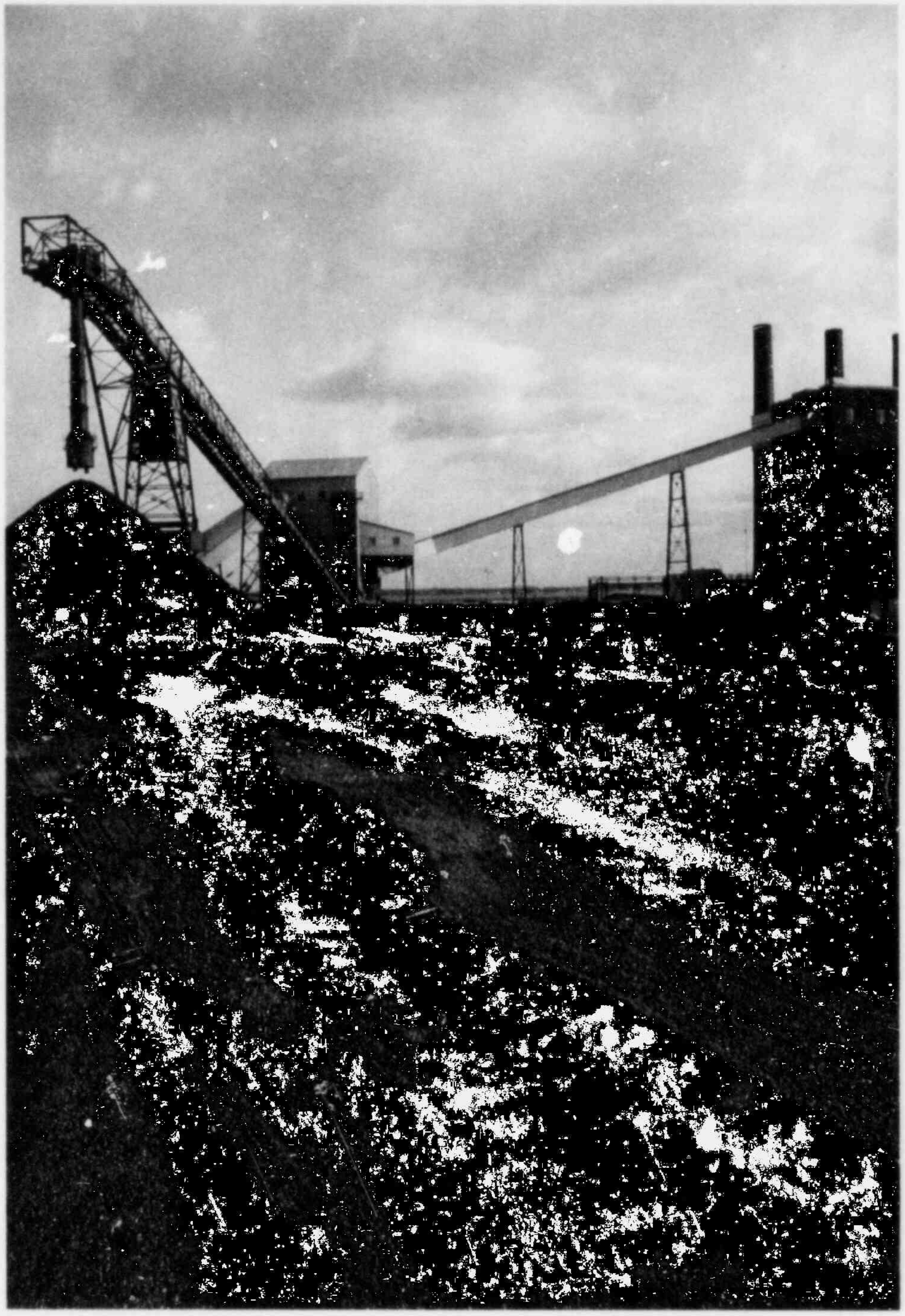
Robert D. Weimer
Chairman of the Board

N M Curtis

Nevius M. Curtis
President and
Chief Executive Officer

February 4, 1983

Switching Away from Oil



Delmarva Power's program to reduce fuel costs worked its way to the customers' pocketbook during 1982. The price of electricity was less in December than it was the previous January for many residential customers, mainly because of lower fuel costs.

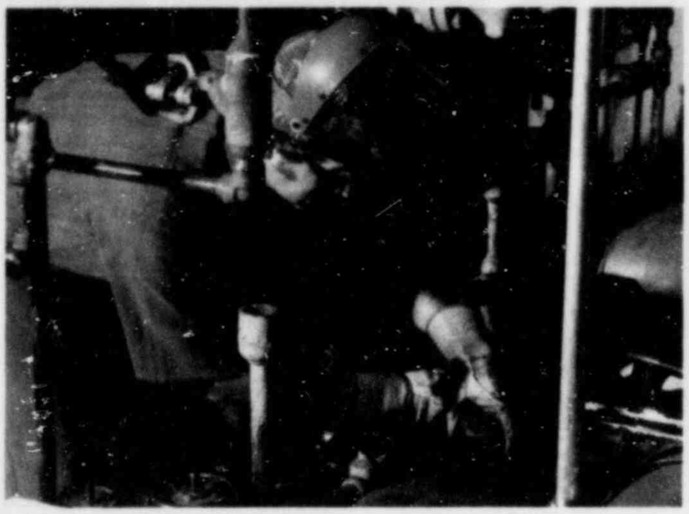
The company has been working on a strategy to switch away from oil wherever possible.

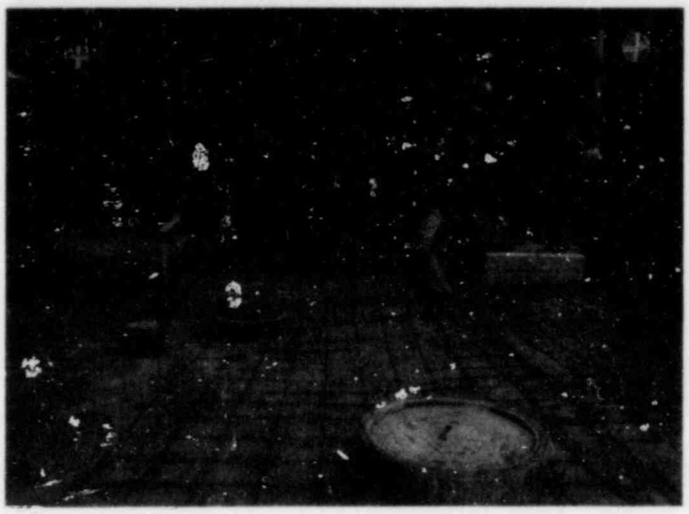
In 1980, the 400-megawatt, coal-fired Indian River 4 plant was completed and in 1981, the Salem 2 nuclear power plant became operational.

The key events of 1982 were the completion of the conversion of the 167-megawatt Edge Moor 4 generating unit from oil to coal and the first full year's operation of the Salem 2 nuclear power plant (Delmarva Power owns 82 megawatts).

This program will be completed in early 1983 when the conversion of the 82-megawatt Edge Moor 3 is finished. In 1984, the company will have reduced its dependence on foreign oil to 11% from 53% in 1979.

Oil consumption will have been reduced from 8 million barrels annually to 2 million barrels annually.





"I know this job. This is where my heart is," says Joe Merkel who moves coal from the train to the boiler. Delmarva Power has nearly completed its program to switch away from foreign oil. Joe worked at his job for 11 years until 1971 when the original Edge Moor coal plants were converted to oil which then was cleaner and cheaper. He moved inside, but when some of the units were converted back to coal, he volunteered to go back into the yard. "It's the job I like."

Joseph H. Merkel
Senior Fuel Equipment Operator,
Edge Moor Power Station

Since coal and nuclear fuel are substantially less expensive than oil, savings in fuel costs can be passed on to the customer. When each new plant became operational or when each conversion was completed, the company lowered the price of electricity for the customer and earned a return on the investment for the shareholder. The company expects this to occur again when Edge Moor 3 is converted.

While investors are still not earning the full amount authorized by regulators, the near completion of the construction program puts the company in position to make progress on achieving that full return.

In addition to changing the fuel mix, the company has been able to import coal-fired electricity from the Midwest where the recession in the auto and steel industries has reduced industrial demand.

Also, the company sold some of its oil-fired generation to the PJM power pool.

In 1982, Delmarva Power saved about $25 million for customers by purchasing power from the Midwest and through its association in PJM. ■

Growth characteristics of the Delmarva peninsula are changing. Company managers see more new activity in the commercial sector during the mid 1980s than in the industrial sector. This growth is not expected to be as energy intensive.

The company had been prepared to serve an anticipated demand which is not materializing. In 1982, the company was approaching a decision point when capital expenditures would rapidly escalate in order to build Vienna 9 by 1990. Thus, a thorough review of the Vienna 9 project and growth projections was undertaken.

Here are the conclusions:

Flat sales growth of the last four years has demonstrated that the previous projections of sales were not being achieved. There was no new record set in 1982 for single-hour electrical use. The recession was worse and more prolonged than expected. Other forces which could not be anticipated were cutting into a key area which had provided growth in the past—the industrial sector. For example, a petrochemical plant was destroyed by fire and was not replaced.

The prognosis is that flat to low sales growth in this sector is likely to be a way of life as long as the economy remains sluggish.

While industrial growth is slow, there is considerable activity in the commercial sector—new office buildings in Wilmington to house banks moving to Delaware; a new hospital in Stanton, Delaware; large insurance office buildings in the Wilmington suburbs; and condominium development in Ocean City, Maryland.

Delmarva Power managers see emphasis towards such commercial development in the peninsula's short-term economic future. However, they also see a lower overall rate of growth in energy demand (1.6%) than previously projected.

In view of the reduced forecast and significant amount of generation capacity now available, the company decided to postpone—from 1990 until 1995—the commercial operating date of Vienna 9 and to stop all current capital investment on the project.

Another significant result of this growth analysis was a review of the company's commitment to load management—shifting the demand for electricity away from peak periods.

The company committed itself to finding ways to move to off-peak hours, 100 megawatts of power which otherwise would have been demanded at peak times in the early 1990s. Instituting a load management program in the late 1980s,

"Sales growth is being able to introduce a businessman to new ways he can use electricity," says Chris Smith, power engineer. Studies completed in 1982 show that substantial growth is not expected in the energy-intensive industrial sector as long as the economy remains sluggish. Sales growth is expected to come through the commercial sector. And, it can come through the efforts of Smith and others to show businessmen how electricity can increase their profits.

Christopher A. Smith
Power Engineer,
Marketing,
Southern Division
General Office

when the technology is more fully developed, will be a cost-effective method of postponing generating capacity needs.

Since the company was staffed for larger growth and sales than are now anticipated, the company's management decided to reduce the workforce to meet current work needs. The goal is to reduce employment by 165 positions by March 31, 1983, through attrition and an early retirement program.

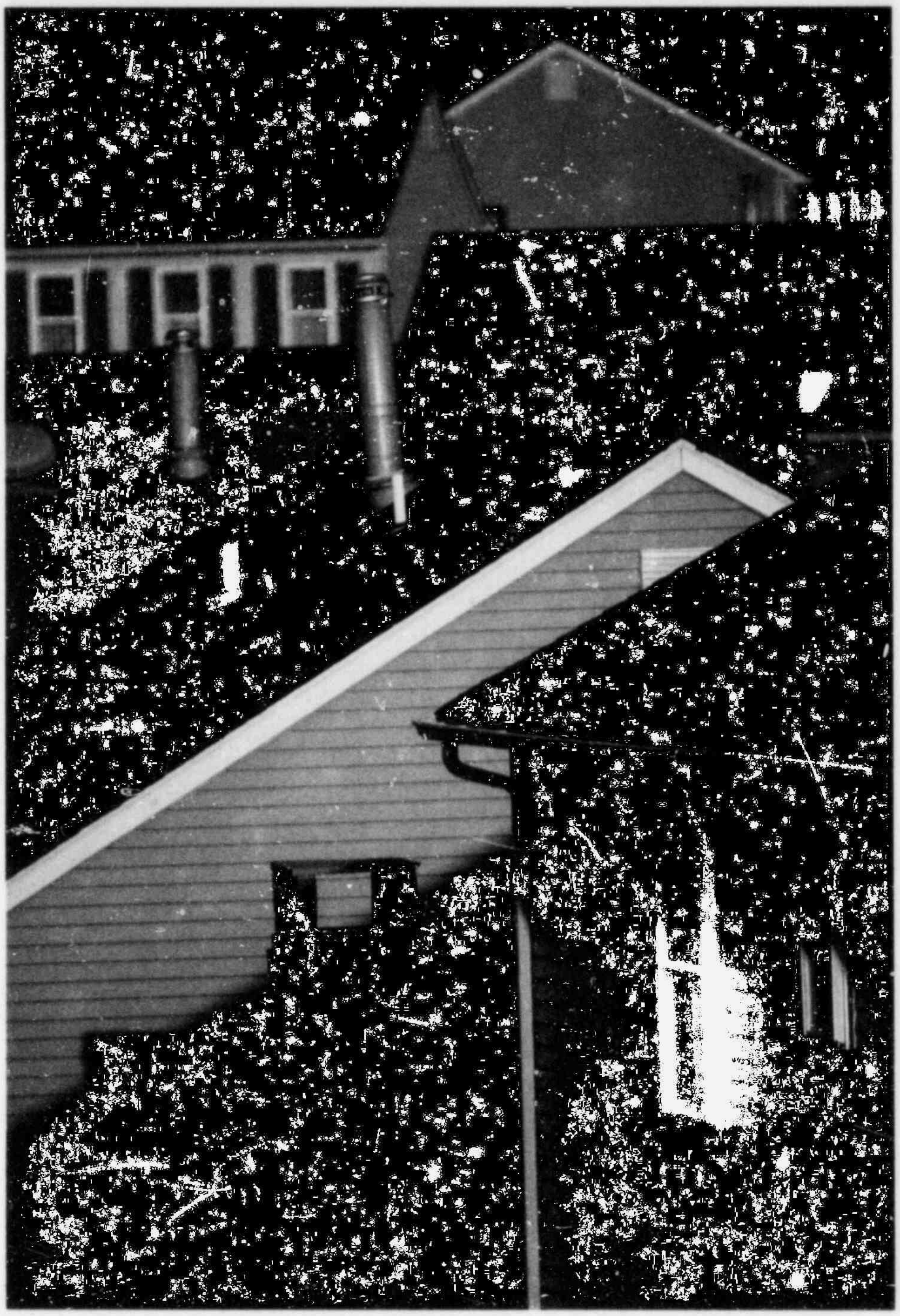
In another cost-cutting move, the company announced plans to consolidate five district offices, two line crews, and seven storerooms.

To avoid misunderstanding, several points must be stressed:

▶ These actions do not imply financial weakness. The company is financially strong. With the near completion of the program to switch away from oil and the delay in construction of Vienna 9, the resulting reduced construction program will increase financial strength.

▶ These actions will not affect the reliability of service. There is now a substantial reserve of generation capacity. The company will be flexible to accelerate the construction of capacity should demand increase.

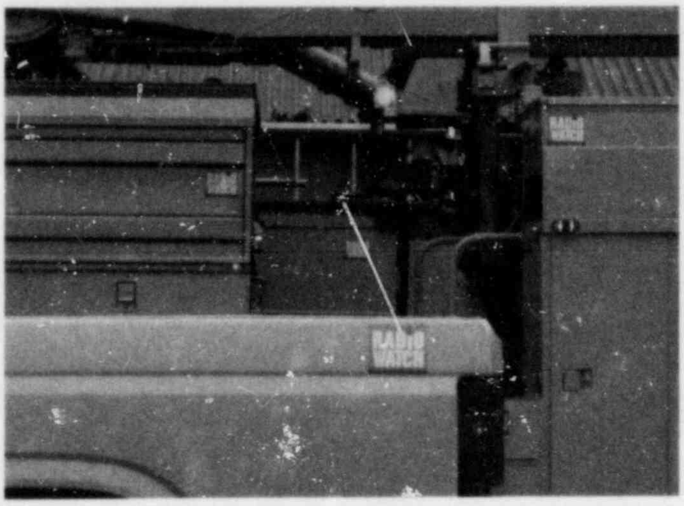
▶ These actions will not affect the quality of service to customers. ■



Helping customers use energy wisely and solve energy problems are major, on-going efforts. The company continued successful programs in 1982 and began several new ones. The following are examples.

There are many programs designed to help customers who can't pay their bills because of unusual circumstances. Customer information specialists work with human service agencies to discover who in the community needs assistance. Delmarva Power customer service representatives can help by arranging installment payments of previous bills, setting up budget billing, alerting a friend if service is about to be disconnected, and keeping power on where life support systems or medical emergencies exist. Special efforts are made to inform senior citizens of these programs.

Operators of Delmarva's radio-equipped vehicles are helping to solve a community problem-crime in neighborhoods. They participate in Radio Watch, a program developed to help increase police effectiveness. Employees driving company radio-equipped vehicles report suspicious events, crimes in progress, or other emergency conditions. These vehicles are marked with decals easily visible to the people in the community who may ask company employees to relay emergency messages.



"Listening. First and foremost, that is the most important thing I can do," says Debbie Lanier, customer information specialist. Debbie is one of many employees who concentrate on matching Delmarva Power's numerous customer service programs and policies to the needs of a diverse range of customers including homeowners, businessmen, farmers, senior citizens, and summer residents. "I look at my job as a liaison between my customers and my company. I enjoy that."

Deborah J. Lanier
Customer Information Specialist,
Wilmington Office

Also, the company installed special electronic equipment to communicate with customers with speech or hearing impairments.

The company has several programs designed to help customers make wise energy choices.

The Super E+ program was developed to encourage the construction and purchase of homes designed to use energy efficiently. These homes offer energy cost savings without substantially increasing construction costs. More than 64 builders on the peninsula are participating in this program.

In order to help customers make their homes more energy efficient, Delmarva Power has conducted more than 9,300 comprehensive home energy audits throughout the Delmarva Peninsula since the program began in 1981. The most common, cost-effective recommendations include wrapping water heaters with insulation and installing insulation in the attic and under the first floor of a home. Follow-up surveys show that more than 90% of customers are pleased with the audit. The Department of Energy says the response rate for Delmarva Power's service is one of the highest in the country. ■

Finding ways to improve power production technology is crucial for providing energy in the future. During 1982, Delmarva Power invested $1.2 million in the utility industry research pool, the Electric Power Research Institute (EPRI).

Forty-four percent of the company's funds went for generation research to improve existing fossil-fired and nuclear generation systems. The company is following closely EPRI projects to mix coal and other fossil fuels with limestone to allow their combustion in environmentally acceptable ways. The company is also interested in research in load management and computerized transmission design.

The company also sponsors local research on the Delmarva Peninsula such as the study of off-peak electric heating of chicken houses.

Looking ahead in another area, the company is expanding its safety program. This effort grew out of a concern for the well-being of the families of employees as well as the employees themselves.

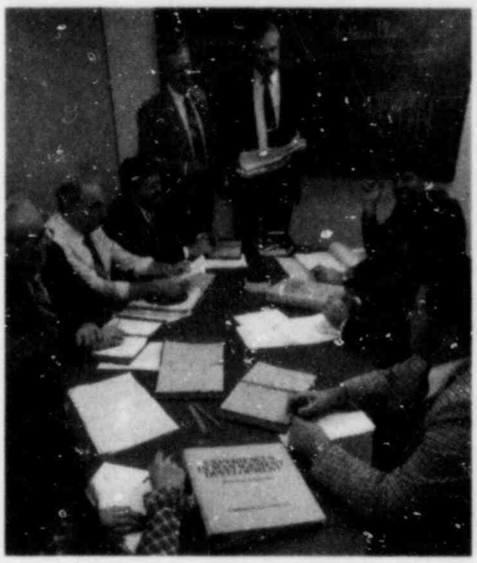
An aggressive program was begun in 1982 not only to provide the tools to do the job safely and to increase the awareness of potential hazards, but also to improve the attitude toward safety both on and off the job.

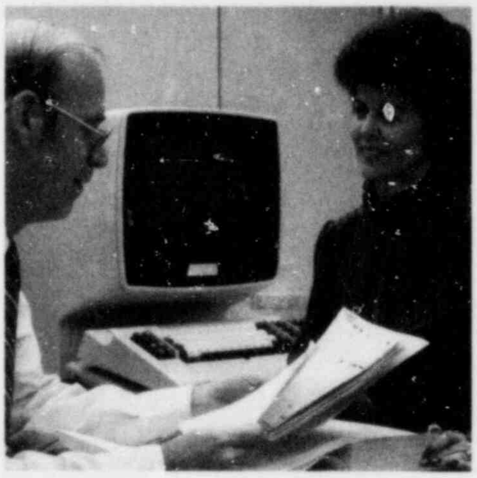
Another important effort for the future is to encourage employees to become more involved in decisions affecting their jobs.

Employees have many good ideas. For example, one employee recently suggested a new way to compute more accurately the bills of about 500 large customers. The idea saves the company about $50,000 annually.

In 1982, the company's management renewed its commitment to get such ideas out from behind the workbench and desk. The long-term goal is to intensify an environment at Delmarva Power where the ideas of the individual are respected, where judgement is exercised, and where decisions can be made as close to the local situation as feasible.

A key part of this training is the teaching of how to set effective and easily understood measurements of job performance so accountability goes hand-in-hand with passing decisions downward.





Special efforts are being made to include more people in decisions affecting their jobs.

"My dad (Phil, left) makes sure people have electricity and natural gas. That's important. But what's more important to me is that he comes home each night to talk and help me with my school work," says Heather Dougherty. The company has always had a strong on-the-job safety program. This year, special efforts were made to increase awareness of safety at home as well as at work. The company is concerned about the families of all its employees as well as the employees themselves.

Delmarva Power also encourages the installation of heat pumps throughout the service territory. Heat pumps provide the company with increased kilowatt hour sales during off-peak hours. This leads to increased sales without building new power plants—another benefit both to the customer and the stockholder.

Another mutual benefit is the re-opening of the natural gas business for commercial and industrial customers and customers who require extension of gas mains.

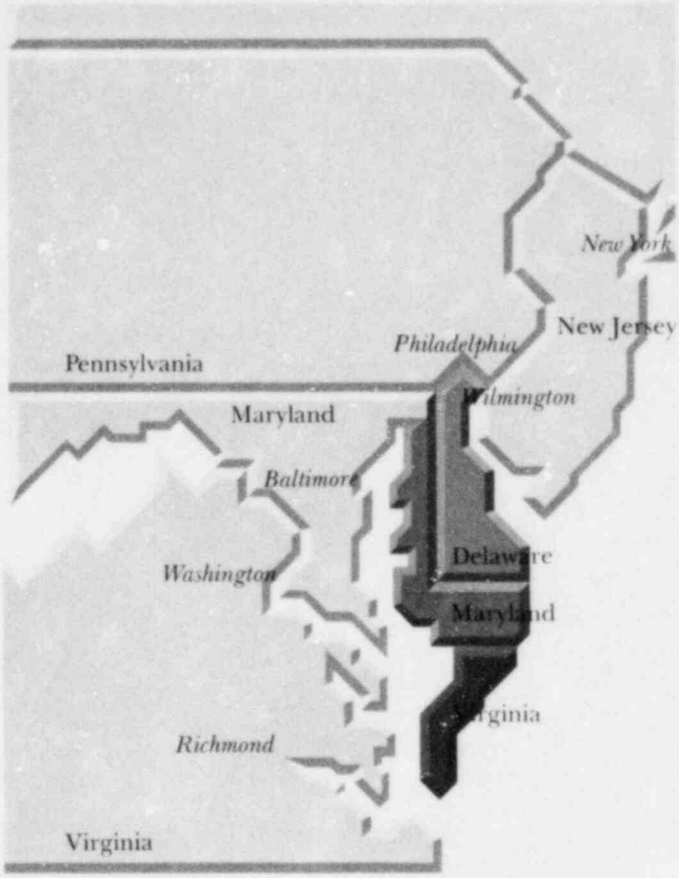
Finally, Delmarva employees are leaders in the community through service, educational, and non-profit organizations. Employees contribute their time and energy to help organizations such as the United Way, Junior Achievement, Leadership Delaware, and the Boy Scouts of America grow and prosper.

With the utilization of the latest technology available, the beginning of innovative programs designed to increase productivity, and continued tight cost control, the company expects to produce benefits for both customers and stockholders. ■

Heather Dougherty, daughter of Philip L. Dougherty, Electric Utility Serviceman, Northern Division General Office

Our Service Territory

The Delmarva Peninsula stands out as one of the most distinctive geographical features on the East Coast. Centrally located within the major East Coast markets and financial centers from New York to Richmond, the Peninsula has a unique blend of industrial, agricultural, commercial, and recreational activities. Living and working here is a pleasure.



Production and distribution of safe, reliable, and economical energy for the people, businesses, and industries of the Delmarva Peninsula is Delmarva Power's business.

To service a diverse area, Delmarva maintains an electric system with 2,365 megawatts of generation capacity, 1,338 miles of transmission lines, 10,830 miles of distribution lines and a natural gas system with 1,022 miles of gas main.

Delmarva Power owns and operates four major fossil fuel power plants within the service territory and shares ownership of two coal plants and two nuclear plants outside the service territory.

Our 292,000 electric customers and 75,000 natural gas customers are served by 2,697 employees working in 25 customer service locations on the peninsula, division headquarters in Christiana, Delaware, and Salisbury, Maryland, and corporate headquarters in Wilmington, Delaware. ■

Selected Financial Data

(Dollars in Thousands)

	For the Years Ended December 31	1982	1981	1980	1979	1978
Operating	Operating Revenues	$ 636,666	$ 608,504	$ 520,470	$ 424,699	$ 378,702
	Operating Income	116,573	107,325	80,716	74,859	71,563
	Net Income	73,571	58,711	48,957	53,376	47,448
Earnings and Dividends	Earnings Per Share	2.13	1.78	1.60	1.91	1.85
	Dividends Declared on Common Stock	1.59½	1.53½	1.49	1.40½	1.30½
	Average Shares Outstanding (000)	28,489	25,747	24,682	23,215	21,582
	Total Assets	1,471,457	1,445,694	1,380,922	1,249,606	1,120,305
	Construction Expenditures[1]	110,646	84,206	110,739	112,061	130,272
	Internal Generation of Funds	77,061	72,346	37,866	53,435	41,900
Capitalization	Long Term Debt[2]	592,615	596,219	569,724	536,779	478,955
	Preferred Stock without mandatory redemption	105,000	105,000	105,000	105,000	105,000
	Preferred Stock with mandatory redemption	50,000	50,000	50,000	20,000	20,000
	Common Equity	468,073	437,080	395,546	385,616	343,257
	Total	$ 1,215,688	$ 1,188,299	$ 1,120,270	$ 1,047,395	$ 947,212
Capitalization Ratios	Long Term Debt	49%	50%	51%	51%	51%
	Preferred Stock without mandatory redemption	9%	9%	9%	10%	11%
	Preferred Stock with mandatory redemption	4%	4%	5%	2%	2%
	Common Equity	38%	37%	35%	37%	36%
	Total	100%	100%	100%	100%	100%
Electric/Gas Sales	Electric Sales (Kwh 000)	7,249,442	7,395,324	7,460,380	7,491,800	7,248,249
	Gas Sales (Mcf 000)	15,604	16,520	15,693	13,962	13,172

[1] Excludes Allowance for Funds Used During Construction.
[2] Includes long-term debt due within one year.

Financial Review and Analysis

Results of Operations

Earnings

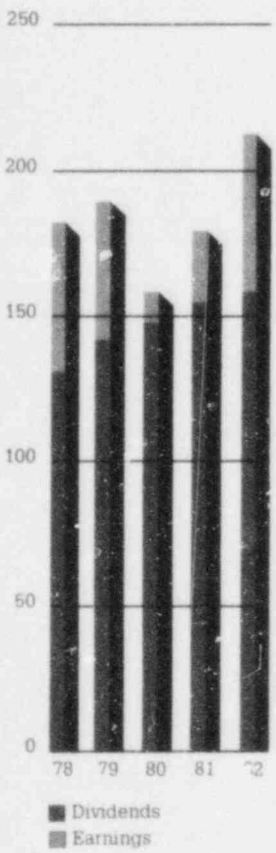
Earnings per share of common stock were $2.13 in 1982 compared with $1.78 in 1981 and $1.60 in 1980. This improvement in financial performance is also reflected in an improved return on average common equity to 13.3% in 1982 from 11.2% in 1981 and 10.0% in 1980. However, it is still below the rate of return authorized by the company's regulatory authorities. In addition, the quality of the company's earnings continues to improve because of higher internally generated funds and a modest construction program. AFUDC, a non-cash earnings item which is affected by the level of construction expenditures, has decreased to 8% of net income in 1982 when compared to 12% in 1981 and 38% in 1980.

The increase in 1982 earnings, despite a decline in sales, can be attributed primarily to (1) timely and significant rate relief, (2) continuing tight cost controls and (3) lower financing costs and debt levels. With substantially reduced capital requirements in the future, the company believes it will be able to maintain this improved financial position.

Dividends

In December, the quarterly dividend on common stock was increased to 41¢ per share from 39½¢ per share. This increase reflects a dividend policy which is designed to gradually increase dividends on an annual basis, earnings permitting and thus provide stockholders with a fair and competitive return on their investment. The current indicated annual dividend rate is $1.64 per share.

Earnings and Dividends Declared
(cents)



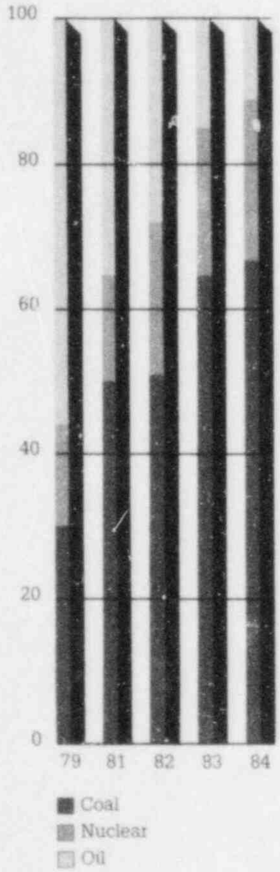
Electric Sales and Revenue

Electric revenues, net of fuel costs, increased by $51.3 million in 1982 and by $71.7 million in 1981. The principal factor affecting these net revenue increases was rate relief in all jurisdictions. See the accompanying text, "Rate Matters" and the chart "Status of Rate Cases" for additional information concerning rate case filings. kWh sales decreased slightly in 1982 and 1981 by 2.0% and 0.9%, respectively, due to a recessionary economy, customer conservation and price elasticity. In 1982, lower industrial sales of 8.1% have been the direct result of reduced industrial activity throughout the company's service area, whereas residential and commercial sales have increased 1.5% and 4.2%, respectively, due primarily to customer growth. Future electric sales will continue to be affected by the overall economic situation and level of business activity in the company's service territory, as well as by weather conditions, use of alternative fuels for heating and customer conservation efforts. Electric sales have been forecasted to increase approximately 2.0% annually through 1987.

Gas Sales

Gas sales decreased 5.5% in 1982 compared to a 5.3% increase in 1981. The decline in 1982 sales was due to a substantial decrease in usage by industrial customers and warmer winter weather which reduced gas sales for heating. The increase in 1981 sales reflected greater usage by industrial customers due to the improved availability of gas. Future gas sales will be affected by the availability of gas, the deregulation of gas prices and the price of alternative fuels for which gas is a substitute.

Generation Fuel Mix
(percent)



Rate Matters

The company is subject to regulation with respect to its retail sales of electricity by the Delaware and Maryland Public Service Commissions, and the Virginia State Corporation Commission, which have broad powers over rate matters, accounting and terms of service. The Federal Energy Regulatory Commission (FERC) exercises jurisdiction with respect to the company's accounting systems and policies and the transmission and sale at wholesale (resale) of electric energy in interstate commerce.

The company has been filing rate increase applications on an annual basis in an effort to have rates set that more closely reflect current costs. Rate cases were filed in all jurisdictions in 1982 and were structured to recover the capital and operating costs for the conversion to coal of Edge Moor units 3 and 4, to recover increases in operating and maintenance costs, and to improve the return on utility investment. A summary of the status of these filings is found in the table below.

Status of the 1982 Rate Cases

(Dollars in Thousands)

	Requested		Granted	
Jurisdiction	Amount	Date	Amount	Date
Virginia	$ 2,139	4/15/82	$ 863	9/12/82
Maryland	16,168	5/14/82	5,620	12/15/82
Delaware	42,797	7/ 9/82	24,628*	
FERC	6,242	8/31/82	**	

* Case still pending. Interim rates placed into effect on 2/8/83.
** Effective 11/1/82, subject to refund.

Fuel Mix

To further reduce its dependency on oil, the company converted from oil to coal unit 4 at the Edge Moor plant in October, 1982. Unit 3 is scheduled to be converted by April, 1983. With the conversion of these two units, the company's portion of total generation provided from oil-fired plants is expected to be reduced from 53% in 1979 to 11% in 1984. For years 1982 and 1981 the percentage of oil-fired generation was 27% and 35%, respectively. The predominant fuel sources are now coal and uranium. As a result of the changing fuel mix, the effective customer fuel costs, including net interchange credits, have declined from 2.80 ¢/kwh in 1980 to 2.32 ¢/kwh in 1982.

Operating Expenses

Other operation, maintenance and depreciation expenses have increased since 1980 primarily as a result of higher payroll and related costs, general inflation and increased production expenses associated with the commercial operation of Indian River coal unit 4 and Salem nuclear unit 2, which were placed in service in October 1980 and September 1981, respectively. Taxes on income increased because of increased taxable income and an increase in the effective tax rate. Interest charges decreased in 1982 primarily due to lower interest rates and reduced debt levels.

Financial Review and Analysis

Impact of Inflation

Inflation continues to have an adverse impact on the company because rates are generally set on a historical basis. The company is addressing inflation in the ratemaking process by utilizing a forecast "test year" and attrition allowances in its rate filings, where permitted, so that rates will reflect costs anticipated for the period that they are in effect. For a further discussion of the effects of inflation on the company, see Note 12 of the Financial Statements.

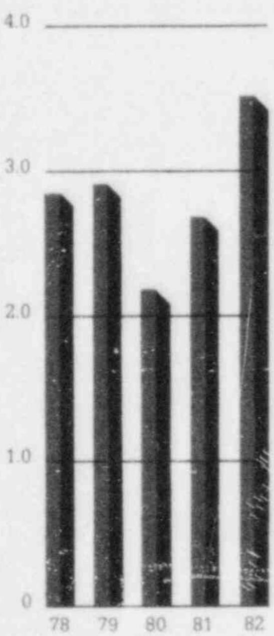
Liquidity and Capital Resources

Financing and Capitalization

The company is committed to improving its financial strength and financing flexibility and believes that it is important to have a strong capital structure and manageable levels of debt. At December 31, 1982, the company's capitalization goals were 48-50% long-term debt, 10-12% preferred stock and 38-40% common equity. These goals have been attained by increasing common equity and by reducing the relative proportions of debt and preferred stock. See "Selected Financial Data" for the actual capitalization ratios.

Credit ratings on the company's first mortgage bonds were upgraded by Duff and Phelps, Moody's Investors Service and Standard & Poor's. The rating was raised from A to AA minus by Standard & Poor's, as well as the equivalent upgrading by both Moody's and Duff and Phelps. The upgradings are primarily due to the company's improved return on equity, substantially increased internal generation of funds, increased equity capitalization and reduced future external financing requirements.

Ratio of Earnings to Fixed Interest Charges
(SEC method)



The Ratio of Earnings to Fixed Interest Charges, which is influenced by the extent and stability of pre-tax earnings as related to fixed interest charges, showed significant improvement in the last two years and is expected to continue to rise, although more moderately. This ratio, as computed on the SEC method, for 1982 was 3.5 as compared to 2.7 in 1981 and 2.2 in 1980. Improved interest coverage ratios are another indicator of the company's improved credit position.

The financing program for 1982 consisted of $15.7 million raised by issuance of shares of common stock in accordance with the company's Dividend Reinvestment and Common Share Purchase Plan and through the TRASOP. Also, in November, the Delaware Economic Development Authority sold $11 million of short-term tax-exempt revenue notes pursuant to an existing agreement with the company at an average annual rate of 4¼%. These tax-exempt notes, together with a previous issue of $12 million in short-term tax-exempt notes and a $10 million tax-exempt note due August, 1984, will ultimately be refinanced on a more permanent basis.

With a reduced construction program (see "Capital and Construction Requirements" below) and assuming reasonable rate treatment, the company does not expect any further external long-term financings before 1987 except for the aforementioned refinancing and through issuance of common stock under the Dividend Reinvestment Plan and PAYSOP.

Financial Review and Analysis

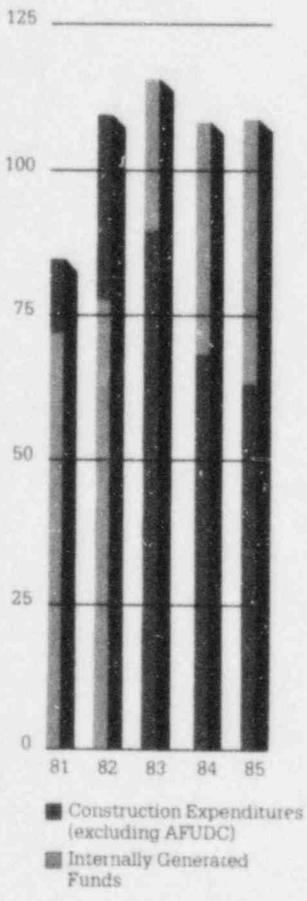
Capital and Construction Requirements

For the period 1980-1982, the company had total capital requirements of $370.9 million, including $305.6 million for construction (excluding AFUDC). During the same period $187.3 million was generated internally which represents 50% of the capital requirements and 61% of the construction requirements. Capital requirements for the period 1983-1985 are estimated to be $266.5 million, including $222.3 million for construction (excluding AFUDC). Assuming timely and adequate rate relief and continued improvements in the level and quality of earnings, the company presently anticipates that, for the period 1983-1985, internally generated funds will be $332.4 million which equals 125% of the total capital requirements and 150% of its construction requirements.

The company has delayed the construction schedule for the 500-megawatt, coal-fired Vienna 9 generating unit by five years to 1995. The decision is based on the company's current load forecast, which indicates a lower rate of growth in the coming decade. The deferral also reflects a program of load management to be instituted in the late 1980's when it may be cost-effective for Delmarva and the technology may be more fully developed. As a result of these actions, the company's construction budget will be reduced through at least 1986.

The construction program and related expenditures may vary from the estimates set forth above as a result of, among other factors, higher than anticipated inflation, regulation and legislation, rates of load growth, licensing and construction delays, results of rate proceedings, as well as the cost and availability of capital.

Construction Expenditures and Internally Generated Funds
(millions of dollars)



Working Capital

Working capital increased by $13.2 million in 1982, decreased by $48.6 million in 1981 and increased by $5.3 million in 1980. See page 23, Statement of Sources of Funds for Construction Expenditures for the components of and the changes in working capital. The company issues commercial paper supported by adequate bank lines of credit to meet seasonal fluctuations in working capital requirements as well as the interim financing necessary for construction projects. Additional cash requirements will result from the payment of the Summit state tax liability (see Notes 2 and 7 of Financial Statements) and the future repayment of the over-recovered deferred fuel costs.

Report of Management on the Financial Statements

Report of Management

The consolidated financial statements of Delmarva Power & Light Company have been prepared by Company personnel in conformity with generally accepted accounting principles, based upon currently available facts and circumstances and management's best estimates and judgements of the expected effects of events and transactions. It is the responsibility of management to assure the integrity and objectivity of such financial statements and to assure that these statements fairly report the financial position of the Company and the results of its operations.

Delmarva Power & Light Company maintains a system of internal controls designed to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. The internal control system is supported by written administrative policies, a program of internal audits, and procedures to assure the selection and training of qualified personnel.

These financial statements have been examined by Coopers & Lybrand, independent certified public accountants. Their examination was conducted in accordance with generally accepted auditing standards which include a review of internal accounting controls to determine the nature, timing and extent of auditing procedures, as well as such other procedures they deem necessary to produce reasonable assurance as to the fairness of the Company's financial statements and to enable them to express an opinion thereon.

The audit committee of the Board of Directors, composed of outside Directors only, meets with management, internal auditors and the independent accountants to review accounting, auditing and financial reporting matters. The independent accountants are appointed by the Board on recommendation of the audit committee, subject to shareholder approval.

N M Curtis

Nevius M. Curtis
President and
Chief Executive Officer

Howard E. Cosgrove

Howard E. Cosgrove
Vice President and
Chief Financial Officer

Quarterly Common Stock Dividends and Price Ranges

Common Stock

The company's common stock is listed on the New York and Philadelphia Stock Exchanges and has unlisted trading privileges on the Cincinnati, Midwest and Pacific Stock Exchanges.

The company had 67,059 holders of common stock as of December 31, 1982.

The company's Certificate of Incorporation and the Mortgage and Deed of Trust securing the company's outstanding bonds contain restrictions on the payment of dividends on common stock which would become applicable if its capital and retained earnings fall below certain specified levels or if preferred stock dividends become in arrears.

The retained earnings available for dividends on common stock as of December 31, 1982 were approximately $75,300,000 under the most restrictive of these provisions.

	1982			1981		
	Dividend Declared	Price High	Price Low	Dividend Declared	Price High	Price Low
First Quarter	$.395	14¼	11½	$.38	12¾	11⅛
Second Quarter	.395	15	13½	.38	12⅝	10½
Third Quarter	.395	15⅛	13¼	.38	12⅜	11
Fourth Quarter	.41	16½	13¾	.395	12¾	11⅛

Withholding Tax on Dividends

The Tax Equity and Fiscal Responsibility Act of 1982 requires the company to withhold taxes at the rate of 10% from each dividend payment on or after July 1, 1983. However, certain exemptions are allowed, provided that the shareholder requests and qualifies for such exemption. Exemptions will be allowed for individuals who paid no more than $600 ($1,000 on a joint return) of Federal income tax for the prior year. Individuals 65 or older who paid no more than $1,500 ($2,500 on a joint return) of Federal income tax for the prior year also would be exempt. Certain other recipients of dividends, including corporations, governments, certain securities dealers, money market funds, tax-exempt organizations and certain nominees or custodians will also qualify for exemption.

Dividends reinvested in a qualified dividend reinvestment plan, such as Delmarva Power's Dividend Reinvestment and Common Share Purchase Plan, are automatically exempt from withholding.

It will not be necessary for you to call the company to request an exemption form. Exemption certificates and instructions will be sent to all stockholders on or about April 25, 1983.

Report of Independent Certified Public Accountants

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

We have examined the consolidated balance sheets and statements of capitalization of Delmarva Power & Light Company and subsidiary companies as of December 31, 1982 and 1981, and the related consolidated statements of income, changes in common stockholders' equity and sources of funds for construction expenditures for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Delmarva Power & Light Company and subsidiary companies at December 31, 1982 and 1981, and the consolidated results of their operations and sources of funds for construction expenditures for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND
1900 Three Girard Plaza
Philadelphia, Pennsylvania
February 4, 1983

Consolidated Statements of Income

(Dollars in Thousands)

	For the Years Ended December 31	1982	1981	1980
Operating Revenues	Electric	$ 534,770	$ 504,119	$ 443,927
	Gas	84,747	83,070	59,040
	Steam	17,149	21,315	17,503
		636,666	608,504	520,470
Operating Expenses	Operation:			
	Fuel for electric generation	239,965	284,646	236,139
	Net interchange and purchased power	(79,678)	(97,950)	(24,178)
	Purchased gas	58,690	56,662	42,252
	Deferral of energy costs	20,837	18,679	(3,173)
	Other operation	100,956	89,172	79,569
	Maintenance	43,947	37,316	33,986
	Depreciation	49,929	46,833	37,955
	Taxes on income	58,500	39,903	14,483
	Taxes other than income	26,947	25,918	22,721
		520,093	501,179	439,754
Operating Income		116,573	107,325	80,716
Other Income	Allowance for other funds used during construction	4,548	4,090	12,540
	Other, net	2,015	1,250	569
		6,563	5,340	13,109
Income Before Interest Charges		123,136	112,665	93,825
Interest Charges	Long-term debt	48,895	51,622	46,997
	Short-term debt and other	2,181	5,355	3,862
	Allowance for borrowed funds used during construction	(1,511)	(3,023)	(5,991)
		49,565	53,954	44,868
Earnings	Net Income	73,571	58,711	48,957
	Dividends on Preferred Stock	12,818	12,818	9,427
	Earnings Applicable to Common Stock	$ 60,753	$ 45,893	$ 39,530
Common Stock	Average shares outstanding (thousands)	28,489	25,747	24,682
	Earnings per average share	$ 2.13	$ 1.78	$ 1.60
	Dividends declared per share	$ 1.59½	$ 1.53½	$ 1.49

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Sources of Funds for Construction Expenditures

(Dollars in Thousands)

	For the years ended December 31	1982	1981	1980
Sources of Funds	Provided from operations:			
	Net income	$ 73,571	$ 58,711	$ 48,957
	Less—Preferred dividends declared	12,818	12,818	9,427
	—Common dividends declared	45,471	39,857	36,805
	Earnings reinvested during the year	15,282	6,036	2,725
	Items not requiring (providing) funds:			
	Depreciation	49,929	46,833	37,955
	Amortization of nuclear fuel	6,192	3,187	1,549
	Allowance for funds used during construction	(6,059)	(7,113)	(18,531)
	Investment tax credit adjustments, net	5,718	17,198	1,795
	Deferred income taxes, net	5,999	6,205	12,373
	Funds provided from operations	77,061	72,346	37,866
	External financing:			
	Long-term debt:			
	First mortgage bonds	—	50,000	45,000
	Term loan	(3,550)	(23,450)	—
	Common stock	15,711	35,521	7,730
	Preferred stock	—	—	30,000
	Change in short-term debt	—	(28,475)	11,525
	Redemption of long-term debt	—	—	(12,000)
	Externally financed funds	12,161	33,596	82,255
	Other sources (uses):			
	Decrease (increase) in working capital*	(13,172)	48,604	(5,266)
	Net decrease (increase) in pollution control funds held by trustee	32,507	(35,422)	(3,463)
	Credit arising from sale of contracts	(970)	(36,088)	99
	Other, net	3,059	1,170	(752)
	Other (uses)	21,424	(21,736)	(9,382)
Construction Expenditures	(excluding allowance for funds used during construction)	$ 110,646	$ 84,206	$ 110,739
Decrease (increase) in working capital*	Accounts receivable	$ 679	(15,064)	$ (9,064)
	Deferred fuel costs, net	21,374	18,781	(3,173)
	Inventories	(9,516)	11,482	(20,603)
	Accounts payable	(3,607)	(7,896)	19,634
	Taxes accrued	(21,877)	34,386	5,347
	Interest accrued	(9,265)	15,082	3,322
	Other, net	9,040	(8,167)	(729)
	Total	$ (13,172)	$ 48,604	$ (5,266)

*Other than short-term debt, long-term debt due within one year and current deferred income taxes relating to deferred fuel costs.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in Thousands)

ASSETS	As of December 31	1982	1981
Utility Plant—at original cost	Electric	$ 1,459,713	$ 1,364,113
	Gas	69,083	66,031
	Steam	24,023	24,008
	Common	59,522	46,194
		1,612,341	1,500,346
	Less: Accumulated depreciation	405,830	362,270
	Net utility plant in service	1,206,511	1,138,076
	Construction work in progress	59,054	64,915
	Nuclear fuel, at amortized cost	13,272	15,252
		1,278,837	1,218,243
Nonutility Property and Other Investments	Net nonutility property—at cost	3,281	3,324
	Pollution control funds held by trustee	9,604	42,111
	Other	8	25
		12,893	45,460
Current Assets	Cash	21,889	15,474
	Marketable securities	2,035	—
	Accounts Receivable:		
	Customers	43,090	43,001
	Other	19,681	20,449
	Deferred fuel costs, net	(26,006)	(4,632)
	Inventories, at average cost:		
	Fuel (coal, oil and gas)	57,921	50,164
	Materials and supplies	22,732	20,973
	Prepayments	3,968	3,683
		145,310	149,112
Deferred Charges and Other Assets	Refundable taxes and interest	27,531	25,877
	Unamortized debt expense	5,162	5,415
	Other	1,724	1,587
		34,417	32,879
	Total	$ 1,471,457	$ 1,445,694

See accompanying Notes to Consolidated Financial Statements.

(Dollars in Thousands)

LIABILITIES	As of December 31	1982	1981
Capitalization (see Statements of Capitalization)	Common stock	$ 98,039	$ 94,191
	Additional paid-in capital	215,397	203,534
	Retained earnings	154,637	139,355
	Total common stockholders' equity	468,073	437,080
	Preferred stock:		
	Without mandatory redemption	105,000	105,000
	With mandatory redemption	50,000	50,000
	Long-term debt	562,515	596,219
		1,185,588	1,188,299
Current Liabilities	Long-term debt due within one year	30,100	—
	Accounts payable	24,116	27,723
	Taxes:		
	Accrued	18,282	40,159
	Deferred	(12,308)	(10,203)
	Interest accrued	20,305	29,570
	Dividends declared	11,910	11,024
	Other	13,046	4,454
		105,451	102,727
Deferred Credits	Credit arising from sale of contracts	39,790	40,760
	Accumulated deferred income taxes, net	66,200	49,799
	Accumulated deferred investment tax credits	59,638	53,920
	Other	14,790	10,189
		180,418	154,668
Other	Commitments and Contingencies (Notes 6 and 10)		
	Total	$ 1,471,457	$ 1,445,694

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Capitalization

(Dollars in Thousands)

	As of December 31		1982		1981	
Common Stockholders' Equity	Common stock, par value $3.375 per share authorized 35,000,000 shares, outstanding 29,048,445 and 27,908,345 shares		$ 98,039		$ 94,191	
	Additional paid-in capital		215,397		203,534	
	Retained earnings		154,637		139,355	
	Total Common Stockholders' Equity		468,073	38%	437,080	37%
Cumulative Preferred Stock	Par value $25 per share, 3,000,000 shares authorized, none outstanding					
	Par value $100 per share, 1,800,000 shares authorized					
	Without Mandatory Redemption:					
	Series	Outstanding				
	3.70%-4.56%	240,000 shares	24,000		24,000	
	5.00%-7.84%	330,000 shares	33,000		33,000	
	7.88%-8.96%	480,000 shares	48,000		48,000	
			105,000	9%	105,000	9%
	With Mandatory Redemption:*					
	9.00% Series	200,000 shares	20,000		20,000	
	12.56% Series	300,000 shares	30,000		30,000	
			50,000	4%	50,000	4%
Long-Term Debt	First Mortgage and Collateral Trust Bonds:					
	Maturity	Interest Rates				
	Jan. 1, 1983	9⅜%	30,000		30,000	
	May 1, 1984	3⅛%	10,000		10,000	
	Aug. 1, 1984	9½%	10,000		10,000	
	Dec. 1, 1985	3½%	10,000		10,000	
	Jun. 1, 1988	3⅞%	25,000		25,000	
	1994-1997	4⅝%-6⅜%	50,000		50,000	
	1998-2002	7%-11¾%	158,100		158,100	
	2003-2007	6.6%-11%	121,250		121,250	
	2008-2011	9⅝%-12%	111,900		111,900	
			526,250		526,250	
Pollution Control Notes:	Series 1973, 5.9% effective rate, due 1983-1998		8,000		8,000	
	Series 1976, 7.3% effective rate, due 1992-2006		34,500		34,500	
			42,500		42,500	
	Term Loan, due 1987, interest at prime rate		23,000		26,550	
	Unamortized premium and discount, net		8[illegible]5		919	
			592,6[illegible]5	49%	596,219	50%
	Long-term debt due within one year		(30,100)		—	
	Total Long-Term Debt		562,515		596,219	
	Total Capitalization		$ 1,185,588	100%	$ 1,188,299	100%

*Redemption prices at December 31, 1982 are $110 (9% Series) and $113 (12.56% Series).
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Common Stockholders' Equity

(Dollars in Thousands)

	For the Three Years Ended December 31, 1982	Common Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance as of January 1, 1980		24,300,758	$ 82,015	$ 173,007	$ 130,594	$ 385,616
	Net income				48,957	48,957
	Cash dividends declared:					
	Common stock ($1.49)				(36,805)	(36,805)
	Preferred stock				(9,427)	(9,427)
	Issuance of common stock:					
	Dividend Reinvestment and Common Share Purchase Plan	630,248	2,127	5,603		7,730
	Capital stock expense:					
	Common			(127)		(127)
	Preferred			(398)		(398)
Balance as of December 31, 1980		24,931,006	84,142	178,085	133,319	395,546
	Net income				58,711	58,711
	Cash dividends declared:					
	Common stock ($1.53½)				(39,857)	(39,857)
	Preferred stock				(12,818)	(12,818)
	Issuance of common stock:					
	Public offering	2,200,000	7,425	20,350		27,775
	TRASOP	101,947	344	882		1,226
	Dividend Reinvestment and Common Share Purchase Plan	675,392	2,280	5,460		7,740
	Capital stock expense:					
	Common			(1,220)		(1,220)
	Preferred			(23)		(23)
Balance as of December 31, 1981		27,908,345	94,191	203,534	139,355	437,080
	Net income				73,571	73,571
	Cash dividends declared:					
	Common stock ($1.59½)				(45,471)	(45,471)
	Preferred stock				(12,818)	(12,818)
	Issuance of common stock:					
	TRASOP	290,671	981	3,346		4,327
	Dividend Reinvestment and Common Share Purchase Plan	849,429	2,867	8,767		11,634
	Capital stock expense:					
	Common			(250)		(250)
Balance as of December 31, 1982		29,048,445	$ 98,039	$ 215,397	$ 154,637	$ 468,073

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Financial Statements

The consolidated financial statements include the accounts of the company and its totally-held subsidiaries, Delmarva Energy Company and Delmarva Industries Inc. (formed in 1981). Accounting policies are in accordance with those prescribed by the regulatory commissions having jurisdiction with respect to accounting matters.

Revenues

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

Fuel Costs

Fuel costs (electric and gas) are deferred and charged to operations on the basis of fuel costs included in customer billings under the company's tariffs, which are subject to periodic regulatory review and approval.

The company's share of nuclear fuel costs relating to jointly-owned nuclear generating stations (including estimated costs of storing spent fuel) is charged to fuel expense on a unit of production basis.

Depreciation and Maintenance

The annual provision for depreciation is computed on the straight-line basis using composite rates by classes of depreciable property. Provision for decommissioning costs relating to jointly-owned nuclear generating units is made to the extent of the net cost of removal allowed for rate purposes (approximately 20% of the plant cost). The relationship of the annual provision for depreciation for financial accounting purposes to average depreciable property was 3.6% for 1982, 3.5% for 1981 and 3.2% for 1980.

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

Notes to Consolidated Financial Statements

1. Significant Accounting Policies *(continued)*

Income Taxes

Deferred income taxes result from timing differences in the recognition of certain expenses for tax and financial accounting purposes. The principal items accounting for deferred income taxes are: (1) use of the Accelerated Cost Recovery System and other accelerated depreciation methods for income tax purposes, (2) unbilled fuel and gas purchased costs deducted currently for income tax purposes, and (3) other timing differences involving spent nuclear fuel storage costs and the capitalization of certain taxes and overhead costs.

Investment tax credits utilized to reduce federal income taxes are deferred and generally amortized over the useful lives of the related utility plant. An additional investment tax credit of 1½% (1% in 1980) related to the Tax Credit Employees Stock Ownership Plan (a "TRASOP" plan) does not affect net income and is recorded as a liability until the contribution is made to the TRASOP Plan.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is a non-cash item and is defined in the regulatory system of accounts as "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds so used." AFUDC is segregated into two components: (1) the interest on debt component ("allowance for borrowed funds used during construction"), which is net of taxes and classified as a credit to interest charges, and (2) the common stock equity and preferred dividend component ("allowance for other funds used during construction"), which is classified as an item of other income. AFUDC is considered a cost of utility plant with a concurrent credit to income. It is excluded from taxable income for tax purposes. The rate used in determining AFUDC, which includes semi-annual compounding, was 9.1% in 1982, 8.7% in 1981 and 8.0% in 1980.

2. Taxes on Income

Income tax expense for 1982, 1981 and 1980 is as follows:

(Dollars in Thousands)

	1982	1981	1980
Operations:			
Federal:			
Current	$ 37,508	$ 10,234	$ (1,351)
Deferred	4,700	5,301	10,439
State:			
Current	7,672	4,936	441
Deferred	1,363	1,048	1,934
Investment tax credit adjustments, net	7,257	18,384	3,021
Other income:			
Current	2,046	1,654	693
Deferred	(64)	(144)	—
Total	$ 60,482	$ 41,413	$ 15,177

Investment tax credits utilized to reduce federal income taxes payable amounted to $10,445,000 in 1982, $20,917,000 in 1981 and $5,516,000 in 1980. The amounts for 1982 and 1981 include TRASOP credits of $1,553,000 and $3,281,000, respectively.

Notes to Consolidated Financial Statements

2. Taxes on Income
(continued)

The following is a reconciliation of the difference between income tax expense and the amount computed by multiplying income before tax by the federal statutory rate:

(Dollars in Thousands)

	1982 Amount	1982 Rate	1981 Amount	1981 Rate	1980 Amount	1980 Rate
Statutory income tax expense	$ 61,664	46%	$ 46,057	46%	$ 29,502	46%
Reduction in taxes resulting from:						
Exclusion of AFUDC for income tax purposes	(2,787)	(2)	(3,272)	(3)	(8,524)	(13)
Excess of tax depreciation over book depreciation not normalized	443	—	(1,349)	(1)	(3,324)	(5)
Investment tax credits amortized to income	(3,188)	(2)	(2,533)	(3)	(2,495)	(4)
State income taxes, net of federal tax benefit	5,065	4	3,365	3	1,295	2
Other, net	(715)	(1)	(855)	(1)	(1,277)	(2)
Income tax expense	$ 60,482	45%	$ 41,413	41%	$ 15,177	24%

The components of deferred income taxes relate to the following tax effects of timing differences between book and tax income:

(Dollars in Thousands)

	1982	1981	1980
Depreciation	$ 18,493	$ 14,951	$ 10,097
Deferred fuel costs	(10,402)	(9,352)	1,656
Capitalized overhead costs	926	992	1,176
Nuclear fuel storage costs	(2,054)	(1,332)	(997)
Other, net	(964)	946	441
Total	$ 5,999	$ 6,205	$ 12,373

The company's federal income tax returns have been examined for the years 1975 through 1979. The company has been assessed additional taxes and interest resulting predominantly from the taxability, on an ordinary income basis, of the net proceeds from the sale of contracts for a nuclear steam supply system (See Note 7). The assessment would result in net additional federal and state income taxes of approximately $20.3 million and interest of $18.9 million. These amounts are net of anticipated refunds that result from the reversal of the previous tax treatment applied to the sale of the contracts. The company is appealing the taxability of the net proceeds. In the opinion of management and tax counsel, it appears probable that this issue will ultimately be resolved as taxable in an amount which approximates taxes on a capital gains basis. Accordingly, in 1981, the company accrued a net tax liability on a capital gains basis.

During 1982, the company made federal tax and interest payments totalling $28.5 million, on a capital gains basis, to prevent the compounding of interest on the tax deficiency. The ultimate disposition of this issue will not have a material effect on the company's financial position or results of operations.

Notes to Consolidated Financial Statements

3. Taxes Other Than Income

(Dollars in Thousands)

	1982	1981	1980
Delaware utility	$ 11,733	$ 11,437	$ 9,873
Property	6,129	5,811	5,550
Other gross receipts	3,601	3,444	3,068
Payroll	3,558	3,216	2,598
Franchise and other	1,926	2,010	1,632
Total	$ 26,947	$ 25,918	$ 22,721

4. Pension Plan

The company has a trusteed noncontributory pension plan covering all regular employees. Pension contributions for 1982, 1981 and 1980 were $4,895,000, $4,371,000 and $6,421,000 including $914,000, $717,000 and $1,253,000 charged to construction, respectively. The contributions provide for normal cost and amortization of prior service costs over periods of ten to twenty-five years. Net income for 1981 and 1980 was increased by approximately $938,000 (4¢ per share) and $603,000 (2¢ per share), respectively, principally as a result of changed actuarial assumptions.

The actuarial present value of accumulated plan benefits, determined as of January 1, 1982 was $60,862,000 for vested benefits and $12,769,000 for accrued nonvested benefits. The net assets, at market value, available for plan benefits were $125,050,000. The actuarial present value of accumulated plan benefits, determined as of January 1, 1981 was $51,175,000 for vested benefits and $8,915,000 for accrued nonvested benefits. The net assets, at market value, available for 1981 plan benefits were $121,957,000. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 3.0% for 1982 and 1981.

5. Capitalization

Common Stock

At December 31, 1982 there were 2,315,763 shares of common stock reserved for issuance under the Dividend Reinvestment and Common Share Purchase Plan and the TRASOP.

Retained Earnings

The current first mortgage bond indenture restricts the amount of consolidated retained earnings available for cash dividend payments on common stock to $35,000,000 plus accumulations after June 30, 1978, which available amount at December 31, 1982 was approximately $75,300,000.

Preferred Stock

The annual preferred dividend re[illegible] all outstanding preferred stock at December 31, 1982 are $12,818,00[illegible] preferred dividends are in arrears the company may not declare common stock dividends or acquire its common stock.

Without Mandatory Redemption

These series may be redeemed at the option of the company at any time, in whole or in part, at the various redemption prices fixed for each series (ranging from $103 to $106 at December 31, 1982).

5. Capitalization
(continued)

Preferred Stock *(continued)*

With Mandatory Redemption

(1) The 9% series, issued in 1978, has a sinking fund requirement, commencing in December, 1984, to redeem 8,000 shares annually at $100 per share plus accrued and unpaid dividends. At the option of the company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium. (2) The 12.56% series, issued in 1980, has a sinking fund requirement, commencing in December, 1986, to redeem 9,000 shares annually at $100 per share plus accrued and unpaid dividends. At the option of the company, an additional 9,000 shares may be redeemed on any sinking fund date, without premium. (3) Under certain conditions, these series may also be redeemed at the option of the company. (4) Aggregate mandatory sinking fund redemptions during the next five years are $800,000 in 1984 and 1985 and $1,700,000 in 1986 and 1987.

Capital Stock Expenses

Capital stock expenses relating to the issuance of common and preferred stock have been reflected as a reduction of additional paid-in capital.

Long-Term Debt

(1) Sinking fund provisions with respect to substantially all issues of the First Mortgage and Collateral Trust Bonds require that there be deposited annually with the Trustee cash equal to one percent (1%) of the greatest aggregate principal amount at any one time outstanding. There shall be credited against such cash requirements (a) an amount not exceeding sixty percent (60%) of the bondable value of property additions which the company then elects to make the basis of this credit, and (b) the aggregate principal amount of bonds which might then be made the basis of the authentication and delivery of bonds and which the company then elects to make the basis of this credit. For the years 1980-1982, the company elected to certify property additions to satisfy its sinking fund requirements equal to 1% of each series as permitted by the indenture. (2) Substantially all utility plant of the company now or hereafter owned is subject to the lien of the related Mortgage and Deed of Trust. (3) Pursuant to a bank loan agreement the company has a $25,000,000 revolving credit commitment through December 31, 1984, convertible into a term loan due December 31, 1987. Any loan may be prepaid at any time without penalty and would bear interest at the prime rate through December 31, 1983 and 105% of prime rate thereafter, and a commitment fee of 3/8% on any unused portion of the revolving credit. From time to time, the company issues commercial paper to repay borrowings under the revolving credit commitment. In 1981 and 1982, the company sold $12 million and $11 million, respectively, of short-term tax-exempt revenue notes. In recognition of the long-term financing commitment, these borrowings have been classified as long-term debt. (4) Maturities of long-term debt during the next five years are 1983—$30,100,000; 1984—$20,100,000; 1985—$10,100,000; 1986 and 1987—$150,000. (5) The annual interest requirements on all borrowings classified as long-term debt at December 31, 1982 are $45,586,000.

Unamortized Debt Discount, Premium and Expense

These amounts are amortized on a straight-line basis over the lives of the long-term debt issues to which they pertain.

Notes to Consolidated Financial Statements

6. Commitments

The company estimates that approximately $90,440,000, excluding AFUDC, will be expended for construction purposes in 1983, in connection with which substantial commitments have been incurred. The company also has commitments under long-term fuel supply contracts.

Minimum commitments as of December 31, 1982 under all non-cancellable lease agreements are as follows:

1983	$ 8,206,000
1984	7,196,000
1985	6,854,000
1986	6,527,000
1987	579,000
Remainder	5,095,000
Total	$ 34,457,000

The total minimum rental commitments are applicable to the following types of property: company's share of Peach Bottom nuclear fuel, $22,310,000; railroad coal cars, $2,150,000; distribution facilities, $5,498,000; other, principally computer equipment, $4,499,000. Rentals charged to operating expenses aggregated $13,949,000 in 1982, $9,986,000 in 1981 and $9,463,000 in 1980 including $7,112,000, $5,282,000 and $5,357,000 for nuclear fuel, respectively.

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

In 1973, the company entered into an agreement providing for the availability of fuel storage and pipeline facilities through 1999. Under the agreement, the company must make specified minimum payments monthly, which totaled $2,454,000 in 1982, $2,941,000 in 1981 and $2,747,000 in 1980. The amount of required payments is $2,240,000 in 1983, $2,038,000 in 1984, $1,793,000 in 1985, $2,137,000 in 1986, $1,813,000 in 1987 and $15,047,000 between 1988 and 1999.

7. Sale of Contracts for Nuclear Plant

The proceeds received by the company for the sale in 1975 of the contracts for a nuclear steam supply system and related fuel, net of related plant expenditures which are considered of no future value to the company, are classified as a deferred credit in the balance sheet. The credit has been reduced by applicable income taxes and related interest (See Note 2). The company has obtained regulatory approval for this accounting treatment.

Subject to regulatory approval, the net credit will be amortized to income, or alternatively used to reduce the cost of subsequent replacement plant capacity.

For ratemaking purposes, the net credit has been reflected as a reduction in rate base. However, in 1982, the company received a revenue order from the Maryland Public Service Commission which required the company to amortize the Maryland portion of the credit (approximately $5,960,000) over a five-year period and reduce the company's rate base by the unamortized portion of the credit. The company amortized $1,192,000 of the credit in 1982. This amortization of the net credit will not have a material effect on the company's financial position or results of operations.

8. Short-Term Debt and Lines of Credit

As of December 31, 1982, the company had unused bank lines of credit of $58,000,000 and is generally required to pay commitment fees for these lines. Such lines of credit are periodically reviewed by the company, at which time they may be renewed or cancelled.

9. Jointly-Owned Plant

Information with respect to the company's share of jointly owned plant, including nuclear fuel for the Salem plant, as of December 31, 1982 is as follows:

(Dollars in Thousands)

	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Nuclear:				
Peach Bottom	7.51%	$ 71,983	$ 18,806	$ 1,125
Salem	7.41%	165,172	31,895	10,626
Coal-Fired:				
Keystone	3.70%	8,349	3,509	709
Conemaugh	3.72%	12,789	4,303	164
Total		$ 258,293	$ 58,513	$ 12,624

The company provides its own financing during the construction period for its share of jointly-owned plant. In addition, the company is a joint guarantor of loans ($1,075,000 proportionate share) advanced for operating of the coal mines that supply the Keystone plant. The company's share of operating and maintenance expenses of the jointly-owned plant is included in the corresponding expenses in the statements of income.

10. Contingencies

See Note 2 for possible payment of taxes.

In January 1983, the company reached a settlement with four Delaware municipal electric wholesale customers who had filed anti-trust suits against the company in 1977. The settlement of this suit, which is subject to FERC and District Court approval, did not have a material impact on the company's results of operations.

Based upon settlements with resale customers, revenues recorded pursuant to interim rate increases effective December 1, 1978, December 1, 1980, December 29, 1981 and November 1, 1982, are approximately $6.5 million, $6.9 million, $2.0 million and $.6 million, respectively. These increases are subject to refund pending FERC approval, and the company believes that substantially all such revenues will be realized.

The company is involved in certain other legal and administrative proceedings before various courts and governmental agencies concerning rates, environmental issues, taxes, licensing, fuel contracts and other matters. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the financial position or results of operations of the company.

The company is a member of Nuclear Electric Insurance Limited (NEIL) which provides insurance coverage against the extra expense incurred in obtaining replacement power during prolonged accidental outages of nuclear power units. After the deductible period of 26 weeks, weekly indemnity of up to $2.5 million is provided for 52 weeks and $1.25 million for an additional 52 weeks, for each insured unit. Insured members are contingently liable

Notes to Consolidated Financial Statements

10. Contingencies *(continued)*

for payment of a retrospective premium adjustment of up to five times the annual premium if losses exceed accumulated funds available to NEIL. The company's maximum share of retrospective premium adjustments currently approximates $2.3 million.

The Price-Anderson Act places a limit of liability of $560 million on each nuclear generating facility for public liability claims that arise from a nuclear incident. Public liability insurance on the nuclear generating units in which the company has an ownership participation is currently provided by a combination of private insurance and indemnity agreements with an agency of the federal government. Under the indemnity agreements, the company, to the extent of its ownership participation, could be assessed $5 million per incident for each nuclear operating unit, subject to a maximum of $10 million per licensed reactor in any one year. The company is currently a joint owner of 4 reactors and its maximum assessment would be $1.5 million per incident and $3.0 million in any one year.

For property damage to the Peach Bottom nuclear plant facilities, the company and its co-owners have private insurance up to $460 million. The company and the Salem nuclear facility co-owners are members of Nuclear Mutual Limited (NML), which provides insurance coverages up to $500 million for property damage to nuclear plant facilities. In the event of losses at any plant covered by NML, the company would be subject to a maximum assessment of fourteen times its annual premium. Such maximum assessment would currently approximate $3.9 million. In addition, each of the facilities are insured for $400 million by Nuclear Electric Insurance Limited (NEIL II) for losses in excess of $500 million. In the event of losses at any plant covered by NEIL II, the company would be subject to a maximum assessment of seven and a half times the annual premiums. Such maximum assessment would currently approximate $1.1 million for both plants. The company is a self-insurer, to the extent of its ownership interest, for any property loss in excess of the aforementioned amounts.

The company has entered into a five-year contract, effective October 1, 1980, with Atlantic City Electric Company to sell one-eighth of the electricity generated by Indian River unit 4. The major provisions of the contract allow for the company to receive, irrespective of the availability of electric generation, one-eighth of all operation and maintenance expenses incurred and a fixed return on the plant investment. Approval of this agreement was received from the FERC and the Delaware Public Service Commission (DPSC) in 1980. In connection with the decision of the DPSC, it was determined that profits from the contract up to the company's projection of $8.6 million be passed on to the customers, any losses be absorbed by the stockholders and profits above $8.6 million be passed to the stockholders. In July 1982, the DPSC recognized that the expected value of this contract may not be ascertainable and postponed the final issuance of their Order to permit further investigation of this matter during the remaining time of the operation of the contract. As of December 31, 1982, the company believes that profits on the contract will be substantially in excess of the initial projection of $8.6 million.

The company's coal-buying practices and contracts associated with the Indian River unit 4 became the subject of an investigation in 1982 fuel adjustment hearings before the DPSC. The Commission initially assessed damages to the company for $3.9 million which was reduced to $2.9 million. Once an order is received, the company intends to appeal the case to the Delaware Superior Court.

In 1982, the company delayed the construction schedule for the 500-megawatt, coal-fired Vienna 9 generating unit. The plant is now scheduled to begin commercial operation in 1995. The decision is based on the company's current load forecast, which indicates a lower rate of growth in the coming decade than had previously been projected. The net investment, including AFUDC, at December 31, 1982, is $13.4 million, which is anticipated to be recoverable at the rescheduled in-service date.

Notes to Consolidated Financial Statements

11. Segment Information

Segment information with respect to electric, gas and steam operations was as follows:

(Dollars in Thousands)

	1982	1981	1980
Operating Revenues:			
Electric	$ 534,770	$ 504,119	$ 443,927
Gas	84,747	83,070	59,040
Steam	17,149	21,315	17,503
Total	$ 636,666	$ 608,504	$ 520,470
Operating Income:			
Electric	$ 109,620	$ 100,836	$ 74,461
Gas	5,800	5,294	5,155
Steam	1,153	1,195	1,100
Total	$ 116,573	$ 107,325	$ 80,716
Utility Plant:[1][2]			
Electric	$ 1,226,140	$ 1,166,376	$ 1,132,992
Gas	47,044	45,608	45,711
Steam	5,653	6,259	6,959
	1,278,837	1,218,243	1,185,662
Other Identifiable Assets:			
Electric	81,155	120,914	93,060
Gas	10,172	13,160	10,005
Steam	455	420	343
	91,782	134,494	103,408
Assets Not Allocated	100,838	92,957	91,852
Total Assets	$ 1,471,457	$ 1,445,694	$ 1,380,922
Depreciation Expense:			
Electric	$ 46,084	$ 43,238	$ 34,321
Gas	2,950	2,703	2,775
Steam	895	892	859
Total	$ 49,929	$ 46,833	$ 37,955
Construction Expenditures:[3]			
Electric	$ 107,533	$ 81,651	$ 107,063
Gas	3,019	2,531	3,500
Steam	94	24	176
Total	$ 110,646	$ 84,206	$ 110,739

[1] Includes construction work in progress and allocation of common utility property.
[2] Stated net of the respective accumulated provisions for depreciation.
[3] Excludes allowance for funds used during construction.

Operating income by segments is reported in accordance with generally accepted accounting and ratemaking practices within the utility industry and, accordingly, includes each segment's proportionate share of taxes on income and general corporate expenses.

12. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The following supplementary financial information, as prescribed by the Financial Accounting Standards Board in Statement No. 33, is supplied for the purpose of providing information about the effects of changing prices on the company's operations. The information should be viewed as an estimate of the approximate effect of inflation rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the change in specific prices of plant from the date the plant was acquired to the present and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general. The current cost of utility plant represents the estimated cost of replacing existing plant assets and was determined by indexing existing plant by the Handy-Whitman Index of Public Utility Construction Costs.

Supplementary Financial Data Adjusted for the Effects of Changing Prices
(Dollars in Thousands)

For the Year ended December 31,	Historical Cost	Constant Dollar (Average 1982 Dollars)	Current Cost
Operating Revenues	$ 636,666	$ 636,666	$ 636,666
Operating Expenses:			
Operation and Maintenance	384,717	384,717	384,717
Depreciation	49,929	95,939	101,010
Taxes	85,447	85,447	85,447
Other Income—Net	(6,563)	(6,563)	(6,563)
Interest Charges	49,565	49,565	49,565
Net Income[1]	$ 73,571	$ 27,561	$ 22,490
Earnings per common share (after preferred dividend requirements)[2]	$ 2.13	$ .52	$ .34
Increase in current cost of utility plant held during the year[3]			$ 116,311
Adjustment to net recoverable cost		$ (1,452)	(24,036)
Effect of increase in general price level			(88,656)
Excess of increase in current costs after adjustment to net recoverable cost over increase in general price level			3,619
Purchasing power gain on net amounts owed		22,679	22,679
Net		$ 21,227	$ 26,298

[1] Including the adjustment to net recoverable cost, the income (loss) on a constant dollar and current cost basis for 1982 would have been $26,109 and $(1,546), respectively.
[2] Excluding adjustment to net recoverable cost.
[3] At December 31, 1982, current cost of net utility plant was $2,402,922 while historical cost was $1,278,837.

Notes to Consolidated Financial Statements

12. Supplementary Information *(continued)*

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices

(In Thousands[1] of Average 1982 Dollars)

For the Years ended December 31	1982	1981	1980	1979	1978
Operating revenues					
Historical cost dollars	$ 636,666	$ 608,504	$ 520,470	$ 424,699	$ 378,702
Constant dollars	636,666	645,805	609,679	564,765	560,290
Net income					
Constant dollars	27,561	21,576	18,767	38,703	
Current costs	22,490	15,948	9,796	26,630	
Earnings per common share					
Constant dollars	.52	.31	.32	1.14	
Current costs	.34	.10	(.05)	.63	
Net assets at year end[2]					
Historical cost dollars	573,073	542,080	500,546	490,616	
Constant dollars and current costs	566,597	556,715	560,015	616,951	
Excess of increase in general price level over increase in current costs[3]	3,619	(63,900)	(109,614)	(130,721)	
Purchasing power gain on net amounts owed	22,679	53,105	73,009	79,215	
Cash dividends declared per common share					
Historical cost dollars	$ 1.59½	$ 1.53½	$ 1.49	$ 1.40½	$ 1.30½
Constant dollars	1.59½	1.63	1.74½	1.87	1.93
Market price per common share at year-end					
Historical cost dollars	16.38	12.63	11.75	12.63	13.25
Constant dollars	16.20	12.97	13.15	15.88	18.88
Average Consumer Price Index (1967 = 100)	289.1	272.4	246.8	217.4	195.4

[1] Except per share amounts.
[2] At net recoverable cost.
[3] After adjustment to net recoverable cost.

As required by Statement No. 33, the current provisions for depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the company's depreciation rates to the indexed plant amounts, even though depreciation is limited to recovery of historical costs as further discussed below. Other operating expenses were either not required to be adjusted or were not adjusted due to rate-making considerations.

The company, by holding monetary assets such as cash and receivables, loses purchasing power during periods of inflation because these items can purchase less at a future date. Conversely, by holding monetary liabilities, primarily long-term debt, payments in the future will be made with dollars having less purchasing power. For the years 1979-1982, the company's monetary liabilities exceeded monetary assets which resulted in a purchasing power gain on net amounts owed during the year.

12. Supplementary Information *(continued)*

The rate regulatory process limits the company to the recovery of the historical cost of plant. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable cost. Based on past practices, however, the company believes it will be allowed to earn on the increased cost of its facilities when replacement actually occurs.

Since the gain from the decline in purchasing power is attributable to long-term debt which has been used to finance utility plant, the reduction of utility plant to net recoverable amount is netted against the purchasing power gain on net amounts owed during the year.

13. Quarterly Financial Information (Unaudited)

The quarterly data presented below reflect all adjustments necessary in the opinion of the company for a fair presentation of the interim results. Quarterly data normally vary seasonably with temperature variations, differences between summer and winter rates, the timing of rate increases and the scheduled downtime and maintenance of electric generating units.

Quarter Ended	Operating Revenue	Operating Income	Net Income	Earnings Applicable to Common Stock	Average Shares Outstanding	Earnings per Average Share
	(Dollars in Thousands)					
1982						
March 31	$ 179,138	$ 31,174	$ 20,512	$ 17,308	28,104	$ .62
June 30	144,106	24,657	13,948	10,743	28,302	.37
September 30	166,382	36,123	25,303	22,099	28,516	.78
December 31	147,040	24,619	13,808	10,603	29,033	.36
	$ 636,666	$ 116,573	$ 73,571	$ 60,753	28,489	$ 2.13
1981						
March 31	$ 160,919	$ 27,061	$ 14,266	$ 11,062	25,078	$ .44
June 30	137,445	24,547	12,098	8,893	25,247	.35
September 30	164,359	31,464	19,772	16,568	25,514	.65
December 31	145,781	24,253	12,575	9,370	27,150	.34
	$ 608,504	$ 107,325	$ 58,711	$ 45,893	25,747	$ 1.78

Consolidated Statistics

10 Years of Review		1982	1981	1980	1979
Electric Revenues (thousands)	Residential	$ 183,258	$ 164,919	$ 144,637	$ 115,381
	Commercial	137,434	123,099	112,166	91,798
	Industrial	127,441	129,601	116,401	98,023
	Other utilities, etc.	73,469	73,602	63,698	53,782
	Miscellaneous revenues	13,168	12,898	7,025	4,682
	Total electric revenues	$ 534,770	$ 504,119	$ 443,927	$ 363,666
Electric Sales (1,000 kilowatt-hours)	Residential	2,026,398	1,996,647	2,046,546	1,968,452
	Commercial	1,729,863	1,660,147	1,648,776	1,598,299
	Industrial	2,255,673	2,454,685	2,429,842	2,624,438
	Other utilities, etc.	1,237,508	1,283,845	1,335,216	1,300,611
	Total electric sales	7,249,442	7,395,324	7,460,380	7,491,800
Electric Customers (end of period)	Residential	260,371	255,646	246,887	242,745
	Commercial	29,966	29,450	28,162	27,998
	Industrial	741	788	821	874
	Other utilities, etc.	434	434	440	478
	Total electric customers	291,512	286,318	276,310	272,095
Gas Revenues (thousands)	Residential	$ 36,505	$ 34,123	$ 26,525	$ 25,719
	Commercial	15,792	14,344	10,342	8,954
	Industrial	20,112	22,259	12,404	9,884
	Interruptible	11,733	11,711	9,293	4,440
	Other utilities, etc.	53	61	46	55
	Miscellaneous revenues	552	572	430	270
	Total gas revenues	$ 84,747	$ 83,070	$ 59,040	$ 49,322
Gas Sales (million cubic feet)	Residential	6,062	6,19[illegible]	6,321	6,423
	Commercial	2,768	2,70[illegible]	2,683	2,415
	Industrial	4,108	4,809	3,937	3,388
	Interruptible	2,656	2,802	2,738	1,720
	Other utilities, etc.	10	12	14	16
	Total gas sales	15,604	16,520	15,693	13,962
Gas Customers (end of period)	Residential	70,356	69,865	69,024	67,823
	Commercial	4,057	3,967	3,846	3,712
	Industrial	166	167	155	131
	Interruptible	18	16	16	16
	Other utilities, etc.	1	1	1	1
	Total gas customers	74,598	74,016	73,042	71,683
Refinery Service	Electricity delivered (1,000 kilowatt-hours)	322,804	343,063	328,420	262,159
	Steam delivered (1,000 pounds)	7,778,929	7,673,420	7,570,944	6,378,705

1978	1977	1976	1975	1974	1973	1972	Average Annual Compound % Rate of Growth
$ 105,237	$ 97,691	$ 80,416	$ 77,069	$ 68,730	$ 51,799	$ 43,878	15.37
82,796	74,641	60,111	58,169	51,192	37,888	31,810	15.76
83,972	76,801	64,458	64,141	66,381	41,284	35,962	13.49
40,840	38,974	34,896	35,606	32,976	21,518	16,833	15.88
5,261	3,461	2,398	4,370	9,194	5,287	2,857	16.51
$ 318,106	$ 291,568	$ 242,279	$ 239,355	$ 228,473	$ 157,776	$ 131,340	15.07
1,979,624	1,924,723	1,787,663	1,672,180	1,597,472	1,629,641	1,463,821	3.31
1,568,600	1,495,796	1,412,259	1,359,673	1,303,053	1,360,216	1,227,230	3.49
2,418,527	2,277,630	2,260,661	2,142,151	2,461,303	2,512,877	2,412,239	(0.67)
1,281,498	1,207,941	1,199,155	1,218,785	1,230,528	1,252,977	1,137,272	0.85
7,248,249	6,906,090	6,659,738	6,392,789	6,592,356	6,755,711	6,240,562	1.51
237,925	233,106	230,579	221,780	215,516	208,073	200,595	2.64
28,421	29,648	28,345	27,345	27,132	26,708	25,856	1.49
858	921	1,002	923	891	867	869	(1.58)
480	561	550	545	501	506	496	(1.33)
267,684	264,236	260,476	250,593	244,040	236,154	227,816	2.50
$ 28,370	$ 21,829	$ 18,826	$ 15,365	$ 14,298	$ 13,018	$ 12,944	10.92
10,154	7,133	6,062	4,676	4,201	3,715	3,532	16.16
10,191	6,950	5,984	4,343	3,726	3,505	3,265	19.94
716	169	1,301	1,211	1,532	1,363	1,035	27.48
93	49	44	33	26	30	25	7.80
116	103	31	45	96	22	18	40.82
$ 49,640	$ 36,233	$ 32,248	$ 25,673	$ 23,879	$ 21,653	$ 20,819	15.07
6,941	6,751	6,956	6,540	6,863	7,134	7,737	(2.41)
2,593	2,439	2,586	2,429	2,526	2,614	2,696	0.26
3,290	2,811	3,264	2,849	3,215	3,653	3,875	0.59
319	81	953	1,073	2,257	2,346	2,134	2.21
29	17	20	18	16	23	20	(6.70)
13,172	12,099	13,779	12,909	14,877	15,770	16,462	(0.53)
67,550	67,400	68,978	69,418	69,525	69,833	69,891	0.07
3,773	3,738	4,154	4,189	4,356	4,418	4,407	(0.82)
163	163	198	198	195	197	195	(1.60)
21	21	21	21	21	21	21	(1.53)
1	1	1	1	1	1	1	—
71,508	71,323	73,352	73,827	74,098	74,470	74,515	0.01
270,006	289,049	318,389	297,282	350,021	341,700	295,236	0.90
6,016,095	4,888,366	5,301,421	5,517,000	5,921,000	5,926,000	7,261,000	0.69

Board of Directors

Werner C. Brown
Director and Retired Chairman of the Board of Hercules, Incorporated (chemical manufacturer)
Wilmington, Delaware

Mrs. Henry P. Cannon, II
Director of H. P. Cannon & Son, Inc. (food processing firm)
Bridgeville, Delaware

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

Frank A. Cook
Vice President of the Company

John R. Cooper
Manager of Environmental Affairs and Occupational Health, Petrochemicals Department of E. I. du Pont de Nemours & Company (chemical manufacturer)
Wilmington, Delaware

Nevius M. Curtis
President and Chief Executive Officer of the Company

Sally V. Hawkins
Director and President of Delaware Broadcasting Company and General Manager of Station WILM (radio broadcasting),
Wilmington, Delaware

William G. Simeral
Director and Executive Vice President and a member of the Executive Committee of E. I. du Pont de Nemours & Company (chemical manufacturer)
Wilmington, Delaware

Dr. E. Arthur Trabant
President of the University of Delaware
Newark, Delaware

Robert D. Weimer
Chairman of the Board of the Company

Officers

Robert D. Weimer
Chairman of the Board

Nevius M. Curtis
President and Chief Executive Officer

H. Ray Landon
Senior Vice President

Harland M. Wakefield, Jr.
Senior Vice President

Frank A. Cook
Vice President

Howard E. Cosgrove
Vice President and Chief Financial Officer

Donald E. Cain
Division Vice President, Northern Division

Wayne A. Lyons
Division Vice President, Southern Division

Paul S. Gerritsen
Vice President, Regulatory Practices

Alfred C. Thawley, Jr.
Secretary and Treasurer

Charles Marchyshyn
Comptroller

Executive Committee
Robert D. Weimer, Chairman;
Werner C. Brown; Oscar L. Carey;
Nevius M. Curtis;
Dr. E. Arthur Trabant

Audit Committee
Oscar L. Carey, Chairman;
Werner C. Brown; John R. Cooper

Nominating Committee
Dr. E. Arthur Trabant, Chairman;
Sally V. Hawkins; Robert D. Weimer

Compensation Committee
Werner C. Brown, Chairman;
Oscar L. Carey; Nevius M. Curtis;
William G. Simeral

General Information

Trustees
First Mortgage and Collateral Trust Bonds, Chemical Bank, New York, New York.
Pollution Control Revenue Bonds, Girard Bank Delaware, Wilmington, Delaware, Bank of Delaware, Wilmington, Delaware, and Wilmington Trust Company, Wilmington, Delaware.

Transfer Agents and Registrars
Preferred Stock—Wilmington Trust Company, Wilmington, Delaware.
Common Stock—Wilmington Trust Company, Wilmington, Delaware, and Manufacturers Hanover Trust Company, New York, New York.

Stock Symbol
Common Stock, DEW—listed on the New York and Philadelphia Stock Exchanges.

Regulatory Commissions
Federal Energy Regulatory Commission,
825 North Capitol Street, N.E.,
Washington, D.C. 20426.

Delaware Public Service Commission,
1560 S. du Pont Highway,
Dover, Delaware 19901.

Maryland Public Service Commission,
American Building,
231 East Baltimore Street,
Baltimore, Maryland 21202.

Virginia State Corporate Commission,
P.O. Box 1197,
Richmond, Virginia 23209.

Corporate Address
Delmarva Power,
800 King Street, P.O. Box 231,
Wilmington, Delaware 19899.
Telephone (302) 429-3011

Annual Meeting
The Annual Meeting will be held on April 26 at 12:30 p.m., in the Grand Opera House, 818 Market Street Mall, Wilmington, Delaware.

Additional Reports
To supplement information in this Annual Report, a Financial and Statistical Review (1972-1982) and the Form 10-K are available upon request. Please write to Stockholder Relations, Delmarva Power, 800 King Street, P.O. Box 231, Wilmington, Delaware 19899.


Atlantic Electric 1982 Annual Report

Atlantic Electric provides safe and reliable electric energy at the lowest reasonable cost and with acceptable environmental impact to one million Southern New Jersey customers while providing the shareholders with a fair return for their investment.

The Corporate Name and Trade Name
Atlantic City Electric Company is the official name of the Company as it appears in the Articles of Incorporation. The Company also uses the registered trade name Atlantic Electric in various publications to shareholders and customers, and in its daily operations.

New Corporate Address
Atlantic Electric
P.O. Box 1264
1199 Black Horse Pike
Pleasantville, New Jersey 08232

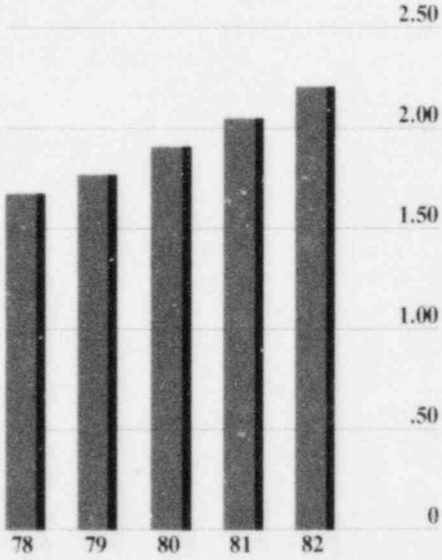
Notice of Annual Meeting
The 1983 Annual Meeting of Shareholders will be held Tuesday, April 26, 1983, at Quail Hill Inn, Smithville, New Jersey. A Notice of Meeting will be mailed in March to those shareholders entitled to vote.

Results of Operations 1982-1981

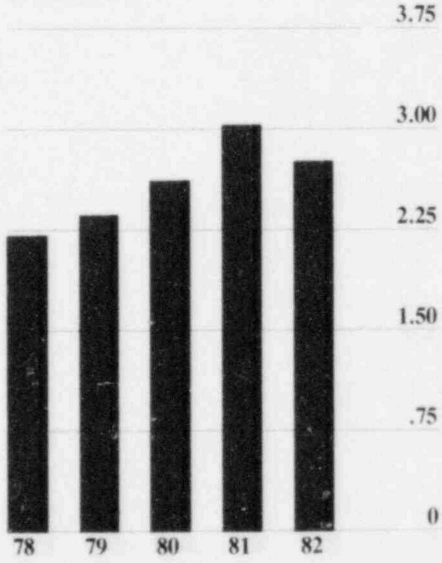
	1982	1981	% Change
Electric Operating Revenues	$ 444,178,000	$ 469,683,000	(5.4)
Operating Expenses	$ 381,408,000	$ 396,172,000	(3.7)
Net Income*	$ 49,055,000	$ 46,988,000	4.4
Earnings Per Common Share*	$ 2.76	$ 3.03	(8.9)
Dividends Paid Per Common Share	$ 2.20	$ 2.04	7.8
Total Assets	$1,077,969,000	$1,013,789,000	6.3
Cash Construction Expenditures	$ 118,460,000	$ 113,221,000	4.6
Sales of Electricity (KWH)	5,592,117,000	5,675,367,000	(1.5)
Total Customer Service Installations (Year-end)	391,989	386,046	1.5
Number of Shareholders—Common Stock (Year-end)	48,790	48,424	.8
Number of Employees (Year-end)	2,022	2,035	(.6)
Book Value	$ 22.45	$ 22.40	.2

*See Note 4 (Change in Accounting for Revenues) of Notes to Financial Statements.

Dividends Per Share of Common Stock
(in dollars)



Earnings Per Share of Common Stock
(in dollars)



President John D. Feehan listens to a customer's viewpoint during a Consumer Roundtable, a forum for open discussion of Atlantic Electric's operations and service.

To Our Shareholders, Customers and Employees:

During the past year the measure of our financial performance was influenced by two critical factors: timely and adequate rate relief and the cost of financing the Company's substantial construction program. These major challenges were announced well in advance of last year and 1982 was accurately predicted to be a period of transition.

For 1982 earnings per share were $2.76, a decline of 9% from 1981. Dividends, however, increased to an annual rate of $2.28 as a result of a four cents per share quarterly increase. This marked the 30th consecutive year of increases in the dividend paid. Included in reported earnings were 68 cents per share due to an accounting change that incorporated unbilled revenues into reported revenue starting in 1982. (Note 4 to Financial Statements, page 29).

The timing of rate relief had by far the most significant impact on the year's results. A February 1982 filing to the New Jersey Board of Public Utilities (BPU) requesting a $172.4 million rate increase resulted in lengthy proceedings and the granting of a $73.7 million increase in December. Unfortunately, this decision will not permit the Company to achieve the 15% return on common equity that the BPU specified. Atlantic Electric will be seeking additional revenues through a continuation of our last filing allowed by the BPU. This continuation will deal primarily with our contract with Pennsylvania Power & Light Company for 62 megawatts of their Susquehanna Unit No. 1. This unit is expected to go into service in May, 1983. Timely and full recovery of the cost of this energy will prevent an adverse effect on financial performance in 1983.

Major Gains. Despite this setback in rate relief, positive financial developments occurred during 1982 that contributed to the Company's present and future health. They were:

□ Unrecovered fuel costs, which reached a peak of $62 million in 1981, were fully recovered from our customers in 1982.

□ Financing for the $118 million construction and modernization program was successfully obtained at a reasonable cost; we ended the year without any short-term borrowings.

□ Fuel cost charges to customers, a reflection of energy expenses, were reduced by $159 million, calculated on an annual basis, through three separate decreases in the Energy Adjustment.

□ The price of electricity to customers was stabilized by increased use of coal, continued reliability of nuclear generating units and by importing low-cost energy from utilities with excess capacity.

Planned Growth. The New Direction program, announced at the 1981 Annual Meeting, began to show results. This program is designed to limit future construction costs by aggressively promoting conservation, efficient energy use, and alternative electric sources. The reduction in the forecasted annual growth rate of the peak demand, from 2.4% to 1.6%, reflects the expected impact of the program over the next 15 years. The immediate impact was the lowering of planned construction expenditures for the 1983 to 1987 period to $382 million from the previously projected $716 million.

In Appreciation. The Company's shareholders deserve a well-earned "thank you" for their support and encouragement during 1982. One of the toughest years in recent times was weathered, while plans that will provide the basis for our future performance were put in place. These achievements would also not have been possible without the contributions of the Company's 2,022 dedicated and loyal employees.

On December 31, 1982, Alfred C. Linkletter relinquished his position as Chairman of the Board, in anticipation of his retirement as a Director this April. The five years during which Alfred Linkletter served as Chairman have brought significant changes for the Company with respect to regulation, financing and long-term planning. During these years, his leadership, experience and integrity have enabled the Company to meet its challenges and to plan a course for successful management in the future.

For the Board of Directors

J. D. Feehan
Chairman of the Board
and President

Alfred C. Linkletter, former Chairman of the Board, discusses the future of Atlantic Electric.

A Look at Yesterday, Today and Tomorrow:

This year's Annual Meeting will be my last as a member of the Atlantic Electric Board of Directors. During my 12 years as a Member of the Board and five years as Chairman, I have been privileged to be a part of a challenging period in Atlantic Electric's long history.

On the occasion of my retirement, I have been asked to present my thoughts about our Company during my tenure.

Yesterday. Recently, I was asked what my impressions were when I joined the Board in 1970. Immediately, I recalled my first meetings with the management team. They clearly demonstrated that they were knowledgeable and upbeat. As an engineer, I knew the importance of planning and anticipation, particularly in the areas of new construction and maintenance. From the first day, I was aware that this Company was actively preparing for the future.

In the years that followed, my initial impressions were reinforced many times. Two events stand out among many. The first was the world-wrenching Arab oil embargo in 1973. We take great pride in having been the first utility to convert back to coal, a feat that was possible only because our coal handling and burning equipment had not been cast aside years before when we were forced to convert to low sulfur oil. Instead, it was ready for use, in case of just such an emergency.

The second event was the Company's winning the Outstanding Electric Utility of the Year Award in 1981. This National Award was given by Electric Light & Power Magazine and the selection was made by an independent panel of judges. It was proof-positive that we were succeeding in our efforts to excel.

Today. Our efforts have produced the desired results, placing us, I believe, in an excellent position. Our generating capacity is now extensively diversified, which protects our customers from loss of power should an emergency knock out any one generator. Our management team is stronger and deeper than ever before. We have youth, experience and leadership potential at all levels, an unusual circumstance for a utility of our size. Our shareholders support us because we have continued a remarkable record of dividend payments and increases. Our communications efforts, including our New Direction program, have earned a better understanding of the long-term considerations in providing electric power to a diverse service area.

Tomorrow. While we have come a long distance, there is still much to accomplish. A high priority has to be given to more efficient rate regulation. The process must be streamlined and insulated from the political arena. Too much time and money are put into a never-ending series of rate hearings and appeals. Everyone would be better served by rate adjustments that are fairer to the Company and take less time to complete.

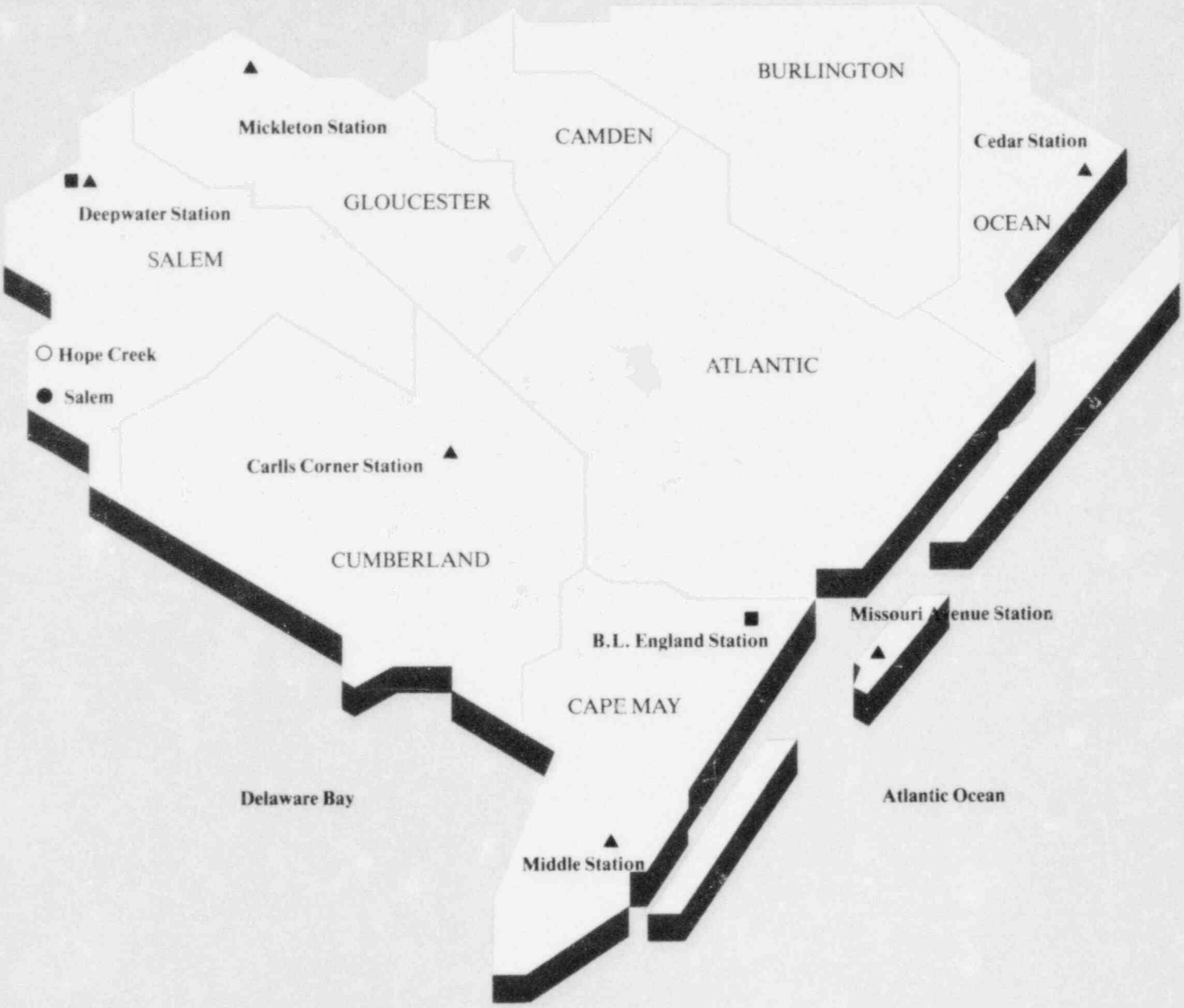
This Nation must set its energy priorities now. Looking beyond the electrical generating capacity currently under construction, abundant American coal should be the major fuel source. But many environmental issues must still be resolved. The cost of constructing any type of new generating capacity is extremely high and shows no signs of declining. Conservation and energy-efficient appliances must be part of the solution. Efforts to remove emotionalism from energy issues, and to balance immediate needs against future needs, are urgently required.

I leave the Board of Atlantic Electric confident that steps will be taken to meet these challenges, just as continuing needs such as recruiting and retaining outstanding people, streamlining operations and increasing efficiency will be met.

I wish to add that, after this year's Annual Meeting, I will remain as a private shareholder. Like all of us, I will closely follow the progress of "Our Company." I am confident that our concerns will be minimal and that our rewards will increase yearly.

A. C. Linkletter

A. C. Linkletter



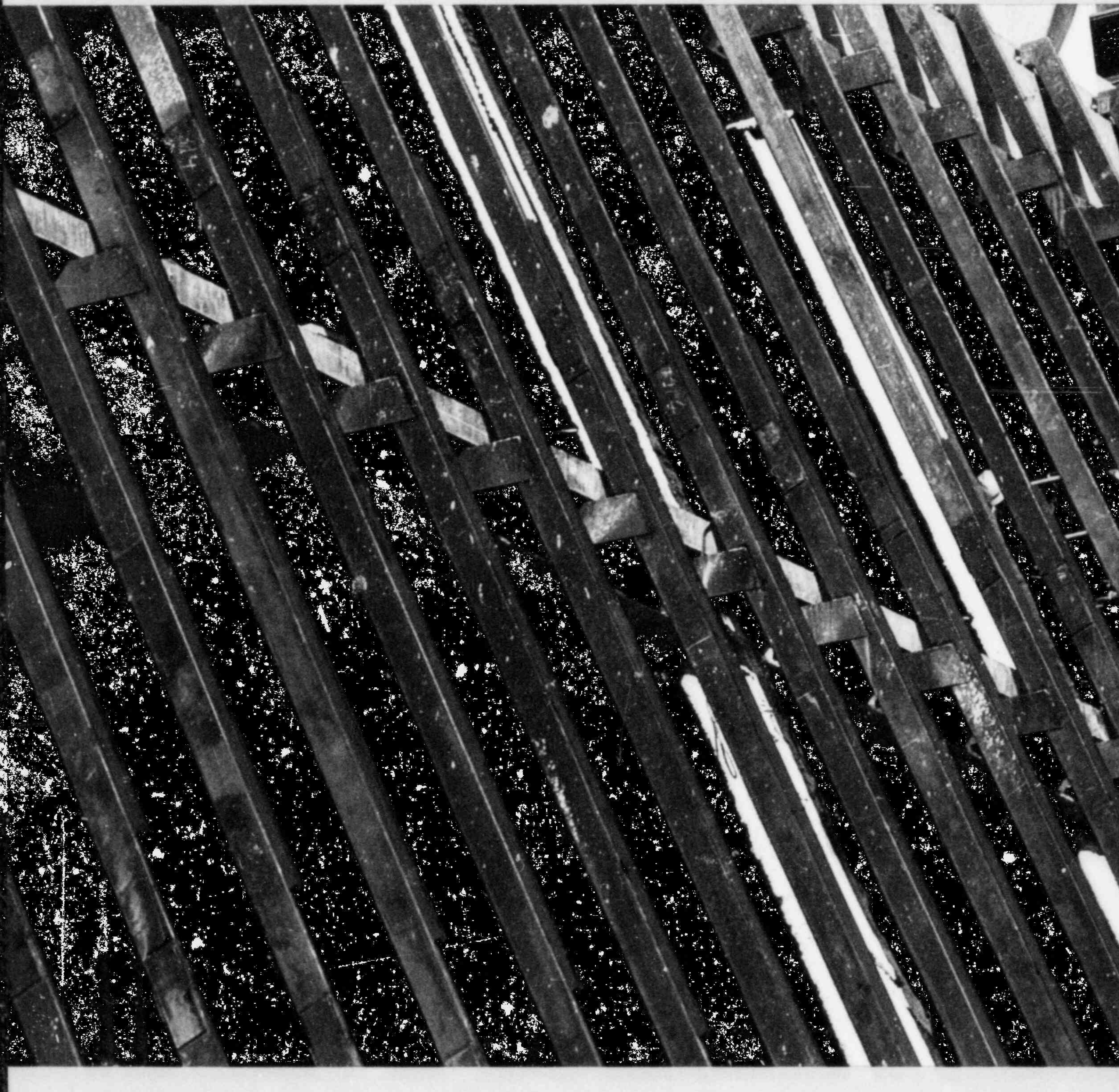
■ **Steam Electric Generating Station**
▲ **Combustion Turbine Generating Station**
● **Jointly Owned Nuclear Generating Station**
○ **Jointly Owned Nuclear Generating Station Under Construction**

Other Ownership Interests
(All located in Pennsylvania)
Conemaugh Generating Station
Keystone Generating Station
Peach Bottom Atomic Power Station

At a Glance: The Atlantic Electric Service Area

Atlantic Electric serves over one million people in a 2,700 square mile area in Southern New Jersey. It is a region diverse in economic activity within close proximity to Philadelphia, New York, Baltimore and Washington. Tourism plays a significant role in the economy of the coastal areas while the inland is agricultural and industrial.

Customer Base	1982 Electric Consumption	Fifteen Year Outlook
Residential		
In 1982, the Company served over 324,000 customers in 129 municipalities in eight counties. About 20% of these dwellings have electricity as their conventional heating source. 50% have electric water heaters and 60% have air-conditioning. About 18% of all dwellings are currently occupied on a seasonal basis.	Residential customers represented 49% of the annual peak demand. The residential sector consumed nearly 2.4 billion kilowatt-hours last year or 43% of total sales. The average residential customer used 7,444 kilowatt-hours. More than 4,400 new residential customers were added during the year and 50% of all new residential "connects" during the year had electric heat.	Residential customers are projected to comprise 47% of the total peak in 1997 and consume 3.2 billion kilowatt-hours, or 43% of total projected sales. Average residential kilowatt-hour consumption is expected to increase to 7,900 in 1997. The residential sector is estimated to have a compound growth rate in peak demand of only 1.2% over the next 15 years.
Commercial		
Atlantic Electric served 42,885 commercial customers in 1982. The highest concentrations of commercial activity are along the eastern seashore resort areas and in Camden, Gloucester and Cumberland Counties. At year-end, the Company served nine hotel-casinos in Atlantic City. A tenth was under construction. Also, 1,700 commercial customers were engaged in agricultural activities.	Total commercial customers accounted for 36% of the annual peak demand. This sector represented 34% of total sales, consuming 1.9 billion kilowatt-hours. Casinos, which are part of the commercial group, were 3% of the total peak demand and 5% of total sales.	The commercial sector is estimated to comprise about 39% of the total peak expected in 1997 and commercial sales are expected to increase to 2.6 billion kilowatt-hours, or 36% of projected total sales. The casino portion of the commercial sector will be 3.2% of the total peak demand and 4.4% of total projected sales. The entire commercial sector is expected to experience a 2.3% compound growth rate in peak demand over the 15 year period.
Industrial		
The Company served an average of 1,018 industrial customers in 1982. Principal manufacturing industries included food, chemicals, rubber and plastic products, stone, clay, glass and electrical and electronic equipment.	Industrial customers represented 15% of the annual peak demand. They consumed 1.2 billion kilowatt-hours, or 22% of total sales. About 34% of all industrial sales were to the stone, clay and glass industries.	The industrial class portion of total peak demand is forecast as 14% in 1997. Industrial sales are expected to grow to 1.5 billion kilowatt-hours or 20% of the total projected sales. The compound growth rate in peak demand for the industrial sector is expected to be 0.9%.



Managed Growth

The golden days of rapid growth, cheap fuels, low-cost borrowing and infrequent rate increases are long past. Today, the faltering economy, high prices and expensive energy are making growth a difficult and expensive process. This Company understands the challenge of growing while meeting its obligations to shareholders, customers, employees, regulators and the environment.

Management is able to respond rapidly to these challenges because improvements and programs are in place that permit the Company to meet the future with assurance. Atlantic Electric is proud of its reputation of being innovative, aggressive and unconventional. During 1982, the future availability of safe and adequate electrical service was advanced by these actions:

□ Refining corporate strategy
□ Identifying critical issues for the future
□ Strengthening planning and forecasting
□ Developing additional managerial skills and depth

Corporate Strategy. The Company's overriding objective has been to predict the future demands for electricity and to prepare to meet these needs. The problems dealt with, included the very high cost of constructing new facilities while keeping electricity affordable and maintaining earnings. At the conclusion of 1982, the strategies were developed and in place to more effectively manage load growth and energy consumption, raise necessary capital and keep future earnings at an acceptable level.

Critical Issues. Atlantic Electric further defined its obligations, setting these priorities for the near future.

□ Increased public acceptance of the Company's efforts to provide necessary energy and encourage conservation.
□ Longer-range preparedness for developments beyond the Company's control in load growth and regulatory actions.
□ Improved profitability and internal cash generation.

Planning and Forecasting. A quiet, but significant development during 1982 was the additional application of sophisticated computer programs to the Company's planning and forecasting tools. It is now possible to more effectively monitor economic and demographic conditions. It is also possible to analyze complex interrelationships which can alter electrical demands and have a financial impact on the Company. In addition, Atlantic Electric's planning horizon has been extended beyond 15 years through the use of this new technology.

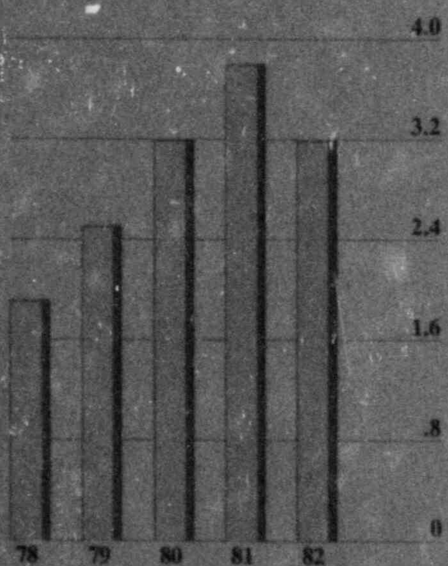
Managerial Skills and Depth. "Planned Diversity" is a strength that the Company has advocated over the years. Nowhere is it more applicable than in the area of developing managerial skills and depth. In recent years, senior managers have exchanged responsibilities for major operating segments of the Company. Annual management conferences and regular strategic planning meetings bring different points of view together for open discussion and resolution.

Ernest D. Huggard, Executive Vice President, inspects a turbine rotor being prepared for installation in a coal-fired generator at the B.L. England Generating Station at Beesley's Point.

Operating Efficiency

"We are very sensitive to the fact that the cost of electricity is a significant economic factor. Every effort is made to control costs, both to contribute to an improved standard of living for our customers and to increase our credibility when seeking rate relief."

Production Cost Per Kilowatt Hour
(in cents)



Productivity and cost containment were two areas on which the Company concentrated its efforts during 1982. As a result, Atlantic Electric was able to produce electric power at 15% less per kilowatt hour than in 1981. This reduction was due, in part, to greater availability of economical generating capacity, both within the Company and from utilities outside the service area. Overall, operating efficiency was improved by more effective use of resources in these areas:

- Energy production
- System operations
- Corporate administration

Energy Production. The use of lower-cost fuels was enhanced by installing more efficient pollution control equipment, which permitted greater burning of coal. This included two new electrostatic precipitators ($30 million) at the B.L. England Station and a new system to clean exhaust gas ($19 million) on Unit #6 at the Deepwater Station. Two coal-fired boilers at B.L. England were also rebuilt ($11 million), to increase reliability and extend useful life.

In addition, the Company was able to purchase economical coal-produced electricity from other utility systems. Significant sources in 1982 were the Delmarva Power & Light Company and the Allegheny Power System.

System Operations. A measure of efficiency that Atlantic Electric considers critical is the mandated level of its reserve generating capacity. We have shown a consistency of performance in terms of avoiding breakdowns, or forced outages, because of on-going preventive maintenance programs. The Company, as a member of the Pennsylvania-New Jersey-Maryland (PJM) Interconnection, is required to maintain a much smaller generating capacity reserve than the PJM system-wide average. This translates into a substantial savings in construction costs for generating capacity additions.

Improvements were also made in the transmission and distribution networks within the Atlantic Electric service area. Work was performed to raise the voltage on distribution lines and to increase the efficiency of other components of the electrical system.

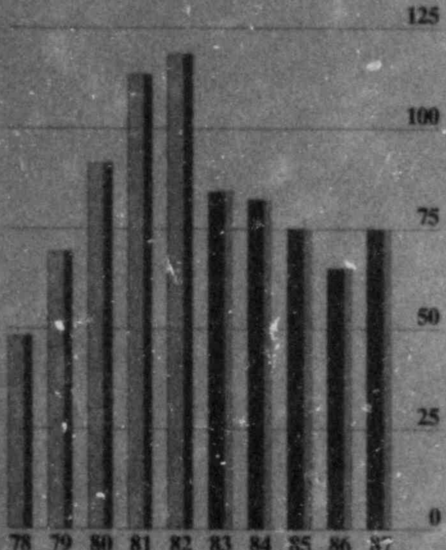
Corporate Administration. The consolidation of 800 management and administrative personnel into the new Administrative Complex in Pleasantville was completed in November. This modern, energy-efficient complex is projected to satisfy office space needs at least through 1990. During 1982, the scope of the training effort was increased, offering instruction in communication skills, time management and decision making, as well as courses in long-established areas such as leadership, instructor development and supervision. Consolidation and expansion were assisted by new computer technology that resulted in increased productivity and a decrease in the number of employees. Office automation now includes electronic word processing and message transmission, and the new corporate forecasting system was designed to permit transfer of massive amounts of data between computer-based models.

Frank J. Ficadenti, Senior Vice President—Engineering and Construction, visits the recently completed exhaust-gas cleaning system at Deepwater Generating Station.

System Flexibility

"The cost of meeting the increased energy needs of our customers in the future can be very expensive. Building maximum flexibility into the planning of our electric system will allow us to modify our plans to accommodate changing use patterns."

Cash Construction Expenditures
(in millions of dollars)



The electric energy needs of the Atlantic Electric service area are diverse. In order to meet the needs of our customer base, we have built a flexible and responsive generating and delivery system. The emphasis during 1982 was in these areas:

□ Adjusting to changing growth patterns
□ Joint participation in new generating units
□ Diversifying fuel and energy sources

Changing Growth Patterns. Designing and building an electric system that is geared to any eventuality is the challenge; construction of new base load generating capacity can take 8 to 10 years to complete. At the close of 1982, the projected annual growth rate over the next 15 year period for the Atlantic Electric service area was lowered to 1.6% from the previously projected 2.4%. Effective programs of load management, conservation initiatives, aided by basic demographic changes in our service area, should prove to be effective responses to the dilemmas posed by high interest rates and spiraling construction costs. At the same time, the Company retains its ability to meet the future needs of customers.

Joint Participation. One effective means of minimizing risk and improving system reliability has been through joint participation in new generating units built by other utilities.

Future base load capacity additions of 178 megawatts will come from contracted purchases from the Pennsylvania Power & Light Company's Susquehanna Station, expected to start service during 1983, and by a 5% ownership in Hope Creek Nuclear Generating Station, scheduled for service in 1986.

Diversifying Energy Sources. The variety of generating facilities, and the types of fuels consumed, are key elements in the Company's program of diversifying its sources of energy. Existing capacity is located throughout the service area and in adjacent states and spread over seven coal-fired units, four residual oil-fired units, four nuclear units and 12 combustion-turbine peaking generators. The largest amount of capacity in a single unit accounts for only about 10% of the total system capacity. Therefore, the unexpected loss of any generating unit within the Atlantic Electric system does not have a major impact on performance.

Those generating units capable of burning more than one type of fuel have the conversion equipment available should an unexpected change occur in the availability or cost of a particular fuel.

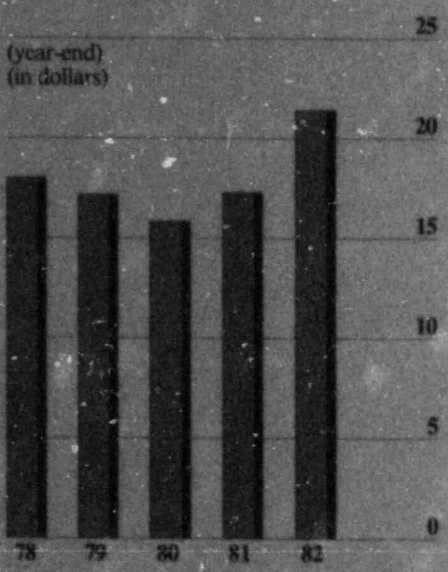
Fuel sources last year were 48% coal, 31% nuclear and 20% oil, with natural gas and interchange with other utilities constituting the remainder. During 1982, coal and nuclear were again the two most economical sources of power. Oil costs did level off, but remained high, and the price of natural gas was on the rise.

Atlantic Electric has built a flexible generating system, one that is designed to minimize the Company's dependence on imported oil. In 1973, at the time of the Arab oil embargo, over 70% of our customers' electrical needs came from oil. As a result of our aggressive conversion program, in 1983 we expect that less than 15% of these needs will come from oil.

Jerrold L. Jacobs, Senior Vice President—Finance, on Wall Street, en route to a meeting with a financial analyst.

"We are committed to meeting our obligations to shareholders, and to obtaining new financing at the lowest possible cost. By those standards, we demonstrated continuing progress during 1982."

Market Price Per Share of Common Stock



Financial Stability

The importance to the Company of adequate and timely rate relief was demonstrated during 1982 by the decline in earnings, but that issue should not overshadow other events. Atlantic Electric continues its efforts to improve financial stability by:

- ☐ Diversifying financing sources
- ☐ Increasing the equity base
- ☐ Seeking rate relief
- ☐ Improving dividend performance

Financing Sources. Construction requirements for 1982 were $118 million, up from $113 million the previous year. A significant positive development was that 42% of these needs were generated internally. The remainder of necessary capital was raised from a number of sources, including the sale of 2.1 million shares of common stock, floating rate notes and leasing of nuclear fuel.

Increased Equity. The long-term objective of reaching a minimum common equity ratio of 41% was achieved during 1982. One of the factors in reaching this important goal was the retirement (through repurchase) of $9.4 million of our outstanding Bonds. These purchases were made early in the year when interest rates were at peak levels. The Company paid an average 57¢ on the dollar for these Bonds.

At year-end the Company had no outstanding short-term debt. Among the reasons for this were the recovery of deferred energy costs from customers, the public sale of common stock and the receipt of $21 million as a result of leasing our nuclear fuel.

In addition, we replaced some of our short-term debt with an issue of $45 million of floating-rate notes. The floating rate feature enabled the Company to reduce interest expense when market rates fell. Tax benefits on $2.9 million of assets were purchased from an unrelated company, which had a positive impact on Federal taxes paid. Sale of common stock included a public offering of 1.5 million shares and the issuance of over 487,000 shares through the Company's Dividend Reinvestment and Stock Purchase Plan. Over 128,000 shares were sold through the Employee Stock Ownership Plan.

Rate Relief. Shortly after the decision, in January 1982, of the last base-rate case, the Company filed for an additional base-rate increase of $172.4 million. This request incorporated the changes in our cost of service since 1980 and a number of forecasted items intended to reduce or eliminate regulatory lag. This would provide us with an opportunity to earn an appropriate rate of return.

The rate case proceeding lasted most of the year, requiring extensive testimony to support our position and address current ratemaking policy issues. The decision by the BPU in December to grant us an increase of $73.7 million fell short of our needs. Because that decision was based essentially upon the Company's financial performance during the period ending September 30, 1982 and did not include the items necessary to eliminate regulatory lag, we will not be able to earn the allowed 15% return on common equity in 1983.

Dividend Performance. In June, 1982 the Board of Directors increased the dividend per share to 57¢ from 53¢ a quarter. This was the 30th year of paying higher dividends and marked the 64th year of dividend payments, accomplishments that are rivaled by few companies.

Michael A. Jarrett, Senior Vice President—Corporate Services, answers questions from customers during a radio talkshow.

Corporate Involvement

"Our responsibility to provide electric power to our customers cannot be separated from our responsibility to advocate its prudent use today and for generations to come."

1982 Public Education/ Information Programs

- Media Relations
- Speakers Bureau
- "Energy Doctor" TV Program
- "Customer Info" Bill Inserts
- Lineman Safety Program
- Educational Services Program
- Conservation Advertising
- Energy Demand Index

Communicating with the more than one million people who live and work in the Atlantic Electric service area continued to be of great importance. Regulators and legislators were key audiences. All three groups hold great influence over Atlantic Electric's future. During 1982, corporate involvement programs were expanded in these areas:

☐ Residents of the service area
☐ Government officials
☐ Employees

Residents. The indispensable nature of electricity and the increases in its cost in recent years have resulted in greater involvement by customers in the ratemaking process. They bring great pressure to bear on the regulators who make rate relief decisions. For these reasons, the Company continued and expanded its programs of citizen roundtable discussions, electric safety and energy efficiency presentations, the Speakers' Bureau, student telephone conferences, media appearances and interviews.

A precedent-setting move during 1982 was the decision to commit $3.7 million to promoting energy conservation. This action grew out of rate relief proceedings before the Board of Public Utilities. The funds will be used to expand home and business energy audits, develop time-of-use pricing structures, finance rebates to consumers who purchase energy-efficient appliances and provide low-cost loans for home conservation improvements.

Regulators and Legislators. The production, cost and use of electrical energy is now an important social as well as an economic issue. Taking an active part in regulatory and legislative developments has become a growing responsibility. For example, during 1982, legislation was considered in New Jersey that would require a certification of need for new generating capacity. Atlantic Electric officers and managers contributed their expertise and opinions to the shaping of this bill, suggesting changes that would serve consumers as well as the utility industry.

Public involvement also crossed state lines. National matters relating to utilities range from Federal income tax benefits for dividend reinvestment plans, to environmental issues surrounding the generation of power, to technical aspects of disposing of spent nuclear fuel.

Employees. All of the Company's employees are encouraged to address issues involving their profession and Company. Many do so by writing letters to the media and government officials, providing testimony and participating in community organizations. They act as private citizens, but are highly knowledgeable about the energy field.

"Breakfast with the President" has been the newest effort in the Company's continuing programs to keep its workers well informed and motivated. The "Speak-up" program offers employees unrestricted opportunities to voice their opinions and provide suggestions that are responded to by Management.

Corporate involvement is the catalyst for bringing all aspects of the Company's activities to the attention of those who need, judge, regulate, operate and support Atlantic Electric. During 1982, these audiences were reached with greater effectiveness and responded with increased understanding. For everyone, the result was greater efficiency, flexibility, strength and involvement.

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

General

As an investor-owned electric utility, Atlantic Electric is a participant in a capital intensive industry. In order to provide electric energy service to our customers, the Company has made an investment in property and plant of more than $1 billion. Electric energy rates to support the costs of owning, operating and maintaining this investment are regulated by the New Jersey Board of Public Utilities (BPU). Additional rate relief will be necessary to finance the Company's capacity and construction program, maintain service reliability and provide a fair rate of return on investment to our shareholders.

Liquidity and Capital Resources

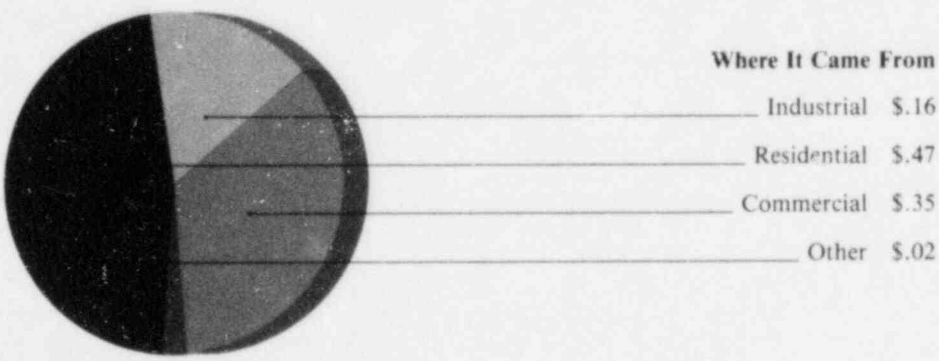
During 1980 through 1982, approximately 38% of the cash requirements for construction, debt maturities and sinking fund requirements were generated from operations exclusive of unbilled revenues, after deductions for dividends, and working capital needs but exclusive of changes in temporary cash investments. During the same period a total of $290 million was obtained from the sales of First Mortgage Bonds and Pollution Control Bonds, intermediate term borrowings, sale and leaseback of nuclear fuel, sales of common stock and preferred stock as well as issuance of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan and Employee Stock Ownership Plan. Interim financing was provided by the issuance of short-term debt.

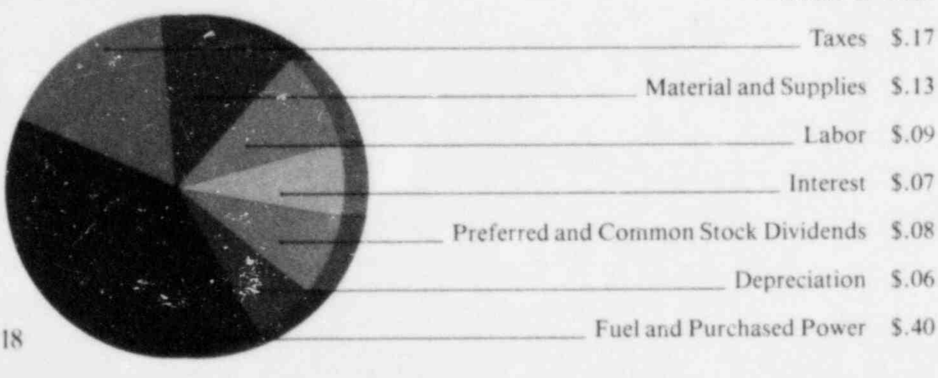
During 1982, cash construction expenditures aggregated $118 million which is the highest ever experienced by the Company. However, the Company has made significant progress in the reduction of our construction program. The five year (1983-1987) cash construction expenditures are currently projected to be $382 million, reduced from the previously projected $716 million. This reduced level of projected construction expenditures is a direct result of the Company's revised capacity plan. Our current forecast of peak load growth for the period 1983-1997 is 1.6% per year. This forecast reflects an aggressive program of promoting conservation, implementing effective load management techniques and promoting economic alternative energy sources. The current construction program was developed in response to the need to replace existing plant, upgrade our transmission and distribution system, and provide for projected growth. Due to inflation and changes in technology, depreciation accruals are not adequate to fund the replacement of existing utility plant when necessary (see supplementary information concerning the effects of inflation, page 35).

Assuming adequate rate relief, our estimates indicate that over the five year period from 1983 to 1987 an average of at least 45% of our total cash construction requirements, debt

1982 Revenue Dollar

Year to Date—December 31, 1982





maturities and sinking fund requirements will be generated internally. The additional cash requirement will be raised through the capital markets with the objective of maintaining a capital structure of less than 48% long-term debt, a minimum of 41% common equity with the balance composed of preferred stock. Our current capitalization ratios are 47% long-term debt, 42% common and 11% preferred stock. We will continue to use short-term financing on an interim basis and currently maintain total lines of credit of $115,000,000. Refer to Note 11 of Notes to Financial Statements for additional details on short-term financing.

The tabulation on page 37 includes key indicators which we believe are helpful in evaluating the performance of the Company over the past five years. The tabulation also includes certain unaudited supplementary information showing estimates of the effects of changing prices. This data, which should be viewed as estimates of the approximate effects of inflation rather than as precise measures, is expressed in the dollars of the earliest comparative year (1978). The trends demonstrated reflect the need to control costs and point out the responsibility of regulatory agencies to provide timely and adequate rate relief. Additional supplementary information concerning the effects of changing prices is included on page 35.

Results of Operations

The costs of owning the Company's over $1 billion investment (original cost before accumulated depreciation) in property and plant (depreciation, taxes and cost of invested funds) were equivalent to 38% of operating revenues in 1982. Net energy and purchased power costs were 40% of operating revenues with labor, materials and other costs accounting for the remaining 22%.

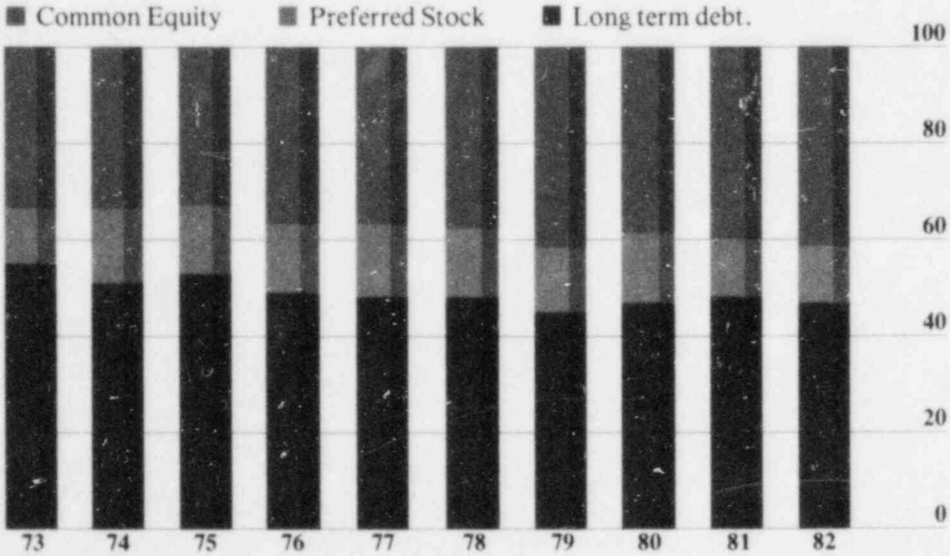
Revenues

Operating revenues have increased from $358 million in 1980 to $444 million in 1982. This increase reflects the net result of base rate increases, changes in the Levelized Energy Clause (LEC), the recording of unbilled revenue and a net decrease in kilowatt-hour sales. The effect of the above factors on 1982 and 1981 revenues is shown below:

(Thousands of Dollars)	1982		1981	
Base Rate Increases	$ 10,021	2.1%	$ 37,977	10.6%
LEC Rate Increase (Decrease)	(21,841)	(4.6)	70,677	19.8
Kilowatt-hour Sales Increase (Decrease)	(6,890)	(1.5)	2,638	0.7
Unbilled Revenues Current Year	(6,795)	(1.4)	—	—
	($25,505)	(5.4%)	$111,292	31.1%

Additional changes in operating revenues will reflect general economic conditions in our service area, the timeliness and adequacy of rate relief and the results of load management and conservation programs.

Year-End Capitalization (%)



Operating Expenses

The aggregate of fuel, interchange and purchased power costs have decreased by 23% during 1982 reflecting the availability of lower cost nuclear generation, a shift in the Company's interchange power position and favorable purchases of capacity from other utilities which have resulted in less use of more expensive generation facilities and sources.

The following presents our progress toward greater use of lower cost energy sources:

	1982		1981		1980	
Sources:	%	¢/kwh	%	¢/kwh	%	¢/kwh
Coal	48	2.573	45	2.177	37	1.504
Nuclear	31	.518	22	.384	21	.379
Oil	20	5.137	20	5.711	24	4.783
Natural Gas	3	5.133	4	[illegible]	8	4.191
Interchange	(2)	(4.985)	9	[illegible]	10	5.987
	100	2.457	100	[illegible]	100	2.731

Net Deferred Energy Costs of $23,273,000 in 1982 and $14,043,000 in 1981 represent the recognition via increased revenues of unrecovered fuel costs which were deferred during 1980 and 1981. At December 31, 1982, all previously unrecovered LEC costs had been recovered. The amount of $15,869,000 shown on the Balance Sheet as Deferred Energy Revenues at December 31, 1982 represents an over-recovery of energy costs which is reflected in the current LEC billing rate (see Note 3 of Notes to Financial Statements).

Increases in power production and other operation and maintenance costs reflect increases in the price of materials, supplies and services as well as increases in wages and employee benefits.

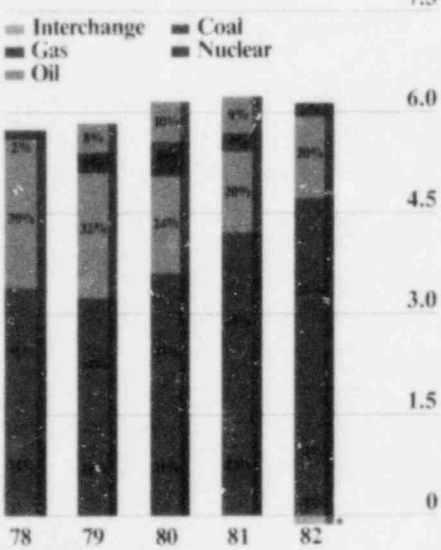
Increases in depreciation expense reflect increased investment in depreciable plant.

New Jersey gross receipts taxes have increased in 1982 reflecting 1981 revenue increases. Such taxes are recognized as expenses in the year of payment.

Other Expenses

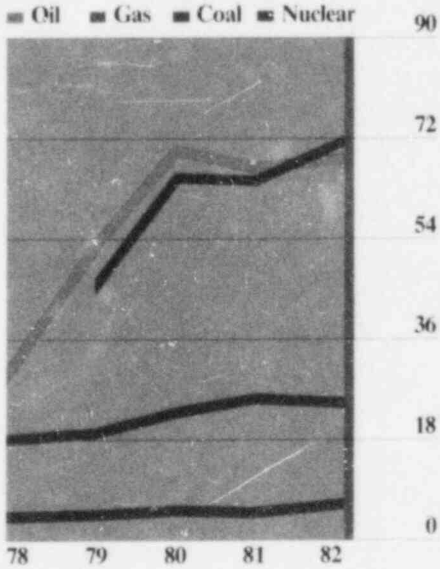
Interest expenses have increased 38% since 1980 as a result of the continuation of historically higher interest rates. Recent debt financing has been of an intermediate term in an effort to maintain financing flexibility in support of our reduced construction program. Even though we have made use of pollution control financing and intermediate term variable rate debt, the embedded cost of long term debt has risen, reflecting the refinancing of maturing debt at higher prevailing rates, from 8.01% in 1980 to 8.86% in 1982.

Sources of Energy
(% of utility system)
(in billions of kilowatt-hours)



*Exported energy

Average Cost of Fuel in Cents Per Gallon
Month of December



Report of Management

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

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

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

Auditors' Opinion

Deloitte Haskins & Sells
Certified Public Accountants

One World Trade Center
New York, New York 10048

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

We have examined the balance sheets of Atlantic City Electric Company as of December 31, 1982 and 1981 and the related statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change in 1982, with which we concur, in the method of accounting for unbilled revenues, as described in Note 4 to the financial statements.

Deloitte Haskins & Sells

January 31, 1983

Statement of Income and Retained Earnings

For the Years Ended December 31 (Thousands of Dollars Except Per Share Amounts)	1982	1981	1980
Operating Revenues—Electric (Notes 3 and 4)	$444,178	$469,683	$358,391
Operating Expenses:			
Energy			
Fuel	153,986	154,652	131,894
Interchange	(7,459)	39,312	38,029
Deferred Costs	23,273	14,043	(20,281)
Net Energy	169,800	208,007	149,642
Purchased Power—Exclusive of Fuel	7,482	7,238	1,827
Power Production—Operation and Maintenance	44,650	36,206	28,819
Other Operation and Maintenance	55,902	50,366	44,890
Depreciation	29,962	25,161	23,593
Taxes Other Than Federal Income Taxes (Note 14)	60,548	44,200	35,546
Federal Income Tax Expense (Note 2)	13,064	24,994	17,841
Total Operating Expenses	381,408	396,172	302,158
Operating Income	62,770	73,511	56,233
Other Income:			
Allowance for Equity Funds Used During Construction	3,354	6,045	4,997
Miscellaneous Income—Net	3,571	3,684	2,609
Total Other Income	6,925	9,729	7,606
Income Before Interest Charges	69,695	83,240	63,839
Interest Charges:			
Interest on Long Term Debt	36,650	30,831	26,762
Interest on Short Term Debt	2,362	8,150	1,573
Other Interest Expense	633	1,323	321
Total Interest Charges	39,645	40,304	28,656
Allowance for Borrowed Funds Used During Construction	(5,079)	(4,052)	(3,355)
Net Interest Charges	34,566	36,252	25,301
Income Before Cumulative Effect of Change in Accounting Method	35,129	46,988	38,538
Cumulative Effect to January 1, 1982 of Change in Accounting Method, Net of Federal Income Taxes ($11,863) (Note 4)	13,926	—	—
Net Income	49,055	46,988	38,538
Retained Earnings at Beginning of Year	121,078	108,977	100,697
	170,133	155,965	139,235
Dividends Declared:			
On Cumulative Preferred Stock	7,353	7,508	6,340
On Common Stock	33,955	27,379	23,918
Total Dividends Declared	41,308	34,887	30,258
Retained Earnings at End of Year	$128,825	$121,078	$108,977
Earnings for Common Stock:			
Net Income	$ 49,055	$ 46,988	$ 38,538
Less Preferred Dividend Requirements	7,368	7,531	6,161
Balance Available for Common Stock	$ 41,687	$ 39,457	$ 32,377
Average Number of Shares of Common Stock Outstanding (Thousands)	15,116	13,034	12,372
Per Common Share:			
Earnings Before Cumulative Effect of Change in Accounting Method	$ 1.84	$ 3.03	$ 2.62
Cumulative Effect to January 1, 1982 of Change in Accounting Method	.92	—	—
Total Earnings	$ 2.76	$ 3.03	$ 2.62
Dividends Declared	$ 2.24	$ 2.08	$ 1.93
Dividends Paid	$ 2.20	$ 2.04	$ 1.90

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

Statement of Changes in Financial Position

For the Years Ended December 31 (Thousands of Dollars)	1982	1981	1980
Source of Funds:			
Funds from Operations:			
Income Before Cumulative Effect of Change in Accounting Method	$ 35,129	$ 46,988	$ 38,538
Principal Non-Cash Charges (Credits) to Income:			
Depreciation	29,962	25,161	23,593
Amortization of Nuclear Fuel	4,863	2,951	1,595
Allowance for Funds Used During Construction	(8,433)	(10,097)	(8,539)
Deferred Federal Income Taxes—Net	11,427	14,648	6,158
Investment Tax Credit Adjustments—Net	12,547	7,141	5,045
Other—Net	650	458	422
Funds from Operations	86,145	87,250	66,812
Cumulative Effect of Change in Accounting Method	13,926	—	—
Funds from Outside Sources:			
Long Term Debt	45,000	60,000	75,000
Pollution Control Funds (Held) Released by Trustees	15,098	(27,874)	—
Subtotal	60,098	32,126	75,000
Sale of Common Stock	41,166	32,441	6,514
Sale of Preferred Stock	—	—	20,000
Sale of Nuclear Fuel	21,140	—	—
Increase (Decrease) in Short Term Debt	(25,825)	10,525	(24,175)
Funds from Outside Sources	96,579	75,092	77,339
Other—Net	3,413	(3,451)	(717)
Total Source of Funds	$200,063	$158,891	$143,434
Application of Funds:			
Gross Additions to Utility Plant	$126,893	$123,318	$ 97,330
Property Abandonment Costs	—	(15,956)	—
Allowance for Funds Used During Construction	(8,433)	(10,097)	(8,539)
Net	118,460	97,265	88,791
Dividends on Preferred Stock	7,353	7,508	6,340
Dividends on Common Stock	33,955	27,379	23,918
Retirement and Maturity of Long Term Debt	28,996	5,682	23,847
Property Abandonment Costs	—	15,956	—
Conversion of Preferred Stock	847	1,993	877
Redemption of Preferred Stock	800	800	1,600
Investments in Subsidiary Companies	126	(96)	320
Increase (Decrease) in Working Capital*	9,526	2,404	(2,259)
Total Application of Funds	$200,063	$158,891	$143,434
Increase (Decrease) in Working Capital*			
Cash and Cash Items	$ 13,286	$ 3,845	$ (889)
Accounts Receivable	(7,275)	10,740	6,727
Unbilled Revenues	18,994	—	—
Fuel	(2,645)	5,890	1,422
Materials and Supplies	(420)	2,365	1,500
Deferred Energy Costs and Revenues	(39,046)	(14,104)	18,741
Accounts Payable	3,923	2,959	(11,202)
Taxes Accrued	8,512	(5,285)	(4,587)
Accumulated Deferred Taxes	7,508	3,894	(6,500)
Other	6,689	(7,900)	(7,471)
Increase (Decrease) in Working Capital	$ 9,526	$ 2,404	$ (2,259)

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

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

Balance Sheet

December 31 (Thousands of Dollars)	1982	1981
Assets		
Electric Utility Plant (Note 6):		
In Service:		
Production	$ 492,415	$ 422,162
Transmission	170,297	154,418
Distribution	300,079	280,842
General	37,632	20,274
Total	1,000,423	877,696
Less Accumulated Depreciation	247,008	225,372
Net	753,415	652,324
Construction Work in Progress	152,403	158,995
Nuclear Fuel (Notes 1 and 6)	495	28,237
Less Accumulated Amortization	—	7,692
Net	495	20,545
Electric Utility Plant—Net	906,313	831,864
Non Utility Property and Investments (Note 7)	6,432	5,537
Pollution Control Construction Funds Unexpended—Held by Trustees	12,776	27,874
Current Assets:		
Cash and Working Funds (Note 11)	3,752	2,915
Temporary Cash Investments	18,249	5,800
Accounts Receivable:		
Utility Service	25,967	35,410
Miscellaneous	8,037	5,669
Allowance for Doubtful Accounts	(1,200)	(1,000)
Unbilled Revenues (Note 4)	18,994	—
Fuel (at average cost)	26,931	29,576
Materials and Supplies (at average cost)	16,221	16,641
Prepayments	9,382	3,771
Deferred Energy Costs (Notes 1 and 3)	—	23,177
Total Current Assets	126,333	121,959
Deferred Debits:		
Property Abandonment Costs (Notes 1 and 12)	19,680	19,934
Unamortized Debt Expense	3,257	3,598
Other	3,178	3,023
Total Deferred Debits	26,115	26,555
Total Assets	$1,077,969	$1,013,789

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

December 31 (Thousands of Dollars)	1982	1981
Liabilities and Capitalization		
Capitalization:		
Common Shareholders' Equity:		
Common Stock (Note 8)	$ 49,722	$ 43,284
Premium on Capital Stock	195,293	160,499
Capital Stock Purchase Plan	48	78
Capital Stock Expense	(1,738)	(1,730)
Retained Earnings	128,825	121,078
Total Common Shareholders' Equity	372,150	323,209
Cumulative Preferred Stock Not Subject to Mandatory Redemption (Note 9)	42,684	43,531
Cumulative Preferred Stock Subject to Mandatory Redemption (Note 9)	54,400	55,200
Long Term Debt (Note 10)	368,220	371,769
Total Capitalization	837,454	793,709
Current Liabilities:		
Current Portion:		
Cumulative Preferred Stock Subject to Mandatory Redemption (Note 9)	800	800
Long Term Debt (Note 10)	39,050	19,620
Notes Payable to Banks (Note 11)	—	7,500
Commercial Paper (Note 11)	—	18,325
Accounts Payable	21,946	25,869
Taxes Accrued	4,468	12,980
Interest Accrued	5,800	5,757
Dividends Declared	11,278	9,509
Deferred Energy Revenues (Notes 1 and 3)	15,869	—
Customer Deposits	2,757	2,810
Accumulated Deferred Taxes (Notes 1 and 2)	8,737	16,245
Other	4,668	7,505
Total Current Liabilities	115,373	126,920
Deferred Credits:		
Accumulated Deferred Investment Tax Credits (Notes 1 and 2)	49,272	36,725
Accumulated Deferred Federal Income Taxes (Notes 1 and 2)	64,936	53,509
Other	10,934	2,926
Total Deferred Credits	125,142	93,160
Commitments and Contingent Liabilities (Note 12)		
Total Liabilities and Capitalization	$1,077,969	$1,013,789

Notes to Financial Statements

Note 1. Significant Accounting Policies:

Regulation. The accounting and rates of the Company are subject to the regulations of the State of New Jersey, Department of Energy, Board of Public Utilities (BPU) and in certain respects to the Federal Energy Regulatory Commission (FERC). All significant accounting policies and practices used in the determination of rates are also used for financial reporting purposes. The financial statements are prepared on the basis of the Uniform System of Accounts prescribed by FERC.

Operating Revenues. Prior to 1982, revenues were recognized when electric energy service bills were rendered to customers. As of January 1, 1982 the Company changed its method of accounting to recognize revenues for services rendered subsequent to the last billing cycle and prior to the end of the period. See Note 4 for additional information concerning this accounting change.

Electric Utility Plant. Property is stated at original cost. Generally the plant is subject to a first mortgage lien. The cost of property additions, including replacement of units of property and betterments, is capitalized. Included in certain additions is an Allowance for Funds Used During Construction (AFDC) which is defined in the applicable regulatory systems of accounts as the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFDC has been calculated using a rate of 8.5% for 1982, as ordered by the BPU (See Note 3), and 8% for 1981 and 1980. Such rates are less than the maximum allowed by the FERC.

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

Depreciation and Maintenance. The Company provides for straight-line depreciation based on the estimated remaining life of transmission and distribution property and, based on the estimated service life, for all other depreciable property. Depreciation applicable to nuclear plant includes certain amounts for decommissioning. The overall composite rate of depreciation was approximately 3.3% for 1982, 1981 and 1980. Accumulated depreciation is charged with the cost of depreciable property units retired together with removal costs less salvage and other recoveries.

Nuclear Fuel. The Company's amortization of Salem Units No. 1 & 2 nuclear fuel is based on a rate using the number of units of thermal energy produced during the life of the fuel, plus a factor representing the estimated future costs of storage and disposal of spent nuclear fuel (See Note 6).

Nuclear fuel requirements for Peach Bottom Units No. 2 and 3 are being provided by the operating company for Peach Bottom through a fuel purchase contract. The Company is responsible for payment of its proportionate interest of the cost of the fuel consumed during the term of the contract. Beginning in 1982, amounts were provided for a portion of the estimated future costs of storage and disposal of spent nuclear fuel.

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

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

In addition, the Company provides deferred Federal Income Taxes relating to the deferral of energy costs, unbilled revenues and, up to December 31, 1980, the use of the repair allowance provisions of ADR. Investment Tax Credits are deferred on the balance sheet and are restored to income over the life of the related property.

Gains on reacquired debt are recognized currently for book purposes and as a reduction of property accounts for tax purposes. Therefore, such gains result in reduced tax depreciation expense over the lives of the property. Accordingly, the Company provides related deferred Federal Income Taxes on its books.

Retirement Plan. The Company has in effect a non-contributory defined benefit retirement plan covering all regular employees. Concurrent with a 1979 amendment, the Board of Directors established a funding policy providing for direct payment, from plan assets, of retirement benefits relating to services on or subsequent to January 1, 1979. (Benefits were previously provided by the purchase of individual annuities upon the retirement of Plan participants.) Such funding arrangements were also

extended to service prior to January 1, 1979 for those employees consenting to the change. Costs of the plan are determined under the aggregate cost method.

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

The Hope Creek No. 2 investment will be amortized over a 15 year period beginning in 1983. The off-shore nuclear units are being amortized over a 20 year period.

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

Debt premium, discount and expenses are amortized over the life of the related debt.

Note 2. Federal Income Taxes:

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

Years Ended December 31 (Thousands of Dollars)	1982	1981	1980
Net Income	$49,055	$46,988	$38,538
Federal Income Tax Expense (as below)	27,004	27,332	19,700
Book Income Subject to Tax	$76,059	$74,320	$58,238
Income Tax at Statutory Rate (46%)	$34,987	$34,187	$26,789
Less:			
Allowance for Funds Used During Construction	3,879	4,645	3,842
Capitalized Overheads	1,301	1,242	1,179
Investment Tax Credits—Used	1,485	1,075	914
Other	1,318	(107)	1,154
Total Federal Income Tax Expense	$27,004	$27,332	$19,700
Federal Income Tax Expense is comprised of the following:			
Federal Income Tax Currently Payable	$ (1,430)	$13,124	$ (667)
Deferred Federal Income Taxes (as below)	78	4,438	12,657
Investment Tax Credit—Earned	15,901	8,507	6,765
Investment Tax Credit—Used	(1,485)	(1,075)	(914)
Federal Income Tax Expense included in Operating Expenses	13,064	24,994	17,841
Deferred Federal Income Taxes on the Cumulative Effect of Change in Accounting Method (as below)	11,863	—	—
Federal Income Tax Expense	24,927	24,994	17,841
Federal Income Tax—Other Income:			
Currently Payable	(242)	826	1,859
Deferred (as below)	2,319	1,512	—
Total	2,077	2,338	1,859
Total Federal Income Tax Expense	$27,004	$27,332	$19,700
Deferred Federal Income Taxes result from the following timing differences:			
Liberalized Depreciation	$ 9,879	$ 6,195	$ 4,189
Repair Allowance	—	—	2,551
Amortization—Accelerated Depreciation, Repair Allowance and Property Abandonment Costs	(692)	(708)	(625)
Property Abandonment Costs	—	6,700	—
Gains on Reacquired Debt and Purchased Tax Benefits	2,319	1,512	—
Other	(79)	949	43
Total	11,427	14,648	6,158
Current Liabilities:			
Deferred Energy Costs	(10,661)	(6,488)	8,620
Deferred Revenue	4,757	(2,210)	(2,121)
Unbilled Revenues	8,737	—	—
Total Deferred Federal Taxes	$14,260	$ 5,950	$12,657

Investment tax credit earned in 1982, 1981 and 1980 includes \$1,869,000, \$291,000 and \$806,000 respectively, representing the Company's use of the additional investment tax credit available under the Tax Reduction Act of 1975.

The Company has purchased tax benefits on equipment having an aggregate tax basis of approximately \$2,900,000 in 1982 and \$2,600,000 in 1981. Such tax benefits include 6% investment tax credit and an ACRS life of 3 years.

The Company's federal income tax returns for 1979 and prior years have been examined by the Internal Revenue Service and the Company's federal income tax liabilities for all years through 1976 have been determined and settled. In January 1983, the Company received a revenue agent's report in which certain deficiencies in tax have been proposed for the years 1977 through 1979. The Company intends to protest the proposed deficiencies and is of the opinion that the final settlement of its federal income tax liabilities for these years will not have a material adverse effect on its results of operations or financial position.

Note 3. Rate Increases:

During the three year period ended December 31, 1982 base rate increases have been approved by the BPU as follows, based in each case on the applicable test year indicated:

Date Petition	Amount Requested (millions)	Date Effective	Amount Approved (millions)	Increase In Revenue	Test Year
November 1979	\$ 85.7(1)	Sept. 26, 1980	\$50.6	16.0%	June 30, 1980
August 1981	—	Jan. 29, 1982	11.3	—	June 30, 1980
February 1982	172.4(2)	Dec. 14, 1982	73.7	15.0%	Sept. 30, 1982

(1) The Company's request included \$16,100,000 (including disposal costs) to recognize the cost of owning and operating its share of the Salem Unit No. 2 Nuclear Generating Station. This amount was revised to \$14,400,000 (excluding disposal costs) in August 1981 during a second phase of the case.
(2) The request was updated to \$162,500,000 after the actual data for the test year was reported.

On December 6, 1982 the BPU granted the Company an increase of \$73,700,000 in base rates. The increase is equivalent to approximately 16% of the Company's 1982 revenues. The BPU decision granted an overall return of 11.7% with a return on common equity of 15% and allowed the Company to amortize the abandonment costs associated with Hope Creek No. 2 ratably over a 15 year period without a return on the unamortized balance. In reaching its decision the BPU computed the Company's revenue requirement by reducing the Company's rate base to reflect deferred taxes associated with unbilled revenues as if the Company had accrued unbilled revenues on its books during the test year. This rate base reduction lowered the rate increase granted to the Company. Further, the BPU directed the company to change its accounting treatment to record unbilled revenues as of the time service is furnished (See Note 4). In addition, the BPU increased the Company's AFDC rate from 8% to 8.5%.

The BPU has granted a second phase of the base rate proceeding to review the Company's load forecast and capacity plans and the revenue requirements associated with the Company's purchase of capacity and energy from Pennsylvania Power & Light's Susquehanna Unit No. 1, which is expected to begin commercial service in May 1983. The second phase would also review residential customer service charges and revenue requirements associated with land held for future use. The Company cannot presently predict the final outcome of these proceedings or the effect, if any on the Company.

Effective October 1, 1981 the BPU ordered a separate base rate and a separate marginal energy adjustment clause (MEC) for casino hotels in Atlantic City. The effect of this change by the BPU is to increase the rates for such customers with a corresponding reduction in the rates paid by all other customers. The casino hotels are seeking further proceedings before the BPU and have filed appeals in the courts on this issue. The Company cannot presently predict the final outcome of these proceedings or the effect, if any, on the Company.

In December 1981, the Company proposed a reduction in its LEC based on declining unrecovered energy costs and a slight decrease in the projected 1982 total cost of energy. During 1982 the BPU ordered reductions in the Company's annual LEC revenues of approximately \$159,000,000. The BPU also ordered an interim annual reduction in MEC revenues of approximately \$2,000,000 in January 1982, followed by an annual increase of approximately \$5,000,000 in August 1982. The combination of the LEC decreases, the MEC net increase and the January, 1982 base rate increase of \$11,300,000 resulted in a \$145,000,000 aggregate annual reduction in the Company's rates in 1982.

On January 13, 1983, the BPU ordered a 1983 reduction in MEC revenues of approximately \$6,000,000 on an annual basis and a continuation of the LEC at its present level.

Note 4. Change in Accounting for Revenues:

As a part of the December, 1982 rate decision (See Note 3) the BPU directed the Company to adopt a policy of recording revenues based on service rendered to the end of the period. The Company adopted this accounting change in 1982.

As required by generally accepted accounting principles, the adoption of this change in accounting has been effected as of the beginning of the accounting period (January 1, 1982). Prior to this change, the Company recognized revenues when bills were rendered to customers based on monthly cycle meter readings. In recording unbilled revenues, the Company estimates the revenues associated with service rendered from the time the meters were last read to the end of the period. The implementation of this change in accounting reduced the current year's income before the cumulative effect of such change by $3,669,000 ($.24 per share) after the related income taxes of $3,126,000. See Note 15 for restated 1982 quarterly earnings. The cumulative effect of this change as of January 1, 1982 amounts to $13,926,000 (after the related provision for federal income taxes of $11,863,000) and is separately identified in the 1982 Statement of Income and Retained Earnings. Allocation of the cumulative effect to prior years would not materially change previously reported earnings for 1981 or 1980.

Note 5. Retirement Plan:

The cost to the Company in providing a retirement plan for its employees was $5,908,000, $5,476,000 and $4,652,000 in 1982, 1981 and 1980, respectively. Approximately 80% of these costs were charged to operating expense and the remaining 20%, which was associated with construction labor, was charged to the cost of new utility plant.

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

January 1 (Thousands of Dollars)	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	$72,156	$67,810
Nonvested	1,495	1,370
Total	$73,651	$69,180
Net Assets available for benefits	$85,823	$83,989

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

Note 6. Jointly-Owned Generating Stations and Nuclear Fuel:

The Company participates with other utilities in the construction and operation of several jointly-owned electric production facilities.

The amounts shown represent the Company's share of each jointly-owned plant at December 31, and includes an allowance for funds used during construction.

Station	Energy Source	Company's Share	Electric Plant in Service 1982	Electric Plant in Service 1981	Construction Work in Progress 1982	Construction Work in Progress 1981	Generation 1982	Generation 1981
			(Thousands of Dollars)				(KWHs)	
Keystone	Coal	2.47%	$ 5,808	$ 5,752	$ 495	$ 173	261,237	213,104
Conemaugh	Coal	3.83	11,547	11,189	92	165	273,738	290,209
Peach Bottom	Nuclear	7.51	72,584	63,778	1,587	7,438	996,769	730,034
Salem(1)	Nuclear	7.41	145,505	140,849	4,140	3,647	883,903	577,113
Hope Creek(2)	Nuclear	5.00	—	—	99,555	72,207	—	—

(1) Salem Unit 2 was placed in commercial operation in October, 1981. (2) Hope Creek Unit 2 was cancelled in December 1981 (See Note 12).

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

In November 1982 the Company sold, at no gain or loss, nuclear fuel materials, which were in use or in preparation for use at the Salem and Hope Creek generating stations, aggregating $21,140,000 to a lessor for subsequent leaseback. Energy production based lease payments of $522,736 were charged to fuel expense for November and December, 1982. Under this agreement, the Company continues to have responsibility for management of the fuel. Under certain conditions of termination, the Company will be required to purchase all nuclear fuel then existing at a price which will allow the lessor to recover its net investment costs.

Note 7. Investment in Subsidiary Companies:

The Company's investment in Deepwater Operating Company (Deepwater), a wholly-owned subsidiary which operates generating and process steam units owned by the Company, was $2,841,000 at December 31, 1982 and 1981. The principal asset of Deepwater is working capital in which the equity of the Company is fairly represented by its investment. The net production costs of Deepwater (after deducting contract charges) are charged to the Company. These costs are included in the Company's accounts classified as to operation, maintenance and taxes.

The Company also has an investment in Atlantic Housing, Inc. (Housing), a wholly-owned subsidiary, which amounted to $946,987 and $820,538 at December 31, 1982 and 1981, respectively. Housing's principal investment is a 20% undivided interest as tenant in common in a future generating station and industrial site.

Note 8. Common Stock:

As of December 31, 1982 and 1981, the Company's Common Stock included 25,000,000 and 18,000,000 authorized shares of Common Stock ($3 par value), respectively. Shares issued and outstanding:

	1982	1981	1980
Beginning of Year	14,427,990	12,538,880	12,196,486
Sale of Common Stock	1,500,000	1,500,000	—
Dividend Reinvestment and Stock Purchase Plan	487,601	302,726	257,095
Employee Stock Ownership Plan	128,797	16,641	54,616
Conversion of Preferred Stock	29,633	69,743	30,683
Shares at end of year	16,574,021	14,427,990	12,538,880
At $3 Par Value	$49,722,063	$43,283,970	$37,616,640

Premium on Capital Stock was credited in 1982, 1981 and 1980 with $34,793,441, $26,785,552 and $5,428,822 respectively representing the excess of proceeds over the par value of shares of Common Stock issued, sold and converted. At December 31, 1982 there were 1,053,168 shares of Common Stock authorized for issuance pursuant to its Dividend Reinvestment and Stock Purchase Plan which became effective in 1976 and 223,841 shares of Common Stock authorized for issuance pursuant to its Employee Stock Ownership Plan. At December 31, 1982 93,970 shares of Common Stock were reserved for the conversion of 5⅞% Convertible Series of Preferred Stock.

Note 9. Cumulative Preferred Stock:

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

Note 9(A).

Cumulative Preferred Stock Not Subject To Mandatory Redemption:

December 31	1982	1981	Current Redemption Price Per Share
	(Thousands of Dollars)		
$100 Par Value—Cumulative and Non-participating shares issued and outstanding:			
Series:			
4% 77,000 Shares	$ 7,700	$ 7,700	$105.50
4.10% 72,000 Shares	7,200	7,200	101.00
4.35% 15,000 Shares	1,500	1,500	101.00
4.35% 36,000 Shares	3,600	3,600	101.00
4.75% 50,000 Shares	5,000	5,000	101.00
5.0% 50,000 Shares	5,000	5,000	100.00
5⅛% Convertible Series:			
26,844 Shares (1982)	2,684	—	103.00
35,313 Shares (1981)	—	3,531	
7.25% 100,000 Shares	10,000	10,000	104.89
Total	$42,684	$43,531	

Cumulative Preferred Stock Not Subject to Mandatory Redemption is redeemable solely at the option of the Company upon payment of the redemption price plus accumulated and unpaid dividends to the date fixed for redemption. Premium on such Preferred Stock was $93,000 at December 31, 1982 and 1981.

The 5⅛% Convertible Series, of which 8,467, 19,927 and 8,767 shares were converted in 1982, 1981 and 1980 respectively, is convertible (subject to adjustment in certain events) into Common Stock at the rate of 3.5 shares of Common Stock for each share of Preferred.

Note 9(B).

Cumulative Preferred Stock Subject To Mandatory Redemption:

	Par Value	December 31 1982	1981	Current Redemption Price Per Share	Refunding Restricted Prior to
		(Thousands of Dollars)			
Shares Issued and Outstanding:					
Series:					
8.40% 100,000 Shares	$100	$10,000	$10,000	$115.00	
9.96% 152,000 Shares (1982)	100	15,200	—	107.14	August 1, 1984
160,000 Shares (1981)	100	—	16,000		
$8.25 100,000 Shares	None	10,000	10,000	107.20	November 1, 1987
$9.45 200,000 Shares	None	20,000	20,000		November 1, 1989
		55,200	56,000		
Less Portion due within one year		800	800		
Total		$54,400	$55,200		

On August 1, annually 8,000 shares of the 9.96% Series must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of the Company, an additional 8,000 shares may be redeemed on any sinking fund date, without premium, up to 40,000 shares in the aggregate. The Company redeemed 8,000 shares at par in both 1982 and 1981.

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

On February 1, 1985, and annually thereafter, 4,000 shares of the 8.40% Series must be redeemed throught the operation of a sinking fund at a redemption price of $100 per share. At the option of the Company, an additional 4,000 shares may be redeemed on any sinking fund date without premium, up to 32,000 shares in the aggregate.

On November 1, 1986, and annually thereafter, 40,000 shares of the $9.45 No Par Preferred Stock Series must be redeemed through the operation of a sinking fund at a redemption price of $100 per share. At the option of the Company, an additional 40,000 shares may be redeemed on any sinking fund date, without premium, up to 50,000 shares in the aggregate.

The minimum sinking fund provisions of the above series aggregate $1,050,000 in 1983 and 1984, $1,450,000 in 1985, and $5,450,000 in 1986 and 1987.

Note 10. Long Term Debt:

December 31 (Thousands of Dollars)	1982	1981
First Mortgage Bonds:		
3¼% Series due (March 1) 1982	$ —	$ 4,620
3¼% Series due (January 1) 1983	4,050	4,050
9¼% Series due (May 1) 1983	35,000	35,000
3% Series due (March 1) 1984	5,000	5,000
9% Pollution Control Series due (May 1) 1984	21,000	21,000
3¼% Series due (March 1) 1985	10,000	10,000
4½% Series due (January 1) 1987	10,000	10,000
3⅞% Series due (April 1) 1988	10,000	10,000
4½% Series due (April 1) 1989	2,775	5,000
4½% Series due (March 1) 1991	10,000	10,000
4½% Series due (July 1) 1992	10,350	12,350
4⅜% Series due (March 1) 1993	9,540	13,500
5⅛% Series due (February 1) 1996	9,980	9,980
8⅞% Series due (September 1) 2000	19,000	20,000
8% Series due (May 1) 2001	27,000	27,000
7½% Series due (April 1) 2002	20,000	20,000
7¾% Series due (June 1) 2003	29,976	30,000
7⅝% Pollution Control Series due (January 1) 2005	6,500	6,500
6⅜% Pollution Control Series due (December 1) 2006	2,500	2,500
12⅝% Series due (January 1) 2010	75,000	75,000
11⅛% Pollution Control Series due (May 1) 2011	39,000	39,000
	356,671	370,500
Debentures:		
5¼% Sinking Fund Debentures due (February 1) 1996	2,267	2,267
7¼% Sinking Fund Debentures due (May 1) 1998	2,619	2,786
	4,886	5,053
Notes—7.90% Notes due (December 15) 1982	—	15,000
Variable Rate Notes due (April 30) 1986	45,000	—
	45,000	15,000
Unamortized Premium and Discount—Net	713	836
	407,270	391,389
Deduct First Mortgage Bonds and Notes due within one year	(39,050)	(19,620)
	$368,220	$371,769

Deposits in sinking funds for retirement of debentures are required on February 1 of each year through 1995 for the 5¼% debentures, and on May 1 of each year through 1997 for the 7¼% debentures in amounts in each case sufficient to redeem $100,000 principal amount plus at the election of the Company, up to an additional $100,000 principal amount in each year. At December 31, 1982 the Company had reacquired and cancelled $1,533,000 principal amount of the 5¼% debentures and $1,381,000 principal amount of the 7¼% debentures toward its requirements for 1983 and subsequent periods. During 1982 the Company reacquired, at amounts below par value, $9,376,000 principal amount of First Mortgage Bonds and Debentures. This reacquisition resulted in a gain, net of Federal income taxes and expenses, of $1,816,000.

The aggregate amount of debt maturities and sinking fund requirements of all First Mortgage Bonds outstanding at December 31, 1982 are $39,050,000 in 1983, $26,000,000 in 1984, $10,000,000 in 1985, $48,000,000 in 1986 and $13,000,000 in 1987. Current sinking fund requirements of $940,500 in connection with certain first mortgage bonds outstanding are being satisfied by certification of property additions as provided for in the related mortgage indentures.

The amounts of $2,785,000 and $1,537,000 as of December 31, 1982 and 1981, respectively, which represent unexpended investment earnings on pollution control construction funds held by trustees, are included in Miscellaneous Accounts Receivable. Such amounts are restricted for use on the related pollution control projects.

Note 11. Short Term Debt and Compensating Balances:

As of December 31, 1982, the Company had bank lines of credit available for use of $115,000,000. The Company is required, with respect to $17,000,000 of these credit lines, to maintain average compensating balances of $850,000 plus an equivalent additional amount if these lines are fully utilized. These compensating balances are maintained in demand deposits which are not legally restricted. The Company is in compliance with such compensating balance arrangements. With respect to the remaining available credit lines of $98,000,000 the Company pays commitment fees ranging from ⅛% to ½% which aggregated $390,000 for 1982 and $401,000 for 1981. Certain other information regarding short term debt follows:

(Thousands of Dollars)	1982	1981	1980
As of end of year—			
Weighted average interest rate for short term debt outstanding:			
Commercial Paper	—	12.2%	18.3%
Notes Payable to Banks	—	12.8%	19.3%
For the year ended—			
Maximum amount of total short term debt at any month-end:			
Commercial Paper	$22,000	$62,475	$16,725
Notes Payable to Banks	$ 3,000	$ 7,500	$ 3,500
Average amount of short term debt (based on daily outstanding balances):			
Commercial Paper	$10,550	$43,284	$ 8,879
Notes Payable to Banks	$ 4,497	$ 3,661	$ 1,810
Weighted daily average interest rates on short term debt:			
Commercial Paper	12.8%	16.4%	11.4%
Notes Payable to Banks	13.7%	16.7%	13.1%

Note 12. Commitments and Contingencies:

Total construction expenditures for 1983 are estimated at approximately $84,000,000. Commitments for the construction of major production and transmission facilities amount to approximately $145,000,000 of which it is estimated approximately $24,000,000 will be expended in 1983. These amounts exclude allowances for funds used during construction.

The Company's insurance coverages applicable to its participation in four nuclear units are as follows:

Type and Source of Coverage	Maximum Coverage (Millions of Dollars)	Maximum Retrospective Assessment for a single incident (Millions of Dollars)
Public Liability:		
Private	$160	None
Federal government (1)	400	$1.5 (2)
	$560 (3)	
Property Damage:		
Nuclear Mutual Limited (4)	$500	$4.2
Nuclear Electric Insurance Limited (4)	$400	$1.4
Replacement Power:		
Nuclear Electric Insurance Limited (4)	$ 2.5 (5)	$2.3

(1) Retrospective premium program under the Price-Anderson liability provisions of Atomic Energy Act of 1954 as amended. Subject to retrospective assessment with respect to loss from an incident at any licensed nuclear reactor in the United States.
(2) Maximum assessment would be $3,000,000 in the event of more than one accident in any year.
(3) Limit of liability under the Atomic Energy Act of 1954 for each nuclear incident.
(4) Utility-owned mutual insurance company of which the Company is a member. Subject to retrospective assessment with respect to loss at any nuclear generating station insured by the mutual insurance company.
(5) Maximum weekly indemnity for 52 weeks which commences after the first 26 weeks of an outage. Also provides $1,250,000 weekly for an additional 52 weeks.

The Company has a five-year agreement expiring May 31, 1985, with Delmarva Power & Light (DP&L) for the purchase of 50 MW of power from the output of DP&L's coal-fired Indian River Unit No. 4. The Company and Pennsylvania Power & Light Company (PP&L), have entered into an agreement whereby the Company will purchase 5.94% of the net capacity and energy output of

each of two PP&L 1050 MW nuclear generating units scheduled to be placed in service in the second quarter of 1983 and the fourth quarter of 1984, respectively. The purchase of power from PP&L will commence with commercial operation of the units and continue through September 30, 1991.

In 1981, the Company entered into an agreement with the Allegheny Power System (APS) which entitles the Company to 50 MW of coal-fired capacity from the APS Pleasants Station in St. Mary's, West Virginia for the years 1982 through 1985. This agreement has been modified for the years 1983 and 1984 to provide the Company access to a cogeneration source on an APS subsidiary's operating system. In addition, the Company has a commitment from Public Service Electric and Gas Company (PSE&G) to provide up to 125 MW of power for the years 1992 through 1995.

The Company's planned $770 million, 290 MW coal-fired Cumberland Unit No. 1, which was to go in service in the fall of 1991, has been deferred beyond the Company's planning horizon as a result of a revised load forecast which reflected a reduction in the summer peak demand growth rate from 2.4% to 1.6% over the long term.

The Company had planned to participate as a 5% owner in the construction of two 1,067 MW nuclear units, known as Hope Creek Units No. 1 and 2 to be located in Salem County, New Jersey. In December 1981, PSE&G, who owns 95% of the project, announced the cancellation of Hope Creek Unit No. 2. Accordingly, the Company cancelled its 5.0% share of Hope Creek Unit No. 2 in December 1981. The Company's investment in Hope Creek Unit No. 2 was written off for federal income tax purposes in 1981. However, for book purposes, the Company's investment of $15,956,476, including $2,390,676 of AFDC, has been transferred from Construction Work in Progress to Property Abandonment Costs and an appropriate amount of deferred federal income taxes has been provided. Amortization of the book basis investment over a 15 year period will begin in January, 1983 (See Note 3).

In August 1982, the Company signed an Agreement with PSE&G, the New Jersey Department of Energy and the New Jersey Department of the Public Advocate which, if approved by the BPU, would establish an incentive program to contain the continuing construction cost of Hope Creek Unit No. 1, which is currently planned for completion in 1986. Pursuant to terms of the incentive program, if the final cost of the facility is less than the agreed amount, the Company's Shareholders could share in the savings. On the other hand, under certain conditions, if the final cost of the unit exceeds the agreed amount, the Company could be penalized by not being able to earn a return on the entire amount of the cost overrun. If the BPU approves the Agreement, the New Jersey Department of Energy and the New Jersey Department of the Public Advocate would not challenge the need for the unit.

Note 13. Leases:

The Company has certain leases for property and equipment, including the nuclear fuel lease arrangement mentioned in Note 6, which meet the criteria for capitalization, but in accordance with rate making treatment are accounted for as operating leases. The capitalization of such leases would not have a significant effect on assets, liabilities or operating expenses.

Note 14. Supplementary Income Statement Information:

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

Year Ended December 31			
(Thousandsof Dollars)	1982	1981	1980
Taxes Other Than Federal Income Taxes:			
Real and Personal Property Taxes	$ 1,027	$ 918	$ 944
State Gross Receipts, Sales, Excise and Franchise Taxes and Miscellaneous State and Local Taxes	57,066	41,204	32,924
Payroll Taxes—Federal and State	2,455	2,078	1,678
Total	$60,548	$44,200	$35,546
Maintenance Expense	$30,313	$28,087	$24,251

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

Note 15. Quarterly Financial Results (Unaudited):

Quarterly financial data which reflect all adjustments (which consist of only normal recurring accruals) necessary in the opinion of the Company for a fair presentation of such amounts are as follows:

Quarter	Operating Revenues	Operating Income	Before Cumulative Effect Income	Before Cumulative Effect Earnings For Common Stock	Before Cumulative Effect Earnings Per Share
	(Thousands of Dollars)				
1982					
1st (1)	$128,259	$13,875	$ 7,191 (2)	$ 5,337 (2)	$ .37 (2)
2nd (1)	103,044	14,464	8,521	6,668	.46
3rd (1)	115,794	22,080	13,788	11,938	.81
4th	97,081	12,351	5,629	3,818	.23
	$444,178	$62,770	$35,129	$27,761	$1.84 (3)
1981					
1st	$112,762	$18,969	$13,760	$11,856	$ .94
2nd	101,908	15,194	8,739	6,845	.54
3rd	133,552	24,963	17,499	15,627	1.22
4th	121,461	14,385	6,990	5,129	.36
	$469,683	$73,511	$46,988	$39,457	$3.03 (3)

(1) Results for the first three quarters of 1982 have been restated from amounts previously reported to reflect the change in accounting method (See Note 4). Net income and earnings per share of common stock as reported prior to the accounting change were $10,701,000 ($.61 per share), $6,911,000 ($.35 per share) and $14,666,000 ($.87 per share), for the quarters ended March 31, June 30 and September 30, 1982, respectively.
(2) Restated earnings for the first quarter exclude the cumulative effect of the accounting change on net income and on earnings for common stock of $13,926,000 (net of tax) and on earnings per share of $.96 (based on average shares outstanding in the first quarter).
(3) The individual quarters do not add to the total due to the increasing average number of Common shares outstanding at the end of each quarter.

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

Supplementary Information Concerning The Effects Of Changing Prices (Unaudited)

The following supplementary information about the effects of changing prices is calculated under two different methods. The cumulative effect of a change in accounting described in Note 4 has been excluded from the following supplemental information.

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

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

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

Statement of Income From Continuing Operations Adjusted for Changing Prices

Year Ended December 31, 1982 (In Average 1982 Dollars) Results of Operations: (Thousands of Dollars)	Historical	In Constant Dollars	At Current Cost
Operating Revenues	$444,178	$444,178	$444,178
Operation and Maintenance Expenses	338,382	338,382	338,382
Depreciation and Amortization Expense	29,962	73,698	74,987
Federal Income Tax Expense	13,064	13,064	13,064
Other	27,641	27,641	27,641
Income from Continuing Operations (a)	$ 35,129	$ (8,607)	$ (9,896)

(a) Before cumulative effect of change in accounting method (See Note 4 of Notes to Financial Statements).

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

Only depreciation and amortization of nuclear fuel have been specifically adjusted for inflation in the above schedule. Operating revenues and other operating expenses were generally incurred rateably over the year, accordingly, the stated amounts already reflect, in effect, average 1982 dollars.

Significant to this data is the impact of a fixed income tax rate. Income taxes were not adjusted because the present tax laws do not allow a deduction for depreciation and amortization adjusted for the impact of inflation. Therefore, the Company's effective tax rate rises from 35.5% under the historical cost basis to 146.8% and 157.8% under the respective constant dollar and current cost basis.

This supplementary information should not be used to assess the probability of future cash flows when existing utility plant is replaced. The estimates do not reflect the effects of the regulatory process nor the specific plans of the Company for the replacement or modernization of utility plant. A meaningful estimate of the estimated level of future capital expenditures is set forth on page 18 of the annual report.

Current Year Effect of Increased Price Levels: (Thousands of Dollars)	
Increase in Specific Prices on Utility Plant Held	$66,684
Increases in General Price Levels on Utility Plant Held	59,543
Excess of Increase in Specific Prices Over Increases in General Price Levels	$ 7,141

At December 31, 1982 the cost of utility plant, net of accumulated depreciation was $1,657,601,000 on a constant dollar basis and $1,701,498,000 on a current cost basis, while historical cost was $906,313,000. The accumulated provisions for depreciation and amortization under both constant dollar and current cost methods were estimated for each major class of utility plant (production; transmission; distribution and general plant) by multiplying the respective cost data by a percentage representing the expired life of existing facilities of each class at December 31, 1982.

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

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

Current Year Decline in Purchasing Power of Net Amounts Owed:
The current year decline in purchasing power of net amounts owed was $21,666,000. During a period of inflation, holders of monetary assets such as cash and receivables suffer a loss of general purchasing power while holders of monetary liabilities, generally long term debt, experience a gain because debt will be repaid in dollars having less purchasing power. The Company's gain from the decline in purchasing power of its net amounts owed is primarily attributable to the substantial amount of debt and cumulative preferred stock subject to mandatory redemption which has been used to finance utility plant. This gain, however, should not be considered as providing funds to the Company, since the Company is limited under rate procedure to the recovery only of its embedded cost of debt.

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

(In Thousands of Dollars Except Per Share Amounts—
Constant Dollar and Current Cost Amounts Expressed in 1978 Dollars)

Years Ended December 31	1982	1981	1980	1979	1978
Operating Revenue					
—historical	$ 444,178	$ 469,683	$358,391	$283,106	$255,058
—in constant dollars (a)	300,008	336,917	283,750	254,457	255,058
Income from Continuing Operations (b)					
—historical	$ 49,055	$ 46,988	$ 38,538	$ 34,307	$ 30,064
—in constant dollars (a)	3,593	5,593	6,824	10,882	
—at current cost (a)	2,729	5,486	4,390	6,251	
Income from Continuing Operations per Share of Common Stock (b)					
—historical	$ 2.76	$ 3.03	$ 2.62	$ 2.36	$ 2.21
—in constant dollars	(.09)	.01	.16	.46	
—at current cost	(.15)	.01	(.03)	.06	
Effective Income Tax Rate					
—historical	35.5%	36.8%	33.8%	35.5%	38.8%
—constant dollar basis	88.3	83.0	74.3	63.3	
—current cost basis	90.8	83.3	81.8	75.1	
Excess of Increases in General Price Levels Over Increases in Specific Prices (a)	$ (4,823)	$ (18,079)	$ 34,485	$ 40,677	
Decline in Purchasing Power of Amount Owed (a)	$ 14,634	$ 28,386	$ 35,641	$ 42,525	
Net Assets at Year End					
—historical	$ 414,834	$ 338,846	$324,127	$310,231	$279,897
—in constant dollars (average)	275,335	235,206	245,103	262,421	308,916
Net Income as a Percent of Operating Revenue (b)					
—historical	11.04%	10.00%	10.75%	12.12%	11.79%
—trended in 1978 dollars	7.46	7.17	8.52	10.89	11.79%
Earned Rate of Return on Shareholders' Equity					
—historical	11.20%	12.21%	11.62%	10.70%	10.26%
—trended in 1978 dollars	7.56	8.76	9.20	9.62	10.26%
Total Assets at Year End—historical	$1,077,969	$1,013,789	$879,795	$779,026	$699,861
Long Term Debt and Cumulative Preferred Stock Subject to Mandatory Redemption					
—historical	$ 462,470	$ 447,389	$394,288	$324,848	$329,781
Dividends Declared per Share of Common Stock					
—historical	$ 2.24	$ 2.08	$ 1.93	$ 1.79	$ 1.70
—in constant dollars	1.51	1.49	1.53	1.61	1.70
Market Price per Common Share at Year End					
—historical	$ 20.75	$ 17.25	$ 15.75	$ 17.125	$ 18.00
—in constant dollars	14.02	12.37	12.47	15.40	18.00
Average Consumer Price Index	289.3	272.4	246.8	217.4	195.4
Certain comparative per share data trended in average 1982 dollars (without adjustment of earnings for the pro forma effects of inflation on depreciation amounts) are as follows:					
Earnings (b)	$ 2.76	$ 3.22	$ 3.07	$ 3.14	$ 3.27
Dividends Declared	2.24	2.21	2.26	2.38	2.52
Market Price (Year End)	20.75	18.32	18.46	22.79	26.65

(a) These amounts will differ from those shown for constant dollar and current costs in Statement of Income From Continuing Operations Adjusted for Changing Prices because a different base year has been used (1978) in the data presented above and (1982) in the Changing Price information in order to illustrate the impact of changing prices in alternative forms.

(b) Income from Continuing Operations, Net Income and Earnings Per Share data for 1982 include the cumulative effect of change in accounting method (See Note 4 of Notes to Financial Statements).

Statistical Review 1982-1972

Facilities for Service	1982	1981	1980	1979
Total Utility Plant (Thousands)	$1,153,321	$1,064,928	$ 962,052	$ 870,075
Gross Additions to Utility Plant (Thousands)	$ 126,893	$ 123,318	$ 97,330	$ 72,773
Pole Miles of Transmission and Distribution Lines	6,918	6,910	6,879	6,831
Generating Capacity (Kilowatts) (a) (b)	1,531,200	1,524,600	1,434,700	1,384,700
Maximum Utility System Demand-Kw	1,264,200	1,263,000	1,261,700	1,192,600
Margin of Reserve at Times of Peak (% of Avail. Gen.)	17.4%	17.1%	12.1%	13.9%
Energy Supply (Thousands of Kwh)				
Net Generation	5,676,118	5,302,023	5,533,178	5,397,338
Purchased and Interchanged—Net	466,667	946,241	643,106	464,143
Total System Load	6,142,785	6,248,264	6,176,284	5,861,481
Electric Sales (Thousands of Kwh)				
Residential	2,415,292	2,480,225	2,514,738	2,411,732
Commercial	1,894,535	1,849,863	1,769,208	1,580,384
Industrial	1,218,520	1,279,724	1,286,205	1,255,304
All Others	63,770	65,555	63,753	60,799
Total	5,592,117	5,675,367	5,633,904	5,308,219
Residential Electric Service (Average per Customer)				
Amount of Electricity used during the year (Kwh)	7,444	7,751	8,003	7,849
Amount paid for a year's service	$ 644.77	$ 670.66	$ 536.99	$ 439.92
Price paid per Kilowatt-hour	8.66¢	8.65¢	6.71¢	5.61¢
Customer Data (Average)				
Residential With Electric Heating	59,319	56,100	52,225	48,339
Residential Without Electric Heating	265,124	263,904	261,988	258,941
Total Residential	324,443	320,004	314,213	307,280
Commercial	42,885	43,219	43,267	43,219
Industrial	1,018	1,032	1,041	1,048
Other	627	634	654	667
Total Customers	368,973	364,889	359,175	352,214
Total Service Locations	391,989	386,046	379,242	371,362
Population Served	1,069,000	1,056,000	1,037,000	1,015,000
Financial Data (Thousands of Dollars)				
Energy Sales				
Residential	$ 209,191	$ 214,614	$ 168,733	$ 135,178
Commercial	154,792	156,624	115,973	88,819
Industrial	71,255	82,908	60,512	47,590
All Others	9,255	9,700	7,836	6,624
Total Energy Sales—Billed	444,493	463,846	353,054	278,211
Unbilled Revenues—Net	(6,795)			
Other Electric Revenue	6,480	5,837	5,337	4,895
Total	$ 444,178	$ 469,683	$ 358,391	$ 283,106
Investor Information				
Earnings per Average Common Share	$ 2.76(c)	$ 3.03	$ 2.62	$ 2.36
Average Number of Shares Outstanding (In Thousands)	15,116	13,034	12,372	11,980
Dividends Paid on Common Stock (Cash)	$ 2.20	$ 2.04	$ 1.90	$ 1.765
Dividend Payout Ratio	80%	67%	73%	75%
Book Value Per Share (Year End)	$ 22.45	$ 22.40	$ 22.22	$ 21.63
Price Earnings Ratio (Year End)	8	6	6	7
Times Fixed Charges Earned (before income taxes)	2.27(c)	2.84	3.03	3.62
Shareholders and Employees (Year End)				
Common shareholders	48,790	48,424	47,762	48,194
Employees	2,022	2,035	1,968	1,903

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

(b) Includes unit purchase of capacity 50,000 kilowatts under contract with Delmarva Power and Light Company.

(c) Earnings calculation includes the cumulative effect of an accounting change. Financial ratio is computed excluding the cumulative effect.

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

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

Common Stock Price Range and Dividends

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

	1982		1981		Dividends Paid Per Share	
	High	Low	High	Low	1982	1981
First Quarter	18⅛	16¾	17¼	15¼	\$.53	\$.49
Second Quarter	18¾	17	18¼	15¼	\$.53	\$.49
Third Quarter	20½	17	17¾	16⅛	\$.57	\$.53
Fourth Quarter	21⅜	19	18¼	16	\$.57	\$.53

For your convenience, listed below are the proposed 1983 record dates and payable dates, for dividends on Common Stock:

Record Dates		Payable Dates	
March 17, 1983	September 15, 1983	April 15, 1983	October 15, 1983
June 16, 1983	December 15, 1983	July 15, 1983	January 15, 1984

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

Atlantic City Electric Company
Investor Records Department
P.O. Box 1334
Pleasantville, New Jersey 08232

or telephone Area Code 609/645-4506 or 4507.

Corporate Data

Dividend Reinvestment and Stock Purchase Plan
The Company continues to offer a Dividend Reinvestment and Stock Purchase Plan which enables shareholders and employees to automatically invest their cash dividends in Company stock, and also make optional cash payments without paying brokerage commissions or service charges. Over 487,000 shares were purchased through the Plan in 1982 with proceeds to the Company in excess of \$9 million. There were 15,737 participants in the Plan at year-end. To enroll, please contact our Investor Records Department. See address on this page.

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

10-K Report Available
The annual report to the Securities and Exchange Commission on Form 10-K is available to shareholders and may be obtained by writing to the Company, Attention: Mr. M. R. Meyer, Secretary. See address on this page.

Transfer Agents
For Common and Preferred Stock

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

For Common Stock

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

New Corporate Address
Atlantic Electric
P.O. Box 1264
1199 Black Horse Pike
Pleasantville, New Jersey 08232

Board Of Directors

Eleanor S. Daniel
Self employed. Vice President and Director of several real estate corporations.

Richard M. Dicke
Counselor at law. Partner of the law firm of Simpson Thacher and Bartlett.

John D. Feehan
Chairman of the Board, President and Chief Executive Officer.

Jos. Michael Galvin, Jr.
President and Executive Director of Salem County Memorial Hospital.

Matthew Holden, Jr.
Professor of Government and Foreign Affairs, University of Virginia.

Mack C. Jones
Engineer. Retired.

Irving K. Kessler
Retired. Former Executive Vice President, RCA Corporation.

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

John M. Miner
Senior Vice President of Crocker National Bank.

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

Richard M. Wilson
Retired. Former Senior Vice President of the Company.

Committee Listings

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

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

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

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

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

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

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

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

Officers

John D. Feehan
Chairman of the Board
President and Chief Executive Officer

Ernest D. Huggard
Executive Vice President

Frank J. Ficadenti
Senior Vice President
Engineering and Construction

Jerrold L. Jacobs
Senior Vice President
Finance

Michael A. Jarrett
Senior Vice President
Corporate Services

David V. Boney
Vice President
Customer and Community Services

John F. Born
Vice President
Electric Operations

Thomas E. Freeman
Vice President
Human Resources

Brian A. Parent
Vice President and Treasurer

Joseph G. Salomone
Vice President
Control

Henry C. Schwemm, Jr.
Vice President
Production

Martin R. Meyer
Secretary and Assistant Treasurer

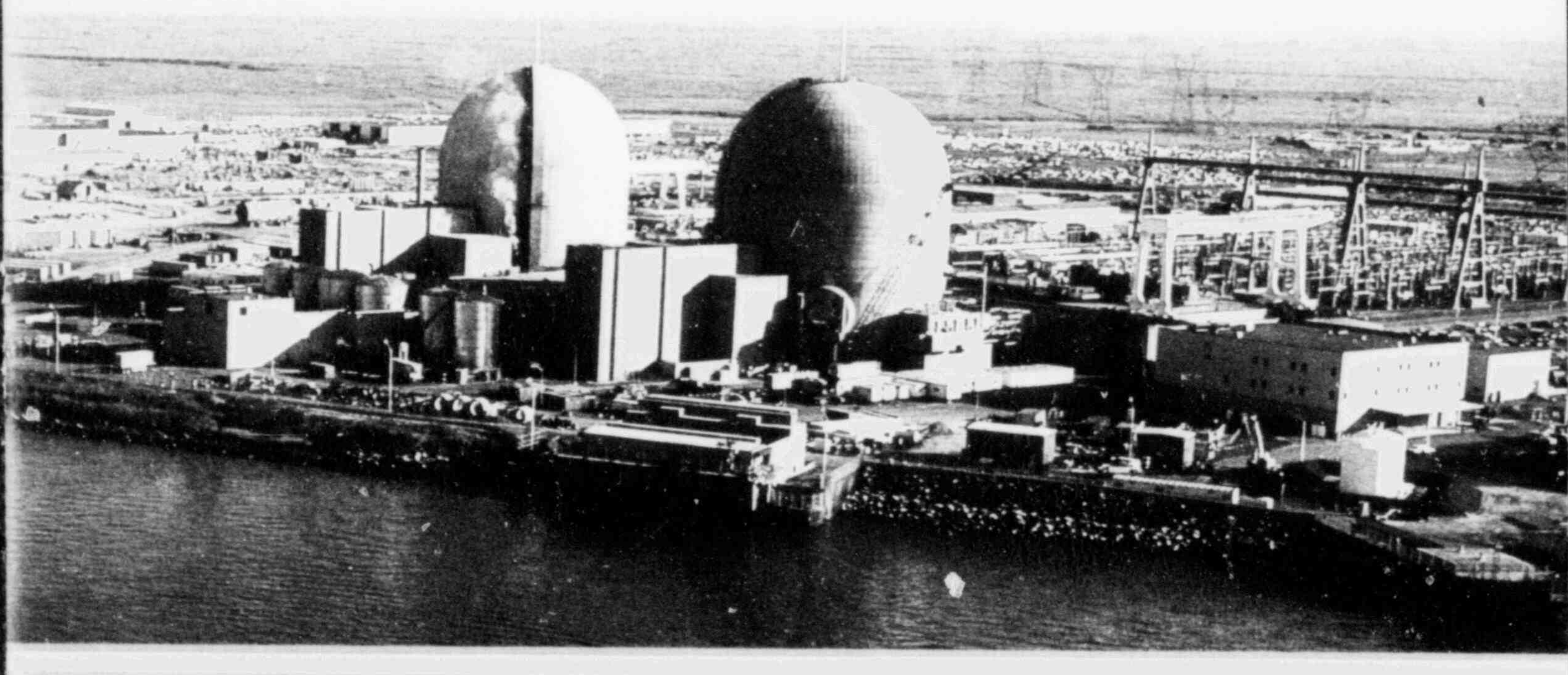
Lance E. Cooper
Controller

Meredith I. Harlacher
Assistant Vice President
Information Services

Joseph T. Kelly, Jr.
Assistant Vice President
Operations and Assistant Secretary

Annual Report

PSEG



PSE&G

Public Service Electric and Gas Company
80 Park Plaza, Newark, New Jersey 07101
(201) 430-7000

Stockholder Information — Toll Free

New Jersey residents	(800) 242-0813
Outside New Jersey	(800) 526-8050

About the Company

Public Service Electric and Gas Company is the largest utility in New Jersey and serves approximately 5.4 million people, nearly three-quarters of the state's population. The Company's service area, covering some 2,600 square miles, runs diagonally across the state's industrial and commercial corridor from the New York state border on the north to south of Camden. This highly diversified and heavily populated area includes the six major cities of New Jersey as well as nearly 300 suburban and rural communities.

About the Cover

Panoramic air view of PSE&G's nuclear complex on the lower Delaware River in southern New Jersey encompasses cover of this 1982 annual report. On the front, Salem Generating Station and its two containment structures are predominant with power transmission lines stretching out in the distance. On the back, progress is shown on construction of the Hope Creek Generating Station. During 1982, the Company's nuclear activities were consolidated at the site of these facilities.

Table of Contents

1982 Annual Report

Financial Highlights

	1982	1981	% Increase
Earnings per average share of Common Stock	$3.24	$2.63	23
Shares of Common Stock Average	89,233,000	80,962,000	10
Year-end	94,845,000	86,089,000	10
Dividends paid per share of Common Stock	$2.53	$2.44	4
Book Value per share of Common Stock	$25.90	$25.66	1
Total Operating Revenues	$3,873,976,000	$3,471,652,000	12
Total Operating Expenses	$3,419,517,000	$3,117,385,000	10
Earnings Available for Common Stock	$ 288,962,000	$ 212,599,000	36
Gross Additions to Utility Plant	$ 813,375,000	$ 683,849,000	19
Total Utility Plant	$8,100,579,000	$7,320,764,000	11

Annual Meeting

Please note that the Annual Meeting of Stockholders of the Company will be held at Newark Symphony Hall, 1020 Broad Street, Newark, New Jersey, Tuesday, April 19, 1983, at 2:00 P.M. A summary of the meeting will be sent to all stockholders of record at a later date.

Robert I. Smith, Chairman, addresses shareholder informational meeting in West Palm Beach, Florida, one of three held in that state in November. More than 22,000 shareholders, about 9 per cent of the Company's total, live in Florida. These informational meetings are part of PSE&G's extensive investor relations program.

Message to Shareholders

Although it was a year marked by economic recession, your Company made significant progress during 1982 with improvements realized in various phases of operations and — more importantly — in financial results.

A major event during the year was the signing of an agreement designed to promote the timely completion of the Hope Creek I generating unit. Another important achievement was the establishment of the newly-formed Nuclear Department at the site of our nuclear generating stations.

Other noteworthy accomplishments were the completion of a reorganization of customer and marketing activities; the development of an accelerated conservation and load management program; and an upgrading of production and distribution facilities. Overall, 1982 was a year of improved efficiency and customer service.

A high degree of service reliability was maintained throughout the year despite a 41-day strike by two unions representing approximately 4,600 employees. The strike began when contracts expired at midnight on April 30 and ended in June when new two-year agreements were reached.

Earnings Increase

Earnings per share of Common Stock rose to $3.24 from $2.63 in 1981. Total revenues increased to $3.87 billion from $3.47 billion.

The gains in earnings and revenues were mainly attributable to an increase of $390 million in base rates on an annual basis effective in February 1982 that was approved by the New Jersey Board of Public Utilities (BPU).

The quarterly dividend on common stock was increased to 64 cents a share in the second quarter of 1982 from 61 cents. This was the seventh consecutive year in which the dividend was increased. It is management's objective to raise dividends on a regular basis subject, of course, to adequate levels of earnings to support such dividends.

Sales Decline

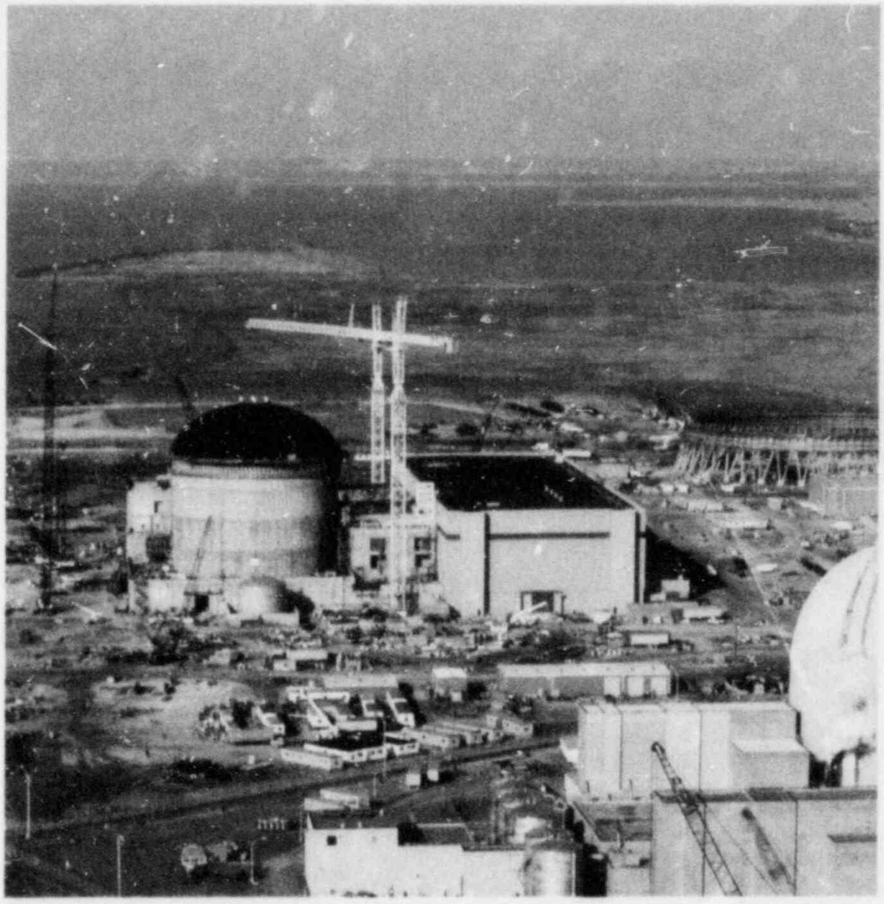
Reflecting the recessionary economy, overall electric kilowatthour sales declined 2.7 per cent for the year compared with 1981. Sales in the commercial category were an exception, rising 1.6 per cent and providing evidence of strong growth in service and distribution businesses in our territory.

Total gas therm sales decreased by 1.0 per cent. A gain of 4.7 per cent in sales to commercial customers was not sufficient to offset a decline of 9.4 per cent in the industrial classification that was mainly attributable to the economic recession. Sales to residential customers were virtually the same as in 1981, despite new connections, as warmer weather late in the year reduced demand for heating.

Nuclear Output Rises

During the year 34 per cent of our electric output came from nuclear generation, up from 25 per cent in 1981. The nuclear production was bolstered by

Construction work on the Hope Creek I generating unit was intensified in 1982 after cancellation of the second unit at the station. Among highlights of the year were the lifting of a 409-ton crane into the reactor building where it will be used for moving large pieces of equipment, and placement of the unit's 440-ton steel containment dome. At year end, the plant was more than 60 per cent completed.



excellent performance of No. 2 unit at Salem Generating Station in its first full year of commercial operation. The unit was available 97 per cent of the time in 1982, a remarkable record for a new unit.

Construction of the Hope Creek I generating unit, being built adjacent to Salem, was more than 60 per cent completed at the end of the year. The unit is scheduled to go on line in late 1986.

In August a cost-containment agreement for Hope Creek was signed by the Company with the New Jersey Department of Energy and the state Public Advocate. As part of the agreement, the Public Advocate agreed not to challenge the need for the unit before any state or federal agency. The agreement requires the approval of the BPU which has held hearings preparatory to making a decision.

The agreement provides a targeted in-service date of December 1986 and a targeted cost at the time of commercial operation of $3.795 billion. There would be a penalty in the form of reduced earnings to the Company if costs exceed $3.795 billion, unless the overruns were due to extraordinary events beyond our control. On the other hand, there would be a benefit to earnings if the unit should be completed for less than $3.55 billion.

Our present estimate is that the unit will cost between $3.55 billion and $3.79 billion.

In June, the Company began recovering the abandonment costs of the second Hope Creek unit, which was cancelled in December 1981. The recovery will be over a 15-year period and amounts to $172 million, after tax considerations. This recovery is on an accelerated basis, so that about half of the amount will be recouped in the first five years and will provide additional cash flow for the funding of Hope Creek I.

Nuclear Operations Centralized

Nuclear operations were strengthened during the year by the centralization of activities of the Nuclear Department in a new headquarters at the site of the Salem and Hope Creek stations. Most personnel involved in nuclear power operations were transferred from Newark to the department headquarters.

We are determined to make certain that we have the most thoroughly trained and qualified nuclear plant operators and support personnel. As part of this effort, we completed construction and opened a Nuclear Training Center for employees of the Nuclear Department.

Conservation Program

In line with our efforts to reduce the need for new facilities — and consequently capital expenditures — we developed a broad plan to promote the conservation and efficient use of

energy by our customers. The plan includes subsidization of loans to finance home conservation measures, the encouragement of energy audits, weatherization assistance, and rebates for the installation of high efficiency equipment.

Because of the relatively low rate of growth in the projected demand for electricity, we do not foresee the need to construct any new generating capacity, other than Hope Creek I, until the late 1990's.

Consumer Panels

A new dimension was added to our customer relations and information effort with the establishment of three consumer advisory panels, geographically situated to serve our three customer and marketing services divisions. Membership on the panels has been drawn from a cross-section of customer and consumer groups.

Recession Impact Felt

Even though inflation has subsided and interest rates have declined, the deep economic recession continues to have a dampening effect on the Company's performance. We have intensified our efforts to reduce expenses wherever possible. Budgets have been severely cut and a cap has been placed on the number of employees.

Despite the most stringent measures, our cost of providing service continues to rise and we have been unable to realize our allowed rate of return.

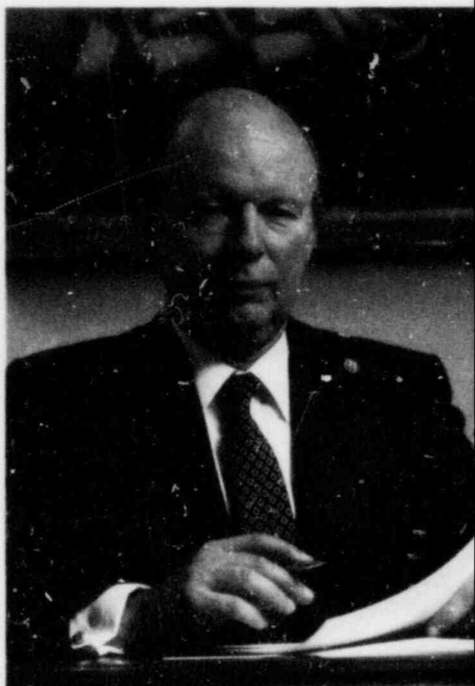
On January 7, 1983, the Company filed a petition with the New Jersey Board of Public Utilities for an increase in base rates to provide additional annual revenues of $464.5 million. The total includes $397.4 million for electric service, and $67.1 million for gas.

The BPU is presently considering a motion by the Public Advocate of New Jersey to dismiss the Company's petition. New rates can only be put in effect after required hearings.

Responsibilities Fulfilled

Our Company — 80 years old in 1983 — has demonstrated its ability to fulfill its responsibilities to customers, stockholders and employees throughout its history.

Ever mindful of the contribution to our Company's success by thousands of talented and dedicated employees, we appreciate the continuing support of Company shareholders in all our endeavors.



Robert I. Smith

Harold W. Sonn

Robert I. Smith
Chairman of the Board
and Chief Executive Officer

Harold W. Sonn
President and
Chief Operating Officer

February 14, 1983

Financial Review

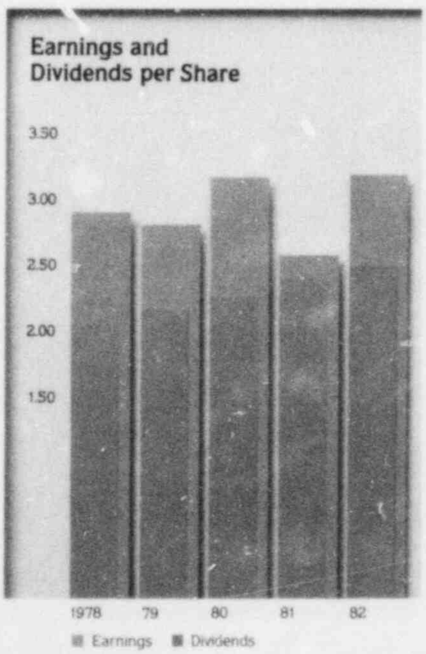
Despite a lingering and deepening economic recession in 1982, revenues and earnings increased, although electric sales dropped 2.7 per cent and gas sales fell 1.04 per cent, compared with 1981. Declines in the rate of inflation and in interest rates were positive factors in an otherwise bleak economy that handicapped performance.

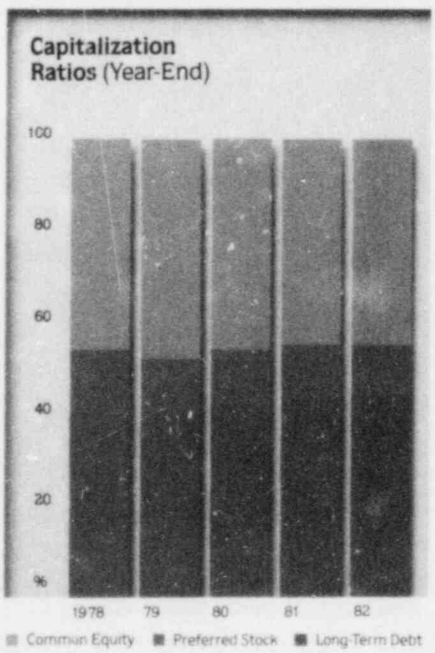
The gain in overall revenues to $3.87 billion from $3.47 billion in 1981 was due largely to the increase of $390 million in rates on an annual basis that became effective on February 14. A $73.9 million rise in the gas raw materials adjustment charge beginning in October also was a factor. These revenue increases were offset partially by a lowering of the electric energy adjustment charge which will reduce revenues by $250 million for the 13-month period that began in June.

Electric revenues accounted for 66 per cent of the total, rising to $2.54 billion, an increase of 9.5 per cent. Gas revenues composed the other 34 per cent, increasing to $1.33 billion, or by 15.8 per cent.

The sources of the 1982 revenues by customer classification were:

	Electric	Gas	Combined
Residential	31%	54%	39%
Commercial	39	28	35
Industrial	28	18	25
Street Lighting and other	2	—	1
Total	100%	100%	100%





Expenses Continue to Increase

Operating expenses rose to $3.42 billion, up $302 million, or 9.7 per cent from $3.12 billion in 1981.

Production costs increased by $69.7 million, a rise of 3.5 per cent. Electric production expenses declined 4.9 per cent, mainly because of greater use of lower-cost nuclear and coal-fired generation. Gas production costs, which include the cost of natural gas, rose 18.5 per cent.

Prices of purchased natural gas continued to increase mainly because of higher wellhead prices permitted under the Natural Gas Policy Act of 1978. Costs of raw materials to manufacture gas also increased.

Labor costs increased by $40.8 million, or 15.9 per cent. New two-year agreements reached in June, which ended a 41-day strike by two unions representing some 4,600 employees, provided wage increases of 8.25 per cent in the first year and 8.0 per cent in the second. Improvements in employee benefits made total increases of 10.81 per cent in the first year and 9.02 per cent in the second. The total cost on a company-wide basis is estimated at $38 million in the first year of the contract and an additional $34 million in the second.

As a result of the Company's higher revenues, New Jersey gross receipts taxes increased to $514 million from $462 million, a rise of 11.3 per cent.

Earnings Rise

The Company's earnings per share of Common Stock in 1982 increased to $3.24 from $2.63, an increase of 23.2 per cent. The improvement reflected the $390 million rate increase effective in February. The average number of common shares outstanding rose during the year to 89.2 million from 81.0 million in 1981.

Dividend Increased

The quarterly dividend on Common Stock was increased in the second quarter of 1982 to 64 cents a share from 61 cents paid in the first quarter. The increase was the seventh in as many years.

Total dividends paid for the year amounted to $2.53 per share compared with $2.44 in 1981.

Dividends paid in 1982 on all classes of stock are fully taxable. Due to special circumstances in some prior years, portions of dividends were determined to be a return on capital and therefore non-taxable as current income. Such circumstances included the cancellation of nuclear plant projects no longer needed and the sale of the Company's transportation subsidiary. Decisions on the taxability of dividends are governed by Internal Revenue Service rules and are based on calculations of the Company's estimated tax liability.

Petition Filed for Increase of $465 Million in Rates

On January 7, 1983, the Company petitioned the New Jersey Board of Public Utilities (BPU) for an annual increase of $464.5 million in base rates. The request was necessary because the Company's cost of providing service continues to increase. Of the amount, $397.4 million would be in electric revenues, a 15.6 per cent increase, and $67.1 million in gas revenues, a 4.5 per cent increase. The petition asks for a return on rate base of 11.66 per cent and 17 per cent on common equity.

On January 18, the Public Advocate of New Jersey moved to dismiss the Company's petition contending that a previous BPU order requires the Company to show "emergent" circumstances to be allowed to file for rate relief before July 1, 1983. The Company has opposed the motion, which is currently being considered by the BPU. If the case is allowed to proceed, public hearings would be required, and the statutory review period would delay the effective date of any new rates until late in 1983.

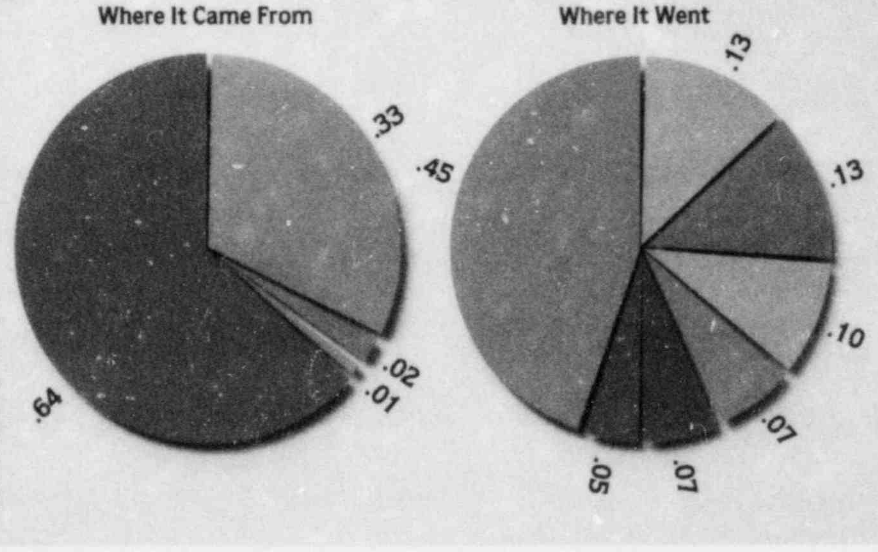
In its order in the Company's last rate case the BPU allowed a 10.67 per cent return on rate base and 16 per cent on common equity. The Company's actual return on equity of 12.2 per cent during 1982 was far short of the return allowed in the rate decision.

Electric Adjustment Charge Lowered

In June, the Company reduced its electric levelized energy adjustment charge by $250 million for the period through June 30, 1983. The reduction, which did not

The 1982 Income Dollar

Where It Came From	
Electric Revenues	$ .64
Gas Revenues	.33
Allowance for Funds Used During Construction	.02
Other Sources	.01
	$1.00
Where It Went	
Fuel, Purchased Power & Gas	$ .45
Salaries & Wages	.07
Materials & Services	.10
Taxes	.13
Interest	.05
Dividends	.07
Reinvested in Business	.13
	$1.00



affect earnings, lessened the impact on customers of the $338 million increase in electric base rates that became effective in February.

The reduction was made possible by additional nuclear generation from the second Salem unit, a decline in oil prices, purchases of power at lower cost, and completion of the recovery of nearly all electric energy costs from previous periods.

On January 13, 1983 the Company requested permission from the BPU to lower the energy adjustment charge by an additional $104 million for the 17-month period beginning February 1, 1983 through June 30, 1984. The proposed reduction was based on projections of a greater percentage of nuclear generation than previously estimated and lower oil and coal prices. The BPU took the request under consideration.

Gas Adjustment Charge Increased

Effective September 30, the BPU approved an increase in the gas raw materials adjustment charge to provide $73.9 million in additional revenues. The increase is designed to cover higher prices the Company expects to pay for natural gas through September 1983. Changes in federal regulation are permitting progressively higher natural gas prices.

Cost Containment Agreement on Hope Creek Unit

A cost containment agreement for the Hope Creek I nuclear generating unit was signed in August with the New Jersey Department of Energy, the state Public Advocate and Atlantic City Electric Company, which owns 5 per cent of the unit. The agreement is subject to approval by the BPU which began hearings preliminary to making a decision.

There is a provision in the agreement that the Public Advocate will not challenge the need for Hope Creek before any state or federal agency. Earlier, the Advocate had questioned the need for and the ultimate cost of the unit.

The agreement provides a targeted in-service date of December 1986 and a targeted cost at the time of commercial operation of $3.795 billion, including approximately $995 million of Allowance for Funds Used During Construction (AFDC).

The Company had estimated the cost of the unit between $3.55 billion and $3.795 billion, including $950 million of AFDC. The difference between the estimate and the targeted amount represents potential cost overruns that were indicated in an independent study the Company commissioned in 1981.

At the end of 1982, Hope Creek was more than 60 per cent completed and expenditures were closely tracking construction cost estimates. The Company's estimate of the cost of the unit is still between $3.55 billion and $3.795 billion, of which 5 per cent is the share of Atlantic City Electric Company.

The agreement provides that the Company's rate base revenue requirements at the time of commercial operation of the unit would be adjusted to reflect only 80 per cent of any reasonable cost overruns up to 10 per cent above the targeted amount. Should the unit's cost exceed the target figure by more than 10 per cent, only 70 per cent of the additional overruns would be included in the revenue-requirement calculation. Any such adjustment would have the effect of reducing earnings.

Under the agreement, adjustments would not be made for overruns due to extraordinary events.

On the other hand, there would be a benefit to the Company if the unit should be completed for less than $3.55 billion. Revenue requirements for rate making purposes would be calculated at actual plant cost plus an additional return on 20 per cent of the amount under $3.55 billion. No adjustment to revenue requirements would be made if the unit costs between $3.55 billion and $3.795 billion.

Construction Expenditures Up

Expenditures for construction, including Allowance for Funds Used During Construction (AFDC), payments for nuclear fuel and advances to subsidiaries, increased to $842 million in 1982 from $717 million in 1981. Construction expenditures in 1983 are estimated at $904 million, including $129 million of AFDC.

Expenditures for all projects, including Hope Creek I, in the five years through 1987, are estimated at $3.8 billion, including $736 million of AFDC. Of the total, expenditures for nuclear generating facilities and fuel will be about $2.35 billion or 62 per cent of the overall figure. As indicated in the accompanying table, annual expenditures are projected to peak in 1984, and then decline to less than one-half in 1987 after completion of Hope Creek I.

Over the next five years, the Company expects with adequate rate relief to generate at least half

Activities of members of the Board of Directors are not limited to meetings and committee assignments but include inspection trips to various Company locations. In November 1982 the directors, accompanied by senior management, inspected the Company's nuclear facilities. The trip included tours of the Salem and Hope Creek stations and of the new Nuclear Training Center.

of its construction expenditures internally, excluding AFDC. The balance of the requirements will be provided through permanent financing by the issuance of Mortgage Bonds, Preferred Stock and Common Stock.

Estimated Construction Expenditures (Including AFDC)

Year	1983	1984	1985	1986	1987
			(Millions)		
Totals	$904	$971	$884	$659	$401

Securities Sold

During 1982 the Company raised more than $443 million through the sale of Mortgage Bonds, Preferred Stock and Common Stock.

In April the Company issued $23,500,000 principal amount of 12½ per cent, 30-year First and Refunding Mortgage Pollution Control Bonds.

Four million shares of Common Stock were sold in August to a group of underwriters at $22.53 a share. Proceeds to the Company from this sale totaled $90,120,000.

In September, the Company sold $100,000,000 principal amount of 14⅜ per cent, 30-year First and Refunding Mortgage Bonds. At the same time 350,000 shares of 12.80 per cent Cumulative Preferred Stock, $100 par value, were sold.

In December, the Company sold $100,000,000 principal amount of 12⅛ per cent, 30-year First and Refunding Mortgage Bonds.

The Company also raised $80.7 million through the sale of almost four million shares of Common Stock under the Dividend Reinvestment and Stock Purchase Plan, and $16.4 million through issuance of shares under the Employee Stock Purchase Plan, the Tax Reduction Act Employee Stock Ownership Plan, and the Thrift Plan.

Proceeds from the sale of these securities were used to repay short-term debt incurred in connection with the Company's construction program. Short-term needs were financed through the sale of commercial paper. At year end there was no short-term debt outstanding.

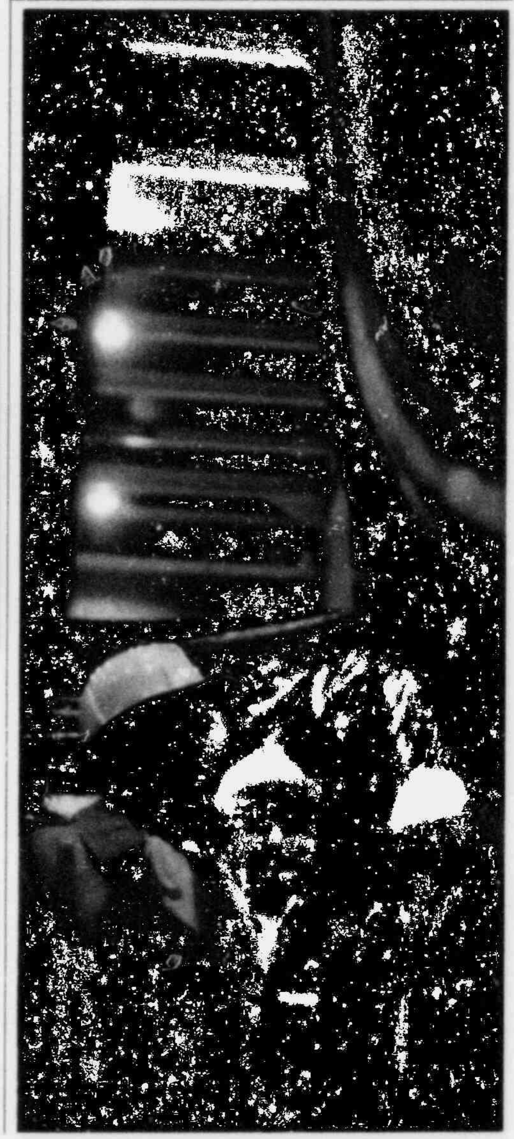
Avenues Opened for Financing Abroad

Early in the year the Company negotiated a $75 million revolving credit agreement with several major European banks to provide an alternative source of short-term capital. Subsequently, PSE&G Overseas Finance N.V., a wholly-owned Netherlands Antilles subsidiary, was formed. The financial subsidiary will be able to provide the Company with access to long-term capital markets abroad.

Dividend Reinvestment Plan Adds Participants

There were 67,572 holders of Common Stock participating in the Company's Dividend Reinvestment and Stock Purchase Plan at the end of 1982. This was a 26.5 per cent increase from the 53,435 enrolled at year-end 1981.

Members of the Board of Directors and senior management were given an update on plant operations at the Salem Generating Station and a progress report on Hope Creek construction during their tour of the facilities. Nuclear Department personnel conducted the tours. The November meeting of the Board was held at the Nuclear Training Center.



Effective January 1, 1983 greater flexibility was provided in the optional cash investment feature of the Plan. Stockholders may now make optional cash investments at anytime up to $20,000 a year. The limit was previously set at $5,000 in each quarter.

Holders of record of $1.40 Dividend Preference Common Stock and Preferred Stock, both $100 and $25 par, also may participate in the Plan. Dividends on these issues are used to purchase Common Stock at 100 per cent of market price average. Common Stock dividends are reinvested at 95 per cent of the market price average.

Federal income tax rules provide that individual stockholders may exclude from gross income, and thereby defer taxes on dividends reinvested in Common Stock under provisions of the Plan. Individuals may defer taxes on up to $750 in reinvested dividends and those filing joint returns may defer up to $1,500 of such dividends under qualified public utility plans each year. This provision will be in effect for the years 1982 through 1985 inclusive.

Stockholders

At the end of 1982, stockholders of record totalled 268,696 compared with 273,132 at the close of 1981, a decrease of 1.6 per cent. They included 230,485 owners of Common Stock; 11,806 holders of $1.40 Dividend Preference Common Stock; 14,946 holders of Preferred Stock — $100 Par; and 11,459 holders of Preferred Stock — $25 Par.

Nuclear Operations Consolidated

Nuclear operations of the Company were consolidated during the year at the site of the Salem and Hope Creek Generating Stations with the establishment there of the headquarters of the newly-formed Nuclear Department.

The department, created in the Fall of 1981, has the responsibility for the safe and efficient operation of the Company's nuclear facilities. Most employees involved in nuclear activities were transferred from Newark to Salem during the year.

Outstanding Performance by Salem No. 2

An outstanding performance by the No. 2 nuclear unit at the Salem Generating Station in its first full year of commercial operation was a major factor in boosting nuclear production to 34 per cent of total electric output in 1982.

Overall nuclear production came from four units in which the Company shares ownership with other utilities. The units are the two at the Salem station, which the Company built and operates, and two at the Peach Bottom station in Pennsylvania. The Company has a 42.59 per cent interest in Salem and a 42.49 per cent interest in Peach Bottom.

Salem No. 2 was available 97 per cent of the time in 1982 and for the first eight months of the year led all U.S. nuclear units in total output, an excellent record for a new unit. For all of 1982, the unit's output was second in the nation only to Peach Bottom No. 3, one of two nuclear units at that station.

Salem No. 1 was shut down for refueling and maintenance on October 15. During the operating cycle between refuelings the unit was available nearly 98 per cent of the time. Return of the unit to service, originally scheduled for early January 1983, was delayed. Repairs in a low pressure river service water system that cools equipment in various support systems required more extensive work than originally anticipated.

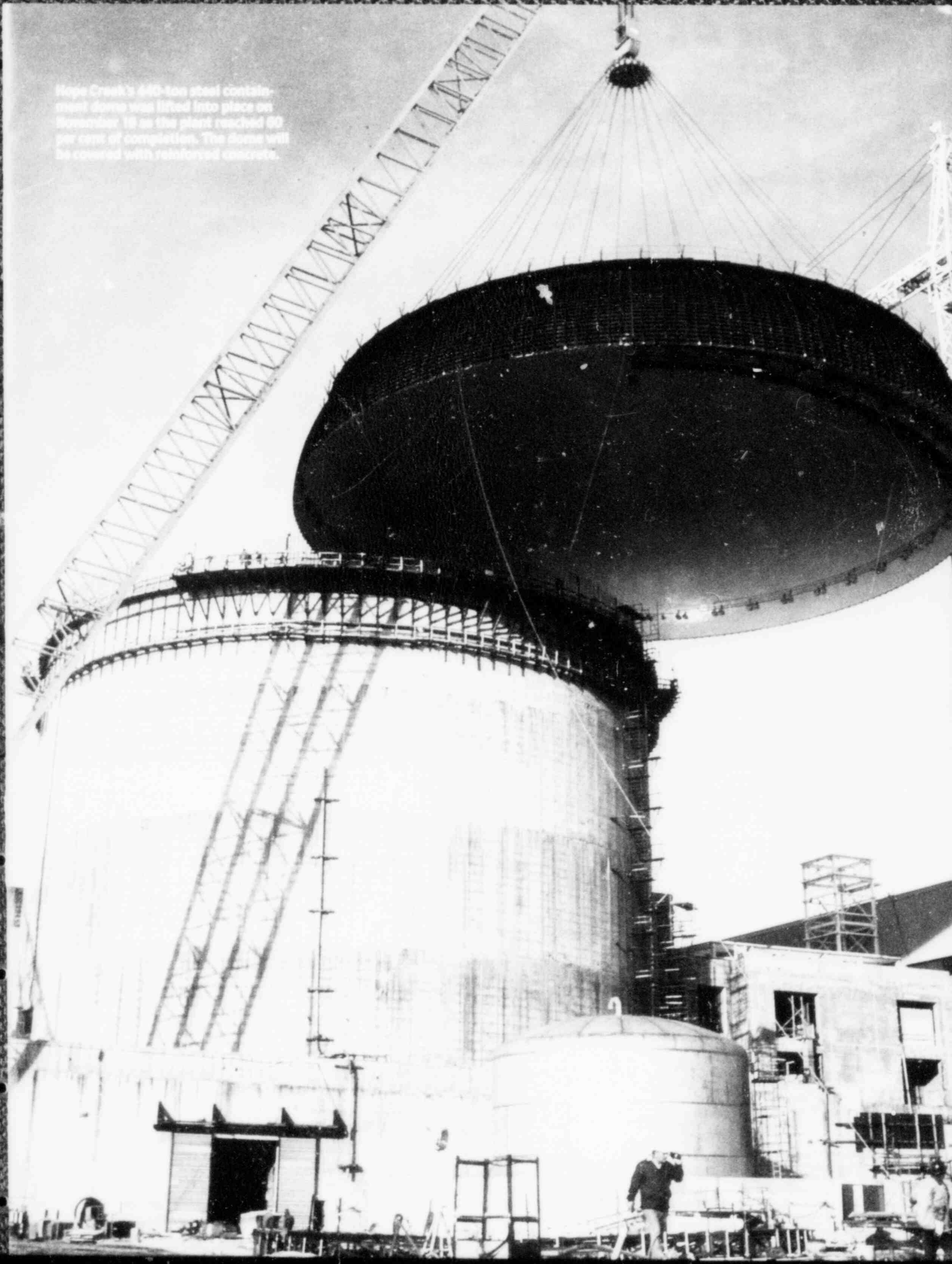
A broad curriculum that covers the various aspects of nuclear operations is provided at the Nuclear Training Center. Dedication of the Center is planned to take place in April 1983.

Nuclear Training Center Opened

Construction was completed during the year on the Nuclear Training Center which is located in Salem, N.J., about eight miles from the Salem and Hope Creek stations. Classes for personnel of the stations, which previously had been held in temporary quarters, were begun at the center.

In addition to classrooms, the center has laboratories, shops and other facilities to support a wide variety of training courses.

Major installations at the center will be the plant simulators to train control room operating personnel of the stations. The Salem simulator was delivered in early 1983. Delivery of the Hope Creek simulator is scheduled in 1984.



Hope Creek's 440-ton steel containment dome was lifted into place on November 18 as the plant reached 60 per cent of completion. The dome will be covered with reinforced concrete.

production & Distribution

Electric output declined by 2.0 per cent in 1982 as sales dropped because of the continuing economic recession, customer conservation, and cooler summer weather that reduced demand for air conditioning. Total megawatthours produced, purchased and interchanged amounted to 31.6 million, compared with 32.2 million in 1981.

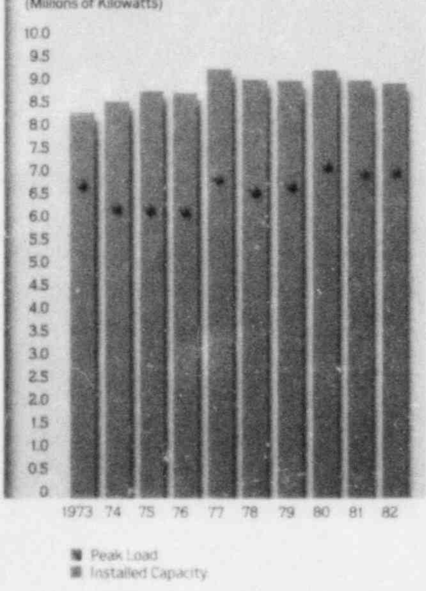
Peak demand of 7,042 megawatts occurred on July 19, an increase of 0.1 per cent from the peak of 7,034 megawatts on July 9, 1981. The record high of 7,159 megawatts was reached on July 21, 1980.

The maximum day's output of 134,654 megawatthours also occurred on July 19. The figure was 1.1 per cent less than the 136,113 megawatthours output on July 9, 1981, and 4.2 per cent below the all-time high of 140,591 megawatthours on July 21, 1980.

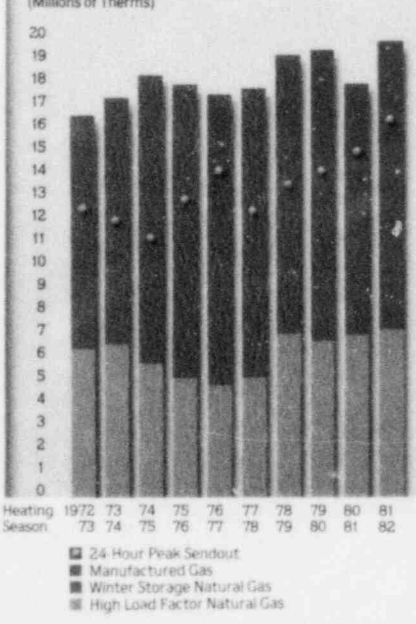
At the time of the system peak load, the Company had an installed generating capacity of 8,995 megawatts, or an installed capacity reserve of 28 per cent. At the end of the year installed generating capacity also was 8,995 megawatts.

The accompanying table shows the planning peak electric loads, installed operating capacities and per cent reserves anticipated for the next ten years.

Electric Peak Load and Installed Capacity at Time of Peak



Gas Peak Sendout and Daily Capacity at Time of Peak



Generating Capacity Forecast

Year	Planning Peak Load	Installed Capacity	Per Cent Reserve
	(Megawatts)		
1983	7,025	8,999	28
1984	7,220	8,999	25
1985	7,390	8,999	22
1986	7,555	9,099	20
1987	7,740	10,013	29
1988	7,915	10,013	27
1989	8,070	10,013	24
1990	8,200	10,013	22
1991	8,315	10,013	20
1992	8,395	10,329	23

Less Oil Used for Generation

The Company continued to cut back its use of oil for electric generation in 1982. As a result, only 10 per cent of the year's electric output was fueled by oil, down from 13 per cent in 1981.

The reduction was achieved by increased nuclear and coal-fired generation. Nuclear provided 34 per cent of the electric output, up from 25 per cent in 1981. Coal accounted for 30 per cent compared with 27 per cent the previous year.

A total of 463 million therms of natural gas, equivalent to 7.6 million barrels of oil, was used at a cost savings of approximately $62 million, although gas use was lower than in 1981. Additional savings of $2.3 million were realized through spot market purchases of coal and oil.

During the year, 5.8 million barrels of oil, down 23 per cent from 1981, and 2.1 million tons of coal, up 5 per cent, were purchased for New Jersey electric production facilities.

PSE&G's capability to obtain greater amounts of low-cost, coal-generated power from utilities in western Pennsylvania and the Midwest was improved with the installation of 230,000-volt capacitor banks at two switching stations. Work was the first phase of a Pennsylvania-New Jersey-Maryland Interconnection project to improve transmission capability.

Fuel Prices Stabilize

Oil and coal prices were fairly stable. The average price of low sulfur heavy fuel oil purchased to generate electricity was $33.08 per barrel, 7.0 per cent lower than in 1981. Coal prices for New Jersey facilities increased 4.6 per cent above the 1981 level. The increase was due to increased transportation costs and higher mine labor costs.

Comparative fuel costs in 1982 per million British thermal units were: oil $5.51; coal $2.28; gas $3.98 and nuclear 66 cents.

The Company's electric output by sources in 1982 compared with 1981 follows:

Source	1982	1981
Coal	30%	27%
Oil	10	13
Natural Gas	12	17
Nuclear	34	25
Purchased and Interchanged	14	18
	100%	100%

Uranium Prices Continue to Decline

During 1982, the demand for uranium on a national basis continued to decline and prices on the spot market reached a low of $17 a pound in August. Major U.S. producers purchased surplus uranium to meet their obligations rather than operating mining and milling facilities at a higher cost.

The Company has long term contracts for the supply of uranium. It is expected that sufficient uranium will be provided from these contracts and from contracts to be negotiated in the future to operate the two Salem units and Hope Creek I through the early 1990's.

The availability of lower cost uranium from these sources has resulted in the further deferment of deliveries under a long-term contract with Kerr-McGee Nuclear Corporation. It is anticipated that the project for supplying this contract will remain in a standby condition until January 1986. Resumption of production after that date will be at the option of the Company.

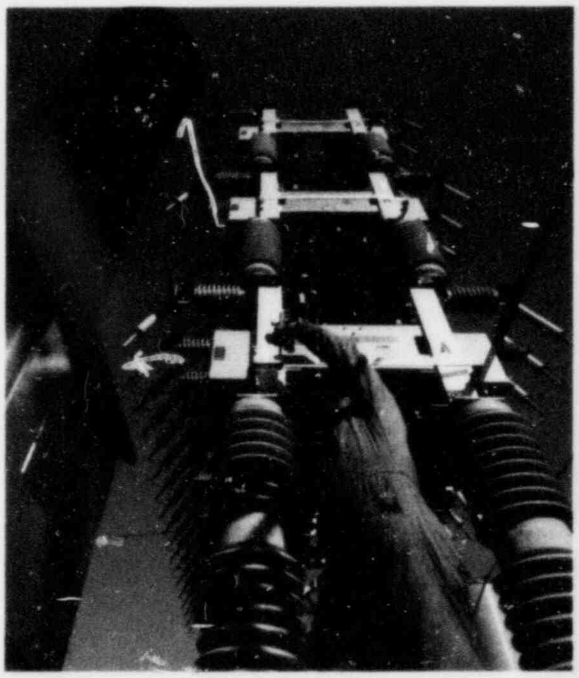
Under the Kerr-McGee contract, $40.5 million had been advanced as of December 31, 1982 to finance mining and milling facilities. The Company advanced 70 per cent of the amount and the co-owners of the Salem and Hope Creek stations advanced the balance. Of these advances, $14.5 million, including $4.7 million of interest, has been recovered through credits against the purchase price of uranium concentrates delivered by Kerr-McGee.

Recoupment of unrecovered advanced payments will depend upon the sale of uranium to the Company or other buyers, or Kerr-McGee's sale of the project properties.

Con Edison Link Completed

After several years of construction, a second 345,000-volt cable connecting the Hudson Generating Station with Consolidated Edison Company's Farragut substation in Brooklyn was placed in service in July.

The cable was part of a comprehensive project to reinforce existing interconnections with Con



Edison. In addition, the project included a second 345,000-volt interconnection between the Company's Waldwick switching station in Bergen County and Con Edison's Ramapo substation in Rockland County, N.Y.

The new interconnections and associated 230,000-volt reinforcements within the Company system will permit increased interchange of power between the two companies and provide more reliable and economic operations.

Mercer Station Among Most Efficient

Mercer Generating Station, which has two large coal-burning units each with a capacity of 306 megawatts, in 1982 ranked among the most efficient facilities in the nation for the second consecutive year.

The 20-year old station had an overall heat rate efficiency of 9,331 Btu/Kwhr. Heat rate is a method employed to measure the

Critical maintenance has been expedited and costs reduced for work previously contracted outside the company through the operation of the Central Maintenance Shop. Work at the shop includes overhaul and repair of steam and gas turbines.

efficiency of the conversion of energy available in fuel to electrical energy. It is one of several factors used to assess the economic operation of a generating unit or plant. Mercer station achieved a heat rate efficiency of 9,272 Btu/Kwhr in 1981 and ranked fourth in the nation when figures were compiled in mid-1982.

Over the last several years the Company has emphasized a program of maintenance and rehabilitation of generating units and stations. This rehabilitation, which included the Mercer station, has increased the capability of generating units in achieving higher levels of efficiency, availability and reliability.

Distribution System Expanded

The Company's distribution system was expanded with the installation of a new substation and seven new 13,000-volt circuits.

In 1981 the Company voluntarily initiated a program to eliminate all pole-top capacitors filled with polychlorinated biphenyls (PCBs) over a ten-year period. The schedule was revised in 1982 to comply with the provisions of a Federal law passed in August requiring removal of the capacitors by 1988.

Gas Sendout Unchanged

In 1982 the Company's total gas sendout was 2.15 billion therms, virtually the same as that sent out during 1981. The warmest December on record offset gains due to customer conversions from oil to gas heating and colder weather early in the year.

A new record peak day sendout of 16,201,000 therms was set on January 17, 1982 when the average temperature was −4°F. This was 9.4 per cent over the previous record of 14,812,000 therms set on January 12, 1981 when the average temperature was 6°F.

Daily Gas Capacity Improved

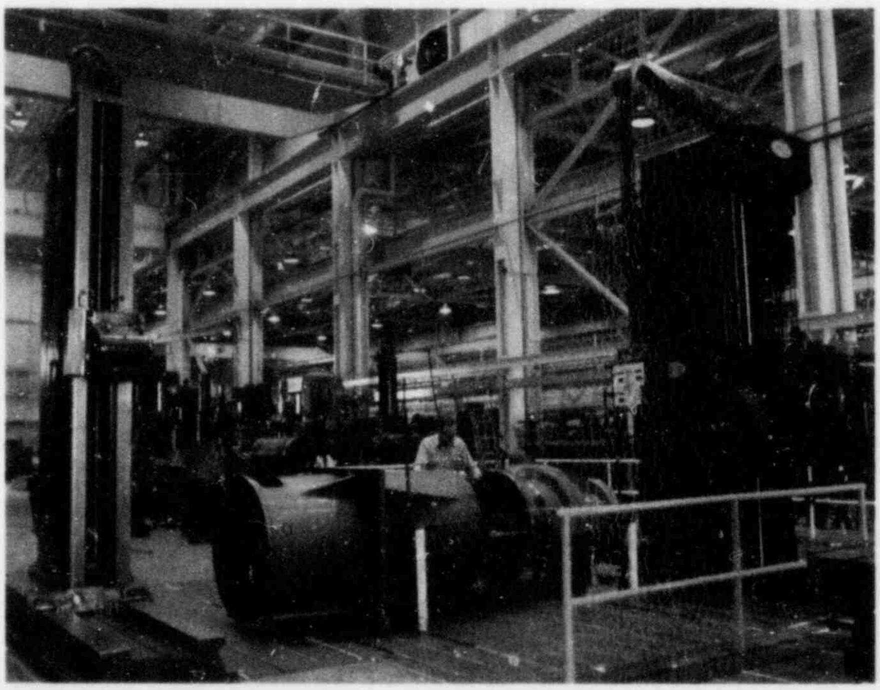
The Company's daily gas capacity increased by 129,000 therms in 1982. This increase reflected the additional purchase of firm pipeline transportation service for deliveries of [illegible] from storage. The daily capacity of 19,139,000 therms on December 31 was composed of:

Type of Gas	Therms Per Day
Natural Gas	14,592,000
Liquefied Petroleum Gas	1,981,000
Oil Gas	1,186,000
Synthetic Natural Gas	1,125,000
Refinery Gas	255,000
Total	19,139,000

Adequate Supplies of Gas Continue

Deliveries of pipeline gas by interstate suppliers were curtailed by only 0.2 per cent compared with 0.7 per cent in 1981 and 1.2 per cent in 1980, making three consecutive years that virtually full contract amounts were available to the Company.

The natural gas supplies received in 1982 were obtained under long-term contracts with three interstate pipelines, from wells owned by Energy Development Corporation, a Company subsidiary, and through several short-term arrangements with other gas companies.



The amount of natural gas purchased for distribution to customers totaled 2.02 billion therms, approximately the same as in 1981.

The average cost of natural gas was $3.59 per million Btu in 1982 compared to $2.95 per million Btu in 1981. This increase of 21.7 per cent was attributable to the higher wellhead prices allowable under the Natural Gas Policy Act of 1978 and rate increases put in effect by the Company's pipeline suppliers.

Supplemental Supplies

The Company supplements its natural gas supplies with gas purchased from Exxon's Bayway Refinery and, in the coldest periods of the winter season, with gas manufactured in Company-owned facilities.

Refinery gas purchases in 1982 amounted to 93.8 million therms, compared to 92.3 million therms in 1981. The cost of this gas averaged $4.76 per million Btu compared to $6.04 per million Btu in 1981. This reduction in cost was principally the result of a renegotiation of the pricing provisions in the contract.

The total production of manufactured gases amounted to 30.2 million therms in 1982 compared to 29.0 million therms in 1981.

Approval Sought for LNG Facilities

The Company continued to seek the required Federal Energy Regulatory Commission (FERC) approval to place in service two liquefied natural gas tanks and related facilities on Staten Island, New York, to store domestic natural gas for use by the Company and others during periods of peak demand.

Operation of the tanks, owned by Energy Terminal Services Corporation (ETSC), a Company subsidiary, will require construction of a liquefaction unit and other facilities including a pipeline under the Arthur Kill to New Jersey. The Company's investment in ETSC at the end of 1982 was $76.3 million.

During early 1982 the processing of the applications before FERC proceeded with the submission of evidence and hearings on economic, need, environmental and safety issues. The FERC staff issued a Final Supplement to its Environmental Impact Statement which concluded that the proposed facility would be designed with sufficient safeguards to either prevent accidents or reduce the impact of credible accidents.

At year end, the FERC proceedings were still pending. ETSC must also satisfy requirements of the U.S. Department of Transportation relating to pipeline safety.

Record Earnings by Exploration Unit

Energy Development Corporation, (EDC), the Company's exploration subsidiary, achieved record earnings for the fourth consecutive year despite reduced natural gas and oil production.

Revenues from the sale of natural gas and oil totaled $73.2 million, a decrease of 2.7 per cent from 1981. Net income increased 4.8 per cent to $12.0 million as a result of reduced operating expenses.

Deliveries of natural gas to the Company totaled 159 million therms in 1982. The subsidiary is the third largest source of gas supply to the Company.

EDC operations reflected the industry-wide slump in drilling activity. During the year EDC drilled a total of 57 wells, a decline of 15 per cent from 1981. Of the total, 29 were onshore and 28 offshore.

Onshore operations were concentrated in the Gulf Coast region of Texas and Louisiana. The result of onshore drilling was 14 successful wells and 15 that were abandoned. At year end three onshore wells were still being drilled.

Offshore activity included exploratory drilling on six untested lease blocks and development drilling to delineate prior discoveries. During the year 24 wells were classified as successful and four were abandoned. There were two offshore wells still being drilled at year end.

Gas System Grows

More than 280 miles of main and service lines were added to the underground gas distribution system during 1982. The total was slightly less than in 1981 because of a decline in the number of customers who converted to gas from oil heat. The connection of nearly 150,000 customers since 1978, primarily conversions, necessitated numerous reinforcement projects to insure adequate pressures and supplies throughout the service territory.

Customer & Marketing Services

A computer-based system together with up-to-date facilities have provided higher efficiency in operations and enhanced service to customers. Representatives are able to respond more expeditiously to customer inquiries with pertinent data, including records of customer accounts, readily available on video display screens. Service also has been streamlined at centers in downtown urban areas.

A major reorganization and relocation of customer and marketing operations, begun in 1980, was virtually completed in 1982.

Under a new field organization there are three divisions — northern, central and southern — which oversee nine district offices, 15 customer service centers and two separate meter reading offices. In addition, there is a centralized customer services division which is responsible for two inquiry and accounting centers and a bill payment processing center.

Greater efficiency and productivity has been realized along with improved customer service under the new arrangement which reflects changing population patterns, particularly growth of suburban areas, in the Company's service territory.

Large, antiquated commercial offices have been replaced by leasing a lesser amount of office space in modern buildings. Customer service centers, conveniently located in downtown urban areas, provide places where customers can continue to pay bills and make service inquiries.

The modernization program, together with a new sophisticated computer system, has provided a major advance in the handling of customer accounts, inquiries and work orders.

The first full year of operation of the two customer inquiry and accounting centers, opened during 1981 in Newark and Bordentown, also has resulted in a significant improvement in service.

More than 3.4 million customer service and billing calls were handled with an average response time of 51 seconds. Additional improvements in service will take place over the next several years as new developments are implemented.

Meter reading was improved and costs were reduced by the use of hand-held microprocessors in a trial program. The microprocessors will be used system-wide in 1983.

At the end of 1982, the Company had 1,705,481 electric customers and 1,319,745 gas customers.

The Company formed three consumer advisory panels with representatives drawn from the northern, central and southern customer service divisions. The panels represent various social, economic and civic interests and will serve as new communication links with customers. First meetings of the panels featured a slide presentation covering various facets of the Company's operations.

Gas Heating Program Accelerated

In the first three quarters of 1982, customer requests for gas service declined because of the weak economy and a stabilization in oil prices. An accelerated marketing and advertising program was undertaken that emphasized the advantages of gas for heating, including the fact that gas continues to cost less than oil.

During the year, 24,761 new gas customers were connected of whom 22,335 were residential, 2,183 commercial and 243 industrial. The residential customers included 17,267 who converted from oil to gas heat. Of these, 9,329 were connected in the last quarter of the year.

In the electric heating market, growing customer acceptance of heat pumps continued to increase because of the cost effectiveness of these energy conserving systems. During the year, 337 commercial and industrial and 2,021 residential heat pumps were installed.

State and municipal authorities continued to upgrade street lighting facilities which resulted in 10,257 installations of efficient high sodium lights. In addition, 5,837 dusk-to-dawn units were installed, bringing the total to more than 89,000. These installations benefit customers by providing greater safety and security and the Company by the use of electricity in off-peak periods.

Total gas and electric connections made in 1982 will provide an estimated $85 million annually in additional revenues.

AquaSol' Program Gets Under Way

The Company's solar water heating program, an outgrowth of a three-year demonstration project, was implemented in 1982. The first installation was completed late in the year and the Company plans a promotional campaign in 1983.

The program, named "Aqua-Sol", offers residential customers whose homes meet certain criteria a choice of two systems at a cost of between $3,500 and $4,000.

One system uses electricity for backup and the other utilizes natural gas. A family of five could expect a solar system to provide up to half of their annual hot water requirements.

Bill Collection Improvement Program

A bill collection improvement program designed to reduce the number of late payments and uncollectible accounts was initiated. Additional personnel were assigned to collections and new procedures were implemented.

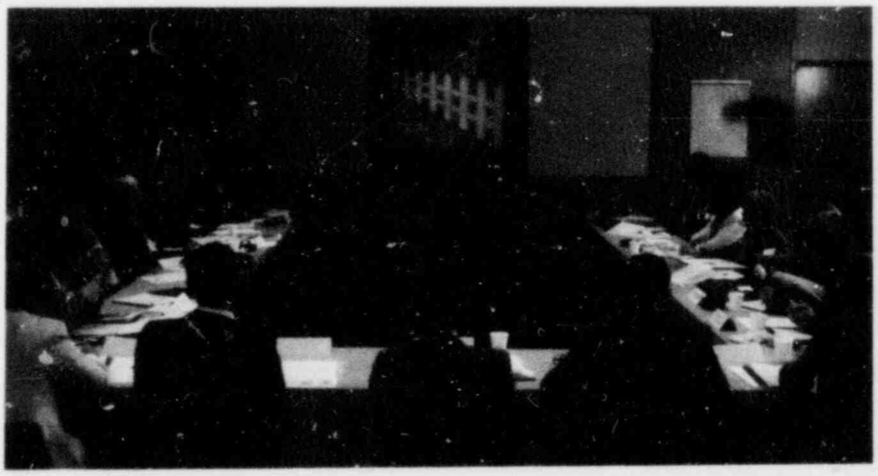
The full impact of these initiatives is not expected to be seen in collection results until 1983 since they were fully operational only during the last half of 1982.

A late payment charge for commercial and industrial customers was approved by the New Jersey Board of Public Utilities, effective in January 1983. The charge places a portion of the rising cost of collection on customers who pay bills late.

Efforts Expanded to Prevent Energy Theft

The Company's energy theft prevention program was strengthened during the year. In a pilot project, an eight-member team of specially-trained employees was formed to coordinate efforts in the prevention, detection and investigation of thefts of energy, as well as the collection of revenues due.

The expanded program will include inspections of metering and service equipment, installation of security devices, computerized statistical analysis designed to indicate abnormal usage, and legal actions. The pilot project will provide a basis for a system-wide program.



Conservation & Load Management

An associate marketing engineer checks a customer's boiler system to determine the feasibility of conversion to gas. Marketing engineers act as liaisons between the Company and industrial and commercial customers.

In 1982, the Company developed an accelerated plan for conservation, cogeneration and load management. The New Jersey Board of Public Utilities (BPU) approved the plan in November and directed other utilities in the state to file similar programs.

The plan resulted from a BPU order in March providing for recovery by the Company of the abandonment costs of the No. 2 Hope Creek unit. The Company worked with the BPU to develop a plan that would enhance conservation and energy efficiency.

The Company programs are responsive to an increasing desire of customers to conserve energy and to help customers, especially those in low income brackets, to deal with increasing energy costs. The potential cost-benefits of these programs are somewhat uncertain and each will be re-evaluated on a periodic basis so as to optimize conservation expenditures.

The programs include subsidization of loans to finance major home energy saving measures, the promotion of low cost home energy audits and weatherization assistance. Included also are rebates to customers who install high efficiency air conditioners and heat pumps, home seal-up services and the utilization of cogeneration.

Subsidized loans to customers for financing the installation of energy saving equipment will be made through banks. The loans are on a zero-interest basis for customers with family incomes of less than $30,000 a year. Loans to families with income from $30,000 to $50,000 carry an interest subsidy equal to one-half the prevailing consumer loan rate.

The energy audits are provided under the existing Home Energy Savings Program (HESP). The promotion includes additional

Three Energy Update Seminars were conducted for management personnel of large industrial and commercial customers. These sessions provided energy information to assist customers in planning, budgeting and operating their facilities.

As part of the Company's conservation and load management activities a number of devices are being evaluated. In a coolness storage unit (left), ice is made at night when demand for electricity is low, and then used for cooling during daytime periods of peak electric demand. Another device, a heat pump water heater, removes heat from air in home basements and utilizes it in water heating systems.

advertising and a complimentary insulation kit to those who have their home audited.

Energy audits for small commercial and industrial businesses also are conducted for a nominal fee. Other facets of the program will include a conservation center staffed by experts with a toll-free number to handle customer inquiries, and a mobile energy conservation exhibit.

Weatherization assistance includes the offering of do-it-yourself kits to low-income customers as well as grants through a state agency. Weather stripping and caulking are parts of the seal-up services offered in the new program. These will be provided at a nominal fee to gas or electric heating customers. Certain weatherization services will be offered free of charge to selected low-income residents in the Company's service territory.

Rebates to customers who install high efficiency air conditioners and heat pump equipment are part of the load management aspect of the plan. A study also is being made of the energy savings potential of a refrigerator rebate program.

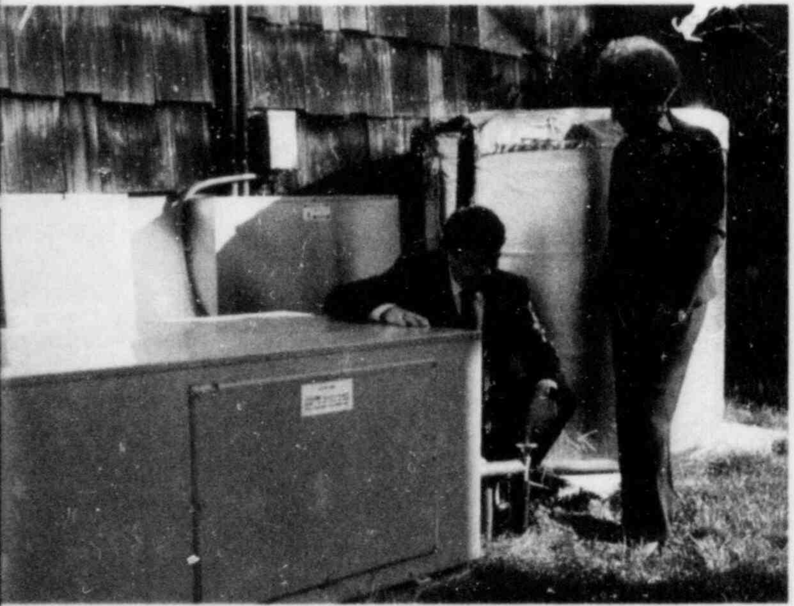
In addition, the Company will offer reports and graphs to large volume customers served under time-of-day large power and light and high tension rate schedule classifications that will give them analytical tools in determining how to better manage their use of electrical energy.

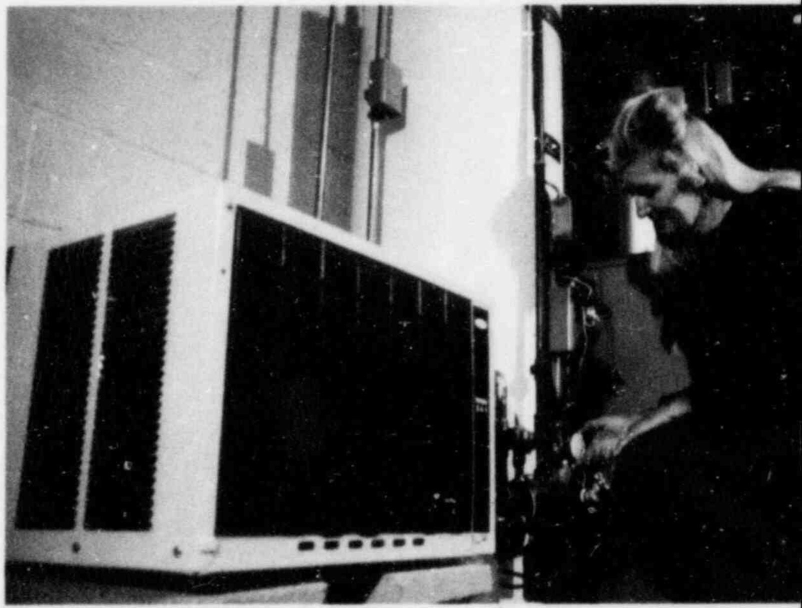
In the area of cogeneration, the Company is developing an informational program for new and existing customers to increase their awareness of this process. Included is a screening guide to assess cogeneration feasibility. A computerized technical and economic analysis program will be made available to customers considering cogeneration projects.

The Company will purchase energy from cogenerators and small power producers. Contracts have been signed to purchase electrical output from two projects, the Paterson Falls Hydroelectric Station and the Trenton Integrated Community Energy System. In addition, negotiations are under way with others, including the Port Authority of New York and New Jersey, for energy from proposed resource recovery facilities.

Cogeneration is not new with the Company. Electricity and process steam have been cogenerated since 1957 at the Linden Generating Station. The steam from the cogeneration process is exchanged with the adjacent Exxon Bayway Refinery for boiler fuel and water.

The Company already has developed a load management program designed to result in a reduction in projected peak demand by some 1,000 megawatts by 1995, including interruptible load estimates of about 465 megawatts. The program involves influencing customer use of electricity through means of specialized devices, control equipment and innovative rate making. The interruptible service rate now available to large industrial and commercial customers already has resulted in about 130 megawatts of controllable load.





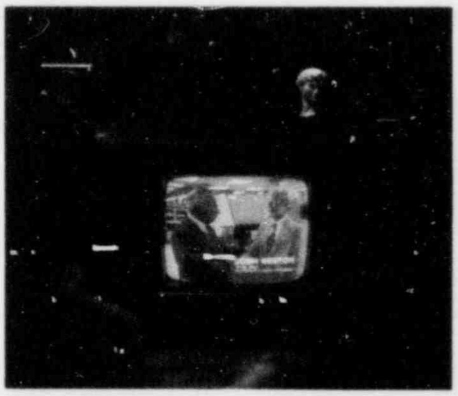
Area Development

A promotional program was launched to attract high technology industries to New Jersey. Television, radio and print media were utilized to feature testimonials from leading business executives in the state. Shown during taping of a commercial is Robert H. Franklin, PSE&G Vice President – Public Relations, (left) and Josh Weston, President and Chief Executive Officer of Automatic Data Processing Company.

The trend in New Jersey, particularly in the Company's territory, toward a service-oriented economy from one with a heavy industrial base, continued during the year. Despite a somewhat soft market, the location and construction of new office facilities stayed at a high level, spurred by ever-increasing cost of space in New York City. Southern New Jersey also continued to attract firms seeking office space.

Recognizing the state's strength, the Company has conducted highly-rewarding promotional campaigns that have attracted numerous office, research, light industrial and distribution facilities of national and international corporations.

Demand for office space in New Jersey by domestic and



foreign firms remained relatively strong in 1982. This was aided by a campaign that promoted New Jersey as the "Headquarters State."

High Technology Firms Sought

In the second half of the year, efforts focused on attracting high technology industries for which the state has distinct advantages. New Jersey has more scientists, engineers and technicians per capita than any other state in the nation. There are more than 650 academic and industrial laboratories and one out of every ten private and federal research dollars is spent in the state.

High technology firms provide the state with an opportunity to replace companies and jobs lost in the traditional manufacturing sector and to accelerate economic growth.

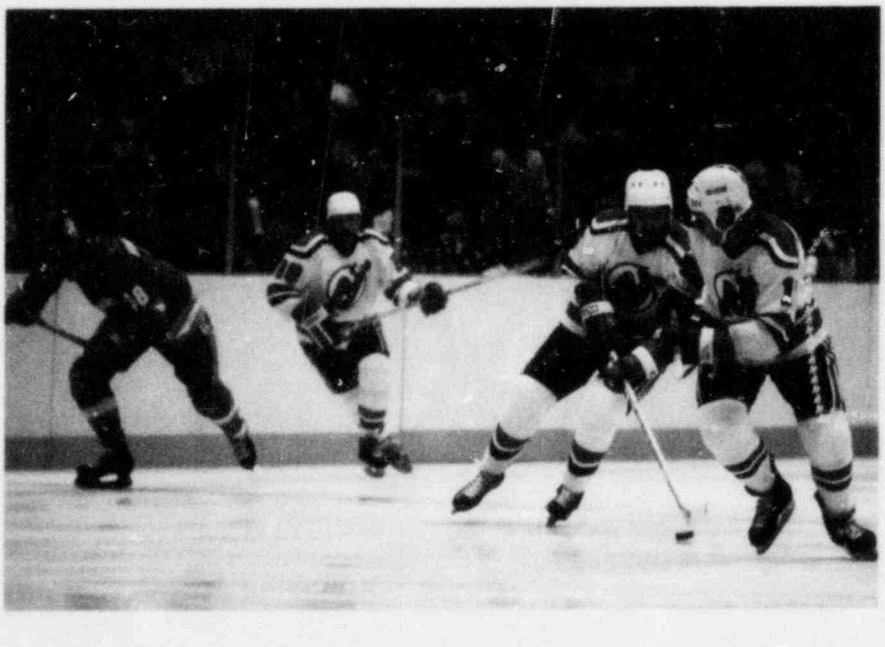
During the year, 306 major industrial and commercial firms, employing approximately 17,700, located or expanded in the Company's service territory. Lost were 44 companies, employing 7,200, leaving a net gain of about 10,500 jobs.

Typical of commercial development in PSE&G's service area is this project under construction in Teaneck. The complex, named Glenpointe, will include a 14-story, 350-room Loews hotel, two office buildings, 40 shops and 300 town houses.

Rapid Meadowlands Development

Major development continued during the year in the Meadowlands with the most significant project being "Harmon Meadow," the newest project of Hartz Mountain Industries. The $1 billion development will include more than three million square feet of office space; a 100,000-square-foot retail complex; 4,000 residential units and a 156-room Hilton Hotel.

The Hackensack Development Meadowlands Commission oversees development of the 20,000-acre district in Hudson and Bergen counties. Since its inception in 1968, the Commission has issued 2,208 building permits that have resulted in $493 million in construction and the creation of more than 39,000 permanent jobs.



Urban Revitalization

Progress continued in urban revitalization in downtown Newark and New Brunswick during the year. Construction advanced in Newark on The Prudential Insurance Company's $53 million Gateway III office building, and the $33 million One Washington Park building neared completion. Johnson & Johnson's $73 million new corporate headquarters was in the final construction stages and a $20 million Hyatt-Regency Hotel opened in New Brunswick.

The Port Authority of New York and New Jersey announced that, if legislative approval is obtained, it plans to provide $100 million in site improvements toward a proposed $500 million renewal project in Hoboken.

The project, to be located along the Hudson River, north of the former Erie Lackawanna Railroad Terminal, would include a 400-room hotel, 670 residential units, retail stores, 1.4 million square feet of office space and a large marina.

More than eight million persons attended events during 1982 at the New Jersey Sports and Exposition Authority's complex in the Meadowlands. Professional hockey was added to the attractions as the Meadowlands arena became the home of the New Jersey Devils of the National Hockey League. The complex also includes Giants Stadium and the Meadowlands Racetrack.

Research & Development

A significant step in PSE&G's aquaculture program was achieved in 1982 when "Pocono Springs" rainbow trout were sold in supermarkets. Marketing followed about 10 years of research in aquaculture using the warm-water discharge from the Mercer Generating Station. Limestone Springs hatchery operations in Richland, Pa., leased in 1979, expanded production of trout to a million pounds per year.

Total research and development expenditures in 1982 were $16.8 million. Partially offsetting these costs was $3.8 million obtained from sales and reimbursements. Of the balance, $4.7 million was spent for internally-conducted activities and $8.3 million went to support research by industry-sponsored organizations.

A major portion of the Company's research activities are carried out by PSE&G Research Corporation, a subsidiary established in 1977 to facilitate work on near and long-term energy projects.

During the year, the Research Advisory Council, formed in 1979, continued to provide advice to PSE&G Research Corporation and serve as a communications link with the public. The council, composed of 21 prominent citizens representing a broad public interest, reviews research and development programs, including the level of funding, from an economic and social viewpoint.

Waste Energy Applications

Since 1979, the Company has operated an experimental system to recover methane from a landfill in Cinnaminson, N.J. Methane is a gas generated by decaying matter in the landfill. The gas is being sold to a metal processing plant near the site.

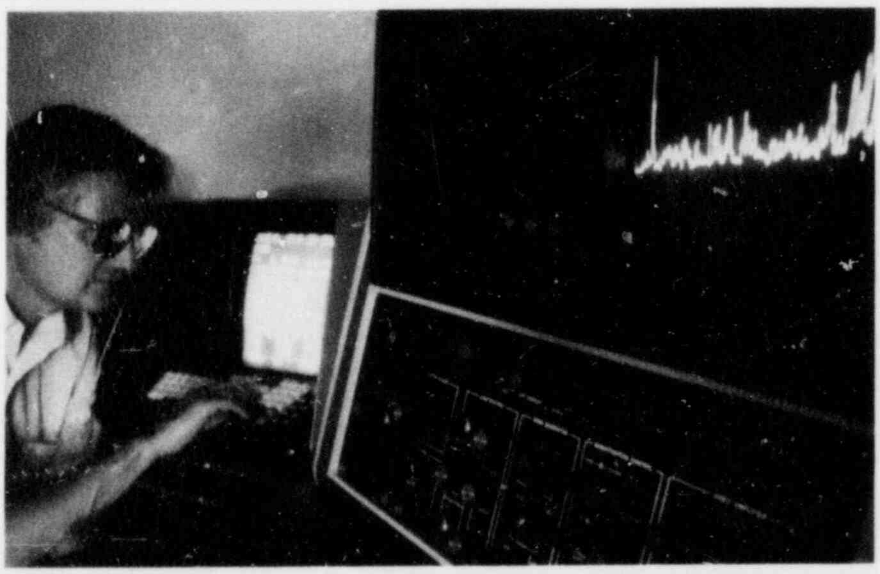
During the year, methane from the landfill also was used to heat a small greenhouse in which vegetables and flowering plants were grown. The plants responded well to the growing conditions induced by heat produced by burning the landfill gas.

The Company also was selected during the year to install a gas recovery system at a landfill adjacent to the new headquarters and environmental center of the Hackensack Meadowlands Development Commission. The system will supply gas to a generating unit which will feed power into the electric grid.

Hydrogen Generating System Tested

A prototype advanced electrolyzer, a device for making hydrogen from water, was installed at Sewaren Generating Station during the year. The testing of the electrolyzer is a joint project of the Company, the Electric Power Research Institute, and the General Electric Company.

The project will seek to demonstrate, over a two-year period, the economic and technical feasibility of producing hydrogen for Company use instead of purchasing it from outside firms. Hydrogen is used for cooling



Computerized scanning electron microscope at PSE&G Research and Testing Laboratory is vital for testing metal samples in evaluation of piping and other equipment utilized at Company facilities. Testing includes analysis of failures. Metallurgical analysis is one of a number of services marketed commercially by the Laboratory.

generators during the production of electricity.

Advanced design electrolyzers hold the promise of a more economic and reliable source of hydrogen. The prototype electrolyzer utilizes a solid polymer electrolyte originally developed for fuel cells and oxygen generators used in the space program.

Solar Electric Study

The Company and RCA Laboratories in Princeton, N.J. completed a study in 1982 on the potential long-range applications of photovoltaic generation as a central station type of power plant in New Jersey. RCA has been doing research work since 1974 on thin-film amorphous-silicon solar cells which appear to have potential for providing a major cost breakthrough.

Based on RCA projected costs for a conceptual photovoltaic power plant to be built in the 1990's, electric power produced from the sun could become economically competitive with conventional peaking generation.

Photovoltaic generation would require extensive capital investment and more land space than conventional alternatives but it could make some contribution to meeting future energy needs.

Energy Storage

The Company has been a leader in the development of energy storage systems. These systems store electricity generated at times of low demand when it is less expensive to produce for use later at periods of peak demand.

The major project in this area is the Battery Energy Storage Test (BEST) facility which is located in Hillsborough, N.J., adjacent to a Company substation. Construction of the facility was completed in 1981 and testing operations began in 1982 using a 1.8 megawatt-hour lead-acid battery, the world's largest. Results of initial tests indicate that batteries can play a significant role in making electric system operations more efficient.

During the year the Company was allocated an additional $1.9 million in funds to continue battery testing and to install an advanced zinc-chloride battery system produced by Energy Development Associates, a subsidiary of Gulf + Western Industries. Funding of the project is provided principally by the U.S. Department of Energy and the Electric Power Research Institute, the research arm of the electric utility industry.

Laboratory Work Expanded

The Company's Research and Testing Laboratory continued in 1982 to help insure a high level of operating efficiency and reliability in service for customers. The Laboratory provides testing and analysis programs that measure the quality of materials and equipment used throughout the Company's system.

These programs were expanded to emphasize the use of nondestructive examination and vibration analysis of equipment to monitor performance and lessen failures in energy production and distribution.

Laboratory services in testing and analysis are commercially available to other utilities, industries and organizations. For the past several years this type of work has produced additional revenue for the Company. In 1982, such work included the testing and calibration of power systems at industrial sites as well as several municipally-owned substations.

Community & Employee Relations

Two PSE&G financial specialists were among 900 men and women volunteers from across the nation who served during the 1982 summer on President Reagan's Private Sector Survey on Cost Control in the federal government. The two PSE&G representatives were Eileen Moran, a senior financial analyst, and Frank Cassidy, manager of engineering economics, shown in Washington during a break from their survey work.

The Company during 1982 continued to participate in various community activities in its service territory. Employees served in many volunteer positions in numerous civic, cultural and educational organizations.

Particular emphasis was placed on maintaining the Company's long-standing commitment to agencies and groups that work to improve the quality of life of communities, especially in urban areas.

Special programs emphasizing educational development for youths in minority groups in urban areas received support.

Two training programs were conducted for unemployed youth among minorities who were referred to the Company by the Greater Newark Private Industry Council. The purpose of the programs was to provide skills for the unemployed that are needed within the business community.

Communications

A wide-range communications program was conducted in 1982 to supply information about the Company and its activities to stockholders, the financial community, the media and the public at large.

Information was provided on a regular basis to the media and the financial community. In addition, senior company executives in November addressed the New York Society of Security Analysts.

The Company's Speakers' Bureau presented more than 295 talks before approximately 14,000 persons.

More than 17,600 persons visited the Second Sun the Company's energy information center at the Salem Generating Station.

Presentations were made on energy-related topics and other subjects of community interest to civic, social and school groups. More than 190,000 persons attended these presentations.

An Energy Education Advisory Committee consisting of 15 elementary, secondary and college educators was formed by the Company during the year. The committee will provide recommendations for the development of energy educational activities. Initially, the committee reviewed and evaluated educational texts and other materials on energy which resulted in the Company's purchase of sets of appropriate material that will be made available to schools on a loan basis.

Employees

Company employees at the end of 1982 totaled 13,118 compared with 12,782 at the close of 1981. Wages and salaries for the year totaled $379 million including $11 million of disability benefits and workers compensation.

The Company continued to stress its Affirmative Action Programs in the employment of women and members of minority groups.

At the end of the year there were 1,918 female employees and 1,903 minority group employees.

The management of PSE&G is responsible for the integrity and objectivity of the financial statements of the Company. These statements are prepared by the Company in accordance with generally accepted accounting principles applied on a consistent basis and include the use of informed estimates where appropriate. Management believes that they present fairly the Company's financial condition. Information in other parts of this Annual Report is consistent with these financial statements.

The Company maintains an accounting system established with sound accounting and business policies which are communicated to the appropriate personnel. The system is designed to provide reasonable assurance that transactions are executed in accordance with management's authorizations and that assets are safeguarded. The concept of reasonable assurance recognizes that the costs of internal controls should not exceed the related benefits. The system, together with its related internal controls, is continually reviewed by the Company's staff of internal auditors.

Management believes the effectiveness of this system is enhanced by a program of continuous and selective training of employees. In addition, management has communicated to all employees its Policies on Business Conduct, Company Assets and Internal Control.

The firm of Deloitte Haskins & Sells, independent certified public accountants, is engaged to examine the Company's financial statements and issue an opinion thereon. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of internal controls and tests of transactions.

The Board of Directors carries out its responsibility of financial disclosure through the Audit Committee currently consisting of five directors who are not employees of the Company. The Audit Committee meets periodically with management as well as with representatives of the internal auditors and independent certified public accountants and reviews the work of each to ensure that their respective responsibilities are being carried out, and to discuss related matters. Both groups have full and free access to the Audit Committee.

Summary of Significant Accounting Policies

Accounting Principles
Financial statements are presented in accordance with generally accepted accounting principles (GAAP). As a result of accounting requirements imposed under rate-making decisions by the Board of Public Utilities of the State of New Jersey (BPU) and the Federal Energy Regulatory Commission (FERC), the applications of GAAP by the Company differ in certain respects from applications by non-regulated businesses. The Company is under the jurisdiction of the FERC and the BPU and maintains its accounts in accordance with their prescribed Uniform Systems of Accounts, which are the same.

Investments in Subsidiaries
The Company's investments in its subsidiaries, which in the aggregate are not significant as defined by the Securities and Exchange Commission, are reported in the accompanying financial statements on the equity method of accounting. The carrying value of investments in subsidiaries is reported under Other Property and Investments in the Balance Sheets, and under the equity method of accounting is adjusted for earnings or losses of such subsidiaries as reported under Other Income in the Statements of Income.

Revenues
Revenues are recorded based on estimated service rendered, but are billed to customers through monthly cycle billings on the basis of actual usage.

Amortization of Deferred Items
Deferred debits are amortized and recovered through rates as prescribed by the BPU. Also see note 5 of Notes to Financial Statements for further information.

Fuel Costs
The Company projects the costs of fuel for electric generation, purchased and interchanged power, gas purchased and materials for gas produced for twelve-month periods. Adjustment clauses in the Company's rate structure allow the recovery of the excess of such projected costs over those included in the Company's base rates through levelized monthly charges over the period of projection. Any under or overrecoveries are deferred and charged to operations in the period in which they are reflected in rates.

Utility Plant and Related Depreciation and Amortization
The cost of replacements of units of property is charged to utility plant. The cost of maintenance, repairs and replacements of minor items of property is charged to appropriate expense accounts. At the time units of depreciable properties are retired or otherwise disposed of, the original cost less net salvage value is charged to the appropriate provision for accumulated depreciation.

Depreciation and Amortization, for financial reporting purposes, are computed under the straight-line method. Depreciation is based on estimated average remaining lives of the several classes of depreciable property. Amortization of leasehold improvements is based on the term of the lease. Depreciation applicable to nuclear plant provides for estimated costs of dismantling or decommissioning. These estimates are reviewed continuously and necessary adjustments are made as approved by the BPU. Depreciation provisions stated in percentages of original cost of depreciable property are 3.52% for 1982, 3.49% for 1981 and 3.48% for 1980.

Amortization of Nuclear Fuel

Nuclear energy burnup costs are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to total thermal units expected to be produced over the life of the fuel. The rate calculated for fuel used at all of the Company's nuclear units includes a provision for estimated spent fuel disposal costs. By rate order effective February 14, 1982 amounts previously not permitted to be recovered were recorded and are being recovered through the levelized energy adjustment clause.

Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return and income taxes are allocated, for reporting purposes, to the Company and its subsidiaries based on taxable income or loss of each.

Deferred income taxes are provided for differences between book and taxable income to the extent permitted for rate-making purposes.

Investment tax credits are deferred and amortized over the useful life of the related property including nuclear fuel.

The Company's tax normalization practices are in compliance with the requirements of the Economic Recovery Tax Act of 1981.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFDC) is a cost accounting procedure whereby the cost of financing construction (interest and equity costs) is transferred from the income statement to construction work in progress (CWIP) in the balance sheet. This results in treating such cost in the same manner as construction labor and material costs. The rates used for calculating AFDC were 8½% for 1982 and 8% for 1981 and 1980 which were within the limits set by FERC.

As a result of BPU rate orders, the Company is allowed to include a portion of CWIP in rate base on which a current return is permitted to be recovered through operating revenues. Starting in 1982, the BPU allowed the Company to include in rate base an additional $125,000,000 of CWIP, raising the total amount to $375,000,000. No AFDC is accrued on this level of CWIP which is included in rate base.

Pension Plan

Pension costs are determined on the basis of an acceptable actuarial method and are charged to operating expenses, utility plant and other accounts. The Company's policy is to fund pension costs accrued. Prior service costs are being funded over a period of 35 years which began January 1, 1967.

For the Years Ended December 31,	1982	1981	1980
		(Thousands of Dollars)	
Operating Revenues			
Electric	$2,543,191	$2,322,042	$2,083,900
Gas	1,330,785	1,149,610	910,154
Total Operating Revenues	3,873,976	3,471,652	2,994,054
Operating Expenses			
Operation			
Fuel for Electric Generation and Interchanged Power — net	959,382	1 059,539	866,802
Gas Purchased and Materials for Gas Produced	821,479	692,319	513,988
Other	452,115	385,149	322,220
Maintenance	220,456	192,768	169,813
Depreciation and Amortization	192,860	178,532	169,987
Amortization of Property Losses (note 5)	43,345	15,362	11,024
Taxes Other than Federal Income Taxes	553,241	474,979	431,890
Federal Income Taxes (note 1)	176,639	118.737	131,178
Total Operating Expenses	3,419,517	3,117,385	2,616,902
Operating Income	454,459	354,267	377,152
Other Income			
Allowance for Funds Used During Construction — Equity	58,367	51,877	45,655
Earnings of Subsidiaries — net (note 2)	10,460	9,490	4,831
Miscellaneous — net	7,118	6,290	5,428
Total Other Income	75,945	67,657	55,914
Income Before Interest Charges	530,404	421,924	433,066
Interest Charges			
Long-Term Debt	198,413	184,133	173,199
Short-Term Debt	13,978	16,574	11,236
Other	8,246	882	5,127
Allowance for Funds Used During Construction — Debt	(33,060)	(43,802)	(31,897)
Net Interest Charges	187,577	157,787	157,665
Income Before Extraordinary Items	342,827	264,137	275,401
Extraordinary Items, net of income tax (notes 3 and 5)			6,316
Net Income	342,827	264,137	281,717
Dividends on Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock	53,865	51,538	46,341
Earnings Available for Common Stock	$ 288,962	$ 212,599	$ 235,376
Shares of Common Stock Outstanding			
End of Year	94,844,596	86,089,491	76,614,995
Average for Year	89,233,028	80,962,344	73,068,848
Earnings per average share of Common Stock before Extraordinary Items	$ 3.24	$ 2.63	$ 3.13
Extraordinary Items, net of income tax (notes 3 and 5)			.09
Earnings per average share of Common Stock	$ 3.24	$ 2.63	$ 3.22
Dividends paid per share of Common Stock	$ 2.53	$ 2.44	$ 2.29

See Summary of Significant Accounting Policies and Notes to Financial Statements.

December 31,	1982	1981
Assets		
Utility Plant — Original cost	(Thousands of Dollars)	
Electric Plant	$4,638,440	$4,459,245
Gas Plant	1,083,183	1,020,236
Common Plant	137,650	126,561
Nuclear Fuel	60,987	55,445
Utility Plant in Service	5,920,260	5,661,487
Less Accumulated Depreciation and Amortization	2,065,510	1,874,668
Net Utility Plant in Service	3,854,750	3,786,819
Construction Work in Progress	2,157,900	1,637,277
Plant Held for Future Use	22,416	21,997
Net Utility Plant	6,035,066	5,446,093
Other Property and Investments		
Nonutility Property, net of accumulated depreciation — 1982, $2,675; 1981, $204	11,702	8,408
Investments in and Advances to Subsidiaries (note 2)	287,934	261,010
Total Other Property and Investments	299,636	269,418
Current Assets		
Cash (note 4)	9,981	5,595
Working Funds	24,308	10,665
Pollution Control Bonds Escrow Funds	4,108	
Temporary Cash Investments	49,900	
Accounts Receivable, net of allowance for doubtful accounts — 1982, $13,291; 1981, $12,563	376,589	377,924
Unbilled Revenues	182,287	176,948
Fuel, at average cost	261,917	218,223
Materials and Supplies, at average cost	44,659	40,071
Prepayments	8,743	8,646
Total Current Assets	962,492	838,072
Deferred Debits (note 5)		
Extraordinary Property Losses		
Hope Creek Unit 2	262,767	290,750
Atlantic Project	260,412	275,472
Other	3,330	3,632
Gross Receipts Taxes	12,899	31,867
Unamortized Nuclear Fuel Disposal Costs	47,269	
Unamortized Debt Expense	23,096	23,639
Total Deferred Debits	609,773	625,360
Total	$7,906,967	$7,178,943

See Summary of Significant Accounting Policies and Notes to Financial Statements.

	1982	1981
Liabilities		
Capitalization	(Thousands of Dollars)	
Common Equity		
Common Stock (see statements, page 32)	$1,610,879	$1,423,739
Premium on Capital Stock	557	557
Paid-In Capital	26,185	26,143
Retained Earnings (see statements, page 31)	888,262	827,497
Total Common Equity	2,525,883	2,277,936
Preferred Stock without mandatory redemption (see statements, page 32)	554,994	554,994
Preferred Stock with mandatory redemption (see statements, page 32)	111,250	77,913
Long-Term Debt (see statements, page 33)	2,579,782	2,410,823
Total Capitalization	5,771,909	5,321,666
Current Liabilities		
Long-Term Debt due within one year	48,243	2,230
Preferred Stock to be redeemed within one year	381	
Commercial Paper (note 6)		207,551
Accounts Payable	263,913	262,734
Taxes Accrued, including New Jersey Gross Receipts Taxes — 1982, $514,378; 1981, $475,856	535,318	492,010
Deferred Income Taxes, Unbilled Revenues (note 1)	83,852	81,396
Interest Accrued	57,925	47,750
Gas Purchased	107,583	83,641
Other	49,927	45,111
Total Current Liabilities	1,147,142	1,222,423
Deferred Credits		
Accumulated Deferred Income Taxes (note 1)		
Deferred Electric Energy and Gas Fuel Costs — net	(32,595)	45,619
Extraordinary Property Losses		
Hope Creek Unit 2	108,223	126,327
Atlantic Project	109,493	115,896
Depreciation and Amortization	358,545	312,595
Other	(6,851)	11,577
Accumulated Deferred Investment Tax Credits (note 1)	301,420	113,890
Over (Under) recovered Electric Energy and Gas Fuel Costs — net (note 5)	66,672	(98,146)
Nuclear Fuel Disposal Costs (note 5)	58,622	
Other	24,387	7,096
Total Deferred Credits	987,916	634,854
Commitments and Contingent Liabilities (note 8)		
Total	$7,906,967	$7,178,943

Statements of Changes in Financial Position

For the Years Ended December 31,	1982	1981	1980
		(Thousands of Dollars)	
Funds Provided			
Income before Extraordinary Items	$ 342,827	$264,137	$275,401
Add (Deduct) Items not affecting Working Capital			
Depreciation and Amortization	304,319	231,431	207,650
Recovery (Deferral) of Electric Energy and Gas Fuel Costs — net	164,818	104,199	(28,068)
Provision for Deferred Income Taxes (note 1)			
Depreciation and Amortization — net	45,950	37,716	39,136
Extraordinary Property Losses — net	(24,507)	119,991	(4,571)
Deferred Electric Energy and Gas Fuel Costs — net	(78,214)	(48,188)	12,634
Other — net	(18,428)	(4,640)	(3,262)
Investment Tax Credits — net	205,261	4,998	5,844
Allowance for Funds Used During Construction (AFDC)	(91,427)	(95,679)	(77,552)
Equity in Net Earnings of Subsidiaries	(10,460)	(9,490)	(8,610)
Other	(963)	(1,419)	141
Total Funds from Operations	839,176	603,056	418,743
Income from Extraordinary Items — net (notes 3 and 5)			6,316
Related Items not affecting Working Capital			
Sale of Transport of New Jersey (note 3)			18,155
Unrecoverable Costs of Atlantic Project (note 5)			13,219
Total Funds from Extraordinary Items			37,690
Total Funds from Internal Sources	839,176	603,056	456,433
Net proceeds from sales of			
Long-Term Debt	221,022	99,320	99,042
Preferred Stock	34,646	49,456	
Common Stock	186,883	171,420	144,839
Total Security Sales	442,551	320,196	243,881
Total Funds Provided	$1,281,727	$923,252	$700,314
Funds Applied			
Additions to Utility Plant, excluding AFDC	$ 721,948	$588,170	$547,978
Cash Dividends	281,459	249,061	215,158
Advances to Subsidiaries	16,464	31,026	45,154
Reductions of Long-Term Debt	50,553	5,572	34,345
Hope Creek Unit 2 Abandonment (note 5)			
Total Construction Costs, including AFDC of $33,000		(223,000)	
Recoverable Costs, including deferred cancellation costs		290,750	
Miscellaneous	11,602	17,506	(6,011)
Total Funds Applied	1,082,026	959,085	836,624
Changes in Working Capital — Increase (Decrease)			
Short-Term Debt	207,551	(26,686)	(85,990)
Long-Term Debt due within one year	(46,013)	30,835	(8,866)
Cash	4,386	1,844	(1,654)
Working Funds	13,643	1,288	1,154
Pollution Control Bonds Escrow Funds	4,108		(11,248)
Temporary Cash Investments	49,900		
Accounts Receivable	(1,335)	25,929	118,811
Unbilled Revenues	5,339	13,602	49,469
Fuel	43,694	35,164	7,363
Accounts Payable	(1,179)	(56,838)	(84,580)
Taxes Accrued	(43,308)	(55,860)	(73,500)
Deferred Income Taxes (note 1)	(2,456)	(6,257)	(22,756)
Gas Purchased	(23,942)	(8,762)	(25,934)
Other	(10,687)	9,908	1,421
Net Increase (Decrease) in Working Capital	199,701	(35,833)	(136,310)
Total Funds Applied and Changes in Working Capital	$1,281,727	$923,252	$700,314

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Statements of Retained Earnings

For the Years Ended December 31,	1982	1981	1980
		(Thousands of Dollars)	
Balance January 1	$ 827,497	$ 813,181	$ 747,076
Add Net Income	342,827	264,137	281,717
Total	1,170,324	1,077,318	1,028,793
Deduct			
Cash Dividends			
Preferred Stock, at required rates	51,984	49,657	44,414
$1.40 Dividend Preference Common Stock	1,881	1,881	1,881
Common Stock*	227,594	197,523	168,863
Total Cash Dividends	281,459	249,061	215,158
Capital Stock Expenses	603	760	454
Total Deductions	282,062	249,821	215,612
Balance December 31	$ 888,262	$ 827,497	$ 813,181

*Restrictions on the payment of dividends are contained in the Charter, certain of the indentures supplemental to the Company's Mortgage, and certain debenture bond indentures. However, none of these restrictions presently limits the payment of dividends out of current earnings. The amount of retained earnings free of these restrictions at December 31, 1982 was $878,262,000.

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Deloitte Haskins+Sells

Certified Public Accountants
550 Broad Street
Newark, New Jersey 07102

To the Stockholders and Board of Directors of
Public Service Electric and Gas Company:

We have examined the balance sheets and statements of capital stock and long-term debt of Public Service Electric and Gas Company as of December 31, 1982 and 1981 and the related statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements, appearing on pages 25 to 39, inclusive, present fairly the financial position of Public Service Electric and Gas Company as of December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 14, 1983

December 31,	Outstanding Shares (note A)	Current Redemption Price Per Share	Certain Refundings Restricted Prior to	1982	1981
				(Thousands of Dollars)	
Nonparticipating Cumulative Preferred Stock (note B)					
With Mandatory Redemption (note C)					
$100 par value — Series					
12.25%	266,306	$112.00	2/1/85	$ 26,631	$ 27,913
13.44% (500,000 shares issued in 1981)	500,000	113.44	4/1/86	50,000	50,000
12.80% (350,000 shares issued in 1982)	350,000	112.80	10/1/87	35,000	
Less amount to be redeemed within one year				381	
Preferred Stock with Mandatory Redemption				$111,250	$ 77,913
Without Mandatory Redemption (note D)					
$25 par value-Series					
9.75%	1,600,000	$ 26.50		$ 40,000	$ 40,000
8.70%	2,000,000	26.50		50,000	50,000
$100 par value-Series					
4.08%	250,000	103.00		25,000	25,000
4.18%	249,942	103.00		24,994	24,994
4.30%	250,000	102.75		25,000	25,000
5.05%	250,000	103.00		25,000	25,000
5.28%	250,000	103.00		25,000	25,000
6.80%	250,000	102.00		25,000	25,000
9.62%	350,000	107.00		35,000	35,000
7.40%	500,000	103.00		50,000	50,000
7.52%	500,000	103.00		50,000	50,000
8.08%	150,000	103.00		15,000	15,000
7.80%	750,000	103.00		75,000	75,000
7.70%	600,000	106.56		60,000	60,000
8.16%	300,000	106.86		30,000	30,000
Preferred Stock without Mandatory Redemption (no changes in 1981 and 1980)				$554,994	$554,994
Dividend Preference Common Stock and Common Stock					
$1.40 Dividend Preference Common Stock (no par) — 1,343,999 shares authorized, issued and outstanding; current redemption price $35.00 per share (note E)					
Common Stock (no par) — autnorized 150,000,000 shares (note F); issued and outstanding as of December 31, 1982, 94,844,596 shares and as of December 31, 1981, 86,089,491 shares (8,755,105 shares issued for $187,140,000 in 1982; 9,474,496 shares issued for $171,636,000 in 1981; and 7,700,646 shares issued for $145,279,000 in 1980)				$1,610,879	$1,423,739

Notes

A. In addition, there are 1,733,752 shares of $100 par value and 6,400,000 shares of $25 par value Cumulative Preferred Stock which are authorized and unissued, and which upon issuance may or may not provide for mandatory sinking fund redemption.

B. As of December 31, 1982 the annual dividend requirement and embedded dividend costs were $14,462,000 and 13.18%, respectively, for Preferred Stock with mandatory redemption and $40,629,000 and 7.38%, respectively, for Preferred Stock without mandatory redemption.

If dividends upon any shares of such stock are in arrears to an amount equal to the annual dividend thereon, voting rights for the election of a majority of the Board of Directors become operative and continue until all acccumulated and unpaid dividends thereon have been paid, whereupon all such voting rights cease, subject to being again revived from time to time.

C. The 12.25% series is subject to a mandatory annual sinking fund redemption of 17,500 shares which is cumulative, plus redemption of up to an additional 17,500 shares at the option of the Company, all at a redemption price of $100 per share. An aggregate of 12,822 shares, 27,672 shares and 43,200 shares of the 12.25% series were purchased and redeemed in 1982, 1981 and 1980, respectively. On March 31, 1987, the 13.44% series will become subject to a mandatory annual sinking fund redemption of 25,000 shares which is cumulative, plus redemption of up to an additional 25,000 shares annually at the option of the Company, all at a redemption price of $100 per share. On September 30, 1988, the 12.80% series will become subject to a mandatory annual sinking fund redemption of 17,500 shares which is cumulative, plus redemption of up to an additional 17,500 shares annually at the option of the Company, all at a redemption price of $100 per share. These series are subject to optional redemption upon payment of the applicable optional redemption price. A redemption of shares of any series also requires payment of all accumulated and unpaid dividends to the date fixed for redemption.

D. Preferred Stock without mandatory redemption is subject to redemption solely at the option of the Company upon payment of the applicable redemption price plus accumulated and unpaid dividends to the date fixed for redemption.

E. Each share of $1.40 Dividend Preference Common Stock is entitled to cumulative dividends, to two votes, and, on liquidation or dissolution to twice as much as each share of Common Stock. There were no changes in outstanding shares in 1982, 1981, or 1980.

F. Includes 18,273,462 shares of Common Stock reserved for possible issuance under the Company's Dividend Reinvestment and Stock Purchase Plan, Tax Reduction Act Employee Stock Ownership Plan, Employee Stock Purchase Plan and Thrift Plan.

See Summary of Significant Accounting Policies and Notes to Financial Statements.

December 31,	1982	1981
	(Thousands of Dollars)	
First and Refunding Mortgage Bonds (note A)		
Series		
3¼% October 1, 1983	$ 21,294	$ 21,304
3¼% May 1, 1984	50,000	50,000
4⅜% November 1, 1986	50,000	50,000
4⅞% September 1, 1987	60,000	60,000
4⅝% August 1, 1988	60,000	60,000
5⅛% June 1, 1989	50,000	50,000
4¾% September 1, 1990	50,000	50,000
4⅜% August 1, 1992	40,000	40,000
4⅜% June 1, 1993	40,000	40,000
4⅝% September 1, 1994	60,000	60,000
4¾% September 1, 1995	60,000	60,000
6¼% June 1, 1997	75,000	75,000
7 % June 1, 1998	75,000	75,000
7⅝% April 1, 1999	75,000	75,000
9⅛% March 1, 2000	98,000	98,000
8⅜% A May 15, 2001	69,300	69,300
7⅝% B November 15, 2001	80,000	80,000
7½% C April 1, 2002	125,000	125,000
8½% D March 1, 2004	90,000	90,000
12 % E October 1, 2004	10,730	10,730
8¾% F April 1, 2006	60,000	60,000
8.45% G September 1, 2006	60,000	60,000
8¼% H June 1, 2007	125,000	125,000
8⅛% I September 1, 2007	59,900	59,900
9⅜% J November 1, 2008	100,000	100,000
9¾% K July 1, 2009	100,000	100,000
12 % L November 1, 2009	125,000	125,000
12⅛% M June 1, 2010	100,000	100,000
15⅞% N August 1, 1991	100,000	100,000
14⅜% O September 1, 2012	100,000	
12⅛% P December 1, 2012	100,000	
8 % June 1, 2037	7,463	7,463
5 % July 1, 2037	7,538	7,538
Pollution Control Series		
6.30% A October 1, 2006	14,300	14,300
6.90% B September 1, 2009	42,620	42,620
6.90% C September 1, 2009	2,990	2,990
12½% D April 1, 2012	23,500	
Total First and Refunding Mortgage Bonds	$2,367,635	$2,144,145

	1982	1981
	(Thousands of Dollars)	
Debenture Bonds unsecured		
4⅝% October 1, 1983	$ 24,800	$ 24,832
5¾% June 1, 1991	39,597	40,557
7¼% December 1, 1993	28,385	29,329
9 % November 1, 1995	54,694	56,145
7¾% August 15, 1996	57,340	59,040
8¾% November 1, 1996	42,010	43,059
6 % July 1, 1998	18,195	18,195
Total Debenture Bonds	265,021	271,157
Other Long-Term Debt		
6½% Note due serially to November 15, 1983	720	1,200
Total Long-Term Debt		
Principal amount outstanding (notes B and C)	2,633,376	2,416,502
Less amount due within one year (note D)	48,243	2,230
Long-Term Debt excluding amount due within one year (note D)	2,585,133	2,414,272
Net Unamortized Discount	(5,351)	(3,449)
Long-Term Debt less Net Unamortized Discount	$2,579,782	$2,410,823

Notes

A. The Company's Mortgage, securing the First and Refunding Mortgage Bonds, constitutes a direct first mortgage lien on substantially all property and franchises.

B. As of December 31, 1982 the annual interest requirement on Long-Term Debt was $220,828,000 of which $201,166,000 was the requirement for First and Refunding Mortgage Bonds. The embedded interest cost on Long-Term Debt was 8.60%.

C. As of December 31, 1982, the Company had unexercised commitments under a Credit Agreement with 12 domestic banks for issuance of revolving loans up to an aggregate amount of $200,000,000 to be outstanding at any time to April 1, 1984. The Company may terminate the commitments, in whole or in part, without penalty or premium. Under the agreement, any borrowings outstanding at April 1, 1964 are convertible, at the Company's option, into three year term loans. The Company is required to pay commitment fees of ⅜ of 1% per annum on the first $125,000,000 and ⅛ of 1% per annum on the next $75,000,000 of any unused portion. The Company has the right, with the consent of the banks, to extend the agreement on a year to year basis.

D. The aggregate principal amounts of requirements for sinking funds and maturities for each of the five years following December 31, 1982 is as follows:

Year	Sinking Funds	Maturities	Total
		(Thousands of Dollars)	
1983	$1,429	$ 46,814	$ 48,243
1984	6,197	50,000	56,197
1985	6,200		6,200
1986	6,200	50,000	56,200
1987	6,200	60,000	66,200
	$26,226	$206,814	$233,040

For sinking fund purposes, certain First and Refunding Mortgage Bond issues require annually the retirement of $22,400,000 principal amount of bonds or the utilization of bondable property additions at 60% of cost. The portion expected to be met by property additions has been excluded from the table above. Also, the Company may, at its option, retire additional amounts up to $6,200,000 annually through sinking funds of certain debenture bonds. The election of any such option is included in long-term debt due within one year.

See Summary of Significant Accounting Policies and Notes to Financial Statements.

1. Federal Income Taxes

A reconciliation of reported Net Income with pre-tax income and of Federal income tax expense with the amount computed by multiplying pre-tax income by the statutory Federal income tax rate of 46% is as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Net Income	$342,827	$264,137	$281,717
Federal income taxes included in:			
Operating income			
Current provision	34,762	2,603	58,641
Provision for deferred income taxes — net*	(72,743)	111,136	66,693
Investment tax credits — net	214,620	4,998	5,844
Total included in operating income	176,639	118,737	131,178
Miscellaneous other income — net	3,265	3,586	1,703
Extraordinary Items			(54,885)
Total Federal income tax provisions	179,904	122,323	77,996
Subtotal	522,731	386,460	359,713
Earnings of subsidiaries — net	(10,460)	(9,490)	(4,831)
Pre-tax income	$512,271	$376,970	$354,882
Tax expense at the statutory rate	$235,645	$173,406	$163,246
Adjustments to pre-tax income, computed at statutory rate, for which deferred taxes are not provided under current rate-making policies:			
Tax depreciation under book depreciation	21,837	18,608	16,161
Allowance for funds used during construction	(42,056)	(44,012)	(35,674)
Overhead costs capitalized	(11,500)	(8,858)	(7,262)
Extraordinary Items			(32,543)
Other	(277)	445	(2,890)
Subtotal	(31,996)	(33,817)	(62,208)
Amortization of deferred tax items	(23,745)	(17,266)	(23,042)
Subtotal	(55,741)	(51,083)	(85,250)
Total Federal income tax provisions	$179,904	$122,323	$ 77,996

*The provision for deferred income taxes represents the tax effects of the following items:

	1982	1981	1980
Current Liabilities			
Unbilled revenues	$ 2,456	$ 6,257	$ 22,756
Deferred Credits			
Hope Creek Abandonment	(18,104)	126,327	
Atlantic Abandonment	(6,403)	(6,336)	(4,587)
Additional tax depreciation	48,791	41,479	31,799
Repair allowance property	(4,524)	(5,236)	6,362
Gross receipts taxes	(2,912)	(2,033)	(985)
Deferred fuel costs — net	(78,214)	(48,188)	12,634
Nuclear Plant Decommissioning Costs	(4,651)		
Nuclear Fuel Disposal Costs	(10,150)	(1,775)	(1,492)
Loss on reacquired debt	(415)	(571)	(570)
Other	1,383	1,212	776
Subtotal	(75,199)	104,879	43,937
Total	$ (72,743)	$111,136	$66,693

As a result of an Internal Revenue Service (IRS) audit for taxable years 1976 through 1978, the IRS has proposed an increase in taxable income which would increase tax liability by approximately $8 million, after using available investment credits of $44 million. This is primarily the result of including unbilled revenues as taxable income in the year estimated services were provided. The Company has not agreed to the results of this audit and is presently appealing the IRS assessment.

Investment tax credits — net for 1982 includes credits carried forward from 1978 through 1981. The balance of investment tax credits not utilized as of December 31, 1982, in the amount of $44 million, is available as a carryover to future years and will expire in 1997. Should the IRS prevail in its assessment, this investment credit carryover would be eliminated. Investment tax credits can be utilized to offset 90% of 1982 tax liability before investment credit, 80% of 1981 tax liability and 70% of 1980 tax liability.

The Company has a Tax Reduction Act Employee Stock Ownership Plan (TRASOP) under provisions of the Internal Revenue Code of 1954, as amended (the Code). Such provisions permit the Company to elect an additional 1% investment tax credit if the Company transfers to the TRASOP an equivalent amount of cash for the purchase of shares of Common Stock. The Company may also claim an additional ½% investment tax credit if it contributes an equivalent amount of cash to the TRASOP, but only to the extent that such amount is matched by contributions by participants. The Company presently estimates that all TRASOP credits claimed will be utilized no later than in its 1983 tax return.

2. Investments in and Advances to Subsidiaries

Investments in and advances to subsidiaries (including the Company's equity in undistributed earnings or losses) are summarized as follows:

December 31,	1982	1981	1980
	(Thousands of Dollars)		
Energy Development Corporation			
Investment	$ 37,628	$ 25,663	$ 14,245
Advances	172,368	151,168	123,034
	209,996	176,831	137,279
Other Subsidiaries, primarily LNG Project Advances	77,938	84,179	83,215
Total	$287,934	$261,010	$220,494

The major subsidiary included in "Other Subsidiaries" above is Energy Terminal Services Corporation (ETSC). Its principal asset, which has not been placed in operation, is a Liquefied Natural Gas (LNG) terminal on Staten Island in the New York City harbor area. Annual expenditures for protection and maintenance of the terminal, including local real estate taxes, are approximately $4.0 million.

The Company had originally intended to utilize the terminal for the importation of LNG. However, due to uncertainties and delays relating to the importation project, including lack of regulatory approvals which resulted in a loss of a supply of LNG, the terminal has not been placed in operation. ETSC is now pursuing the utilization of the two storage tanks at the terminal to provide an LNG peaking service for the Company and others. This will necessitate the construction of a liquefaction facility at the site. The additional construction will not proceed until the necessary permits are obtained from the

appropriate federal, state and local regulatory agencies. The proposed service will increase the Company's capability to store supplies of domestic natural gas in order to meet the demands of its customers for gas on the coldest winter days.

If necessary permits are not received and the facilities are not placed in service, the Company would anticipate seeking favorable rate treatment from the BPU for any loss which may occur. Any loss not provided for, in the opinion of management, would not have a material effect on the financial position or results of operations of the Company.

3. Sale of Transport of New Jersey

On October 14, 1980, the Company sold all of the outstanding capital stock of Transport of New Jersey (TNJ) to New Jersey Transit Corporation (NJTC), an agency of the State of New Jersey, for $32.1 million. This resulted in a pre-tax loss of $30.0 million which was more than offset by income tax benefits to the Company of $49.5 million. Such tax benefits resulted in a non-recurring credit to earnings for 1980 of $19.5 million or 27¢ per average share of Common Stock.

4. Compensating Balances

Cash at December 31, 1982 and December 31, 1981 consisted primarily of compensating balances under informal arrangements with various banks to compensate them for services and to support lines of credit of $180.9 million and $178.2 million, respectively. There are no legal restrictions placed on the withdrawal or other use of these bank balances. In addition, at December 31, 1982 and December 31, 1981, the Company had $35.0 million and $30.0 million, respectively, of lines of credit which were compensated for by fees.

5. Deferred Items

Abandonment of Hope Creek Unit No. 2

On December 23, 1981, the Company abandoned the construction of Hope Creek Generating Station Unit No. 2 in Lower Alloways Creek Township, New Jersey. Total unrecovered costs of $290.8 million, including an estimated $67.8 million of cancellation and close-out costs, were charged to Extraordinary Property Losses and the associated tax reduction of $126.3 million was included in Accumulated Deferred Income Taxes.

On March 4, 1982, the BPU authorized the transfer of $112 million of Hope Creek 2 costs to Hope Creek 1 and recovery of all after-tax abandonment costs for Hope Creek 2 from customers through the levelized electric energy adjustment clause. The recovery is over 15 years on an accelerated method which commenced June 1982. During 1983, the amount of amortization will be $33.2 million, less related taxes of $13.5 million.

Abandonment of Atlantic Project

In December 1978, the Company cancelled its floating nuclear plant project which was to have consisted of four generating units. The BPU is allowing the Company to recover the costs relating to the project over a period of 20 years commencing on April 17, 1980 exclusive of $18.6 million which, after a related tax reduction of $5.4 million, resulted in a net extraordinary charge to income in 1980 of $13.2 million or 18¢ per average share of Common Stock.

Costs are being amortized in the amount of $15.1 million annually, less related taxes of $6.3 million.

Gross Receipts Taxes

Effective January 1, 1973, the Company began accruing New Jersey gross receipts taxes on current revenues rather than on the previous basis of taxes paid. The gross receipts taxes on 1972 revenues were deferred and are being charged to operations by an amount equivalent to ½% of revenues subject to the gross receipts tax. During 1983 the Company expects to amortize the remaining $12.9 million, less related taxes of $5.9 million.

Unamortized Debt Expense

These costs, associated with the issuance or reacquisition of debt, are deferred and amortized over the lives of the related issues. Amounts shown in the Balance Sheets consist principally of costs associated with the Company's tender offer for its 12% Series E Mortgage Bonds which will mature in October 2004. The Company expects to amortize $1.1 million of these costs in 1983.

Over (Under) recovered Electric Energy and Gas Fuel Costs — net

The net overrecovered costs as of December 31, 1982 consist primarily of overrecovered electric costs of $45.2 million and overrecovered gas costs of $34.0 million, which will be refunded to customers through reduced bills during the remainders of the respective current levelized periods. The offsetting balance of $12.5 million represents underrecovered electric costs from prior periods which are expected to be recouped by the end of February 1984.

Nuclear Fuel Disposal Costs

In February 1982 previously unallowed nuclear fuel disposal costs were recorded and amortization of such costs commenced. Salem 2 costs are being amortized over two years and Peach Bottom 2 and 3 costs are being amortized over seven years. The unamortized balance consists of $1.6 million applicable to Salem 2 and $45.6 million applicable to Peach Bottom. During 1983 the Company expects to amortize $8.9 million of such costs less related taxes of $4.1 million. In 1982 the Company recorded $58.6 million of estimated nuclear fuel disposal costs applicable to Peach Bottom 2 and 3 together with a deferred liability pending the establishment of a payment schedule by the Department of Energy (D.O.E.). Until regulations are issued by the D.O.E., the Company is presently unable to determine when payments of the deferred liability will commence or the amounts of such payments.

6. Bank Loans and Commercial Paper

Bank loans represent the Company's unsecured promissory notes issued under credit arrangements with various banks and have a term of eleven months or less. Such notes were issued to a limited extent in 1981.

Commercial paper represents the Company's unsecured bearer promissory notes sold to dealers at a discount with a term of nine months or less. Certain information regarding short-term debt follows:

	1982	1981
	(Thousands of Dollars)	
Maximum amount outstanding at any month end	$216,015	$207,551
Average daily outstanding (A)	$107,950	$101,226
Weighted average annual interest rate (B)	12.95%	16.27%
Weighted average interest rate for commercial paper outstanding at year end	None	12.72%

(A) Computed by dividing the sum of the daily principal amounts outstanding during the year by the total number of days in the year.

(B) Computed by dividing short-term interest expense by the average daily short-term net proceeds.

7. Pension Plan

The Company has a non-contributory, trusteed plan covering all employees who complete one year of service. As of December 31, 1982, the unfunded prior service costs were approximately $323,370,000. Information on accumulated plan benefits and net assets follows:

December 31,	1982	1981
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits		
Vested	$357,290	$326,343
Nonvested	45,782	33,616
	$403,072	$359,959
Assumed rate of return	10.0%	10.5%
Market value of Plan Net Assets	$367,702	$283,021

The Company's annual contribution is actuarially determined to provide for full funding by December 31, 2001. Pension costs for the past three years were charged as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Operating Expenses	$50,286	$47,505	$38,042
Utility Plant and Other Accounts	10,344	10,954	10,284
Total Pension Costs	$60,630	$58,459	$48,326

The Company offered a special early retirement program during the period from June 1, 1980 to October 1, 1980 to employees meeting certain age and service requirements. Under the program, 1,367 employees retired. Employees who retired under the program are paid an unreduced pension under the Company's Pension Plan and a special supplement, initially $500 per month and increasing to $650 per month, payable out of the Company's general funds. The special supplement ceases at age 65, upon death, or upon re-employment by the Company. It is estimated that the special supplement will cost the Company $50 million over ten years beginning 1980. As allowed by the BPU, these costs are being recovered as incurred. The unreduced pension provision under the Plan requires additional funding which is included in the unfunded prior service cost.

8. Commitments and Contingent Liabilities

The Company has substantial commitments as part of its construction program as well as commitments to obtain sufficient sources of fuel for electric generation and adequate gas supplies. Construction expenditures of $3.8 billion, including $736 million of AFDC, are expected to be incurred during the years 1983 through 1987.

A contract with Kerr-McGee Nuclear Corporation to supply uranium concentrates was amended in 1980 to substantially curtail open pit mine operations. In November 1982 an agreement was reached with Kerr-McGee which calls for an extension of the curtailed operations until January 1, 1986. As of December 31, 1982, the Company and the co-owners of the Salem and Hope Creek Generating Stations had advanced $40.5 million to Kerr-McGee against deliveries of uranium concentrates.

Credits have been received amounting to $14.5 million, including interest of $4.7 million. The recoupment of $30.7 million, the balance of such advances, of which approximately 30% is the responsibility of the other co-owners, is dependent upon the sale of uranium concentrates by Kerr-McGee to the Company or other buyers or upon the sale by Kerr-McGee of the project properties. The Company cannot presently predict the extent to which such advance payments will ultimately be recovered. For additional information see page 13.

The Company's insurance coverages for its nuclear operations are as follows:

Type and Source of Coverage	Maximum Coverage	Maximum Retrospective Assessment for a single incident
	(Millions of Dollars)	
Public Liability		
American Nuclear Insurers	$160	$None
Federal Government (A)	400	8.5 (B)
	$560 (C)	$ 8.5
Property Damage		
Nuclear Mutual Limited (D)	$500	$30.4
Nuclear Electric Insurance Limited (D)	415	7.7
American Nuclear Insurers	67	None
	$982	$38.1
Replacement Power		
Nuclear Electric Insurance Limited (D)	$ 2.5 (E)	$13.5

(A) Combined retrospective premium program under the Price-Anderson liability provisions of the Atomic Energy Act of 1954, as amended. Subject to retrospective assessment with respect to loss from incident at any licensed nuclear reactor in the United States.

(B) Maximum assessment would be $17.0 million in the event of more than one incident in any year.

(C) Limit of liability under the Atomic Energy Act of 1954, as amended, for each nuclear incident.

(D) Utility-owned mutual insurance company of which the Company is a member. Subject to retrospective assessment with respect to loss at any nuclear generating station covered by such insurance.

(E) Maximum weekly indemnity for 52 weeks which commences after the first 26 weeks of an outage. Also provides $1.25 million weekly for an additional 52 weeks.

9. Accounting for Leases

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

10. Supplementary Information Concerning the Effects of Inflation (Unaudited)

The Company's financial statements are prepared in accordance with generally accepted accounting principles and are stated on the basis of historical costs, namely, the prices that were in effect when the underlying transactions occurred. The following supplementary financial information, prepared in accordance with Financial Accounting Standards Board Statement No. 33 (FAS 33), is an estimate of the effects on the Company of general inflation (Constant Dollar) and changes in specific prices (Current Cost).

The Company advises readers of the imprecise nature of this data and of the many subjective judgments required in the restatement of selected historical costs to Constant Dollar and Current Cost. This data should not be used to make adjustments to the Company's primary financial statements and the related earnings per average share of Common Stock other

than those adjustments shown in the following supplementary financial data.

Constant Dollar costs were determined by adjusting historical costs of Utility Plant and certain other items into dollars of the same general purchasing power by using the Consumer Price Index for All Urban Consumers (CPI-U).

Current Cost data purports to show the estimated cost of currently replacing existing Utility Plant and was measured by applying primarily the Handy-Whitman Index of Public Utility Construction Costs to the historical costs of Utility Plant.

Depreciation and Amortization expense, and Amortization of Nuclear Fuel (included in Electric Fuel, Interchanged Power and Gas) were adjusted for Constant Dollar and Current Cost using the rates and methods for computing book depreciation and amortization applied to the appropriate inflation adjusted Utility Plant balances. In accordance with FAS 33, income tax expense was not adjusted.

FAS 33 requires the disclosure of the amount required to reflect Net Utility Plant at its Recoverable Cost if that cost is lower than the inflation adjusted amounts. Also required under Current Cost is the disclosure of the increase in Current Cost of Net Utility Plant held during the year and the related effect of general inflation. The amounts shown in the following table illustrate that during 1982 the increase in general inflation was less than the increase in the Current Cost of Net Utility Plant. In addition, the amounts shown as Adjustments of Net Utility Plant to Recoverable Cost (both Constant Dollar and Current Cost) are adjustments to Historical Cost in average 1982 dollars. Historical Cost is the amount permitted to be recovered under the rate regulatory process for utilities in New Jersey.

During inflationary periods, holders of monetary assets, such as cash and receivables, suffer losses of general purchasing power while holders of monetary liabilities experience gains. In 1982 the Company's monetary liabilities, primarily long-term debt, exceeded its monetary assets resulting in a gain. Since this gain is primarily attributable to long-term debt which has been used to finance Utility Plant, it is netted against the amount by which the increase in general inflation is (higher) lower than the increase in Current Cost of Net Utility Plant after adjustment to recoverable cost in the following table.

Supplementary Financial Data Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1982
(Unaudited)

	Historical Cost (Condensed from the Financial Statements)	Constant Dollar (Average 1982 Dollars)	Current Cost (Average 1982 Dollars)
		(Thousands of Dollars)	
Operating Revenues	$3,873,976	$3,873,976	$3,873,976
Operating Expenses			
Electric Fuel, Interchanged Power and Gas	1,780,861	1,784,238	1,797,299
Other Operation and Maintenance	715,916	715,916	715,916
Depreciation and Amortization	192,860	439,971	489,097
Taxes	729,880	729,880	729,880
Total Operating Expenses	3,419,517	3,670,005	3,732,192
Operating Income	454,459	203,971	141,784
Other (including Interest Expenses)	(111,632)	(111,632)	(111,632)
Income from Continuing Operations (excluding Adjustment of Net Utility Plant to Recoverable Cost)	$ 342,827	$ 92,339*	$ 30,152
Increase in Current Cost of Net Utility Plant held during the year**			$ 612,070
Adjustment of Net Utility Plant to Recoverable Cost		$ 35,342	(150,475)
Effect of the increase in General Inflation			(364,066)
Amount by which increase in general inflation is lower than increase in Current Cost of Net Utility Plant after adjustment to Recoverable Cost			97,529
Gain from decline in purchasing power of Net Monetary Liabilities		103,892	103,892
Net		$ 139,234	$ 201,421

*Including Adjustment of Net Utility Plant to Recoverable Cost, Income from Continuing Operations adjusted for Constant Dollar would have been $127,681,000.

**At December 31, 1982 the Current Cost of Net Utility Plant was $10,136,132,000, while historical (net recoverable) cost was $6,035,066,000.

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for Effects of Changing Prices
(Unaudited)

(000 omitted where applicable and all adjusted figures are in average 1982 dollars)

For the Years Ended December 31,	1982	1981	1980	1979	1978
Operating Revenues					
Historical	$3,873,976	$3,471,652	$2,994,054	$2,416,707	$2,219,785
Adjusted for General Inflation	*$3,873,976*	*$3,684,488*	*$3,507,216*	*$3,213,753*	*$3,284,237*
Income (Loss) from Continuing Operations (excluding Adjustment of Net Utility Plant to Recoverable Cost)					
Historical	$ 342,827	$ 264,137	$ 275,401	$ 233,329	
Adjusted for General Inflation	*$ 92,339*	*$ 46,930*	*$ 115,557*	*$ 103,108*	
Adjusted for Current Cost	*$ 30,152*	*$ (13,402)*	*$ 39,510*	*$ 20,155*	
Income (Loss) from Continuing Operations per Average Common Share (excluding Adjustment of Net Utility Plant to Recoverable Cost)*					
Historical	$ 3.24	$ 2.63	$ 3.13	$ 2.85	
Adjusted for General Inflation	*$ .43*	*$ (.10)*	*$ .84*	*$ .62*	
Adjusted for Current Cost	*$ (.27)*	*$ (.84)*	*$ (.20)*	*$ (.65)*	
Amount by which increase in general inflation is (higher) lower than increase in Current Cost of Net Utility Plant after adjustment to Recoverable Cost	*$ 97,529*	*$ (190,813)*	*$ (396,969)*	*$ (466,956)*	
Gain from decline in purchasing power of Net Monetary Liabilities	*$ 103,892*	*$ 235,151*	*$ 331,151*	*$ 362,346*	
Net Assets at Year End**					
Historical	$3,080,877	$2,832,930	$2,646,928	$2,435,516	
Adjusted for General Inflation and Current Cost	*$3,046,107*	*$2,909,414*	*$2,961,404*	*$3,062,669*	
Cash Dividends Declared per Common Share					
Historical	$ 2.53	$ 2.44	$ 2.29	$ 2.20	$ 2.08
Adjusted for General Inflation	*$ 2.53*	*$ 2.59*	*$ 2.68*	*$ 2.93*	*$ 3.08*
Market Price per Common Share at Year End					
Historical	$23.25	$18.00	$17.00	$19.25	$20.25
*Adjusted for General Inflation****	*$23.25*	*$18.70*	*$19.24*	*$24.48*	*$29.18*
Consumer Price Index (1967 = 100)					
Average	289.1	272.4	246.8	217.4	195.4
Year End	292.4	281.5	258.4	229.9	202.9

*After deducting Cumulative Preferred Stock and $1.40 Dividend Preference Common Stock dividends on a historical basis in 1982 and in Average 1982 Dollars for prior years.
**Equals Common Equity and Preferred Stock without mandatory redemption.
***Year-end 1982 Dollars.

Prices have been increasing over the last five years. The average CPI-U increased from 195.4 in 1978 to 289.1 in 1982, an average annual increase of 10.3%. The increase from 1981 to 1982 was 6.1%, an indication that the rate of inflation in 1982 has slowed.

Revenues for the five-year period increased from $2.220 billion in 1978 to $3.874 billion in 1982, an average annual increase of 14.9%. Restated in average 1982 dollars, revenues for the same period would have increased from $3.284 billion to $3.874 billion, an average annual increase of only 4.2%.

Cash dividends declared per common share went from $2.08 in 1978 to $2.53 in 1982 or an average annual increase of 5.0%. However, such dividends would have decreased at an average annual rate of 4.8% or from $3.08 in 1978 to $2.53 in 1982 when restated in average 1982 dollars.

Market price per common share at year end from 1978 to 1982 had an average annual increase of 3.5% or from $20.25 to $23.25. Restated in year-end 1982 dollars the 1978 market price would have been $29.18 instead of $20.25 resulting in an average annual decrease of 5.5% from 1978 to 1982.

As shown in the tables above, the gain from decline in purchasing power of net monetary liabilities was not enough to offset the significant effect of inflation on capital costs (utility plant), nuclear fuel costs and depreciation.

Lack of adequate recognition of inflation in rate-making in addition to delayed rate relief accelerates attrition, thereby contributing to poorer cash flow. By the time increased costs are included in rates, the related funds have already been expended.

11. Jointly-Owned Facilities

The Company has an ownership interest and is responsible for providing its share of the necessary financing for the following jointly-owned facilities. All amounts reflect the Company's share of each jointly-owned project and the corresponding direct expenses are included in the Statements of Income as an operating expense.

Plant	Ownership Interest	Amount of Utility Plant In Service	Accumulated Provision for Depreciation	Amount of Plant Under Construction
			(Thousands of Dollars)	
Coal Generating				
Conemaugh	22.50%	$ 67,629	$ 17,642	
Keystone	22.84%	55,308	17,835	
Nuclear Generating				
Peach Bottom	42.49%	408,087	111,441	
Salem	42.59%	712,198	97,571	
Hope Creek	95.00%			$1,825,704
Nuclear Training Center	Various	6,747	132	8,130
Pumped Storage Generating				
Yards Creek	50.00%	16,884	3,567	
Transmission Facilities	Various	74,485	7,347	27,476
Merrill Creek Reservoir	13.906%			3,445
Linden Synthetic Natural Gas	90.00%	65,988	34,329	

12. Financial Information by Business Segments

For the Years Ended December 31,	Electric 1982	Electric 1981	Electric 1980	Gas 1982	Gas 1981	Gas 1980	Total 1982	Total 1981	Total 1980
					(Thousands of Dollars)				
Operating Revenues	$2,543,191	$2,322,042	$2,083,900	$1,330,785	$1,149,610	$910,154	$3,873,976	$3,471,652	$2,994,054
Depreciation and Amortization	146,643	134,050	127,655	46,217	44,482	42,332	192,860	178,532	169,987
Operating Income Before Income Taxes	533,855	378,082	407,662	99,108	94,937	101,147	632,963	473,019	508,809
Gross Additions to Utility Plant	735,997	615,976	551,110	77,378	67,873	74,420	813,375	683,849	625,530
December 31,									
Net Utility Plant	$5,369,929	$4,813,875	$4,570,355	$ 665,137	$ 632,218	$606,894	$6,035,066	$5,446,093	$5,177,249
Gas Exploration Subsidiary and LNG Project				287,911	261,000	220,484	287,911	261,000	220,484
Other Corporate Assets	1,148,364	1,168,539	944,195	435,626	401,457	382,932	1,583,990	1,569,996	1,327,127
Total Assets	$6,518,293	$5,982,414	$5,514,550	$1,388,674	$1,294,675	$1,210,310	$7,906,967	$7,277,089	$6,724,860

13. Selected Quarterly Data (Unaudited)

The information shown below in the opinion of the Company includes all adjustments, consisting only of normal recurring accruals, necessary to a fair presentation of such amounts. Due to the seasonal nature of the business, quarterly amounts vary significantly during the year.

Calendar Quarter Ended	March 31, 1982	March 31, 1981	June 30, 1982	June 30, 1981	September 30, 1982	September 30, 1981	December 31, 1982	December 31, 1981
				(Thousands where applicable)				
Operating Revenues	$1,144,277	$982,938	$872,657	$733,255	$872,292	$809,805	$984,750	$945,654
Operating Income	111,347	101,669	100,839	74,183	126,805	94,677	115,468	83,738
Net Income	83,389	77,404	71,530	52,941	98,289	71,665	89,619	62,127
Earnings Available for Common Stock	$ 70,226	$ 65,865	$ 58,386	$ 39,339	$ 84,975	$ 58,447	$ 75,375	$ 48,948
Earnings per Average Share of Common Stock	$.81	$.86	$.67	$.51	$.95	$.69	$.80	$.57
Average Shares of Common Stock Outstanding	86,181	76,680	87,176	77,526	89,626	84,252	93,861	85,261

(000 omitted where applicable)	1982	1981	% Annual Increase — 1982 compared with 1981	1972
Electric				
Revenues from Sales of Electricity (a)				
Residential	$ 791,279	$ 728,642	8.60	12.76
Commercial	981,795	871,377	12.67	15.61
Industrial	716,662	684,976	4.63	14.28
Public Street Lighting	37,809	33,249	13.71	9.14
Total Revenues from Sales to Customers	2,527,545	2,318,244	9.03	14.15
Interdepartmental	1,709	1,612	6.02	10.22
Total Revenues from Sales of Electricity	2,529,254	2,319,856	9.03	14.15
Other Electric Revenues	13,937	2,186	537.56	24.59
Total Operating Revenues	$2,543,191	$2,322,042	9.52	14.19
Sales of Electricity — kilowatthours (a)				
Residential	7,686,548	7,795,988	(1.40)	.38
Commercial	11,114,655	10,940,609	1.59	2.98
Industrial	10,017,613	10,923,042	(8.29)	(1.26)
Public Street Lighting	301,603	275,489	9.48	2.04
Total Sales to Customers	29,120,419	29,935,128	(2.72)	.64
Interdepartmental	25,154	25,567	(1.62)	(.26)
Total Sales of Electricity	29,145,573	29,960,695	(2.72)	.64
Kilowatthours Produced, Purchased and Interchanged — net	31,563,231	32,204,191	(1.99)	.68
Load Factor	51.2%	52.3%		
Capacity Factor	34.7%	33.2%		
Heat Rate — Btu of fuel per net kwh generated	10,677	10,725	(.45)	(.01)
Net Installed Generating Capacity at December 31 — kilowatts	8,995	9,101	(1.16)	1.39
Net Peak Load — kilowatts (60-minute integrated)	7,042	7,034	.11	1.28
Cooling Degree Hours	6,329	8,615	(26.54)	(1.40)
Temperature Humidity Index Hours	12,155	15,494	(21.55)	(1.71)
Average Annual Use per Residential Customer — kwh	5,156	5,261	(2.00)	(.29)
Meters in Service at December 31	1,746	1,739	.40	.53
Gas				
Revenues from Sales of Gas (a)				
Residential	$ 716,308	$ 604,521	18.49	14.56
Commercial	371,027	302,281	22.74	17.99
Industrial	241,437	240,711	.30	19.58
Street Lighting	350	290	20.69	14.80
Total Revenues from Sales to Customers	1,329,122	1,147,803	15.80	16.23
Interdepartmental	1,068	1,075	(.65)	6.82
Total Revenues from Sales of Gas	1,330,190	1,148,878	15.78	16.22
Other Gas Revenues	595	732	(18.72)	15.32
Total Operating Revenues	$1,330,785	$1,149,610	15.76	16.22
Sales of Gas — therms (a)				
Residential	994,647	993,527	.11	(.47)
Commercial	581,739	555,806	4.67	1.83
Industrial	465,835	514,136	(9.39)	(.59)
Street Lighting	331	334	(.90)	(3.00)
Total Sales to Customers	2,042,552	2,063,803	(1.03)	.10
Interdepartmental	2,090	2,430	(13.99)	(7.31)
Total Sales of Gas	2,044,642	2,066,233	(1.04)	.08
Gas Produced and Purchased — therms	2,148,875	2,145,325	.17	.17
Effective Daily Capacity at December 31 — therms	19,139	19,010	.68	1.19
Maximum 24-hour Gas Sendout — therms	16,201	14,812	9.38	2.94
Heating Degree Days (a)	4,820	5,082	(5.16)	(.12)
Average Annual Use per Residential Customer — therms	853	857	(.47)	(.88)
Meters in Service at December 31	1,384	1,378	.44	.34

(a) Starting in 1973, revenues and sales by customer classification include accrued and unbilled dollar amounts and sales volumes from meter reading date to the end of the calendar year. To better reflect temperature effect on these recorded sales, heating degree days are also reported on a calendar-year basis effective with 1973. For 1972, heating degree days remain on a sales-year basis.

1980	1979	1978	1977	1972
$ 684,343	$ 545,049	$ 512,071	$ 492,473	$238,025
765,356	625,596	574,557	531,118	230,176
598,716	484,037	444,595	414,058	188,667
32,693	31,437	29,925	27,622	15,773
2,081,108	1,686,119	1,561,148	1,465,271	672,641
1,720	1,559	1,670	1,916	646
2,082,828	1,687,678	1,562,818	1,467,187	673,287
1,072	2,179	2,016	2,931	1,546
$2,083,900	$1,689,857	$1,564,834	$1,470,118	$674,833
8,129,198	7,777,369	7,760,868	7,769,629	7,399,963
10,726,086	10,336,445	10,152,827	9,747,908	8,289,066
11,049,642	11,185,952	11,134,634	10,627,734	11,375,579
265,126	260,915	260,922	259,277	246,496
30,170,052	29,560,681	29,309,251	28,404,548	27,311,104
27,684	26,629	32,638	38,331	25,807
30,197,736	29,587,310	29,341,889	28,442,879	27,336,911
32,703,504	32,021,737	31,628,876	30,771,719	29,509,136
52.0%	54.3%	54.6%	50.9%	54.2%
35.6%	31.8%	34.4%	32.7%	38.6%
10,713	10,566	10,599	10,677	10,685
9,242	9,023	9,061	9,247	7,836
7,159	6,736	6,615	6,895	6,201
9,869	7,201	7,188	8,269	7,287
16,526	14,545	13,899	14,883	14,450
5,443	5,233	5,378	5,403	5,307
1,732	1,724	1,713	1,704	1,656
$ 515,013	$ 415,157	$ 399,134	$ 344,444	$183,953
228,577	179,970	163,931	137,811	70,953
164,762	129,665	90,240	78,474	40,381
282	274	248	178	88
908,634	725,066	653,553	560,907	295,375
925	790	802	572	552
909,559	725,856	654,355	561,479	295,927
595	994	596	1,198	143
$ 910,154	$ 726,850	$ 654,951	$ 562,677	$296,070
1,023,027	970,462	1,013,043	980,570	1,042,793
506,550	456,902	447,923	432,810	485,358
447,474	410,605	306,672	329,211	494,454
335	350	367	376	449
1,977,386	1,838,319	1,768,005	1,742,967	2,023,054
2,322	2,328	2,490	2,064	4,463
1,979,708	1,840,647	1,770,495	1,745,031	2,027,517
2,077,653	1,931,549	1,852,869	1,811,019	2,112,844
18,439	18,639	18,639	18,933	16,999
14,444	13,349	12,235	14,006	12,125
5,256	4,677	5,317	5,155	4,879
875	833	893	862	932
1,370	1,357	1,350	1,350	1,338

(000 omitted where applicable)	1982		1981	
Condensed Statements of Income (a)	Amount	%	Amount	%
Operating Revenues				
Electric	$2,543,191	66	$2,322,042	67
Gas	1,330,785	34	1,149,610	33
Total Operating Revenues	3,873,976	100	3,471,652	100
Operating Expenses				
Fuel for Electric Generation and Interchanged Power — net	959,382	25	1,059,539	31
Gas Purchased and Materials for Gas Produced	821,479	21	692,319	20
Other Operation Expenses	452,115	12	385,149	11
Maintenance	220,456	6	192,768	6
Depreciation and Amortization	192,860	5	178,532	5
Amortization of Property Losses	43,345	1	15,362	
Taxes Other than Federal Income Taxes	553,241	14	474,979	14
Federal Income Taxes	176,639	4	118,737	3
Total Operating Expenses	3,419,517	88	3,117,385	90
Operating Income				
Electric	383,213	10	288,087	8
Gas	71,246	2	66,180	2
Total Operating Income	454,459	12	354,267	10
Allowance for Funds Used During Construction (Debt and Equity)	91,427	2	95,679	3
Other Income — net	17,578	1	15,780	
Interest Charges	(220,637)	(6)	(201,589)	(6)
Income before Extraordinary Items	342,827	9	264,137	7
Extraordinary Items, net of income tax:				
Unrecoverable costs of Atlantic Project				
Gain on sale of Transport of New Jersey				
Net Extraordinary Items				
Net Income	342,827	9	264,137	7
Preferred and Preference Stock Dividends	53,865	2	51,538	1
Earnings Available for Common Stock	$ 288,962	7	$ 212,599	6
Shares of Common Stock Outstanding				
End of Year	94,845		86,089	
Average for Year	89,233		80,962	
Earnings per average share of Common Stock	$3.24		$2.63	
Dividends Paid per Share	$2.53		$2.44	
Payout Ratio	78%		93%	
Rate of Return on Average Common Equity (c)	12.22%		9.79%	
Ratio of Earnings to Fixed Charges Before Income Taxes (d)	3.32		2.87	
Book Value per Common Share (e)	$25.90		$25.66	
Utility Plant	$8,100,579		$7,320,764	
Accumulated Depreciation and Amortization	$2,065,513		$1,874,671	
Total Assets	$7,906,967		$7,277,089	
Capitalization				
Mortgage Bonds	$2,341,142	41	$2,140,835	40
Debenture Bonds	238,640	4	269,268	5
Other Long-Term Debt			720	
Total Long-Term Debt	2,579,782	45	2,410,823	45
Preferred Stock with Mandatory Redemption	111,250	2	77,913	2
Preferred Stock without Mandatory Redemption	554,994	9	554,994	10
$1.40 Dividend Preference Common Stock and Common Stock	1,610,879	28	1,423,739	27
Premium on Capital Stock	557		557	
Paid-In Capital	26,185	1	26,143	
Retained Earnings	888,262	15	827,497	16
Total Common Equity	2,525,883	44	2,277,936	43
Total Capitalization	$5,771,909	100	$5,321,666	100

(a) See Summary of Significant Accounting Policies, page 25, Notes to Financial Statements, page 34, and Management's Discussion and Analysis of Financial Condition and Results of Operations, page 44.

(b) Excludes the net extraordinary gain of $6,316,000 or $.09 per share.

(c) Balance available for $1.40 Dividend Preference Common Stock and Common Stock divided by the thirteen-month average of Common Equity.

1980		1979		1978		1977		1972	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
$2,083,900	70	$1,689,857	70	$1,564,834	70	$1,470,118	72	$ 674,833	70
910,154	30	726,850	30	654,951	30	562,677	28	296,070	30
2,994,054	100	2,416,707	100	2,219,785	100	2,032,795	100	970,903	100
866,802	29	620,546	26	541,802	24	538,916	27	203,381	22
513,988	17	384,759	16	327,990	15	257,897	13	117,910	12
322,220	11	287,086	12	267,731	12	250,531	12	168,132	17
169,813	6	149,027	6	127,423	6	124,876	6	80,215	8
169,987	6	162,989	7	158,248	7	147,652	7	91,037	9
11,024		303		1,038		1,185			
431,890	14	364,411	15	328,216	15	293,796	14	132,827	14
131,178	4	123,965	5	146,937	7	120,969	6	(991)	
2,616,902	87	2,093,086	87	1,899,385	86	1,735,822	85	792,511	82
307,372	10	269,443	11	266,513	12	250,385	13	141,181	14
69,780	3	54,178	2	53,887	2	46,588	2	37,211	4
377,152	13	323,621	13	320,400	14	296,973	15	178,392	18
77,552	2	56,593	3	41,305	2	49,540	2	45,011	5
10,259		6,263		4,515		1,447		(5,166)	(1)
(189,562)	(6)	(153,148)	(6)	(137,434)	(6)	(133,718)	(7)	(102,034)	(10)
275,401	9	233,329	10	228,786	10	214,242	10	116,203	12
(13,219)									
19,535									
6,316									
281,717	9	233,329	10	228,786	10	214,242	10	116,203	12
46,341	1	46,799	2	46,799	2	45,065	2	21,117	2
$ 235,376	8	$ 186,530	8	$ 181,987	8	$ 169,177	8	$ 95,086	10
76,615		68,914		64,120		59,806		43,861	
73,069		65,409		61,783		59,243		41,541	
$3.13 (b)		$2.85		$2.95		$2.86		$2.29	
$2.29		$2.20		$2.08		$1.92		$1.70	
73% (b)		77%		71%		67%		74%	
11.63%		10.46%		11.01%		10.95%		9.36%	
3.14		3.36		3.77		3.52		2.08	
$26.38		$26.26		$26.13		$25.57		$23.48	
$6,881,209		$6,325,033		$5,810,329		$5,654,097		$3,999,474	
$1,703,960		$1,589,049		$1,447,039		$1,314,916		$ 831,673	
$6,724,860		$6,088,766		$5,508,164		$5,125,497		$3,402,305	
$2,041,556	41	$1,940,513	41	$1,692,642	39	$1,647,445	40	$1,239,602	39
276,590	5	314,726	7	322,682	7	330,812	8	430,857	14
1,200		1,680		2,160		2,640			
2,319,346	46	2,256,919	48	2,017,484	46	1,980,897	48	1,670,459	53
29,750	1	31,500		35,000	1	35,000	1		
554,994	11	554,994	12	554,994	13	554,994	13	374,994	12
1,252,103	25	1,106,824	23	1,014,184	23	919,752	22	622,878	20
557		557		557		557		539	
26,093	1	26,065	1	26,065	1	26,065		26,065	1
813,181	16	747,076	16	704,909	16	651,885	16	443,443	14
2,091,934	42	1,880,522	40	1,745,715	40	1,598,259	38	1,092,925	35
$4,996,024	100	$4,723,935	100	$4,353,193	100	$4,169,150	100	$3,138,378	100

(d) Net Income plus Income Taxes, Deferred Income Taxes, Investment Tax Credits and Fixed Charges divided by Fixed Charges. Fixed Charges include Interest on Long-Term and Short-Term Debt, Other Interest Expense and, starting in 1980, an interest factor in rentals.

(e) Total Common Equity divided by year-end Common Stock shares plus double the $1.40 Dividend Preference Common Stock shares.

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

On January 7, 1983, the Company filed a petition with the Board of Public Utilities of the State of New Jersey (BPU) designed to increase base rates by $464.5 million on an annual basis. The total is comprised of $397.4 million for electric service and $67.1 million for gas. The request was necessary due to inadequate financial relief in recent rate cases, the need for improved cash flow to complete the construction program, and the decline in electric and gas sales due to the slow economic recovery. As more fully discussed on page 6, the Public Advocate of New Jersey has moved to dismiss the Company's petition. The motion is currently being considered by the BPU.

A more detailed discussion of the Company's operating results, liquidity and capital resources follows.

Earnings and Dividends

Earnings per average share of Common Stock were $3.24 for 1982, an increase of 61¢ or 23% from 1981. Increased revenues, reflecting the February 1982 rate increase, outpaced the rise in operating costs.

Earnings per share were $2.63 for 1981, a decline of 50¢ or 16% from 1980 before giving effect to the net extraordinary gain of 9¢ in 1980. Including the 1980 extraordinary items, earnings were lower by 59¢ per share. Revenues in 1981 did not keep pace with operating costs as a result of continuing inflation, minimal sales growth, and lack of additional rate relief.

Dividends paid to holders of Common Stock have grown over the last three years rising to $2.53 per share in 1982 from $2.44 per share paid in 1981, and $2.29 per share in 1980. Such amounts, compared to earnings before extraordinary items, resulted in payout ratios of 78%, 93%, and 73%, respectively. Total Common Stock dividend payments in 1982 increased 15% over 1981 and 35% over 1980 due to the increase in shares of Common Stock outstanding as well as the higher dividend rate.

Revenues and Sales

Total revenues increased in 1982 due primarily to higher rates and in 1981 to greater recoveries of electric energy and gas fuel costs. Electric energy and gas fuel costs follow amounts recovered through revenues, as permitted by energy cost rate orders, and therefore have no effect on earnings.

Electric revenues increased 9.5% in 1982 and 11.4% in 1981. The components of these changes are highlighted in the table below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Changes in base rates	$291	$ 36
Recoveries of energy costs	(49)	216
Kilowatthour sales	(33)	(15)
Other operating revenues	12	1
	$221	$238

1982 — Electric kilowatthour sales decreased 2.7%. The cooler and less humid weather in 1982 and continued customer conservation were the main reasons for the 1.4% drop in Residential sales. Also, Industrial sales declined 8.3% as a result of the economic recession. These decreases were slightly offset by the 1.6% increase in Commercial sales.

1981 — Electric kilowatthour sales decreased .8% from 1980. Despite an increase in customers, Residential sales decreased 4.1% primarily due to customer conservation and the cooler and less humid weather during the summer. The 1.1% decline in Industrial sales was due to a drop in production levels as a result of the sluggish economy during the year. Commercial sales increased 2.0%, principally due to a slight increase in customers. All classes of sales continued to reflect the overall impact of the economic slump and the effect of continued energy conservation throughout the Company's service area.

Gas revenues rose 15.8% in 1982 and 26.3% in 1981. The principal factors are shown below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Changes in base rates	$ 39	$ 24
Recoveries of gas costs	136	204
Therm sales	6	11
	$181	$239

1982 — Gas therm sales decreased 1.0%. Industrial sales fell 9.4% from 1981 primarily as a result of the continuing economic recession. Commercial sales were up 4.7%, the result of greater customer usage and an increase in customers. Residential sales were held to an increase of .1% principally due to moderate weather conditions experienced late in the year and continued conservation.

1981 — Gas therm sales increased 4.4%. Commercial and Industrial sales increased 9.7% and 14.9%, respectively. These gains came about as the price advantage and availability of gas continued to spur conversions from oil during the year. Over 300 large Commercial and Industrial customers were added. Despite an increase in customers, Residental therm sales decreased 2.9% from 1980 as winter temperatures were less severe and customers continued to conserve.

Substantially all revenues are subject to New Jersey gross receipts taxes and as a result the amount of these taxes varies in direct proportion to revenues. The effective rate is approximately 13%.

Energy Costs

The year 1982 marked the first time in over a decade that the cost of fuel for electric generation decreased. As a result of a full year's generation from Salem 2 and outstanding performances by the two Peach Bottom units, nuclear generation increased by more than a third over the previous year and provided 34% of the Company's total energy requirements compared to 25% in 1981. These factors made it possible to reduce higher priced steam generation from oil and natural gas an average of 22%. Demands for other generation and Pennsylvania-New Jersey-Maryland (PJM) interchanged power pool energy, two of the higher priced sources when compared to nuclear power, were down 55% and 39%, respectively.

Effective June 1982 the electric Levelized Energy Adjustment Clause (LEAC), with the approval of the BPU, was reduced $250 million over the ensuing 13 months. The reduction was made possible by an increase in nuclear generation, a decline in oil prices, purchases of power at lower cost, and completion of the recovery of nearly all electric costs of previous periods. On January 13, 1983, the Company filed a petition with the BPU to lower the LEAC for a second time, by $104 million, for the 17-month period through June 1984, again reflecting projected greater nuclear production and lower fuel costs. The BPU took the request under consideration.

As a member of the PJM and as a party to several agreements which provide for the purchase of available power from neighboring utilities, the Company is able to optimize its mix of internal and external sources using the lowest cost energy available at any given time. Energy costs are adjusted to match amounts permitted to be recovered through revenues and have no effect on earnings.

Total energy costs decreased 9% in 1982, as compared to an increase of 22% in 1981 over 1980, as described below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Change in prices paid for fuel supplies and power purchases	$(122)	$110
Kilowatthour output	(19)	(13)
Adjustment of actual costs to match recoveries through revenues	44	93
Replacement energy costs in 1981 for which recovery was disallowed by BPU	(3)	3
	$(100)	$193

Gas costs are adjusted to match amounts recovered through revenues and do not affect earnings. Costs were 19% higher in 1982 and 35% higher in 1981. Contributing factors are shown below:

	Increase or (Decrease)	
	1982 vs. 1981	1981 vs. 1980
	(Millions of Dollars)	
Higher prices paid for gas supplies	$104	$141
Refunds from pipeline suppliers	4	(17)
Therm sendout	1	18
Adjustment of actual costs to match recoveries through revenues	20	36
	$129	$178

Liquidity and Capital Resources

The Company's liquidity is affected principally by the construction program and, to a lesser degree, by other capital requirements such as maturing debt and sinking fund requirements. The capital resources available to meet these requirements are funds from internal generation and external financing. Internally generated funds depend upon economic conditions and adequate and timely rate relief, while access to the long-term and short-term capital and credit markets is necessary for obtaining funds externally.

Construction Program

The Company maintains a continuous construction program, which includes payments for nuclear fuel and investments in and advances to energy resource subsidiaries. This program is periodically revised as a result of changes in economic conditions, and depends on the ability of the Company to finance construction costs and to obtain timely rate relief. Changes in the Company's plans and forecasts, price changes, cost escalation under construction contracts, and requirements of regulatory authorities may also result in revisions of the construction program.

Construction expenditures of $842 million in 1982 and $717 million in 1981 included allowance for funds used during construction (AFDC) of $91 million and $96 million, respectively. Construction expenditures are estimated at $3.8 billion for the five years ending in 1987 and include AFDC of $736 million.

These estimates are based on certain expected completion dates and anticipated escalation due to inflation of approximately 8.5%. Therefore, construction delays or inordinate inflation levels could cause significant increases in these amounts. The Company expects that with adequate rate relief it will generate internally approximately 50% of its construction expenditure requirements, excluding AFDC. No assurance can be given as to future rate increases. The balance will be provided by permanent financing through the sale of securities and may include term bank loans.

Long-Term Financing

During 1982 the Company raised more than $443 million through the sale of $223.5 million of Mortgage Bonds, $187.1 million of Common Stock and $35.0 million of Preferred Stock. As a result, the Company's interest and dividend requirements have continued to increase.

At December 31, 1982 book value per common share amounted to $25.90 compared to $25.66 at December 31, 1981. The market value of common shares expressed as a percentage of book value was 89.8% and 70.1% at year-end 1982 and 1981, respectively.

In addition to periodic sinking fund redemption requirements, five bond issues aggregating $206 million will mature and will require refinancing by 1987.

Under the terms of the Company's Mortgage and Restated Certificate of Incorporation, at December 31, 1982 the Company could issue an additional $1.1 billion principal amount of Mortgage Bonds at a rate of 12.25% or $800 million of Preferred Stock at a rate of 12.0%. Present plans for 1983 call for the issuance of Mortgage Bonds, Common Stock and Preferred Stock.

In April 1982 the Company renewed a then existing $125 million domestic revolving credit agreement and increased the line of credit to $200 million. The present revolving agreement expires in April 1984, but permits the Company to convert the balance outstanding at the end of the period to term loans due in April 1987. The Company also has the option to extend the agreement on a year to year basis. The Company has not made any borrowings under this agreement.

In 1982, PSE&G Overseas Finance N.V., a wholly-owned Netherlands Antilles subsidiary, was formed. The financial subsidiary will be able to provide the Company with access to long-term capital markets abroad.

Short-Term Financing

For interim financing, the Company is authorized to have a total of $300 million of short-term obligations outstanding at any given time. The availability of short-term financing provides the Company greater flexibility in the issuance of long-term securities. The Company's average daily short-term debt during 1982 was $108 million — $7 million over last year's average. However, at year end the Company had no short-term debt outstanding.

In January 1982, the Company entered into a Letter Agreement establishing a $75 million Two-Year Revolving Credit Facility with a group of international banks, under which the Banks have agreed to make revolving loans for one month, three months or six months at a rate based upon the London Interbank Offered Rate for deposits in United States Dollars. No borrowings have been made under this arrangement.

The Company continues to have to finance larger customer accounts receivable. As of the end of 1982 receivables from customers approximated $361 million (excluding unbilled revenues of $182 million) and were $22 million higher than at the end of 1981. Reflecting the slowdown in the economy, customer payments have slowed as the amounts of bills have increased. Furthermore, net write-off of uncollectible accounts this year was $5.4 million greater than the $27.0 million in 1981. The increases in accounts receivable and uncollectible accounts also reflect a requirement of the BPU prohibiting the termination of electric and gas service in New Jersey during the winter months with respect to certain customers with financial need who are unable to pay utility bills.

Cash Position

The Company's cash position improved greatly during 1982 as a result of the collection of energy costs deferred from prior years, the overrecoveries of 1982 energy costs, rate relief granted in February 1982, and equity and long-term debt financing.

Any improvement resulting from overrecoveries is only temporary because any overrecovery remaining at the end of one levelized period is returned to customers with interest in the subsequent period.

Effects of Inflation

Inflation continues to affect the national economy and the Company but not as severely as in the past few years. The Average Consumer Price Index was 289.1, an increase of 6% over 1981 compared to increases of over 10% for the preceding three years. The Company has experienced record interest charges in recent years and increased dividend requirements at a time when substantial amounts must be raised in the capital markets to finance needed construction. Rising prices also have impacted construction, fuel and labor costs.

For additional information on the effects of changing prices, see Note 10 of Notes to Financial Statements.

Stock Symbol PEG

The Company's Common Stock and $1.40 Dividend Preference Common Stock are traded on the New York Stock Exchange and the Philadelphia Stock Exchange.

The following table shows the quarterly dividends paid for the periods indicated and the high and low NYSE Composite prices of such stocks:

Common Stock

	1982	1981
Dividend	64¢*	61¢
Price		
First Quarter	20¼–17¾	19¼–17
Second Quarter	21⅞–19⅛	19¾–17
Third Quarter	23¼–19⅛	19¼–16½
Fourth Quarter	23¾–20¾	20⅛–16½

*61¢ First Quarter only.

$1.40 Dividend Preference Common Stock

	1982	1981
Dividend	35¢	35¢
Price		
First Quarter	11 – 9⅜	10⅞–10⅛
Second Quarter	11 – 9½	10⅝–10
Third Quarter	11¾– 9¾	10⅜– 9½
Fourth Quarter	12¾–10⅞	11 – 9½

Transfer Agents All Stocks
Morgan Guaranty Trust Company of New York,
30 West Broadway, New York, N.Y. 10015

Stockholder Services,
Public Service Electric and Gas Company
80 Park Plaza, P.O. Box 570,
Newark, N.J. 07101

Registrars All Stocks
Fidelity Union Bank,
765 Broad Street, Newark, N.J. 07101

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

Additional Reports Available

Form 10-K

Stockholders or other interested persons wishing to obtain a copy of the Company's 1982 Annual Report to the Securities and Exchange Commission, filed on Form 10-K, may obtain one without charge by writing to the Vice President and Treasurer, Public Service Electric and Gas Company, P.O. Box 570, Newark, New Jersey 07101. The copy so provided will be without exhibits. Exhibits may be purchased for a specified fee.

Financial and Statistical Review

A comprehensive statistical supplement to this report, containing financial and operating data for the years 1972-1982 will be available this Spring. If you wish to receive a copy, please write to the Vice President and Treasurer, Public Service Electric and Gas Company, P.O. Box 570, Newark, N.J. 07101.

Officers

Robert I. Smith
Chairman of the Board and Chief Executive Officer

Harold W. Sonn
President and Chief Operating Officer

William E. Scott
Executive Vice President – Finance

Stephen A. Mallard
Senior Vice President – Planning and Research and President of PSE&G Research Corporation

James B. Randel, Jr.
Senior Vice President of the Company and President of Energy Development Corporation

Richard M. Eckert
Senior Vice President – Energy Supply and Engineering

Robert W. Lockwood
Senior Vice President – Administration

John F. McDonald
Senior Vice President – Governmental Affairs

Everett L. Morris
Senior Vice President – Customer Operations

Frederick W. Schneider
Senior Vice President – Corporate Planning

Donald A. Anderson
Vice President – Computer Systems and Services

Frederick M. Broadfoot
Vice President – Law

Robert M. Crockett
Vice President – Fuel Supply and President of Energy Pipeline Corporation and Energy Terminal Services Corporation

Fredrick R. DeSanti
Vice President – Rates and Load Management

Robert H. Franklin
Vice President – Public Relations

Carroll D. James
Vice President – Administrative Planning

Frank P. Librizzi
Vice President – Production

Charles E. Maginn, Jr.
Vice President – Human Resources

Wallace A. Maginn
Vice President and Treasurer

Winthrop E. Mange, Jr.
Vice President – Corporate Services

Thomas J. Martin
Vice President – Engineering and Construction

Parker C. Peterman
Vice President and Comptroller

Louis L. Rizzi
Vice President – Customer and Marketing Services

Robert J. Selbach
Vice President – Transmission and Distribution

Rudolph D. Stys
Vice President – System Planning

Richard A. Uderitz
Vice President – Nuclear

Robert S. Smith
Secretary

Changes in Organization

Edward J. Lenihan, Vice President – Public Relations, retired on February 28, 1982, after more than 43 years of service. Robert H. Franklin was elected Vice President – Public Relations by the Board of Directors, effective March 1, 1982.

Edward G. Outlaw, Executive Vice President – Corporate Planning, retired effective August 31, 1982, after more than 43 years of service. The Board of Directors elected Frederick W. Schneider as Senior Vice President – Corporate Planning, and Frank P. Librizzi to succeed Mr. Schneider as Vice President – Production, both effective September 1, 1982.

Frederick M. Broadfoot retired as Vice President – Law on December 31, 1982 after 34 years of service. Effective January 1, 1983, R. Edwin Selover was elected Vice President and General Counsel. Lawrence R. Codey was elected Vice President and Corporate Rate Counsel, also effective January 1, 1983.

John F. McDonald, Senior Vice President – Governmental Affairs, retired effective December 31, 1982, after more than 34 years of service. William Saller was elected Vice President – Governmental Affairs, effective January 1, 1983.

Directors

James R. Cowan, M.D.
President and Chief Executive Officer, United Hospitals Medical Center, Newark, New Jersey.
Member of Audit Committee.

W. Robert Davis
Former Chairman of the Board and Chief Executive Officer, Bancshares of New Jersey, Moorestown, New Jersey.
Chairman of Audit Committee and Member of Nominating Committee.

T.J. Dermot Dunphy
President, Chief Executive Officer and director, Sealed Air Corporation (manufactures protective packaging systems), Saddle Brook, New Jersey.
Member of Nominating Committee and Organization and Compensation Committee.

Robert R. Ferguson, Jr.
President, Chief Executive Officer and director, First National State Bancorporation, Newark, New Jersey.
Member of Finance Committee.

Margery Somers Foster
Professor of Economics Emeritus, and former Dean of Douglass College, Rutgers, The State University of New Jersey, New Brunswick, New Jersey.
Member of Audit Committee and Nominating Committee.

D. Wayne Hallstein
Director and former President, Ingersoll-Rand Company (diversified manufacturer of machinery, equipment and tools), Woodcliff Lake, New Jersey.
Member of Finance Committee and Organization and Compensation Committee.

Irwin Lerner
President, Chief Executive Officer and director, Hoffmann-La Roche Inc. (manufactures pharmaceuticals and fine chemicals and provides health testing services), Nutley, New Jersey.
Member of Organization and Compensation Committee.

William E. Marfuggi
Chairman of the Board and director, Victory Optical Manufacturing Company (manufactures ophthalmic frames) and Chairman of the Board and director, Plaza Sunglasses, Inc. (manufactures sunglasses), both of Newark, New Jersey.
Member of Finance Committee.

Marilyn M. Pfaltz
Partner of P and R Associates (public relations and publicity specialists), Summit, New Jersey.
Member of Audit Committee.

James C. Pitney
Partner in the law firm of Pitney, Hardin, Kipp & Szuch, Newark and Morristown, New Jersey.
Member of Audit Committee and Executive Committee.

Kenneth C. Rogers
President, Stevens Institute of Technology, Hoboken, New Jersey.
Chairman of Nominating Committee and Member of Organization and Compensation Committee.

William E. Scott
Executive Vice President – Finance of the Company.
Member of Executive Committee and Chairman of Finance Committee.

Robert I. Smith
Chairman of the Board and Chief Executive Officer of the Company.
Chairman of Executive Committee and Member of Finance Committee.

Harold W. Sonn
President and Chief Operating Officer of the Company.
Member of Executive Committee and Finance Committee.

Robert V. Van Fossan
Chairman of the Board, Chief Executive Officer and director, The Mutual Benefit Life Insurance Company, Newark, New Jersey.
Member of Executive Committee and Finance Committee and Chairman of Organization and Compensation Committee.

PSE&G

Public Service Electric and Gas Company
80 Park Plaza, Newark, New Jersey 07101

Mailing Address:
P.O. Box 570, Newark, New Jersey 07101

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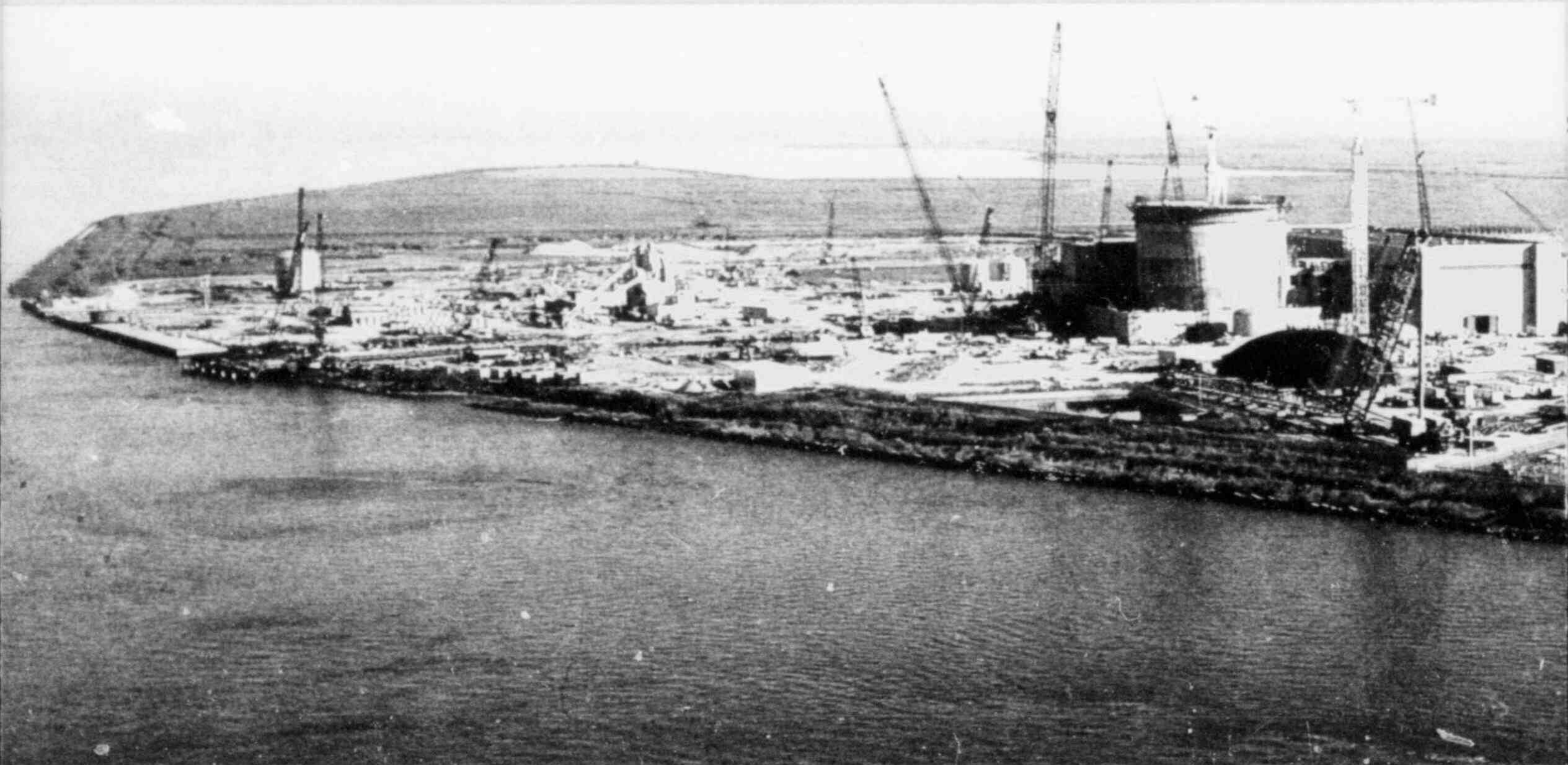
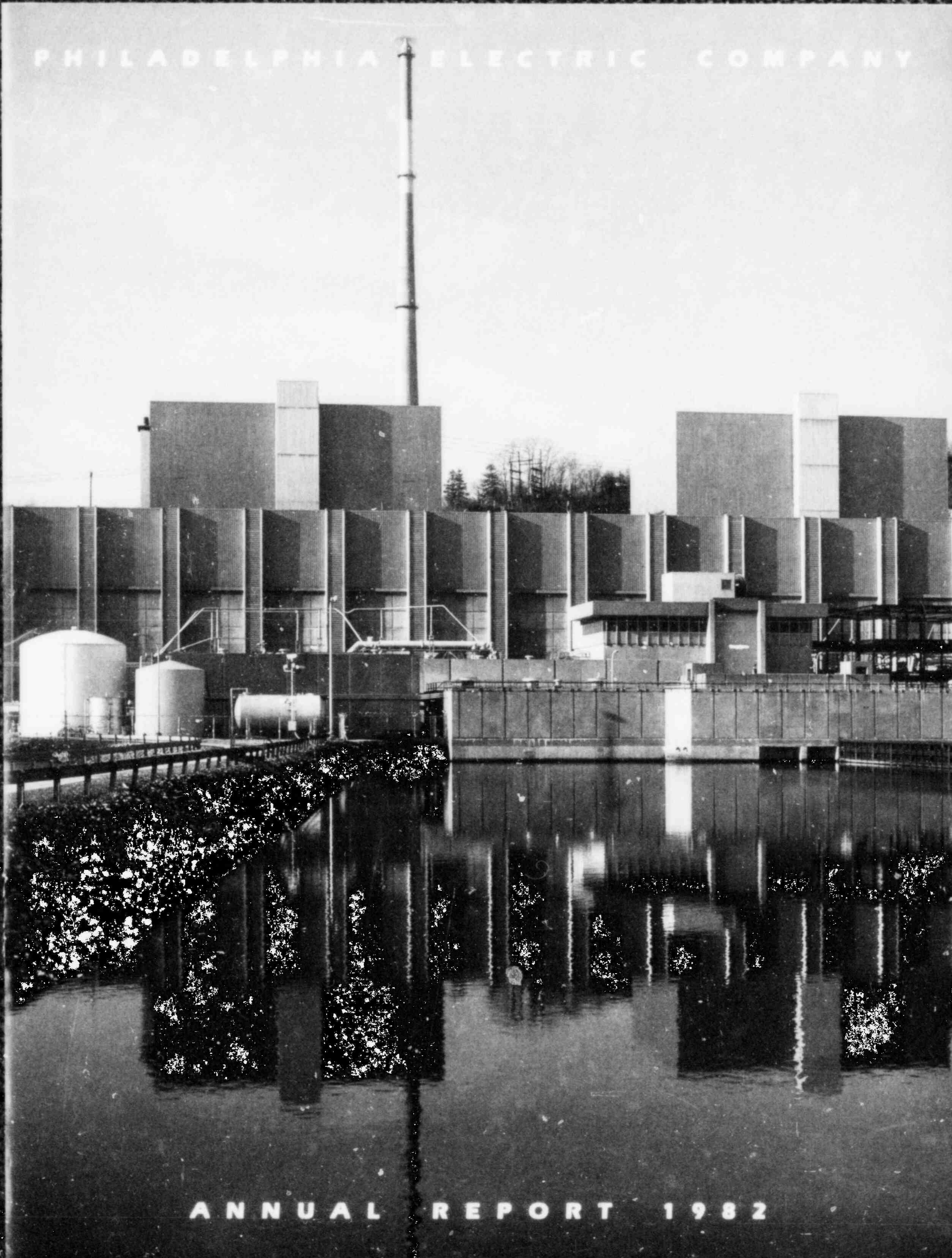
Public Service
Electric and Gas
Company



PHILADELPHIA ELECTRIC COMPANY



ANNUAL REPORT 1982

On The Cover

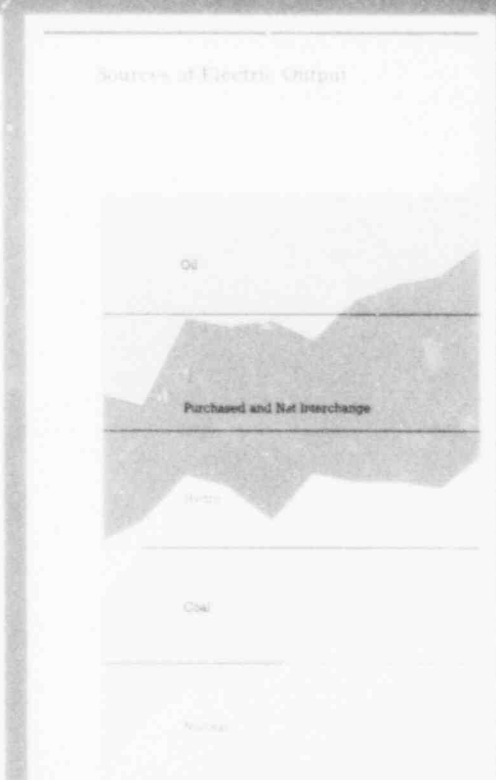
Peach Bottom Units No. 2 and No. 3 on the bank of the Susquehanna River are seen across the water intake canal. The two 1,065 mW nuclear units have performed very well since they went into service in 1974. In 1982, Unit No. 3 nearly equalled the free-world record for power generation set by Peach Bottom Unit No. 2 in 1979, since surpassed by larger foreign nuclear units. The Peach Bottom units now hold the all-time first and second positions in the United States for annual electrical energy production by a single generating unit, either nuclear or fossil fueled. Nuclear power accounted for 34 percent of the Company's total electric output in 1982.

Peach Bottom Savings Continue to Grow

Since the Peach Bottom nuclear units came on line in 1974, they have produced almost 100 billion kWh of electricity through year-end 1982. This generation is approximately equivalent to that produced by 170,000,000 barrels of oil that would be burned in a modern oil-fired plant.

The cumulative fuel savings to the Company's customers since the 1974 service dates of the Peach Bottom units are now approximately $1.5 billion (below left) which is nearly four times the $400 million capital investment of the Company's 42.5% ownership of the plant.

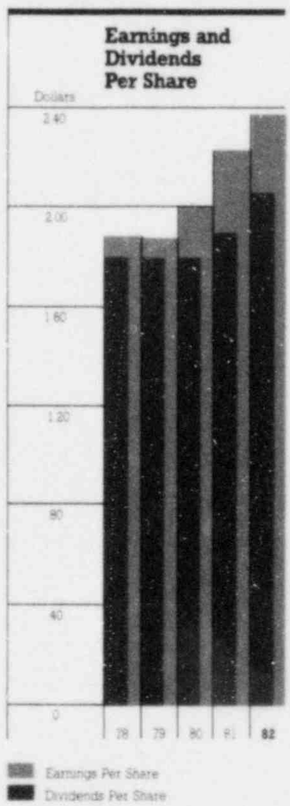
The electric output chart (below right) shows the consistent reduction in the dependence on oil with the advent of the Company's nuclear generation. Through the years our Peach Bottom and Salem units have demonstrated the significant economic and operational benefits of nuclear power generation. Advantageous power purchases through the Pennsylvania–New Jersey–Maryland Interconnection and from other power systems have produced additional savings.

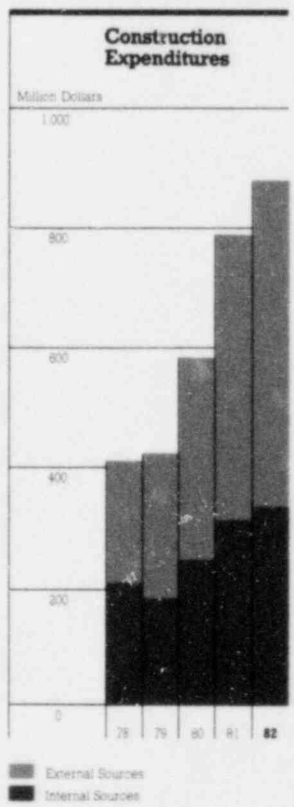


Philadelphia Electric Company Annual Report 1982

Financial Highlights

	1982	1981	% Change
Operating Revenues	**$2,644,753,000**	$2,433,425,000	9%
Operating Expenses	**$2,256,026,000**	$2,110,432,000	7%
Taxes Charged to Operations	**$ 372,180,000**	$ 274,796,000	35%
Operating Income	**$ 388,727,000**	$ 322,993,000	20%
Earnings Applicable to Common Stock	**$ 278,623,000**	$ 223,761,000	25%
Earnings per Average Common Share	**$2.39**	$2.25	6%
Cash Dividends Paid per Common Share	**$2.06**	$1.90	8%
Average Shares of Common Stock Outstanding	**116,480,000**	99,557,000	17%
Construction Expenditures	**$ 883,898,000**	$ 793,959,000	11%
Total Assets	**$7,157,998,000**	$6,352,546,000	13%





To Our Shareholders:

Despite the severe recession, 1982 was a year of achievement for Philadelphia Electric Company. Here are the highlights.

Earnings per share increased from $2.25 in 1981 to $2.39 in 1982. Return on common shareholders' equity increased from 12.3% to 13.4%. While the improvement is gratifying, we still have a way to go to achieve an adequate return.

The dividend rate on common stock was increased from $2.00 to $2.12 per year.

Sales of electricity, gas and steam were weak due to the effects of the severe recession and the weather. Particularly hard hit were our major customers: the steel companies, the oil refineries and paper products manufacturers.

Rate increases were granted by the Pennsylvania Public Utility Commission (PUC) for all three services to offset higher costs. Electric rates were permitted to increase revenue by $221.7 million; gas and steam rate increases will add $31.5 million and $3.4 million to revenue, respectively.

Rates remained competitive with other urban utilities on the northeastern seaboard. The Company's electric rates are at or below the median of the eleven companies with which we compare ourselves. Excellent performance by our low-cost nuclear plants (which generated 34% of the Company's electricity) and purchases of coal-generated electricity from midwestern utilities lowered fuel costs. These savings were passed on to our customers and largely offset the base rate increase granted by the PUC.

Salem Unit No. 2 nuclear generator (43% owned by the Company) completed its first full year of operation in 1982. Its performance was excellent. The Company's share of its output was sold to Jersey Central Power & Light Company, resulting in $135 million of revenue.

Our Peach Bottom nuclear plant had another excellent year. Unit No. 3 set another record for electric generation, exceeded only by its sister unit, No. 2 in 1979. It operated at full capacity 94% of the time, a record unmatched by any of our fuel-burning units in the history of the Company.

The Company's construction program continued at a fast pace during 1982 to assure continued reliable service with up-to-date, state-of-the-art facilities. Limerick nuclear Unit No. 1 is within two years of completion, and operating license proceedings are in progress.

James L. Everett in the lobby of the Franklin Plaza Hotel, Philadelphia

Flue gas scrubbers, which remove sulfur dioxide gas and particulates from the smokestacks of the Company's coal-burning plants, were completed at Eddystone and Cromby Stations. These plants are in full compliance with air pollution control standards, while continuing to have the capability to burn high-sulfur coal, a Pennsylvania resource.

The PUC ordered the Company either to abandon construction of Limerick Unit No. 2 or delay its completion until Unit No. 1 is finished, in spite of the PUC Administrative Law Judge's finding that completing both units as expeditiously as possible was in the best interests of the Company's customers. However, the Company appealed the order to Commonwealth Court, which reversed the Commission. We are convinced that Limerick Unit No. 2 is the least cost alternative for supplying needed capacity for the future. Therefore, we are planning to continue construction on the unit for service in late 1988. Unit No. 1 is ahead of schedule for service in early 1985.

Robert F. Gilkeson retired from the position of Chairman of the Board on June 28. During his years of leadership, he guided the Company through one of its most difficult periods. An innovative engineer, nationally-recognized industrial leader and distinguished citizen of the Greater Philadelphia community, Mr. Gilkeson's 43-year career at Philadelphia Electric has contributed greatly to the Company's shareholders, customers and personnel. He continues as a Director and Chairman of the Executive Committee.

This year's Annual Report features pictures of a cross section of the Company's larger customers. In them we see excellent examples of the modern use of energy — electricity, gas and steam. As we look toward the future, it is essential that our area—and our nation — have adequate supplies of energy at reasonable cost, free from the threat of foreign interruption. We remain dedicated to meeting these objectives for our customers.

A little over a 100 years ago, Thomas Edison founded our industry. He was widely recognized as a genius, but he was also a practical man. He was active in inventing and developing new devices and processes during his entire life. He never lost faith in American ingenuity. At age 84, in 1931, when our nation was in a depression that makes even today's economic troubles seem trivial, he said in his last public message, "Be courageous. I have lived a long time. I have seen history repeat itself again and again. I have seen many depressions . . . Always, America has come out strong and more prosperous. Be as brave as your fathers were before you. Have faith—go forward." That message is just as appropriate today and we pledge no less to our shareholders.

No Annual Report would be complete without recognizing the outstanding employee team at Philadelphia Electric. Our 10,200 dedicated, competent, professional and highly skilled men and women provide reliable and economical service to nearly 4,000,000 people. They *are* the Philadelphia Electric Company.

We thank our shareholders for their interest in and support of our Company. We will continue to work diligently to make your investment a sound one and a fruitful one.

J. L. Everett

James L. Everett
Chairman of the Board
and Chief Executive Officer

J H Austin Jr

John H. Austin, Jr.
President
and Chief Operating Officer

John H. Austin, Jr., near the guided missile cruiser *Josephus Daniels* at the Philadelphia Naval Shipyard.

Earnings Increase

Common stock earnings in 1982 were $2.39 per share, an increase of 6% over 1981 earnings of $2.25. Total common stock earnings were $279 million, up $55 million or 25% from 1981. The average number of shares outstanding increased 17% to 116 million.

The increase in earnings was due primarily to electric and gas rate increases which became effective in 1981 and 1982.

Common Stock Dividend Raised

On July 26, the Board of Directors voted to increase the quarterly common stock dividend from fifty to fifty-three cents per share, effective with the third quarter payment. As a result, dividends per share paid in 1982 amounted to $2.06, compared to $1.90 in 1981. The increase, the second in two years, recognizes the necessity of providing a competitive return on the common stock shareholders' investment.

Electric Sales Rise; Gas, Steam Sales Fall

Total electric sales increased by 5% to 29.6 billion kilowatthours (kWh). The increase was due to higher sales of the Company's share of the output of Salem Unit No. 2 to Jersey Central Power & Light Company.

Electric sales to regular customers, excluding sales to Jersey Central Power & Light Company, declined by 3% to 26.2 billion kWh. The recession caused depressed kilowatthour sales to large commercial and industrial customers. A cooler summer in 1982 held air conditioning loads below 1981 levels.

Gas sales decreased by 6% to 69 billion cubic feet as a result of milder weather and lower sales to large commercial and industrial customers. Steam sales dropped 7% to five billion pounds as a result of continued conservation and conversion to other fuels by our steam customers.

Revenue, Expenses Increase

Total operating revenue amounted to $2.6 billion, 9% above 1981. Electric operating revenue rose to $2.2 billion, an increase of $179 million or 9% over 1981. This increase reflects higher base rates and an increase in revenue from the sale of Salem Unit No. 2 output and capacity. Gas revenue amounted to $390 million, an increase of 10% over 1981, and steam revenue reached $73 million.

Total operating expenses before depreciation and taxes amounted to $1.7 billion, an increase of $35 million or 2% over 1981. The major elements of this increase were $18 million of increased costs associated with the full-year operation of Salem Unit No. 2, higher wages and benefits and increased costs for materials and supplies. Management continued to hold controllable costs to a minimum, consistent with reliable service. Interest charges increased $41 million (14%) and preferred dividends increased $4 million (7%).

John Wanamaker
Electric, Gas and Steam Customer

The Eagle in the grand court of *John Wanamaker's* center city department store has been a famous meeting place for over 70 years. This bird's eye view of the court is from atop the great organ, another Wanamaker landmark. The organ - a six-manual console, with 451 stops, 964 controls, and over 30,000 pipes - is one of the largest and finest in the world and has been played every business day since its installation in 1911. Retail operations consist of 16 stores, with 8 stores in our service territory which employ nearly 4,600 people.

Construction Program

Expenditures for new plant and equipment in 1982 amounted to $884 million. Of this amount, approximately $588 million were spent on the Limerick project and related transmission facilities, and $104 million in completing the flue gas scrubbing systems, or "scrubbers", for Eddystone and Cromby coal-fired generating stations. The remainder was spent for necessary projects throughout the electric, gas, and steam systems. Estimated construction outlays are $996 million for 1983.

1982 Financing Program

During 1982, the Company raised more than $600 million, the second-highest amount of capital ever raised by Philadelphia Electric, to meet the needs of our construction program and refundings. The Company's major 1982 financings are summarized in the table on page 7. Internal cash sources, primarily depreciation and deferred taxes, provided the remaining funds for construction.

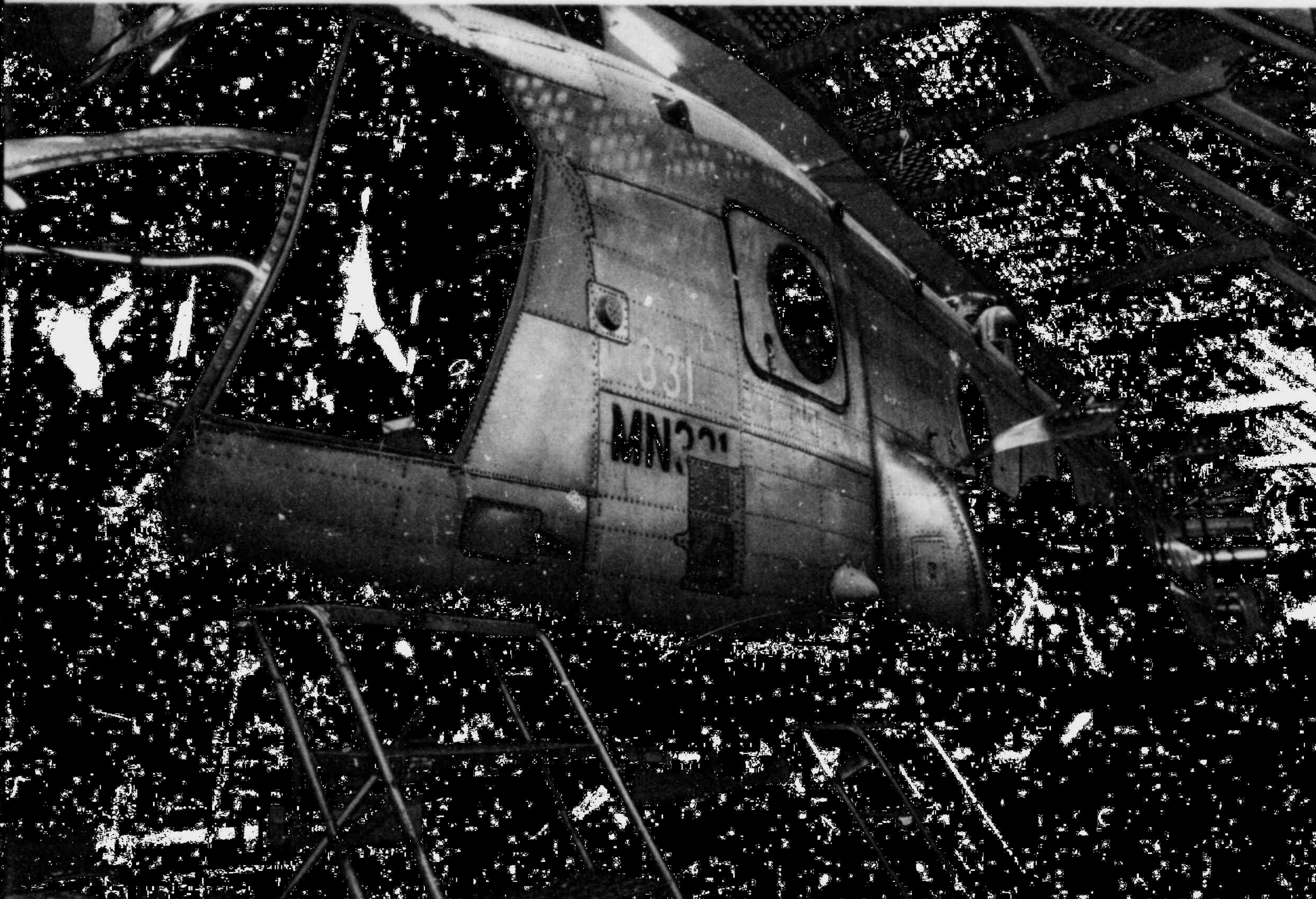
The magnitude of the Company's construction program, as well as recent market conditions, have caused the Company to utilize several innovative financing techniques to tap new sources of capital. For example, the Company sold $30 million of tax-exempt commercial paper to provide interim financing for the magnesium oxide regeneration facility in Claymont, Delaware at an average interest rate of 4.6% during the last four months of 1982.

In December, the Company sold $100 million of a new, tax-exempt security called a Floating Rate Monthly Demand Note. Although the notes may remain outstanding for 30 years, they offer the Company significant savings since they carry an interest rate which fluctuates monthly tied to an index related to 30-day tax-exempt commercial paper. Interest rates on these notes are currently about one-half the rate paid on long-term, fixed-rate notes.

The Economic Recovery Tax Act of 1981 provided for special tax treatment of public utility dividends which are reinvested in qualified new-issue common stock. As a result, the Company experienced record growth in its Dividend Reinvestment and Stock

Philadelphia International Airport
Electric Customer

Within the radar room of the new control tower at *Philadelphia International Airport*, an air traffic controller guides arriving and departing flights.



Boeing Vertol Company
Electric and Gas Customer

Final inspection of the battery compartment of a CH-47D Chinook helicopter is performed at *Boeing Vertol Company's* plant in Ridley Township, PA. Vertol manufactures helicopters for both commercial and military customers. In addition, the company fabricates components and sheet metal assemblies for fixed-winged aircraft. Vertol, one of the major operating divisions of the Boeing Company, employs approximately 4,200 people in our service territory.

Purchase Plan (DRIP) in 1982. Over 25,000 additional shareholders enrolled in the DRIP, bringing the total participation in the Plan to 79,900, or 28% of our common stock shareholders. The total invested in the Plan during 1982, including cash purchases, amounted to $60 million, up 74% from 1981.

Our 1983 financing program will require the sale of approximately $750 million of new debt and equity securities.

Major Financings

Date		Millions of Dollars
2/82	Preferred Stock—300,000 Shares	$ 30
3/82	Mortgage Bonds—18% Series due 2012	100
4/82	Common Stock—6,000,000 Shares	82
6/82	Serial Notes—17% due 1986 & 1987	20
9/82	Mortgage Bonds—15⅜% Series due 2010	100
10/82	Common Stock—6,000,000 Shares	94
12/82	Pollution Control Notes (tax exempt)	100
	Common Stock Purchase Plans: DRIP, Employee, TRASOP—5,259,801 shares	78
	Total	$604

Rate Increases

The Company must regularly raise the prices of its products to offset the effects of inflation, to improve the Company's financial performance, to maintain the ability to attract new capital and to balance supply and demand. Rate proceedings for all energy services are summarized on the table on page 11.

On May 21, the Pennsylvania PUC approved an annual electric rate increase of $221.7 million (12%). The increase was 64% of the $344.4 million originally requested in July, 1981 and reflected a 17.75% return allowance on common stock equity. The majority of the disallowed revenue was related to the PUC's refusal to include Limerick construction-work-in-progress (CWIP) in rate base.

Two load management incentives became effective as part of the new electric rates approved in May. A time-of-day energy adjustment for large industrial or commercial customers now provides a price incentive to shift energy usage from on-peak to off-peak periods. Also, a billing credit is available for large, high-voltage customers who are willing to have part of their usage interrupted on short notice.

On June 25, the PUC authorized an annual gas rate increase of $31.5 million (9.5%), representing 81% of the $38.7 million requested and reflecting a 16.5% return on common stock equity.

Limerick Investigation

On March 26, 1982, the PUC's Administrative Law Judge (ALJ) issued his initial recommended decision concerning the investigation of the necessity, economic justification, and reasons for increases in costs of the Limerick Generating Station. After 39 days of evidentiary hearings and almost 4,000 pages of testimony from 37 witnesses, the ALJ concluded that, at the present time, there is no alternative available that can replace Limerick at a lower cost to the consumer and that both nuclear units should be brought on line as close as possible to the projected 1985/1987 completion dates.

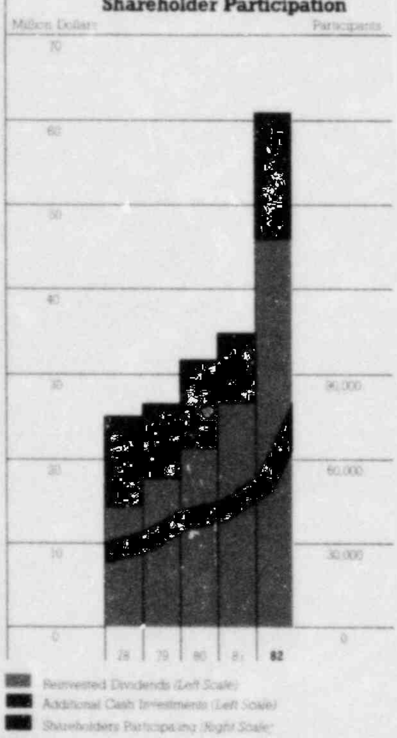
The Children's Hospital of Philadelphia
Electric and Steam Customer

Many modern hospitals serve the Greater Delaware Valley Area. This operating room at *The Children's Hospital of Philadelphia* uses the latest technology, including this surgical microscope used for ear, nose and throat operations.

Drexel University
Electric and Steam Customer

Our service territory encompasses more than 50 colleges and universities. *Drexel University* in Philadelphia uses both electricity and steam for energy and space heating requirements. Seen from under the geodesic dome is the new library under construction (left) with the sports complex (center) and the Nesbitt College of Design, Nutrition, Human Behavior, Home Economics (right).

Dividend Reinvestment Proceeds & Shareholder Participation



Despite the ALJ's recommendation, the PUC adopted a motion on May 7, 1982, that "either the cancellation or suspension of construction at Limerick Unit No. 2 would be in the public interest." The Commission cited its inability and unwillingness to provide the revenue necessary to complete both Limerick units as proposed and its belief that an aggressive conservation program could substantially offset the cancellation of Limerick Unit No. 2.

On August 27, the PUC issued its final order finding that Limerick Unit No. 2 should be cancelled or suspended until Unit No. 1 is completed; that the public interest requires timely completion of Limerick Unit No. 1; and that the Company must pursue an aggressive conservation program to offset the absence of Unit No. 2. The order criticized construction delays announced by the Company in 1976 and 1978. It gave the Company 120 days to respond to the order.

The Company appealed the PUC order to the Commonwealth Court and, on December 15, the Court unanimously reversed the PUC's August 27 order. The PUC and the Consumer Advocate have petitioned the Pennsylvania Supreme Court for approval to appeal the Commonwealth Court decision. The Company's studies continue to demonstrate that completion of both Limerick units is in the public interest and is the least cost alternative for meeting our customers' increasing energy demands. Construction of Unit No. 2 is continuing on a schedule for service in late 1988, the earliest feasible date. Completion of Unit No. 1 has been advanced by two months and should be ready for fuel loading in the summer of 1984, with commercial operation anticipated in early 1985. Total cost to build the Limerick project is now estimated at $5.8 billion based on the 1985/1988 service dates. This cost estimate is in line with other units scheduled for completion in the same time frame.

As of December 31, 1982, the Company had invested $2.54 billion in the Limerick project—$1.35 billion for Unit No. 1, $563 million for Unit No. 2, and $627 million for facilities common to both units.

Tasty Baking Company
Electric Customer
Tastykake "Chocolate Juniors" move toward the wrapping operation at *Tasty Baking Company*, Philadelphia. The company bakes and sells small cakes and pies and also has cookie distribution and graphic arts subsidiaries. Tasty, employing about 2,200 people, has been headquartered in Philadelphia since 1914.

Energy Cost Rate Reduced

The Company's Electric Energy Cost Rate (ECR) was reduced twice during 1982, resulting in reductions of about $200 million per year (10%). These decreases resulted from the continued good performance of our nuclear units, economic purchases of power from other utilities and lower prices for oil than anticipated. ECR rate reductions substantially offset higher base rates for Company customers, but did not affect the Company's earnings.

1982 Retail Rate Increases

	Application Date	Approved	Annual Revenue (Millions of Dollars)
Electric-Pennsylvania	7/29/81	5/21/82	$221.7
Maryland	8/18/81	3/17/82	3.3
Maryland	11/3/82	2/1/83	2.5
Gas	9/28/81	6/28/82	31.5
Steam	9/28/81	1/15/82	3.4
	7/29/82	Pending	8.4

Nuclear Power

The Company's nuclear power plants performed superbly during 1982. The Peach Bottom and Salem plants operated at a 68% capacity factor.

Peach Bottom Unit No. 3 produced more than 8.5 billion kilowatthours of energy during the year. The production nearly equalled the free world record previously set by Peach Bottom Unit No. 2 in 1979, since surpassed by larger foreign units. The Peach Bottom units now hold the all-time first and second positions in the United States for annual electrical energy production by a single generating unit, either nuclear or fossil fueled. The achievement was made possible, in part, by the Company's implementation of an 18-month, rather than a 12-month, refueling cycle for its nuclear units. This eliminated the need for refueling Unit No. 3 during 1982 when it experienced only three outages and was in continuous operation from May 31 to year-end.

Total fuel savings to Company customers from the operation of both units at Peach Bottom and Salem Unit No. 1 amounted to more than $400 million in 1982.

The outstanding performance by our nuclear units was a significant factor in reducing the Company's use of fossil fuel. The Company reduced its consumption of heavy and light oil in 1982 by 40% and 32%, respectively, compared to 1981. Less than 8% of electric output in 1982 was generated by oil-burning units.

Christian Schmidt Brewing Company

Electric Customer

Kegs of beer are sealed at the *Christian Schmidt Brewing Company*, headquartered in Philadelphia. This is just one part of an extensive, energy-intensive plant that produces more than 20 different kinds of beer. Schmidt's employs nearly 1,200 people in our service territory.

Coal-Fired Generation

The completion of flue gas scrubbers at Eddystone and Cromby Stations brings these coal-fired stations into full compliance with air quality regulations. These innovative facilities were designed and constructed under a Consent Decree between the Company, the Environmental Protection Agency and the Pennsylvania Department of Environmental Resources in order to satisfy air quality standards which limit permissible levels of visible emissions, sulfur dioxide and particulate matter emissions from the stacks of the stations. The Eddystone and Cromby scrubbers use a regenerative process which produces no sludge for disposal. Including the regeneration facilities, the total cost of the scrubbers is about $317 million.

Transmission and Distribution

Electric service reliability continued at a high level in 1982. The annual service availability of 99.991% was comparable to the average for the last five years. In other words, the average customer was without electric service for only 46 minutes during 1982.

The Company's 220 and 500 kV systems have proven to be very reliable. Nevertheless, the towers which support the aerial lines are vulnerable to storms and accidents. Reliable electric service at the lowest possible cost requires a dependable high-voltage transmission system. An extended line outage would be very costly, particularly if it interrupted the supply from a low-cost source of power, such as a nuclear generating station. The Company has prepared for these

United States Steel Corporation

Electric and Gas Customer

Hot metal is poured into an open hearth steel-making furnace at *United States Steel Corporation*, Fairless Hills, PA. U.S. Steel's Fairless Works manufactures various types of semi-finished steel products. About 8,000 people are employed by U.S. Steel in our service territory.

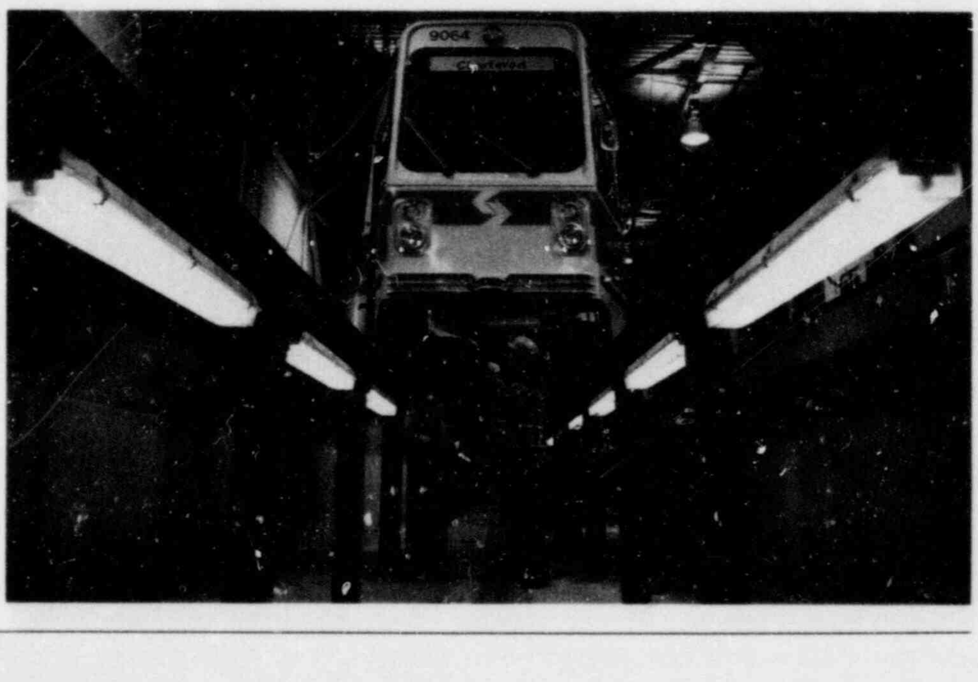
contingencies by its recent design and acquisition of unique temporary towers enabling us to restore up to a mile of 500 kV line in as little as 48 hours.

Power Purchases

During 1982, the Company continued to utilize its transmission interconnections to purchase economical power from the Pennsylvania–New Jersey–Maryland Interconnection (PJM) and from systems outside of PJM. The purpose of these purchases was to minimize operation of higher-priced, oil-fired generating stations. Over 3.5 billion kilowatthours of coal-fired power were imported from systems in western Pennsylvania, West Virginia, Ohio and Indiana. Another 150 million kilowatthours of oil-fired power were purchased during peak load hours from Central Hudson Gas and Electric Corporation in New York, which is permitted to burn lower-cost oil. These purchases, together with 7.2 billion kilowatthours of power purchased from PJM, produced savings to the Company's customers amounting to approximately $200 million in 1982.

Limerick Supplementary Cooling Water System

Construction began in early 1983 on the Point Pleasant Water Supply System, by which the Neshaminy Water Resources Authority (NWRA) will supply water from the Delaware River for public use and also for supplementary cooling water for Limerick during periods of low flow on the Schuylkill River. NWRA will pipe the water 2½ miles from a pumping station, which it will construct on the Delaware River, to the Company's 70 million gallon reservoir and pumping station. The Company will then pipe water from the reservoir 6½ miles to the Perkiomen Creek and ultimately another 7½ miles to Limerick by way of another pumping station and pipeline. Construction of Company facilities, estimated to cost $22 million, is scheduled to begin in early 1983.



Southeastern Pennsylvania Transportation Authority
Electric and Gas Customer

Adjustments are made on a trolley car at the new maintenance facility of the *Southeastern Pennsylvania Transportation Authority* (SEPTA) in Philadelphia. The modern fleet of 148 electrically-powered cars has replaced 30 to 40 year-old trolleys. SEPTA is responsible for operating mass transit services in the five-county southeastern Pennsylvania region. Also, new electric subway trains are currently being phased into operation along the Broad Street subway. SEPTA employs more than 7,500 people in our service territory.

Record Gas Sendout

On January 17, 1982, temperatures averaging minus 2 degrees produced a record gas sendout of 529 million cubic feet of natural gas. This exceeded the previous daily record by 9%.

Gas Supplies Improve

Natural gas availability from pipeline suppliers continued at adequate levels in 1982. The Company increased its winter supply from underground storage by expanding its normal winter natural gas by 672 million cubic feet (2%) for the 1982-1983 heating season.

Gas Customers and Sales

The Company added nearly 5,000 new gas customers in 1982 for a total of 298,000 customers. Despite the additional customers, gas sales decreased nearly 6% to 69 billion cubic feet due to warmer weather, conservation and the recession.

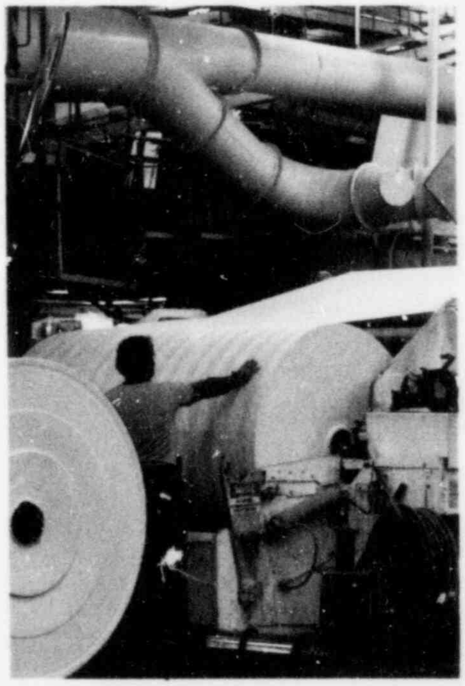
Temperature Controlled Service

Winter space heating loads during cold weather cause high peak usage which must be met by relying on gas storage or alternative supplies. In addition to creating potential capacity problems, this results in higher costs. Since April 1980, gas sales to new or expanding commercial and industrial customers have been limited to assure an adequate winter supply to all existing customers.

Off-peak supplies of gas are now adequate and the Company is again accepting requests for firm gas supplies from commercial and industrial customers for large process loads. Use of space heating by these customers will continue to be restricted by requiring large temperature-sensitive, gas-burning equipment to switch to alternate fuels during cold winter periods.

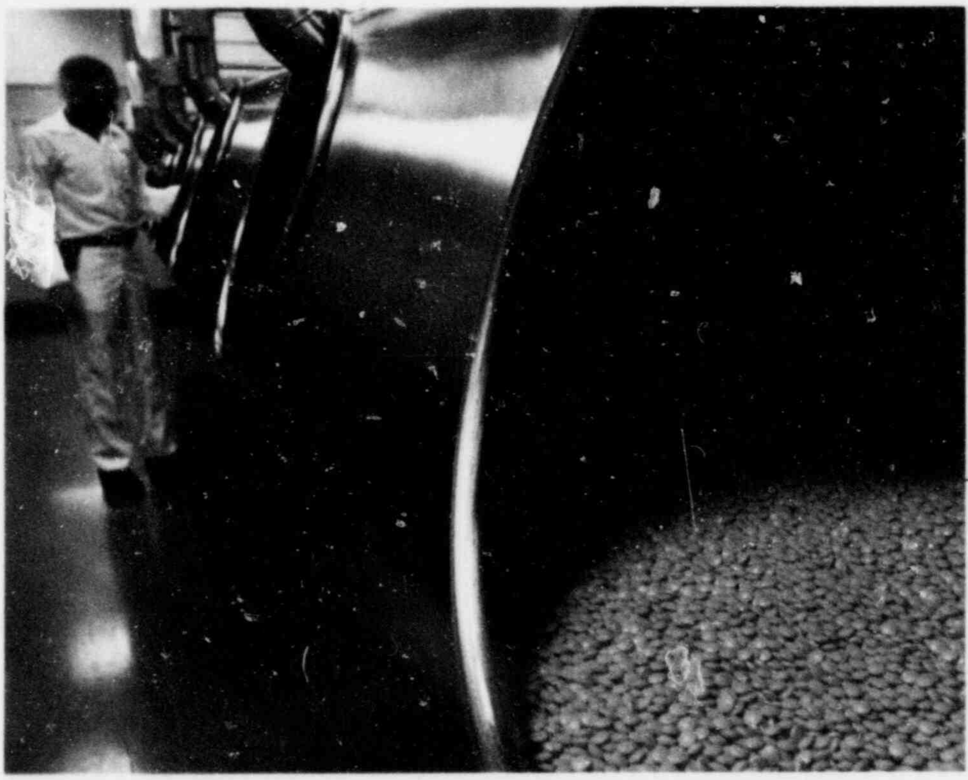
Philadelphia Naval Shipyard
Electric Customer

Work on the guided missile destroyer *Coontz* nears completion at the *Philadelphia Naval Shipyard*. This large dry dock was used for refurbishing the aircraft carrier *Saratoga* which was completed in 1982 and will be used again for work on the aircraft carrier *Forrestal* beginning in 1983. Due to the increased activity at the Navy Yard, the work force at the Navy Base has grown to approximately 14,000 civilian employees and about 5,500 military personnel, including ships' personnel.



Scott Paper Company
Electric and Gas Customer

This continuous paper winding operation at *Scott Paper Company*, Chester, PA, produces rolls of paper towels. Scott, headquartered in Philadelphia, together with its international affiliates, is one of the world's leading producers of sanitary tissue paper products and also has expanded into many other areas. Scott employs about 3,300 people in our service territory.



SmithKline Beckman Corporation
Electric and Steam Customer

Shown here is the modern, tablet polishing operation at *SmithKline Beckman Corporation*, Philadelphia. 'Ecotrin,' an enteric-coated aspirin tablet, is in the final stage of production. SmithKline Beckman Corporation is a health care company headquartered in Philadelphia that researches, manufactures and markets ethical pharmaceutical and proprietary medicines, animal health products, eye care products, as well as laboratory analytical instruments. SmithKline Beckman provides jobs for approximately 4,300 people in our service territory.

(Photograph supplied by SmithKline Beckman)

Area Development

Of the many construction activities currently in progress throughout the Company's service territory, two deserve particular attention. The first is Philadelphia's $325 million Center City Commuter Connection project, the largest in the City's history, including a four-track tunnel that will link 580 miles of 13 regional electrified commuter rail lines of the former Reading and Penn Central railroads into an integrated, flexible rail transit system. Extending more than 25 blocks through central Philadelphia, it is the keystone of a master plan for the revitalization of Center City. Linked with the tunnel project is the $200 million second phase of the Market Street East Redevelopment Project, comprised of two new shopping malls, a major department store and three office buildings. Work is proceeding on schedule with completion expected in late 1983. The tunnel project and Market East redevelopment are providing jobs for approximately 4,000 people.

Another important asset of the area's economy is the Philadelphia Naval Shipyard. During the past three years, 18 vessels, including the aircraft carrier Saratoga, have been rehabilitated at the yard. Eight more ships, including the carrier Forrestal, are scheduled for refitting, and the total cost of these projects will be over $2 billion. As a result of the work, civilian employment at the Navy Yard has doubled to approximately 14,000 employees.

Residential Space Heating

During 1982, 11,000 additional residential units selected Company-supplied electricity or gas for space heating. Electric space heating was installed in 5,500 units and gas space heating was installed in another 5,500 units. For new construction, 54% of residential

A. E. Staley Manufacturing Company
Electric and Gas Customer

A. E. Staley Manufacturing Company, **Morrisville, PA, is a manufacturer of high-fructose corn sweetener and genetic food starches. This view shows the upper end of a mechanical recompression unit in the final stage of syrup production. Staley is a leading processor of grain and oil seeds, ranking as a major, domestic corn refiner and soybean crusher.**

customers chose electric heat and 31% chose gas heat for a total market penetration of 85% for Company energy.

As part of the overall space heating activity, the Company and local industry actively promoted and marketed the installation of energy-saving heat pumps in 1982. This effective campaign resulted in more than 850 customers converting their heating systems to the heat pump in 1982. The industry's continuing activities also had an effect on the new business market. Approximately 39% of all individually-metered, new residential living units constructed in our service territory have been equipped with heat pumps which are less costly than oil-fired units and one of the most efficient systems commercially available today.

PE Cares

PE Cares, a new person-to-person program especially for senior citizens and people receiving disability or survivor benefits, was expanded to include customers in the entire service area in July, 1982. PE Cares is available to any Company customer who is 62 years of age or older, is permanently retired and receiving Social Security benefits, is receiving survivor benefits under Social Security or is disabled and receiving benefits under Supplemental Security Income or a similar program.

The program works through the assignment of a special PE Cares representative to each participating customer. This representative is available to assess the participant's situation and provide information on both Company programs and outside agencies for assistance. Currently, 20,000 customers are participating in the program.

Franklin Mint Corporation

Electric and Gas Customer

Finishing touches are carefully applied to a porcelain figurine at *Franklin Mint Corporation's* porcelain factory near corporate headquarters in Franklin Center, PA. A division of *Warner Communications Inc.*, Franklin Mint produces a broad range of collectible, luxury, home decor and leisure products, including medallic art, works of silver and gold, porcelain figurines and decorative plates, sculpture, jewelry, and fine books. The mint employs about 1,800 persons in our service area.

Contents

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

General

The revenue growth of recent years has been accompanied by substantial increases in operating costs and carrying charges on increased investment in plant and equipment. Any future increases in such costs and charges may be expected to affect future net income and earnings per average common share adversely unless periodic rate relief is obtained to offset them. See Note 16 of Notes to Financial Statements for the estimated effects of inflation. In addition, the capital carrying charges associated with the construction of the Limerick station which are capitalized by crediting income with an allowance for funds used during construction (AFUDC) and recovered through future depreciation now represent a major portion of net income, and will continue to increase at least until the first of the Limerick units goes into service in 1985.

Sluggish economic conditions in the Company's service area also are having an adverse effect on operating results. Although the return on average common equity has increased during the past three years, the return on investment is still substantially below what the Pennsylvania Public Utility Commission (PUC) allowed as a fair return in the Company's last rate order.

During 1982, the Company put into effect increased rates for all three services—electric, gas and steam—totaling approximately $260 million per year. On July 29, 1982, the Company filed with the PUC for an additional $8.4 million in steam revenues. The PUC has suspended the rate increase until April 28, 1983.

Electric Operating Revenue

Electric Revenue Increases	Millions of Dollars	
	'82 vs. '81	'81 vs. '80
Rate Increases	**$198.2**	$148.4
Fuel Charges	**(83.0)**	40.1
Salem Unit No. 2	**89.6**	45.9
Other	**(25.9)**	0.7
Total	**$178.9**	$235.1

Increases in 1982 and 1981 reflect higher base rates and the sale of output and capacity equivalent of Salem Unit No. 2 to Jersey Central Power & Light Company. Salem Unit No. 2 sales will be reduced in 1983 due to a scheduled outage for refueling, maintenance and Nuclear Regulatory Commission (NRC) mandated modifications.

Kilowatthour sales of electricity to retail customers declined slightly in 1981 and 1982.

Gas Operating Revenue

Increases in 1982 over 1981 primarily reflect the recovery of higher fuel costs and higher rates. Mcf sales of gas declined 5.7 percent in 1982 from the record high sales of 1981.

Fuel and Energy Interchange Expense

Fuel and interchange expense decreased 5.0 percent in 1982 from 1981 as lower electric fuel costs resulting from the excellent performance of our nuclear units and economic purchases of power from other utilities were partially offset by increased gas fuel expense. The 8.9 percent increase in fuel and interchange expense in 1981 over 1980 was the result of higher prices for all fuels.

Other Operation & Maintenance Expenses

Other operation and maintenance expenses have increased in the last two years due to inflation and to growth in utility plant.

Depreciation

Increases in depreciation in the last two years reflect additions to plant in service, primarily Salem Unit No. 2.

Taxes on Income

Taxes on operating income increased in 1982 over 1981 as the result of higher income.

Income tax credits, net, included in other income, have increased in the last two years as a result of the higher allowance for borrowed funds used during construction.

Taxes Other Than Income

Taxes, other than income, have increased due to increases in revenue, which is subject to a gross receipts tax, and due to higher realty and social security taxes.

Allowance for Funds Used During Construction

The increases in AFUDC for the last two years resulted from a higher cost of capital for construction and increases in construction work in progress.

Interest Charges

Interest charges on debt increased in the last two years because of additional debt outstanding. The ratio of earnings to mortgage interest, which is a measure of the Company's ability to issue additional long-term debt, increased to 2.42 times in 1982 and remained above the minimum of 2.0 times required for the issuance of new mortgage debt.

Capital Expenditures and Changes in Financial Position

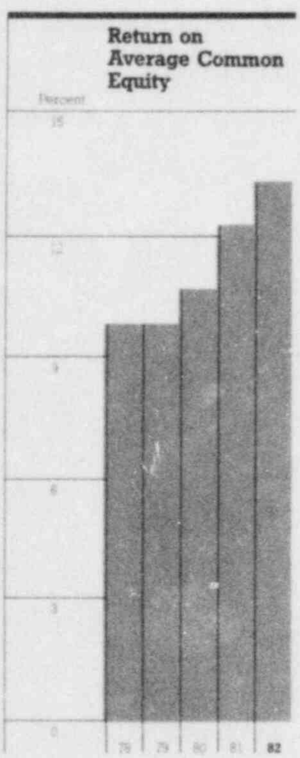
The Company is carrying on a construction program which is estimated to require expenditures of $996 million in 1983 and $2.6 billion from 1984 to 1986. A majority of these expenditures relates to the construction of the Company's two 1055 mW nuclear generating units at Limerick, PA. Successful completion of this program is dependent on the Company's ability to obtain external financing, primarily through sales of new debt and equity securities which are subject to market conditions and to meeting certain earnings tests. The program is also subject to the licensing requirements of the NRC, to financing approvals by the PUC and to change due to litigation. The Company cannot predict the outcome of such regulatory reviews, but believes the safety requirements have been or will be met, the economic desirability of the program has been demonstrated and that the program will be successfully completed and approved.

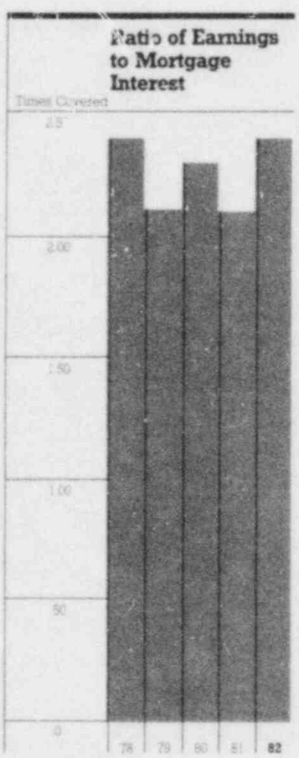
During 1982 a number of events occurred regarding the PUC's investigation of the Limerick project. On August 27, 1982, the PUC issued its final order finding that cancellation or suspension of Limerick Unit No. 2 would be in the public interest. The Company appealed the PUC order to the Pennsylvania Commonwealth Court and on December 15, Commonwealth Court reversed the PUC's August 27 order. On January 7, 1983, the PUC voted to petition the Pennsylvania Supreme Court for Approval of Appeal of the Commonwealth Court's order.

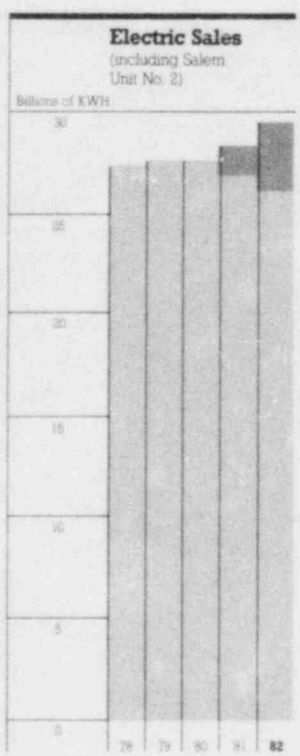
The Company estimates that the final cost of the Limerick project will be $5.8 billion when completed in late 1988.

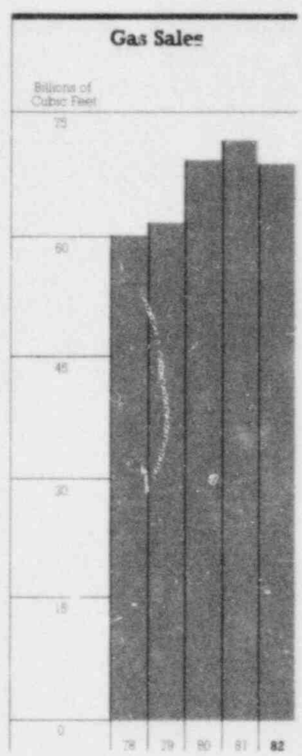
Placing the Limerick units into service will enable the Company to retire some of its older, less efficient fossil units and to lessen its dependence on high-cost oil. In addition, when the units are completed, it is expected that the Company will realize substantial fuel savings compared to obtaining electricity from alternative generating sources.

Interim financing of the construction program is provided by commercial paper borrowings and short- and intermediate-term bank loans, which are also dependent on the Company's financial position.









Salem Unit No. 2

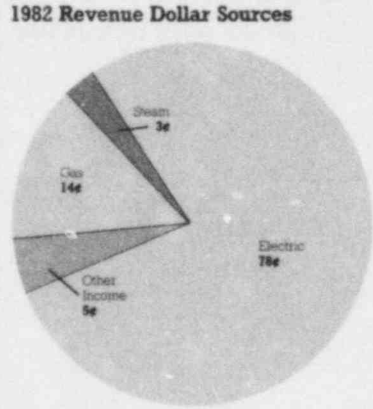
Philadelphia Electric Company and Subsidiary Companies

Consolidated Statements of Income

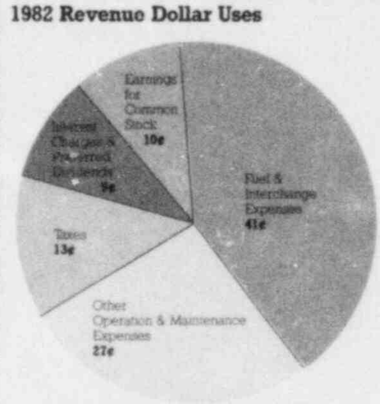
	For the Year Ended December 31		
	1982	1981	1980
	(Thousands of Dollars)		
Operating Revenues			
Electric	**$2,180,960**	$2,002,063	$1,766,956
Gas	**390,427**	356,431	290,743
Steam	**73,366**	74,931	65,695
Total Operating Revenues	**2,644,753**	2,433,425	2,123,394
Operating Expenses			
Fuel and Energy Interchange	**1,128,498**	1,187,635	1,090,497
Other Operation Expense	**411,753**	360,840	279,587
Maintenance	**199,747**	156,878	136,963
Depreciation	**143,848**	130,283	122,947
Taxes on Income	**207,669**	129,484	93,673
Taxes, Other than Income	**164,511**	145,312	133,761
Total Operating Expenses	**2,256,026**	2,110,432	1,857,428
Operating Income	**388,727**	322,993	265,966
Other Income			
Allowance for Other Funds Used During Construction	**65,699**	65,013	50,483
Income Tax Credits, net	**75,845**	63,164	49,025
Other, net	**(717)**	2,457	3,425
Total Other Income	**140,827**	130,634	102,933
Income Before Interest Charges	**529,554**	453,627	368,899
Interest Charges			
Long-Term Debt	**308,862**	266,691	224,970
Short-Term Debt	**32,030**	33,155	13,865
Allowance for Borrowed Funds Used During Construction	**(147,561)**	(123,784)	(97,067)
Net Interest Charges	**193,331**	176,062	141,768
Net Income	**336,223**	277,565	227,131
Preferred Stock Dividends	**57,600**	53,804	52,181
Earnings Applicable to Common Stock	**$ 278,623**	$ 223,761	$ 174,950
Average Shares of Common Stock Outstanding (Thousands)	**116,480**	99,557	87,302
Earnings Per Average Common Share (Dollars)	**$2.39**	$2.25	$2.00
Dividends Per Common Share (Dollars)	**$2.06**	$1.90	$1.80

See notes to financial statements.

1982 Revenue Dollar Sources



1982 Revenue Dollar Uses



Consolidated Balance Sheets

	December 31 1982	1981
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric	**$4,519,544**	$4,163,088
Gas	**394,876**	371,239
Steam	**53,998**	54,152
Common, used in all services	**127,304**	118,701
	5,095,722	4,707,180
Less: Accumulated Depreciation	**1,450,149**	1,330,611
Net Utility Plant in Service	**3,645,573**	3,376,569
Construction Work in Progress	**2,810,014**	2,337,517
Total Utility Plant	**6,455,587**	5,714,086
Investments	**91,427**	77,780
Current Assets		
Cash and Temporary Cash Investments	**50,025**	30,678
Accounts Receivable		
Customers	**284,151**	277,292
Other	**58,012**	65,131
Inventories, at average cost		
Fuel (coal, oil and gas)	**97,478**	83,612
Materials and Supplies	**45,552**	48,581
Deferred Income Taxes	**43,350**	17,052
Prepayments	**7,721**	6,819
Total Current Assets	**586,289**	529,165
Deferred Debits	**24,695**	31,515
Total	**$7,157,998**	$6,352,546

See notes to financial statements.

	December 31	
	1982	1981
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Shareholders' Equity		
Common Stock	**$1,826,198**	$1,572,388
Other Paid-In Capital	**4,641**	3,888
Retained Earnings	**423,596**	387,251
	2,254,435	1,963,527
Preferred Stock		
Series Without Mandatory Redemption Requirements	**372,472**	372,472
Series With Mandatory Redemption Requirements	**292,290**	266,929
Long-Term Debt	**3,028,525**	2,745,723
Total Capitalization	**5,947,722**	5,348,651
Current Liabilities		
Short-Term Debt		
Bank Loans	**32,200**	54,225
Commercial Paper	**32,500**	—
Current Maturities of Long-Term Debt	**21,280**	36,062
Accounts Payable	**164,419**	165,485
Taxes Accrued	**65,954**	68,421
Interest Accrued	**99,764**	82,294
Dividends Declared	**24,167**	23,380
Deferred Fuel Credits	**85,379**	31,299
Other	**24,734**	18,130
Total Current Liabilities	**550,397**	479,296
Deferred Credits		
Accumulated Deferred Income Taxes	**290,538**	273,528
Accumulated Deferred Investment Tax Credits	**296,068**	204,061
Other	**73,273**	47,010
Total Deferred Credits	**659,879**	524,599
Total	**$7,157,998**	$6,352,546

See notes to financial statements.

Consolidated Statements of Retained Earnings

	For the Year Ended December 31		
	1982	1981	1980
		(Thousands of Dollars)	
Balance, January 1	**$ 387,251**	$ 353,570	$338,154
Net Income	**336,223**	277,565	227,131
	723,474	631,135	565,285
Cash Dividends Declared			
Preferred Stock (at specified annual rates)	**57,982**	53,762	52,973
Common Stock (per share, $2.06 in 1982, $1.90 in 1981 and $1.80 in 1980)	**240,486**	189,476	157,423
Expenses of Capital Stock Issues	**1,410**	646	1,319
	299,878	243,884	211,715
Balance, December 31	**$ 423,596**	$ 387,251	$353,570

Consolidated Statements of Changes in Financial Position

Sources of Funds			
Funds from Operations			
Net Income	**$ 336,223**	$ 277,565	$227,131
Charges (Credits) Not Affecting Funds			
Depreciation, Amortization and Spent Fuel Costs	**159,668**	144,031	130,354
Deferred Income Taxes	**(10,215)**	2,011	(12,121)
Investment Tax Credits, net of Amortization	**101,646**	25,049	28,135
Allowance for Other Funds Used During Construction	**(65,699)**	(65,013)	(50,483)
Total from Operations	**521,623**	383,643	323,016
Funds from Financings			
Sales of Securities			
Long-Term Debt	**320,000**	423,500	275,000
Preferred Stock	**30,000**	—	72,000
Common Stock	**253,810**	194,925	137,816
Change in Short-Term Debt	**10,475**	1,635	(32,597)
Sale of Salem Station Nuclear Fuel	**—**	100,166	—
Sale of Tax Benefits	**—**	53,743	—
Total from Financings	**614,285**	773,969	452,219
Total Sources	**$1,135,908**	$1,157,612	$775,235
Uses of Funds			
Additions to Utility Plant	**870,715**	787,075	579,802
Allowance for Other Funds Used During Construction	**(65,699)**	(65,013)	(50,483)
Dividends on Preferred and Common Stock	**298,468**	243,238	210,396
Retirement of Long-Term Debt	**50,183**	137,470	140,671
Change in Other Items of Working Capital	**(44,582)**	19,797	(108,750)
Other, net	**26,823**	35,045	3,599
Total Uses	**$1,135,908**	$1,157,612	$775,235

See notes to financial statements.

1. Significant Accounting Policies:

General.

All utility subsidiary companies of Philadelphia Electric Company are wholly owned and are included in the consolidated financial statements. Non-utility subsidiaries are included in investments and accounted for by the equity method. The accounting policies are in accordance with those prescribed by the regulatory authorities having jurisdiction.

Revenues.

Revenues are recorded in the accounts upon billing to the customer. Rate increases are billed from dates authorized or permitted to become effective by the regulatory authorities.

Fuel Expense.

The Company recognizes fuel expense which is recoverable under energy adjustment clauses when it is billed to customers.

The Company leases nuclear fuel for use in its nuclear generating stations. Nuclear fuel costs are charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to the estimated total thermal units to be produced over the life of the fuel. Commencing in May, 1981, the estimated disposal costs of spent fuel are being charged to operations as permitted for rate-making purposes. Such amounts, net of related deferred income taxes, are deposited in an escrow account and invested for funding of future costs. The Company believes that any additional costs, which may be significant, would be recoverable through adjustments of rates charged to its customers.

Depreciation.

For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on the straight-line method and, for tax purposes, generally, over shorter lives on accelerated methods. The estimated decommissioning costs of portions of the nuclear plants are being charged to operations as permitted for rate-making purposes. Such amounts, net of deferred income taxes, are deposited in an escrow account and invested for funding of future costs. The Company believes that any additional costs, which may be significant, would be recoverable through adjustments of rates charged to its customers. The annual depreciation provisions, expressed as a percent of average depreciable utility plant in service, were approximately 3.00% for 1982, 3.01% for 1981 and 3.06% for 1980.

Income Taxes.

Deferred income taxes are provided for differences between book and taxable income to the extent permitted for rate-making purposes. Investment tax credits, other than credits resulting from contributions to the Tax Reduction Act Stock Ownership Plan for employees, which do not affect income, are deferred and amortized to income over the estimated useful life of the related utility plant.

Allowance for Funds Used During Construction (AFUDC).

AFUDC is a non-cash item which is defined in the uniform system of accounts prescribed by regulatory authorities as "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used." AFUDC is recorded as a charge to Construction Work In Progress, and the equivalent credits are to "Interest Charges" for the pre-tax cost of borrowed funds and to "Other Income" for the remainder as the allowance for equity funds. The rate used for capitalizing AFUDC, which averaged 9.20% in 1982, 8.65% in 1981, and 7.85% in 1980, is computed under a method prescribed by the regulatory authorities. The rate is a "net after-tax rate" and the current income tax reductions applicable to the interest charges capitalized are recorded in "Other Income." AFUDC is not included in taxable income and the depreciation of capitalized AFUDC is not a tax-deductible expense.

Retirement Plan.

The Company has a non-contributory trusteed retirement plan applicable to all regular employees. Pension costs include normal cost for the year and amortization of unfunded prior service costs, over ten to twenty-year periods. Approximately 80% of such costs were charged to operating expense and the remainder, associated with construction labor, to the cost of new utility plant.

Gas Exploration and Development Costs.

The Company has invested in several joint ventures for exploring and drilling for gas. These costs are capitalized under the full cost method and charged to operations commensurate with the production of gas by the ventures.

2. Investments:

At December 31, 1982 and 1981:

	1982	1981
	(Thousands of Dollars)	
Gas Exploration and Development Costs	**$48,099**	$46,294
Nonutility Property	**15,911**	15,433
Escrowed Funds for Future Decommissioning of Nuclear Plant & Disposition of Spent Nuclear Fuel	**15,601**	5,798
Other	**11,816**	10,255
Total	**$91,427**	$77,780

3. Common Stock:

At December 31, 1982 and 1981, Common Stock, without par value, consisted of 160,000,000 shares authorized and 125,766,898 shares and 108,507,097 shares, respectively, outstanding. At December 31, 1982, there were 6,531,056 shares reserved for issuance under stock purchase plans.

Common Stock Issued	Shares 1982	Shares 1981	Shares 1980	Amounts 1982	Amounts 1981	Amounts 1980
				(Thousands of Dollars)		
Public Sales	**12,000,000**	12,800,000	7,000,000	**$175,620**	$154,786	$101,360
Dividend Reinvestment and Stock Purchase Plan	**4,019,605**	2,667,081	2,399,418	**60,399**	34,809	31,593
Employee Stock Purchase Plan	**453,013**	407,445	349,937	**6,677**	5,330	4,863
Tax Reduction Act Stock Ownership Plan	**787,183**	—	—	**11,114**	—	—
Totals	**17,259,801**	15,874,526	9,749,355	**$253,810**	$194,925	$137,816

4. Preferred Stock:

At December 31, 1982 and 1981, Preferred Stock, $100 par, cumulative:

	Current Redemption Price **(a)**	Refunding Restricted Prior to **(b)**	Shares Authorized	Shares Outstanding 1982	Shares Outstanding 1981	Amounts 1982	Amounts 1981
						(Thousands of Dollars)	
Series (without mandatory redemption requirements):							
9.50%	$106.50		750,000	**750,000**	750,000	**$ 75,000**	$ 75,000
8.75%	107.00		650,000	**650,000**	650,000	**65,000**	65,000
7.85%	105.00		500,000	**500,000**	500,000	**50,000**	50,000
7.80%	103.00		750,000	**750,000**	750,000	**75,000**	75,000
7.75%	103.00		200,000	**200,000**	200,000	**20,000**	20,000
[illegible].68%	104.00		150,000	**150,000**	150,000	**15,000**	15,000
4.4%	112.50		274,720	**274,720**	274,720	**27,472**	27,472
4.3%	102.00		150,000	**150,000**	150,000	**15,000**	15,000
3.8%	106.00		300,000	**300,000**	300,000	**30,000**	30,000
			3,724,720	**3,724,720**	3,724,720	**372,472**	372,472
Series (with mandatory redemption requirements) **(c)** and **(d)**:							
17.125% (Sold 1982)	117.125	5-1-87	300,000	**300,000**	—	**30,000**	—
15.25% (Sold 1980)	115.25	5-1-90	500,000	**500,000**	500,000	**50,000**	50,000
10% (Sold 1980)	104.44	5-1-85	220,000	**220,000**	220,000	**22,000**	22,000
9.52%	106.25	5-1-86	500,000	**446,830**	453,920	**44,683**	45,392
8.75%	108.75	5-1-88	500,000	**500,000**	500,000	**50,000**	50,000
7.325%	104.69		750,000	**630,000**	660,000	**63,000**	66,000
7%	104.00		400,000	**326,070**	335,370	**32,607**	33,537
			3,170,000	**2,922,900**	2,669,290	**292,290**	266,929
Unclassified			3,105,280	**—**	—	**—**	—
Total Preferred Stock			10,000,000	**6,647,620**	6,394,010	**$664,762**	$639,401

(a) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.

(b) Prior to the date specified, none of the shares of each series indicated may be redeemed through refunding at an interest cost or dividend rate which is less than the dividend rate of such series.

(c) Redemption requirements (par value) in the period 1983-1987 are as follows: 1983-$3,362,000; 1984-$8,937,000; 1985-$9,130,000; 1986-$16,030,000; and 1987-$16,030,000.

(d) The excess of the aggregate par value of reacquired shares, 46,390 shares in 1982, 74,010 shares in 1981 and 45,210 shares in 1980, over the aggregate purchase price is reflected in Other Paid-In Capital: $753,000 in 1982, $1,307,000 in 1981 and $378,000 in 1980.

5. Long-Term Debt:
At December 31, 1982 and 1981:

Philadelphia Electric Company	Series	Due	**1982**	1981
			(Thousands of Dollars)	
First and Refunding Mortgage Bonds **(a)**				
	3¼%	1982	**—**	$ 35,000
	3⅛%	1983	**$ 20,000**	20,000
	3⅛%	1985	**50,000**	50,000
	4⅜%	1986	**50,000**	50,000
	4⅝%	1987	**40,000**	40,000
	3¼%-13¾%	1988-1992	**215,000**	215,000
	4½%-15¼%	1993-1997	**403,429**	405,256
	7⅜%-11⅝%	1998-2002	**574,600**	584,988
	6% -12½%	2003-2007	**498,500**	498,500
	9⅛%-18¾%	2008-2012	**550,000**	350,000
Total First and Refunding Mortgage Bonds			**2,401,529**	2,248,744
Notes Payable—Banks	**(b)**	1984-1987	**225,000**	225,000
Notes Payable—Other	17%	1986-1987	**20,000**	—
Pollution Control Notes	5.5% - 13%	1984-2012	**229,780**	130,205
Debentures	4.85%	1986	**21,330**	22,710
Debentures	14⅛%	1990	**50,000**	50,000
Debentures	14¾%	2005	**100,000**	100,000
Sinking Fund Debentures of **Philadelphia Electric Power Company**—a subsidiary	4½%	1995	**18,193**	19,356
Unamortized Debt Discount and Premium, Net			**(16,027)**	(14,230)
Total Long-Term Debt			**3,049,805**	2,781,785
Current Maturities included in Current Liabilities (c)			**(21,280)**	(36,062)
Long-Term Debt included in Capitalization			**$3,028,525**	$2,745,723

(a) Utility plant is subject to the lien of the Company's mortgage.
(b) At interest rates ranging from prime rate to 107% of prime rate.
(c) Long-term debt maturities in the period of 1983-1987 are as follows: 1983-$21,280,000; 1984-$92,949,000; 1985-$160,020,000; 1986-$90,300,000, and 1987-$109,500,000.

The Company has a $400 million revolving credit and term loan agreement with a group of banks which expires in 1987, under which no amounts were outstanding as of December 31, 1982. Interest is based on the prime rate and there is an annual commitment fee of ⅜% on the unused amount. As a result of the Limerick investigation, the Company does not presently meet certain conditions for borrowing. The Company has requested and the banks have tentatively agreed to modify or waive such conditions.

6. Short-Term Debt:	**1982**	1981
	(Thousands of Dollars)	
Average Short-Term Borrowings	**$ 90,180**	$146,273
Average Interest Rates, Computed on Daily Basis	**13.13%**	17.80%
Maximum Short-Term Borrowings Outstanding	**$168,725**	$266,512
Average Interest Rates on Short-Term Borrowings at December 31:		
Bank Loans	**10.37%**	16.37%
Commercial Paper—Tax Exempt	**4.92%**	—
Commercial Paper—Taxable	**9.62%**	—

As of December 31, 1982, the Company had borrowed $32,200,000 under lines of credit with banks aggregating $339,175,000. The Company generally does not have formal compensating balance arrangements with these banks.

7. Jointly-Owned Electric Utility Plant:

The Company's ownership interests in jointly-owned utility plant at December 31, 1982 were as follows:

	Production Plants				Transmission Plant
	Peach Bottom	Salem	Keystone	Conemaugh	
Operator	Philadelphia Electric 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%
			(Thousands of Dollars)		
Company's share of:					
Utility Plant	$405,848	$820,298	$47,481	$58,602	$6[illegible],503
Accumulated Depreciation	81,664	78,576	21,273	18,289	8,863
Construction Work in Progress	8,551	23,475	3,774	904	—

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.

8. Taxes on Income:

	1982	1981	1980
		(Thousands of Dollars)	
Included in operating expenses:			
Current Federal	**$ 71,987**	$ 75,558	$ 55,416
Current State	**44,251**	26,866	22,243
Total	**116,238**	102,424	77,659
Deferred Federal	**(8,390)**	6,007	(4,653)
Deferred State	**(1,825)**	(3,996)	(7,468)
Total	**(10,215)**	2,011	(12,121)
Investment tax credits, net of amortization-Federal	**101,646**	25,049	28,135
Total Federal	**165,243**	106,614	78,896
Total State	**42,426**	22,870	14,775
Total	**$207,669**	$129,484	$ 93,673
Included in other income:			
Current Federal	**(60,506)**	(50,299)	(39,132)
Current State	**(15,339)**	(12,865)	(9,893)
Total	**$ (75,845)**	$ (63,164)	$ (49,025)
Total income tax provisions:			
Federal	**104,737**	56,315	39,766
State	**27,087**	10,005	4,882
Total	**$131,824**	$ 66,320	$ 44,648

Investment tax credits reduced Federal income taxes currently payable by $108,860,000 in 1982, $29,817,000 in 1981 and $32,428,000 in 1980. Approximately $18,500,000 of additional investment tax credits available in 1982 have not been realized due to limitations based on taxable income. These credits may be used to reduce Federal income taxes in future years through 1997. Investment tax credits consist of (a) the basic credits allowable of 10% plus (b) a credit of 1½% resulting from the Tax Reduction Act Stock Ownership Plan for employees ($9,600,000 in 1982 and $6,200,000 in 1981, and none in 1980). The additional credits which are passed on to the employees of the Company in the form of Philadelphia Electric Company Common Stock have no effect on net income.

In December, 1981, the Company sold the tax benefits attributable to its ownership interest in the Salem Station Unit No. 2. This transaction was structured under the safe harbor lease provisions of the Economic Recovery Tax Act of 1981. The proceeds from the sale, $53,743,000, were credited to Deferred Income Taxes ($24,759,000), Deferred Investment Tax Credits ($21,863,000) and Other Deferred Credits ($7,121,000) and are being amortized to income over the estimated useful life of the unit.

Beginning June 1, 1982, the normalization of state income taxes associated with accelerated depreciation was adopted for both accounting and rate-making purposes.

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

	1982	1981	1980
		(Thousands of Dollars)	
Depreciation and amortization	**$ 30,042**	$ 25,452	$ 25,655
Nuclear fuel disposal costs	**(7,865)**	(4,299)	—
Deferred fuel credits	**(27,264)**	(21,804)	(37,369)
Other	**(5,128)**	2,662	(407)
Total	**$ (10,215)**	$ 2,011	$(12,121)

The total income tax provisions differ from amounts computed by applying the Federal statutory tax rate to income and adjusted income before income taxes for the following reasons:

	1982	1981	1980
Net income	**$336,223**	$277,565	$227,131
Total income tax provisions	**131,824**	66,320	44,648
Income before income taxes	**468,047**	343,885	271,779
Deduct—allowance for funds used during construction (non-taxable)	**213,260**	188,797	147,550
Adjusted income before income taxes	**$254,787**	$155,088	$124,229
Income taxes on above at Federal statutory rate of 46%	**117,202**	71,340	57,145
Increase (decrease) due to:			
Depreciation timing differences not normalized	**10,672**	(551)	(1,338)
State income tax, net of Federal income tax benefits	**14,627**	5,436	2,636
Taxes and pension costs capitalized but expensed for tax purposes	**(396)**	(3,226)	(7,028)
Amortization of investment tax credits previously deferred	**(7,214)**	(4,769)	(4,293)
Other, net	**(3,067)**	(1,910)	(2,474)
Total income tax provisions	**$131,824**	$ 66,320	$ 44,648
Provision for income taxes as a percent of:			
Income before income taxes	**28.2%**	19.3%	16.4%
Adjusted income before income taxes	**51.7%**	42.8%	35.9%

9. Taxes, Other than Income:

	1982	1981	1980
		(Thousands of Dollars)	
Gross receipts	**$106,090**	$100,912	$ 90,487
Capital stock	**18,928**	19,600	19,046
Realty	**22,505**	9,555	9,398
Other	**16,988**	15,245	14,830
Total	**$164,511**	$145,312	$133,761

10. Retirement Plan Costs:

Retirement plan costs, which are funded as accrued, aggregated $37,800,000 in 1982, $31,700,000 in 1981, and $28,575,000 in 1980. Plan data as of the dates of the most recent actuarial reports is as follows:

	January 1	
	1982	1981
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits (based on 7.0% and 6.5% assumed rate of return for 1982 and 1981, respectively):		
Vested	**$360,835**	$326,786
Nonvested	**45,080**	38,317
	$405,915	$365,103
Net assets available for benefits	**$359,406**	$332,027

11. Segment Information:

	Electric	Gas	Steam	Total
		(Thousands of Dollars)		
1982				
Operating revenues	**$2,180,960**	**$390,427**	**$73,366**	**$2,644,753**
Operating expenses, excluding depreciation	**1,688,365**	**354,093**	**69,720**	**2,112,178**
Depreciation	**130,225**	**11,916**	**1,707**	**143,848**
Total operating expenses	**1,818,590**	**366,009**	**71,427**	**2,256,026**
Operating income	**$ 362,370**	**$ 24,418**	**$ 1,939**	**$ 388,727**
Utility plant additions	**$ 843,371**	**$ 27,125**	**$ 219**	**$ 870,715**
December 31:				
Allocable assets:				
Net utility plant (*)	**6,097,411**	**332,437**	**25,739**	**6,455,587**
Inventories	**105,035**	**37,645**	**350**	**143,030**
	$6,202,446	**$370,082**	**$26,089**	**6,598,617**
Nonallocable assets				**559,381**
Total assets				**$7,157,998**
1981				
Operating revenues	$2,002,063	$356,431	$74,931	$2,433,425
Operating expenses, excluding depreciation	1,586,506	322,008	71,635	1,980,149
Depreciation	117,270	11,294	1,719	130,283
Total operating expenses	1,703,776	333,302	73,354	2,110,432
Operating income	$ 298,287	$ 23,129	$ 1,577	$ 322,993
Utility plant additions	$ 746,535	$ 40,432	$ 108	$ 787,075
December 31:				
Allocable assets:				
Net utility plant (*)	5,372,240	314,652	27,194	5,714,086
Inventories	101,956	29,986	251	132,193
	$5,474,196	$344,638	$27,445	5,846,279
Nonallocable assets				506,267
Total assets				$6,352,546
1980				
Operating revenues	$1,766,956	$290,743	$65,695	$2,123,394
Operating expenses, excluding depreciation	1,414,038	258,063	62,380	1,734,481
Depreciation	111,106	10,169	1,672	122,947
Total operating expenses	1,525,144	268,232	64,052	1,857,428
Operating income	$ 241,812	$ 22,511	$ 1,643	$ 265,966
Utility plant additions	$ 540,628	$ 38,833	$ 341	$ 579,802
December 31:				
Allocable assets:				
Net utility plant (*)	4,867,879	283,41[illegible]	28,748	5,180,041
Inventories	102,193	18,582	311	121,086
	$4,970,072	$301,996	$29,059	5,301,127
Nonallocable assets				401,422
Total assets				$5,702,549

(*) Includes construction work in progress and allocated common utility property

12. Leases:

Certain leases, including the nuclear fuel contracts for Peach Bottom and Salem, meet the criteria of a capital lease as defined by Financial Accounting Standards, but are accounted for as operating leases in accordance with the rate-making process. If these leases were capitalized they would not have a material effect on assets or liabilities, and they would have no effect on related expenses.

The minimum rental commitments under all noncancelable agreements aggregated $400,654,000 at December 31, 1982. The annual rental commitments are estimated to be $100,039,000 for 1983; $104,176,000 for 1984; $86,084,000 for 1985; $42,375,000 for 1986; and $10,3?3,000 for 1987.

Rentals charged to operating expenses were as follows:

	1982	1981	1980
		(Thousands of Dollars)	
Nuclear fuel	**$41,417**	$26,709	$21,177
Other	**24,356**	24,782	21,235
Total	**$65,773**	$51,491	$42,412

The Company's proportionate share of the contractual liabilities to purchase nuclear fuel under lease agreements for the Peach Bottom Station and Salem Station as of December 31, 1982 was $225,318,000. Independent fuel companies have been authorized to acquire and own up to a maximum of $525,000,000 of nuclear fuel at any one time and have contracted to sell the energy therefrom to the Company.

13. Limerick Generating Station:

The Company has under construction two nuclear units at Limerick, Pennsylvania. In the latter part of 1980, the Pennsylvania Public Utility Commission (PUC) began an investigation into various matters concerning the Limerick Generating Station. On August 27, 1982, the PUC issued an order stating that continued construction of Unit No. 2 is not in the public interest and directing the Company to cancel or suspend construction within 120 days of the order. The Company appealed the order to the Commonwealth Court and, on December 15, 1982, Commonwealth Court reversed the PUC order. On January 14, 1983, the PUC petitioned the Pennsylvania Supreme Court to allow an appeal of the Commonwealth Court's decision.

If Unit No. 2 were ultimately cancelled, the Company would request regulatory authorities to permit the recovery of its investment, but there can be no assurance that such requests would be granted.

The Company has completed a review of the Limerick project and believes that completion of the project is financially feasible and in the best interest of its customers. The Company has revised the schedule for the construction and completion of Limerick Unit No. 2 which is expected to be in service in late 1988. Unit No. 1 is expected to be in service in early 1985. The total final cost of the project is presently estimated at $5.8 billion—$2.1 billion for Unit No. 1, $2.4 billion for Unit No. 2 and $1.3 billion for common plant facilities.

At December 31, 1982, engineering studies indicated Unit No. 1 and common plant facilities were approximately 83% complete and Unit No. 2 approximately 30% complete. The Company's allocated investment in Unit No. 1, Unit No. 2 and common plant facilities was $1.35 billion, $563 million, and $627 million, respectively.

14. Commitments and Contingencies:

The Company has incurred substantial commitments in connection with its construction program. Construction expenditures are estimated to be $996,000,000 for 1983 and $2,603,000,000 for 1984-1986. These estimates are reviewed and revised periodically to reflect changes in economic conditions, revised load forecasts and other appropriate factors. Plant facilities under construction, particularly Limerick, require numerous permits and licenses, which the Company cannot be assured will be issued at completion of the facilities.

The Price-Anderson Act places a "Limit of Liability" of $560,000,000 on each licensed nuclear facility for claims that could arise from an incident involving any licensed nuclear facility in the nation. The Company has insured for this exposure through a combination of private insurance and indemnity agreements with the Nuclear Regulatory Commission. In the event of such a nuclear incident, the Company could be assessed up to $8,500,000 per incident with a maximum amount of $17,000,000 in any one year.

The Company is insured for damage to its nuclear plant facilities for losses up to $967,000,000. Under the terms of the various insurance agreements, the Company could be assessed up to $28,000,000 for losses incurred at any of the plants insured by the insurance companies. The Company is a self-insurer, to the extent of its ownership interests, for any property loss in excess of the insurance coverage.

The Company is a member of an industry mutual insurance company to provide replacement power cost insurance coverage 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 $12,860,000.

Actions have been filed in the U.S. District Court against the Company with respect to alleged discrimination in its employment or promotion practices. Counsel is of the opinion that the ultimate outcome of these actions would not have a material adverse effect on the financial position of the Company.

15. Quarterly Data (Unaudited):

The data shown below includes all adjustments (consisting of normal recurring accruals) which the Company considers necessary for a fair presentation of such amounts.

Quarter Ended	Operating Revenues		Net Income		Earnings Applicable to Common Stock		Average Shares Outstanding		Earnings Per Average Share	
	(Thousands of Dollars)						(Thousands)		(Dollars)	
	1982	1981	**1982**	1981	**1982**	1981	**1982**	1981	**1982**	1981
March 31	**$757,077**	$647,927	**$90,951**	$69,904	**$77,138**	$56,382	**108,593**	92,706	**$.71**	$.61
June 30	**592,573**	543,612	**63,240**	58,475	**48,622**	45,017	**115,289**	98,383	**.42**	.46
September 30	**661,594**	620,697	**100,402**	79,198	**85,816**	65,763	**117,478**	99,227	**.73**	.66
December 31	**633,509**	621,189	**81,630**	69,988	**67,047**	56,599	**124,378**	107,749	**.54**	.53

16. Supplementary Information to Disclose the Estimated Effects of Inflation for the Year Ended December 31, 1982 (Unaudited):

The following supplementary information is supplied to show the estimated effects of inflation because the Company is required to do so according to the Statement of Financial Accounting Standards No. 33. The methods required to develop this information are approximate and complex, and may not necessarily reflect the true effects of inflation on the Company. Under existing regulatory law, the Company is permitted to recover actual operating and capital costs incurred to serve customers and a reasonable return on investment, and the Company believes it will be allowed to recover cost increases caused by inflation as such increases are actually incurred.

Effect of Inflation on Reported Income. In adjusting the Consolidated Statements of Income, as shown below, only depreciation expense was adjusted for the effect of inflation. The "constant dollar" and "current cost" depreciation expenses were determined by applying the Company's depreciation rates to restated 1982 average depreciable plant in service. Other Operating Expenses were not required to be adjusted.

If the Company had to replace its entire utility plant at this time, the costs to do so would greatly exceed the original costs incurred when the facilities were built because of the cumulative effect of inflation. These plant replacement costs, net of accumulated depreciation, are estimated at $11,246,000,000 as restated for "constant dollars" and $11,795,000,000 as restated for "current costs." Under the "constant dollar" method, the Company is required to restate the original costs in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. The "current cost" method uses Handy-Whitman Indices of Public Utility Construction Costs. Results from the two methods differ because construction costs have increased more rapidly than consumer prices in general. Under the "current cost" method, the effect ($413,000,000) of general inflation in 1982 on net utility plant was less than the increase ($422,000,000) in specific prices by $9,000,000 while the effect of general inflation exceeded specific prices by $197,000,000, $218,000,000 and $90,000,000 for 1981, 1980 and 1979, respectively, expressed in average 1982 dollars. In the Company's opinion, the "current cost" method is more appropriate for estimating the effect of inflation on utility plant.

Consolidated Statements of Income Adjusted for Inflation for the Year Ended December 31, 1982 (Thousands of Dollars)

		As Adjusted For	
	As Reported	Constant Dollars (Average 1982 Dollars)	Current Costs (Average 1982 Dollars)
Operating Revenues	$2,644,753	$2,644,753	$2,644,753
Depreciation	143,848	334,000	374,000
Other Operating Expenses	2,112,178	2,112,178	2,112,178
Operating Income	388,727	198,575	158,575
Other Income	140,827	140,827	140,827
Income Before Interest Charges And Preferred Stock Dividends	529,554	339,402	299,402
Interest Charges and Preferred Stock Dividends	250,931	250,931	250,931
Earnings Applicable to Common Stock*	$ 278,623	$ 88,471	$ 48,471
Earnings Per Average Share (Dollars)**	$2.39	$0.76	$0.42

*Earnings applicable to Common Stock for 1981, 1980, and 1979 restated in average 1982 dollars, amounted to $64,707,000, $58,379,000 and $49,617,000, respectively, for Constant Dollars and $24,427,000 for 1981 and losses of $2,461,000 and $8,903,000 for 1980 and 1979, respectively, for Current Costs.

**Earnings per average share for 1981, 1980 and 1979, based on the restated earnings were $0.65, $0.67 and $0.62, respectively, for Constant Dollars and $0.25, for 1981 and losses for 1980 and 1979 of $0.03 and $0.11, respectively, for Current Costs.

Effects of Inflation on Shareholders' Equity.
The effect of inflation on the Company's actual original cost of net utility plant amounted to $223,000,000 for 1982, ($483,000,000 for 1981, $666,000,000 for 1980, and $743,000,000 for 1979 expressed in average 1982 dollars). These inflationary effects were not recovered because rates are based on depreciation of original cost plant. If the Company were required to charge these amounts against income in 1982, earnings applicable to common stock would have been reduced to $55,623,000, while in 1981, 1980 and 1979, earnings applicable to common stock would have become losses of $246,173,000, $461,038,000 and $544,372,000, respectively. The effect of inflation (3.9% for 1982, 8.9% for 1981, 12.4% for 1980 and 13.3% for 1979) on the value of the Company's debt and preferred stock approximated $149,000,000 for 1982, $326,000,000 for 1981, $453,000,000 for 1980 and $511,000,000 for 1979 (1981, 1980 and 1979 expressed in average 1982 dollars) and would partially offset the effect of inflation on utility plant.

If the Company had earned at the rate of inflation (3.9%) on its common shareholders' equity in 1982, earnings would have been approximately $82,000,000 compared with reported earnings of $278,623,000. Thus, reported earnings applicable to common stock in 1982 were about $197,000,000 above the level necessary to offset the impact of inflation on shareholders' equity.

Adjustment of Selected Five Year Financial Information.
In order to reflect the impact of general inflation on selected financial information for each of the years 1978 through 1982, the following table shows actual data compared with data adjusted to 1982 dollars.

Five Year Summary of Selected Financial Information Showing Adjustments To Reflect Inflation

	1982	1981	1980	1979	1978
Development of Adjustment Factors					
Consumer Price Index					
Average During Year	**289.1**	272.4	246.8	217.4	195.4
Year End	**292.4**	281.5	258.4	229.9	202.9
Consumer Price Index Multiplier					
A = Average (289.1 ÷ Index)	**1.00**	1.06	1.17	1.33	1.48
B = Year End (292.4 ÷ Index)	**1.00**	1.04	1.13	1.27	1.44
Actual and Adjusted Financial Information					
Dividends Per Common Share					
Actual Paid	**$2.06**	$1.90	$1.80	$1.80	$1.80
Adjusted (Actual x A)	**$2.06**	$2.01	$2.11	$2.39	$2.66
Market Price Per Common Share					
Actual Year End	**$17.00**	$13.63	$12.50	$13.75	$15.50
Adjusted (Actual x B)	**$17.00**	$14.18	$14.13	$17.46	$22.32
Operating Revenues (thousands of dollars)					
Actual	**$2,644,753**	$2,433,425	$2,123,394	$1,578,505	$1,456,758
Adjusted (Actual x A)	**$2,644,753**	$2,579,431	$2,484,371	$2,099,412	$2,156,002
Common Shareholders' Equity (thousands of dollars)					
Actual Year End	**$2,254,435**	$1,963,527	$1,733,614	$1,580,004	$1,475,276
Adjusted (Actual x B)	**$2,254,435**	$2,042,068	$1,958,984	$2,006,605	$2,124,397

Accountants' Report

To the Shareholders and Board of Directors
Philadelphia Electric Company

We have examined the consolidated balance sheets of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1982 and 1981, and the related consolidated statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Girard Plaza
Philadelphia, Pennsylvania
February 2, 1983

Coopers & Lybrand

Financial Statistics

Summary of Earnings (Millions of Dollars)

For the Year Ended	1982	1981	1980	1979	1978	1977	1972
Operating Revenues (for details see pages 23 and 32)	**$2,644.8**	$2,433.4	$2,123.4	$1,578.5	$1,456.8	$1,394.8	$685.0
Operating Expenses							
Fuel and Energy Interchange	**1,128.5**	1,187.6	1,090.5	661.7	573.9	575.3	212.0
Labor	**291.1**	256.8	232.1	209.3	195.0	179.2	120.4
Other Materials, Supplies and Services	**320.5**	260.9	184.5	155.4	135.0	121.4	55.0
Total Operation and Maintenance	**1,740.1**	1,705.3	1,507.1	1,026.4	903.9	875.9	387.4
Depreciation	**143.8**	130.3	122.9	120.6	116.5	107.8	60.5
Taxes	**372.2**	274.8	227.4	185.7	194.7	188.9	93.6
Total Operating Expenses	**2,256.1**	2,110.4	1,857.4	1,332.7	1,215.1	1,172.6	541.5
Operating Income	**388.7**	323.0	266.0	245.8	241.7	222.2	143.5
Other Income							
Allowance for Other Funds Used During Construction	**65.7**	65.0	50.5	46.0	37.6	36.2	21.4
Income Tax Credits, net	**75.8**	63.2	49.0	33.9	26.3	25.3	(0.4)
Other, net	**(0.7)**	2.5	3.4	1.7	4.6	3.5	0.2
Total Other Income	**140.8**	130.7	102.9	81.6	68.5	65.0	21.2
Income Before Interest Charges	**529.5**	453.7	368.9	327.4	310.2	287.2	164.7
Interest Charges							
Long-Term Debt	**308.9**	266.7	225.0	193.0	176.3	161.0	73.4
Short-Term Debt	**32.0**	33.2	13.9	7.3	2.5	2.6	4.4
Allowance for Borrowed Funds Used During Construction	**(147.6)**	(123.8)	(97.1)	(67.4)	(53.4)	(49.8)	(21.1)
Net Interest Charges	**193.3**	176.1	141.8	132.9	125.4	113.8	56.7
Net Income	**336.2**	277.6	227.1	194.5	184.8	173.4	108.0
Preferred Stock Dividends	**57.6**	53.8	52.2	44.8	43.5	40.7	21.6
Earnings Applicable to Common Stock	**278.6**	223.8	174.9	149.7	141.3	132.7	86.4
Dividends on Common Stock	**240.5**	189.5	157.4	145.0	135.7	124.9	67.7
Earnings Retained	**$38.1**	$34.3	$17.5	$4.7	$5.6	$7.8	$18.7
Earnings Per Average Common Share (Dollars)	**$2.39**	$2.25	$2.00	$1.86	$1.87	$1.87	$2.08
Dividends per Common Share (Dollars)	**$2.06**	$1.90	$1.80	$1.80	$1.80	$1.76	$1.64
Common Stock Equity (Per Share)	**$17.93**	$18.10	$18.72	$19.06	$19.28	$19.26	$20.00
Average Shares of Common Stock Outstanding (Millions)	**116.5**	99.6	87.3	80.5	75.4	70.8	41.5

See Page 21 for Management's Discussion and Analysis of Financial Condition and Results of Operations.

Ratings on Philadelphia Electric Company's Securities

	Mortgage Bonds		Debentures		Preferred Stock	
Agency	Rating	Date Established	Rating	Date Established	Rating	Date Established
Duff and Phelps, Inc.	9	3/80	10	3/80	11	2/83
Fitch Investors Service	BBB	9/82	BBB−	9/82	BB+	9/82
Moody's Investors Service	Baa3	1/83	Ba1	1/83	ba1	1/83
Standard and Poor's Corporation	BBB−	9/82	BB+	9/82	BB	9/82

Summary of Financial Condition

December 31 (Millions of Dollars)	1982	1981	1980	1979	1978	1977	1972
Assets							
Utility Plant, at original cost	**$7,905.7**	$7,044.7	$6,415.7	$5,885.5	$5,502.5	$5,121.1	$3,222.6
Less: Accumulated Depreciation	**1,450.1**	1,330.6	1,235.7	1,144.1	1,053.3	955.3	624.2
Net Utility Plant	**6,455.6**	5,714.1	5,180.0	4,741.4	4,449.2	4,165.8	2,598.4
Investments	**91.4**	77.8	58.7	47.4	30.0	27.4	9.5
Current Assets							
Cash and Temporary Cash Investments	**50.0**	30.7	6.7	10.6	38.6	30.8	55.8
Accounts Receivable	**342.2**	342.4	300.3	230.9	223.5	184.0	72.1
Inventories	**143.0**	132.2	121.1	110.0	93.3	102.3	38.8
Deferred Fuel Expense	**—**	—	11.0	83.5	4.2	23.0	—
Deferred Income Taxes	**43.4**	17.0	—	—	—	—	—
Other	**7.7**	6.8	6.2	4.6	4.3	3.8	2.8
Deferred Debits	**24.7**	31.5	18.5	12.9	7.5	10.9	7.5
Total	**$7,158.0**	$6,352.5	$5,702.5	$5,241.3	$4,850.6	$4,548.0	$2,784.9
Capitalization and Liabilities							
Common Stock	**$1,826.2**	$1,572.4	$1,377.4	$1,239.6	$1,139.7	$1,106.7	$622.5
Other Paid-In Capital	**4.6**	3.9	2.6	2.2	2.0	1.8	1.2
Retained Earnings	**423.6**	387.2	353.6	338.2	333.6	328.7	271.0
Common Shareholders' Equity	**2,254.4**	1,963.5	1,733.6	1,580.0	1,475.3	1,437.2	894.7
Preferred Stock:							
Series Without Mandatory Redemption Requirements	**372.5**	372.5	372.5	372.5	372.5	372.5	297.5
Series With Mandatory Redemption Requirements	**292.3**	266.9	274.3	206.8	210.9	161.7	40.0
Long-Term Debt	**3,028.5**	2,745.7	2,371.9	2,241.9	2,173.2	2,078.3	1,287.2
Total Capitalization	**5,947.7**	5,348.6	4,752.3	4,401.2	4,231.9	4,049.7	2,519.4
Current Liabilities							
Short-Term Debt	**64.7**	54.2	52.6	85.2	16.2	14.9	103.8
Current Maturities of Long-Term Debt	**21.3**	36.1	130.8	127.8	52.9	28.7	13.5
Accounts Payable and Dividends Declared	**188.5**	188.9	187.6	133.5	120.3	92.4	49.5
Taxes Accrued and Deferred	**66.0**	68.4	77.8	65.1	44.5	36.7	18.4
Interest Accrued	**99.8**	82.3	64.9	58.1	51.0	48.6	18.1
Deferred Fuel Credits	**85.4**	31.3	—	—	—	—	—
Other	**24.7**	18.1	17.4	13.9	7.9	4.1	5.6
Deferred Credits	**659.9**	524.6	419.1	356.5	325.9	272.9	56.6
Total	**$7,158.0**	$6,352.5	$5,702.5	$5,241.3	$4,850.6	$4,548.0	$2,784.9

Operating Statistics

ELECTRIC OPERATIONS	1982	1981	1980	1979	1978	1977	1972
Output (millions of kilowatthours)							
Steam	**8,598**	9,931	11,234	11,279	13,160	11,468	20,181
Nuclear	**10,743**	7,464	7,333	7,104	7,769	4,596	97
Hydraulic	**1,581**	1,397	1,240	2,155	1,700	1,997	2,242
Pumped Storage Output	**1,126**	1,101	1,050	1,270	1,109	1,223	1,430
Pumped Storage Input	**(1,665)**	(1,624)	(1,526)	(1,847)	(1,606)	(1,761)	(2,018)
Purchase and Net Interchange	**11,120**	11,173	9,973	9,180	6,651	9,759	3,472
Internal Combustion	**178**	283	442	454	704	847	946
Other	**—**	528	—	—	—	716	1
Total Electric Output	**31,681**	30,253	29,746	29,595	29,487	28,845	26,351
Sales (millions of kilowatthours)							
Residential	**7,877**	8,014	8,341	7,968	7,875	8,110	6,856
Small Commercial and Industrial	**3,142**	3,115	3,065	2,928	2,888	2,825	2,503
Large Commercial and Industrial	**14,178**	14,916	15,056	15,428	15,302	14,912	14,011
Jersey Central Power & Light (Salem #2)	**3,352**	1,218	—	—	—	—	—
All Other	**1,012**	1,005	1,159	1,277	1,329	1,350	1,136
Total Electric Sales	**29,561**	28,268	27,621	27,601	27,394	27,197	24,506
Number of Customers, December 31							
Residential	**1,206,944**	1,200,238	1,190,312	1,173,514	1,158,853	1,148,171	1,090,921
Small Commercial and Industrial	**118,407**	117,016	116,808	115,724	115,945	115,883	118,522
Large Commercial and Industrial	**5,616**	5,790	5,820	5,798	5,780	5,772	5,645
All Other	**762**	746	736	1,919	2,413	2,381	2,163
Total Electric Customers	**1,331,729**	1,323,790	1,313,676	1,296,955	1,282,991	1,272,207	1,217,251
Operating Revenues (millions of dollars)							
Residential	**$ 694.4**	$ 643.7	$ 607.8	$ 461.0	$ 430.8	$ 427.6	$ 222.7
Small Commercial and Industrial	**310.6**	285.9	249.8	189.0	176.5	168.4	88.1
Large Commercial and Industrial	**922.3**	917.1	813.9	587.4	544.0	513.4	228.6
Jersey Central Power & Light (Salem #2)	**135.4**	45.9	—	—	—	—	—
All Other	**118.3**	109.5	95.4	74.5	73.1	68.3	35.0
Total Electric Revenues	**$2,181.0**	$2,002.1	$1,766.9	$1,311.9	$1,224.4	$1,177.7	$ 574.4
Operating Expenses (millions of dollars)							
Operating expenses excluding depreciation	**$1,688.4**	$1,586.5	$1,414.0	$ 975.4	$ 896.3	$ 881.2	$ 392.3
Depreciation	**130.2**	117.3	111.1	110.0	106.3	97.9	54.3
Total Operating Expenses	**$1,818.6**	$1,703.8	$1,525.1	$1,085.4	$1,002.6	$ 979.1	$ 446.6
Electric Operating Income (millions of dollars)	**$ 362.4**	$ 298.3	$ 241.8	$ 226.5	$ 221.8	$ 198.6	$ 127.8
Net Electric Utility Plant (millions of dollars)	**$6,097.4**	$5,372.2	$4,867.9	$4,449.5	$4,167.1	$3,883.9	$2,330.5
Average Use per Residential Customer (kilowatthours)							
Without Electric Heating	**5,875**	6,022	6,411	6,227	6,290	6,584	6,082
With Electric Heating	**16,813**	18,054	19,482	20,760	21,884	23,593	27,029
Total	**6,544**	6,699	7,058	6,829	6,833	7,097	6,317
Electric Peak Load, Demand (thous. kW)	**5,691**	5,731	6,095	5,641	5,667	5,888	5,313
Net Electric Generating Capacity —Year End Summer rating (thous. kW)	**8,006**	8,006	7,698	7,727	7,727	8,198	6,348
Cost of Fuel per Million Btu	**$1.57**	$2.10	$1.90	$1.55	$1.29	$1.40	$0.62
Btu per Net Kilowatthour Generated	**10,918**	10,930	10,787	10,810	10,773	10,882	10,666

GAS OPERATIONS	1982	1981	1980	1979	1978	1977	1972
Sales (millions of cubic feet)							
Residential	**2,442**	2,446	2,461	2,327	2,316	2,394	2,418
House Heating	**24,237**	24,675	23,671	23,593	24,974	26,335	26,026
Commercial and Industrial	**41,660**	45,670	42,890	37,452	32,784	31,017	41,490
All Other	**422**	127	92	93	94	86	104
Total Gas Sales	**68,761**	72,918	69,114	63,465	60,168	59,832	70,038
Number of Customers, December 31							
Residential	**76,638**	78,426	81,346	85,315	87,715	88,775	94,035
House Heating	**198,910**	193,038	182,246	168,905	163,469	162,978	159,780
Commercial and Industrial	**22,324**	21,578	20,197	19,065	19,207	19,422	20,312
Total Gas Customers	**297,872**	293,042	283,789	273,285	270,391	271,175	274,127
Operating Revenues (millions of dollars)							
Residential	**$ 18.1**	$ 15.4	$ 14.0	$ 10.7	$ 9.9	$ 9.6	$ 6.2
House Heating	**147.1**	128.5	108.5	91.2	86.6	84.1	48.4
Commercial and Industrial	**221.1**	209.7	166.7	118.4	92.2	80.4	38.2
All Other	**1.8**	0.5	0.3	0.2	0.2	0.2	0.1
Subtotal	**$388.1**	$354.1	$289.5	$220.5	$188.9	$174.3	$ 92.9
Other Revenues	**2.3**	2.3	1.2	0.6	0.6	0.5	0.4
Total Gas Revenues	**$390.4**	$356.4	$290.7	$221.1	$189.5	$174.8	$ 93.3
Operating Expenses (millions of dollars)							
Operating expenses excluding depreciation	**$354.1**	$322.0	$258.0	$194.4	$163.0	$145.7	$ 73.9
Depreciation	**11.9**	11.3	10.2	8.9	8.6	8.2	5.1
Total Operating Expenses	**$366.0**	$333.3	$268.2	$203.3	$171.6	$153.9	$ 79.0
Gas Operating Income (millions of dollars)	**$ 24.4**	$ 23.1	$ 22.5	$ 17.8	$ 17.9	$ 20.9	$ 14.3
Net Gas Utility Plant (millions of dollars)	**$332.4**	$314.7	$283.4	$261.7	$250.5	$248.1	$239.7

STEAM OPERATIONS	1982	1981	1980	1979	1978	1977	1972
Sales (millions of pounds)	**5,086**	5,484	6,044	6,581	7,336	7,165	8,328
Number of Customers, December 31	**571**	593	618	638	660	670	737
Operating Revenues (millions of dollars)	**$ 73.4**	$ 74.9	$ 65.8	$ 45.5	$ 42.9	$ 42.3	$ 17.3
Operating Expenses (millions of dollars)							
Operating expenses excluding depreciation	**$ 69.8**	$ 71.6	$ 62.4	$ 42.3	$ 39.3	$ 38.0	$ 14.8
Depreciation	**1.7**	1.7	1.7	1.7	1.6	1.6	1.1
Total Operating Expenses	**$ 71.5**	$ 73.3	$ 64.1	$ 44.0	$ 40.9	$ 39.6	$ 15.9
Steam Operating Income (millions of dollars)	**$ 1.9**	$ 1.6	$ 1.7	$ 1.5	$ 2.0	$ 2.7	$ 1.4
Net Steam Utility Plant (millions of dollars)	**$ 25.8**	$ 27.2	$ 28.7	$ 30.2	$ 31.6	$ 33.8	$ 28.2

Stock Exchange Listings.
Most PECo Securities are listed on the New York Stock Exchange and the Philadelphia Stock Exchange. Philadelphia Electric Power Company Debentures 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 $2.06 per share dividend paid to common shareholders in 1982 is fully taxable as dividend income for Federal income tax purposes.

Dividend Reinvestment and Stock Purchase Plan.
All common and preferred shareholders may use their dividends to purchase additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan. The Company absorbs all fees for purchases under the Plan.

Shareholders have the opportunity to invest additional funds in common stock of the Company, whether or not they have their dividends reinvested—also with all fees borne by the Company.

The Plan has been amended to enable eligible individual participants in the Plan to elect to defer Federal income tax on up to $1,500 of reinvested dividends per year as provided by the Economic Recovery Tax Act of 1981 for a joint return.

More than 28% of the common shareholders are participants. In 1982, they invested more than $60 million through the Plan, including cash payments. Information concerning this Plan may be obtained from M.W. Rimerman, Treasurer, Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101.

Comments Welcomed.
The Company always is pleased to answer questions and provide information. Please address your comments to Mrs. L. S. Binder, Secretary, Philadelphia Electric 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 Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attn: Stock Transfer Section. (215) 841-5795.

Annual Meeting.
The Annual Meeting of the Shareholders of the Company will be held on April 13, 1983, at 10:30 AM at the Franklin Plaza Hotel, 17th & Race Streets, Philadelphia, PA.

Common stock shareholders of record at the close of business on March 4, 1983 are entitled to vote at this meeting.

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 Philadelphia Electric Company, 2301 Market Street, P.O. Box 8699, Philadelphia, PA 19101, Attn: Financial Division.

Shareholders.
The Company has 283,438 shareholders of record of common stock, a 21% increase in 5 years.

Transfer Agents and Registrars.
PHILADELPHIA ELECTRIC COMPANY—Preferred and Common Stocks

Registrars: Girard Bank, One Girard Plaza, Philadelphia, PA 19101
Morgan Guaranty Trust Co. of NY, 30 W. Broadway, NY, NY 10015

Transfer Agents: Philadelphia Electric Company, 2301 Market St., Phila., PA 19101
Morgan Guaranty Trust Co. of NY, 30 W. Broadway, NY, NY 10015

PHILADELPHIA ELECTRIC COMPANY—First and Refunding Mortgage Bonds

Trustee: The Fidelity Bank, Broad & Walnut Sts., Phila., PA 19109

New York Agent: Morgan Guaranty Trust Co. of NY, 23 Wall Street, NY, NY 10015

PHILADELPHIA ELECTRIC COMPANY—Debentures
PHILADELPHIA ELECTRIC POWER COMPANY (A Subsidiary)—Debentures

Trustee: The Philadelphia National Bank, Broad & Chestnut Sts., Phila., PA 19101

New York Agent: Irving Trust Co., One Wall Street, NY, NY 10015

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

NYSE—Composite Common Stock Prices, Earnings and Dividends by Quarters (Per Share)

	1982				1981			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	**$17⅛**	**$16⅝**	**$15¼**	**$14⅛**	$14¼	$14⅜	$13⅝	$14
Low Price	**$15⅛**	**$13½**	**$13**	**$13⅛**	$12½	$12¼	$11⅞	$11⅛
Earnings	**54¢**	**73¢**	**42¢**	**71¢**	53¢	66¢	46¢	61¢
Dividends	**53¢**	**53¢**	**50¢**	**50¢**	50¢	50¢	45¢	45¢

Directors

- • John H. Austin, Jr.
  President and Chief Operating Officer of the Company
- William T. Coleman, Jr., Esq.
  Senior Partner of the law firm of O'Melveny & Myers
- ▪ M. Walter D'Alessio
  President and Chief Executive Officer Latimer & Buck (Mortgage Banking and Real Estate Development)
- • James L. Everett
  Chairman of the Board and Chief Executive Officer of the Company
- William S. Fishman
  Chairman and Chief Executive Officer ARA Services, Inc. (Service Management)
- • Robert F. Gilkeson
  Chairman of the Executive Committee
- Richard G. Gilmore
  Executive Vice President and Treasurer Girard Bank
- • William W. Hagerty
  President, Drexel University
- • Robert D. Harrison
  Vice Chairman John Wanamaker, Philadelphia, Inc. (Merchandising)
- Paul R. Kaiser
  Chairman Emeritus Tasty Baking Company (Diversified Manufacturing)
- Joseph C. Ladd
  President and Chief Executive Officer Fidelity Mutual Life Insurance Company
- Edithe J. Levit, M.D.
  President and Director National Board of Medical Examiners
- • Joseph J. McLaughlin
  President and Chief Executive Officer Beneficial Mutual Savings Bank

• Member of the Executive Committee
▪ Elected January 24, 1983

Officers

James L. Everett
Chairman of the Board and Chief Executive Officer

John H. Austin, Jr.
President and Chief Operating Officer

Vincent S. Boyer
Senior Vice President Nuclear Power

Edward G. Bauer, Jr.
Vice President and General Counsel

Clifford Brenner
Vice President Corporate Communications

Thomas W. Coppock
Vice President Electric Transmission and Distribution

Shields L. Daltroff
Vice President Electric Production

Charles L. Fritz
Vice President Personnel and Industrial Relations

Raymond F. Holman
Vice President General Administration

John S. Kemper
Vice President Engineering and Research

William B. Morlok
Vice President Commercial Operations

Philip G. Mulligan
Vice President Gas Operations

Clair V. Myers
Vice President Purchasing and General Services

Joseph F. Paquette, Jr.
Vice President Finance and Accounting

Lucy S. Binder
Secretary

Morton W. Rimerman
Treasurer

James D. Lynch
Assistant Secretary

J. Robert Causton
Assistant Treasurer

George G. Eppright
Assistant Treasurer

Jon A. Katherine
Assistant Treasurer

William M. Lennox, Jr.
Assistant Treasurer

Management Changes

On June 28, 1982, James L. Everett was elected Chairman of the Board and Chief Executive Officer, succeeding Robert F. Gilkeson, who continues to serve as a member of the Board of Directors and as Chairman of the Executive Committee. John H. Austin, Jr. was elected President and Chief Operating Officer, succeeding James L. Everett.